<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreword</td>
<td>v</td>
</tr>
<tr>
<td>Executive summary</td>
<td>1</td>
</tr>
<tr>
<td>Chapter 1: Introduction</td>
<td>13</td>
</tr>
<tr>
<td>Chapter 2: Context of women and pensions debate</td>
<td>15</td>
</tr>
<tr>
<td>2.1 Principles for reform</td>
<td>15</td>
</tr>
<tr>
<td>2.2 Background</td>
<td>16</td>
</tr>
<tr>
<td>2.3 The evolution of state pensions provision for women</td>
<td>16</td>
</tr>
<tr>
<td>2.4 Life expectancy and pensioner populations</td>
<td>19</td>
</tr>
<tr>
<td>2.5 Pension income and pension wealth</td>
<td>22</td>
</tr>
<tr>
<td>2.6 Chapter summary</td>
<td>29</td>
</tr>
<tr>
<td>Chapter 3: Education, employment and earnings</td>
<td>31</td>
</tr>
<tr>
<td>3.1 Educational achievement</td>
<td>31</td>
</tr>
<tr>
<td>3.2 Returns on educational achievement</td>
<td>32</td>
</tr>
<tr>
<td>3.3 Occupational sectors</td>
<td>35</td>
</tr>
<tr>
<td>3.4 Employment rates</td>
<td>37</td>
</tr>
<tr>
<td>3.5 Employment breaks and returning to work</td>
<td>41</td>
</tr>
<tr>
<td>3.6 Full-time and part-time work patterns</td>
<td>42</td>
</tr>
<tr>
<td>3.7 Earnings</td>
<td>46</td>
</tr>
<tr>
<td>3.8 Extending working life</td>
<td>49</td>
</tr>
<tr>
<td>3.9 Chapter summary</td>
<td>51</td>
</tr>
</tbody>
</table>
Chapter 7: Women, private pensions and investments  
7.1 The increasing role of private pensions  
7.2 Today’s women pensioners: private pension income  
7.3 Tomorrow’s women pensioners: contributions to private pensions  
7.4 Workplace pensions  
7.5 Stakeholder pensions  
7.6 Pension pots and annuities  
7.7 Women and the defined benefit to defined contribution shift  
7.8 Examples of the effects of labour market decisions on pension pots and annuity incomes  
7.9 Catch-up mechanisms in private pensions  
7.10 Pensions on divorce  
7.11 Chapter summary  

Chapter 8: The ethnic minority dimension  
8.1 Age profiles of women in ethnic minority groups  
8.2 Employment and economic activity rates  
8.3 Root causes of pension disadvantage  
8.4 Relative economic position of ethnic minority women in retirement  
8.5 Impact of State Pension policies on today’s ethnic minority women  
8.6 Private pension coverage  
8.7 Attitudes to work, pensions and retirement  
8.8 Chapter summary  

Chapter 9: Conclusion  
9.1 Women and pensions  
9.2 Future pensions
## Annexes

<table>
<thead>
<tr>
<th>Annex</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annex 1</td>
<td>Bibliography</td>
<td>127</td>
</tr>
<tr>
<td>Annex 2</td>
<td>Women and pensions: key dates in the evolution of social security</td>
<td>130</td>
</tr>
<tr>
<td>Annex 3</td>
<td>Government measures for women pensioners</td>
<td>134</td>
</tr>
<tr>
<td>Annex 4</td>
<td>State pensions qualifying conditions</td>
<td>135</td>
</tr>
<tr>
<td>Annex 5</td>
<td>Summary of National Insurance credits provisions</td>
<td>137</td>
</tr>
<tr>
<td>Annex 6</td>
<td>Home Responsibilities Protection</td>
<td>140</td>
</tr>
<tr>
<td>Annex 7</td>
<td>Derived entitlements in state and private pension schemes</td>
<td>142</td>
</tr>
<tr>
<td>Annex 8</td>
<td>Ethnic minority groups</td>
<td>143</td>
</tr>
<tr>
<td>Annex 9</td>
<td>Glossary of terms</td>
<td>146</td>
</tr>
<tr>
<td>Annex 10</td>
<td>List of Figures</td>
<td>149</td>
</tr>
</tbody>
</table>
At a time when life expectancy is increasing and birth rates are falling, we have the opportunity – and indeed the responsibility – to forge a consensus on a long-term solution to the pensions challenge. Central to that consensus must be fair outcomes for women – tackling the historically deep divide, which has been a product of a system predicated on a 1940s world where women were seen as dependent on their husbands. This has led to inequality not just in pensions, but across our society.

Today we as a society must work together to tackle the gap in pay, income and assets, and to break the glass ceiling for progression through working life. This will enable women to achieve true equality of opportunity and to build themselves the income in retirement that they want and rightly expect.

Since 1997, this Government has made progress towards that goal. Two-thirds of the 1.3 million workers benefiting from the National Minimum Wage are women, and nearly half of these are working part time. The UK now has the highest female employment rate of the major EU countries and the gender pay gap is at its narrowest point for 30 years – with the Women and Work Commission reporting next year on how we can go further.

The Government has invested over £17 billion on early years and childcare provision and, through extensions in maternity and paternity leave, we have been supporting women in balancing work and family responsibilities.

Women account for 1.3 million of the 1.9 million people in retirement lifted out of absolute poverty since 1997. Of the 3.3 million receiving Pension Credit, 2.18 million are women, and together with above-inflation increases in the basic State Pension and measures such as Winter Fuel Payments, we are now in the unprecedented position where those in retirement are no more likely to be poor than the rest of society. And here is the rub. If you are at a financial disadvantage or face inequality throughout working life, you will face similar challenges in retirement.
Foreword

Only 30 per cent of women retiring today are entitled to a full basic State Pension – only 24 per cent on the basis of their own contributions and only 17 per cent are actually in receipt of a full basic State Pension based on these contributions. Further, only 38 per cent of today’s working-age women are currently contributing to a private pension. Childbirth, marriage, divorce and widowhood, all have significant impacts on pension accrual for many women – and this is reflected both in the incomes of today’s retired women and the predicted incomes of women retiring in the future.

Our determination to tackle this inequality is why we committed to producing this report. It is why we expect the Pensions Commission to ensure that issues of equality and fairness are given due weight and prominence in their report and why we have made this a central issue in the current National Pensions Debate.

Helping people to understand the reality of these challenges – and giving them a sense of ownership of the problems and the possible solutions – is crucial. But this cannot be achieved without detailed evidence. This report is a compendium of that evidence, incorporating new figures from the Government Actuary’s Department and analysing in detail the key influences on the level of women’s retirement income.

We are committed to ensuring this evidence is widely discussed and that, even at this final stage of drafting, the Commission will have the feedback that has built up to this report and the specific Women and Pensions conference we are hosting in Manchester on 7 November.

Following the final report of the Pensions Commission later this year, we will need to forge a response that will shape the future of retirement provision in the UK. The issues that affect women will be at the centre of this response and we are grateful to all those who over a very long period have been campaigning and developing the case for substantial and lasting change – and who have helped us to develop our renewed focus on this crucial issue of equality.

The Rt Hon David Blunkett MP  
Secretary of State for Work and Pensions

The Rt Hon Tessa Jowell MP  
Secretary of State for Culture, Media and Sport  
and  
Minister for Women

November 2005
Chapter 1: Introduction

1. The UK pension system is today delivering better average retirement incomes than any previous generation has ever enjoyed. Pensioners are sharing in rising national prosperity, and this must continue. The challenge as we look to the future is how to ensure, in a world of growing longevity, that all of today's working-age generation, regardless of gender or ethnic group, have the best possible opportunity to build adequate retirement incomes.

2. The origins of the UK pension system lie in an era when women were seen as dependent on men. The system has evolved a great deal since then but the outcomes it produces have tended to lag behind changes in the social and economic position of women. The introduction of Home Responsibilities Protection in 1978 and Pension Credit in 2003 has led to major improvements in women's retirement incomes but they are, on average, still lower than men's.

3. This report is a compendium of evidence that shows how existing systems are performing, or under-performing, and highlights the key influences on the level of women's retirement income.

4. It examines the evolution of women's pensions and explores the reasons for the differences between men's and women's pension entitlements. It analyses the effect on pensions of women's lifetime experiences and economic influences, from school and university into the workplace; marriage and cohabitation patterns; and the demands and economic constraints of family, home and caring responsibilities.

5. Assessment of options for pension reform will be developed in the light of findings and recommendations from the Pensions Commission.

6. This report provides a firm basis on which to build consensus on the way forward and achieve fair outcomes for women.
Chapter 2: Context of women and pensions debate

7. Between 1996/97 and 2003/04, the number of pensioners in low income fell by about a quarter in relative terms (which allows for rising real average incomes) and two-thirds in absolute terms (which allows for inflation) with 1.9 million older people lifted above absolute low income.

8. Married or cohabiting women pensioners have, on average, very low personal incomes compared with married or cohabiting male pensioners. On average, compared with a married or cohabiting woman, a married or cohabiting man will get approximately twice as much in state benefit, far more in private pension, and more in other income. Widowed, divorced and separated women pensioners have more income in their own right than married women pensioners, but less than the equivalent men.

9. Marriage and cohabitation produce different pension outcomes for partnered women.

10. Women are living longer: life expectancy in the UK is increasing, and life expectancy for women is greater than for men. The majority of today’s pensioners are women and they will still make up more than half the pensioner population in the longer term: in 2005, 63 per cent of those over State Pension age are women; by 2051 it will be 54 per cent. Women will also continue to predominate in the ever-growing group of pensioners aged over 80.

11. Over recent years women have moved into the labour market in greater numbers. More women are paying National Insurance contributions and generating their own income which can be invested in a private pension. This trend suggests that the next cohort of women to retire will have higher state and private pension incomes in their own right.

12. But if women’s salary levels during working life are lower, women will still find themselves worse off than their male equivalents, irrespective of basic State Pension. The reasons for looking at the private pension outcomes for women set to retire in 30 to 40 years’ time are to address inequalities remaining between men and women, between women with caring responsibilities and those in paid employment and those combining caring and work. This is particularly important given the Pensions Commission’s analysis, which concluded that people are not saving enough to build up adequate incomes in retirement.
Chapter 3: Education, employment and earnings

13. Long-term equality between women and men depends on improvements in education, skills and employment opportunities, supported by flexible working arrangements and family-friendly policies which lift the glass ceiling for progression affecting some women. Opportunity to gain promotion, as well as the quality of jobs and salary levels, form key determinants in women's ability to build up entitlement to an adequate income in retirement.

14. Girls are now more likely than boys to gain five or more grade A*-C GCSEs and more likely to gain at least two passes at A-level. Younger women are more likely than men to have a degree.

15. The percentage increase in earnings resulting from a degree qualification, rather than two A-levels, is higher for women: around 20 per cent on average compared with 15 per cent for men.

16. Female employment rates have increased from 55 per cent in 1983 to 70 per cent now; the gap between men and women has fallen by 12 percentage points since the early 1980s.

17. Declining fertility rates are part of the explanation for the long-term growth in female employment. Families are getting smaller, and women are waiting longer before they start their family. The average number of children per woman has fallen from 2.19 for those born in 1945 to less than 1.9 for women born after 1965. Over the same period, 1945 to 1965, the proportion of women choosing not to have children increased. The fertility rate is expected to continue to fall, with women born in the 1990s or later having an average of 1.75 children each. Women are also having their children later than earlier generations did; the average age for women to have their first child is now nearly 27 years compared with 25 years in 1988. Around one in five women never have children.

18. Women who have spent longer in the labour market before they have children are more likely to return after having children.

19. However, women are far more likely than men to be outside the labour market at any given age. Around 27 per cent of all women aged between 16 and State Pension age are economically inactive compared with 17 per cent of men. More than 20 per cent of women aged 25–49 are economically inactive compared with around 8 per cent of men.

20. Reasons for inactivity polarise along gender lines. More than 40 per cent of women aged 16 to State Pension age who are out of the labour market have caring responsibilities. Men are most likely to be inactive for health reasons.
Executive summary

21. The decision to have and care for children has a critical impact on women’s choices and priorities, their economic position and consequent prosperity in employment and retirement.

22. Women are far more likely to work part time than men. Over 40 per cent of all women in employment work part time, compared with around 10 per cent of men.

23. Given comparable educational achievements with men, the pay gap for younger women is narrower than the pay gap which affects women who have had children.

24. Self-evidently, at least historically, it is clear that breaks in employment lead to an overall reduction in lifetime earnings and hence it is important to help women who choose to have children or care for other family members to stay in touch with the labour market, whether through improved maternity leave, flexible working arrangements or support to return to work through welfare and skills programmes.

25. The Women and Work Commission was set up in 2004 to consider how to close the gender pay and opportunities gaps, to examine the different barriers and seek solutions to these complex and multi-layered problems. These issues will be explained more fully in the Women and Work Commission’s final report.

Chapter 4: Women, family and households

26. The state system and many private pension schemes derive pension rights on the basis of marriage. Cohabitation could store up financial problems if women have not made their own provision for retirement.

27. The number of women cohabiting who are not married is expected to increase – from around 2.2 million in 2005 to around 3.6 million in 2025. A marked increase is expected in both the number and proportion of women cohabiting who have never married – from around 74 per cent in 2005 to around 85 per cent in 2025. This trend could have impacts on future pension outcomes and so we must take care that Government policies do not exacerbate any situations that produce unfair outcomes for women.

28. Lone mothers are less likely to be in work than their partnered counterparts, with an employment rate of 55 per cent, compared with 72 per cent for partnered mothers. This does, however, mask an improvement of 11 percentage points since 1997 and academic work has shown that half of this increase can be attributed to lone parent policies. Nevertheless, lone mothers are likely to face particular challenges in building up pension entitlement.
29. While one in six adults cares for another person with a long-term health condition or a disability, women are slightly more likely than men to be filling this role (18 per cent of women compared with 14 per cent of men). The 45–64 age group is the peak age for caring, when one in four adults have caring responsibilities, slightly more in the case of women (27 per cent) and fewer than one in five in the case of men (19 per cent).

30. Among those aged 65 and over it is more common for men to be adult carers than women (18 per cent compared with 15 per cent), but at this age caring is far less likely to have a negative impact on earnings potential or retirement income.

31. Female employment rates for all carers (irrespective of hours spent caring) are 5–10 percentage points below those of the comparable part of the working-age population by age and gender.

32. Women with caring responsibilities of 20–34 hours a week who remain in work are still more likely to be working full time than part time; while the majority of women with responsibilities of 35 hours or more a week are working part time rather than full time. The majority of men (under State Pension age) who are carers tend to work full time whatever their age or caring responsibilities.

33. The Government has already introduced a number of measures to help parents balance caring responsibilities more flexibly. It has invested over £17 billion in expanding early years and childcare services since 1997. Maternity pay and maternity leave periods increased in 2003. The Sure Start programme of early learning, childcare, health and family support assists women and men in their role as parents and in their aspirations to enter and progress in the workforce.

34. The Government’s ten-year childcare strategy, *Choice for parents, the best start for children*, published in December 2004, announced improved access to quality, affordable childcare to help more women into the labour market and maximise the opportunities for part-time workers to increase their hours.

35. We need to consider what more, if anything, can be done to help women to continue to build up retirement income during and after breaks from the labour market.

Chapter 5: Women and state pensions

36. Traditionally, men spent a lifetime in the labour market and women did not. Men built up pensions in their own right but few women did. Previous generations solved this inequality of outcomes by allowing the wife to draw on the husband’s contributions. This derived rights approach made state pensions fit with the prevailing household and family structures where mothers were expected to be married and divorce was rare.
37. Government statisticians have over recent months undertaken a detailed exercise to update knowledge about the current and future flow of women from the labour market into retirement.

38. There are several measures to quantify the percentage of women with full basic State Pension entitlement. Firstly, there is the measure of those actually in receipt of full basic State Pension. The latest data on this measure relate to September 2004, when 23 per cent of women age 60 were in receipt of full basic State Pension – 17 per cent on their own record and 6 per cent relying in full or in part on derived rights.

39. However, this measure excludes those who are entitled to a full basic State Pension but have chosen to defer it, or who have made a late claim. (Five per cent of women defer taking their pension for at least a year, though not all of these will be on full basic State Pension.) The data are also a year out of date, at a time when women’s entitlements are improving rapidly. The latest figures from the Government Actuary’s Department say that in 2005/06, 30 per cent of women reaching State Pension age are entitled to a full basic State Pension (24 per cent on their own record). Another 30 per cent have earned less than a full pension, but more than a Category B pension.1 On average, women reaching age 60 in 2005/06 have 70 per cent of a full basic State Pension.

40. The Government Actuary’s Department estimates women’s future pension entitlement: it forecasts significant improvements in women’s pension entitlement. Although estimates are inevitably uncertain, the latest estimates suggest that by 2025, men and women will be reaching age 65 with similar basic State Pension entitlements. The mean entitlement of both men and women reaching State Pension age will be over 90 per cent of a full basic State Pension for both genders. The changed picture for women is largely due to women’s improved work records and the effect of Home Responsibilities Protection. There will still be a small proportion of people who do not get a full or nearly full basic State Pension, but it will no longer be predominantly a women’s issue. The Government Actuary’s Department estimates that by 2025, over 80 per cent of women reaching State Pension age will be entitled to a full basic State Pension, and a slightly lower proportion of equivalent men will be entitled to a full basic State Pension.

41. Women aged 25 to 45 are as likely as men to be building a State Pension record, as a result of Home Responsibilities Protection.

42. There are 2.2 million women in total not accruing a basic State Pension. Of these, about 1.3 million are married and National Insurance inheritance rules may apply.

---

1 See Annex 9 Glossary of terms for a definition of Category B pension.
43. Around 600,000 of these 2.2 million women are earning under the Lower Earnings Limit of £82 a week and are not accruing basic State Pension or covered by Home Responsibilities Protection. Fewer than 50,000 of these have more than one job; 150,000 are in education. The biggest groups of these workers with earnings under the Lower Earnings Limit tend to be in the oldest or youngest age groups.

44. The majority of the 3.6 million adult carers in the UK are accruing basic State Pension entitlement. But there are around 390,000 of these carers not accruing basic State Pension entitlement – around 120,000 of them caring for 20 hours or more a week.

45. There are 12.4 million women of working age accruing a State Second Pension, compared with 13.5 million men.

46. Historic under-provision for women in retirement contributed substantially to the decision to tackle pensioner poverty as an immediate objective, with the introduction of Pension Credit in 2003. Two-thirds of people in receipt of Pension Credit are women, and half of these are aged 75 or over. At 30 June 2005, 2.18 million women were receiving Pension Credit.

47. Given the improvements in women’s National Insurance records, would there be benefits from altering the National Insurance rules and qualifying conditions to create entitlements to the basic State Pension to better reflect today’s society?

48. Given the improvements in basic State Pension accruals, which are providing pension coverage for more and more people, would the gains from a residence-based (as opposed to contributions-based) eligibility for the basic State Pension provide a cost-effective and practical alternative way of improving equity of entitlements?

Chapter 6: Financial planning and household decision making

49. Department for Work and Pensions research has shown that pensions are not high among women’s priorities. Women were more concerned with their family’s short to medium-term needs than with saving for their own future, and felt that their partner should or would provide for their retirement. Women rarely think of pensions when making child-related employment choices and few would have made different life choices if they had considered their future financial position.
50. For many women interviewed, pensions were perceived to be associated with paid employment, and therefore not applicable to them. Many couples pool their finances to a degree and research showed that independent pension provision for women was not seen as salient, either by women or their partners. Many women interviewed did not know how their pension position (state or private) would be affected by divorce, separation or bereavement.

51. There is some evidence of a cultural shift over time. Younger women seem more likely to value a degree of financial independence. They recognise that many partnerships do not endure, and are more likely to feel it is important for women to make pension provision in their own right.

52. However, traditional elements of gender roles and financial dependency persist in the lives of many younger women (particularly those who are married or have children), and the effects of changing values and expectations are often diluted by other factors. This tends to perpetuate the pension gap.

53. Research finds that children affect women’s pension holdings mainly through their impact on women’s work patterns. Children not only influence work patterns, they also establish new child-focused priorities for spending and increase financial pressure by bringing additional costs.

54. A recent report from Scottish Widows looks further at the impact of children, finding that half of all women stop saving for retirement when children enter the equation: among women with children aged 0–5, only 15 per cent are saving for a pension; among women with children aged 6–15, the proportion of women saving rises marginally to 17 per cent. Forty per cent of men with children aged 6–15 are still saving in a pension.

55. This finding is not completely surprising. The decision to have and care for children has a critical impact on women’s choices and priorities, their economic position and consequent prosperity in employment and retirement.

56. How can we continue to improve awareness, information and education on pensions and continue to improve opportunities for people to invest for their retirement?
Chapter 7: Women, private pensions and investments

57. There is still a significant pension contribution gap between today's men and women of working age, both in the numbers making contributions at any point in time and the size of those contributions.

58. Overall, 38 per cent of today's working-age women are contributing to a private pension compared with around 46 per cent of working-age men. Women who do make contributions to private pensions contribute on average less than men: they are far more likely to contribute under £100 a month to their private pensions, while men predominate in the groups contributing £200 or more a month.

59. Women's lower overall contributions to a private pension are largely determined by the accumulated effects of the gender pay gap; of part-time work; and, in some occupations and employment sectors where women are concentrated, by poor availability of employer schemes and/or lower employer contributions.

60. Women who work full time are more likely to have an employer who offers a pension scheme and are more likely to be a member of an employer's scheme than men who work full time. This is partly explained by the higher concentration of women working in the public sector.

61. Women in their 20s are more likely than equivalent men to be contributing to a private pension. Women in their 30s in full-time work are just as likely to be contributing as men. Women in their 40s are less likely to be contributing to a private pension than men – whatever their work pattern. This leads to concerns that women in this position retiring in 20 years' time will remain at a disadvantage to men in relation to their income in retirement.

62. The question of portability and continuity of personal pension rights is becoming more important for future pension accruals. Historically, a person may have worked all of their life for one employer but, in today's flexible labour market, someone may work for six, ten or even more employers before retiring. Questions of portability and continuity are perhaps more important for women who take breaks from the labour market and who need more flexible working patterns to combine paid employment with caring responsibilities.

63. Women working part time are still at the greatest risk of having an employer who does not offer a pension scheme. Around 40 per cent of women employed part time say their employer does not have a pension scheme, compared with 25 per cent of women employed full time. Thirty per cent of men employed full time say their employer does not have a pension scheme.
Executive summary

64. The differences in private (non-state) incomes are the predominant drivers in the difference between women’s and men’s income in retirement, with men of all ages receiving on average between £50 to £100 a week more private pension income than women of the same age.

65. In 2003/04, the average pensioner couple received around £186 a week in private pension and investment income, more than three times the £57 a week received by the average single female pensioner and nearly twice the £100 a week received by the average single male.

66. How can the availability of, and incentives to join, private pensions be widened to include more women, especially part-time workers, low earners and carers?

Chapter 8: The ethnic minority dimension

67. There are 2.35 million ethnic minority women in the UK, which represents just over half of the ethnic minority population. The proportion of the current population aged 65 or over in each of the ethnic minority communities is considerably lower than the proportion in the white majority. At present, there are no gender-specific demographic projections for ethnic minority women but it is clear that the ethnic minority population is ageing.

68. Pakistani and Bangladeshi women have the lowest employment rates, while Black Caribbean women have employment rates approaching those of White women.

69. Higher economic inactivity rates of some groups of ethnic minority women may result from the perceptions of the role of women within their communities.

70. There is no single explanation for the generally higher economic inactivity rates and lower employment rates of ethnic minority women compared with their white counterparts. Patriarchal family structures, the perception of the role of women and the undervaluation of overseas educational qualifications may all play a role. Ethnic minority women are likely to have longer absences from the labour market with the additional caring responsibilities of larger families. The importance of the intergenerational contract reinforces their role as elder carers.

71. Ethnic minority women are more likely than white women to be accruing entitlement to a basic State Pension only, without any State Second Pension.
72. The proportion of basic State Pension record resulting from Home Responsibilities Protection is higher for all ethnic minority women than for white women. Home Responsibilities Protection by itself has no value without one qualifying year of paid contributions.

73. Within every ethnic group, women are less likely than men to have private pension provision; of the population as a whole, the two groups least likely to have private pension provision are Pakistani and Bangladeshi women.

74. There are no foreseeable national large-scale changes to the pattern of labour market participation for ethnic minority women to indicate a significant change to pension accrual rates.

75. Can we do more to ensure that women from ethnic minority communities have the opportunity to build up an adequate retirement income?

**Conclusion and next steps**

76. From the evidence presented in this report, there are a number of further questions to be asked within the context of the ongoing pensions debate and the Government’s response to the forthcoming Pensions Commission proposals:

   a. How can women be helped to stay in, or return to, work through and after periods of caring?

   b. What more, if anything, can be done to help women to continue to build up retirement income during and after breaks from the labour market?

   c. Given the improvements in women’s National Insurance records, would there be benefits from altering the National Insurance rules and qualifying conditions to create entitlements to the basic State Pension to better reflect today’s society?

   d. Given the improvements in basic State Pension accruals, which are providing pension coverage for more and more people, would the gains from a residence-based (as opposed to contributions-based) eligibility for the basic State Pension provide a cost-effective and practical alternative way of improving equity of entitlements?

   e. How can we continue to improve awareness, information and education on pensions and continue to improve opportunities for people to invest for their retirement?
Executive summary

f. How can the availability of, and incentives to join, private pensions be widened to include more women, especially part-time workers, low earners and carers, while not unduly increasing burdens on industry?

g. How do we ensure that women who are not in employment are still informed about opportunities to build up their pension?

h. Can we do more to ensure that women from ethnic minority communities have the opportunity to build up an adequate retirement income?

77. These important questions will be considered as part of the ongoing National Pensions Debate as we look to create as broad a consensus as possible – a consensus from which a long-term solution to the issue of ensuring a fair and adequate retirement for all can be developed.

78. The issue of women’s pensions is central to the National Pensions Debate. This report provides a valuable contribution to that debate, raising further questions for consideration alongside the work of the Pensions Commission. Assessment of options for pension reform will be developed in the light of findings and recommendations from the Pensions Commission.

*If we get it (pension reform) right for women, we’ll get it right for everyone.*

*Equal Opportunities Commission, September 2005*
Chapter 1: Introduction

1. The UK pension system is today delivering better average retirement incomes than any previous generation has enjoyed. Recent reforms have ensured that the least well-off have seen big improvements with 1.9 million people in retirement lifted above absolute low income since 1997, two-thirds of them women. Pension Credit, a major factor in reducing pensioner poverty, is now benefiting 3.3 million people – 2.18 million of them women. Reforms have also improved security for occupational pension scheme members; helped women and carers to build new pension rights; and improved choice and value in the private pension sector.

2. Pension policy is always about striking a fair balance. It has to be fair to the poorest, but also reward those who have saved. It has to ensure that all pensioners share fairly in rising prosperity, but also be fair to future generations by avoiding saddling them with excessive tax increases. As the analysis of the independent Pensions Commission has made plain, demographic and other pressures make maintaining this balance for the future a major challenge.

3. Pensioners are now sharing in rising national prosperity, and this must continue. The challenge as we look to the future is how to ensure, in a world of growing longevity, that all of today’s working-age generation, regardless of gender or ethnic group, have the best possible opportunity to build adequate retirement incomes.

4. But the origins of the UK pension system lie in an era when women were seen as dependent on men. The system has evolved a great deal since then and recent changes, such as Pension Credit and State Second Pension, have improved pensions for both today’s and tomorrow’s generations of women. But it is in the nature of the pension system that the outcomes it produces have tended to lag behind changes in the social and economic position of women. Measures such as Home Responsibilities Protection are working through the system but this does take time.

5. Women comprise over half of all people over State Pension age and, as women live on average three years longer than men, their pension will have to pay out for longer. Yet women currently tend to have a lower retirement income than men and this situation is projected to continue into the future. We have therefore made it one of our six principles for pension reform that reforms should lead to fair outcomes for women and carers.
6. Successful provision for retirement must involve a wide set of partners working together. Employers, the financial services industry, trade unions, advisers, individuals and government must all play their part. Creating a stable environment in which they can do so requires a greater consensus – among these partners and among politicians – than has previously been achieved.

7. The National Pensions Debate was launched by the Government in June 2005. The debate aims to increase understanding of the pensions challenge and to capture the opinions, views and experiences of a wide range of members of the public and stakeholders. Ministers are committed to meeting people to discuss these issues across the country and have set up a website (www.dwp.gov.uk/debate) so that people can also contribute online. Opening up this debate to all is necessary to create as broad a consensus as possible – a consensus from which a long-term solution to the issue of ensuring a fair and adequate retirement income for all can be developed.

8. The Government believes that policy decision making should be based on good evidence. This report is a compendium of evidence that shows how existing systems are performing, or under-performing, and highlights the key influences on the level of women’s retirement income. It examines the evolution of women’s pensions and explores the reasons for the differences between men’s and women’s pension entitlements. It analyses the effect on pensions of women’s lifetime experiences and economic influences, from school and university into the workplace; marriage and cohabitation patterns; and the demands and economic constraints of family, home and caring responsibilities.

9. The issue of women’s pensions is central to the National Pensions Debate. We expect the Pensions Commission to address equality and fairness as part of its findings and recommendations. The Government’s response to those recommendations will be guided by the principle that pension systems should produce fair outcomes for women and carers.

10. This report provides a firm basis on which to build consensus on the way forward for women’s pensions. It raises further questions for consideration alongside the work of the Pensions Commission. Assessment of options for pension reform will be developed in the light of the Pensions Commission’s findings and recommendations.
Chapter 2: Context of women and pensions debate

2.1 Principles for reform

It is in the nature of this pensions system that the outcomes it produces have tended to lag behind changes in the social and economic position of women. We therefore seek to build consensus that reform should have fair outcomes for women and carers within an acceptable timescale as a central objective.

Government’s Principles for reform, February 2005

1. The Government’s Principles for reform set out principles for wider reform of pensions. Pensions are a balancing act. Options for change arising from the National Pensions Debate on women and pensions will need to fit with the Government’s strategic principles for pensions reform.

<table>
<thead>
<tr>
<th>Principles for reform</th>
</tr>
</thead>
<tbody>
<tr>
<td>The pension system must tackle poverty effectively.</td>
</tr>
<tr>
<td>The opportunity to build an adequate retirement income should be open to all.</td>
</tr>
<tr>
<td>Affordability and economic sustainability must be maintained.</td>
</tr>
<tr>
<td>The pension system should produce fair outcomes for women and carers.</td>
</tr>
<tr>
<td>Reform should seek to establish a system that people understand.</td>
</tr>
<tr>
<td>Reform should be based around as broad a consensus as possible.</td>
</tr>
</tbody>
</table>

---

2.2 Background

2. Lifetime income levels have always affected income in retirement. Women and men have different lifetime, labour market and earnings experiences, and, because pensions build up over a long period, these all combine to affect pension outcomes even if, when working, men’s and women’s earnings are similar. In fact, their lifetime earnings are not similar. Women’s and men’s pay remains unequal even for full-time work, and many more women than men take time out and work part time as they combine work, home and family.

3. Traditionally, men spent a lifetime in the labour market and women did not. Men built up pensions in their own right but few women did. Previous generations solved this inequality of outcomes by allowing the wife to draw on the husband’s contributions. This derived rights approach made state pensions fit with the prevailing household and family structures, where mothers were expected to be married and divorce was rare.

4. From the 1970s, the principle of derived rights for married women began to be less effective because of the steep rise in unmarried partnerships and divorces. Marriage and cohabitation produce different pension outcomes for partnered women.

2.3 The evolution of state pensions provision for women

5. The treatment of women in the evolution of social security changed with each of the landmark pieces of legislation in the 20th century.³ The Old Age Pensions Act of 1908 introduced statutory levels of means-tested support in old age for both men and women. The Act made no distinction between women who had worked in paid employment and those who had not. This was the first economic safety net for the elderly in extreme poverty other than Poor Law parish relief, which had been operating since 1601. The Old Age Pension increased from 5 shillings to 10 shillings a week in 1919, and remained at 10 shillings for the next 27 years.

---

Old Age Pensions Act 1908

- The first national scheme to give support outside the Poor Law.
- Entitled men and women to a non-contributory pension at age 70 of 5 shillings a week if their income was less than £26 a year.

³ See Annex 2 for key dates in the evolution of social security from 1908 to the present day.
6. Legislation in 1911 introduced compulsory contributory insurance for working men and working women to cover personal benefits for sickness and unemployment. This legislation was an income replacement scheme for short-term loss of earnings. (Pensions were not covered.) It did not make any provision for dependants, and left non-working wives and children exposed to financial hardships. In 1925, legislation expanded the contributory principle to pensions and introduced limited widows’ benefits. Wives received a pension on their husband’s insurance – at the full rate.

<table>
<thead>
<tr>
<th>Widows, Orphans and Old Age Contributory Pensions Act 1925</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Introduced contributory flat-rate benefits for insured workers and their wives.</td>
</tr>
<tr>
<td>• Derived rights for married women when both spouses reached pension age.</td>
</tr>
<tr>
<td>• Reduced pension age to 65 for both men and women.</td>
</tr>
<tr>
<td>• Provided for the first pensions for older widows.</td>
</tr>
</tbody>
</table>

7. In 1940, measures to address female poverty were brought in with the Old Age and Widows’ Pensions Act. Old-age pensioners were given access to national income-related assistance, extending the model used for Unemployment Assistance. At the same time, women’s pension age was reduced to 60.

<table>
<thead>
<tr>
<th>Old Age and Widows’ Pensions Act 1940</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Reduced women’s pension age to 60.</td>
</tr>
<tr>
<td>• Made people over pension age and widows eligible for means-tested assistance – ‘supplementary pensions’.</td>
</tr>
</tbody>
</table>

8. The 1940 Act was an interim solution. In 1941, the Government asked Sir William Beveridge to recommend how the strands of welfare administration could be brought together into a comprehensive structure for state insurance in post-war Britain.

---

4 Effectively a supplementary pension. There were 940,000 claims in the first nine months – four times the number on poor relief.

5 In 1941 there were 6,000 Approved Societies, 14 different authorities and local Poor Law authorities.
9. The Beveridge scheme provided for working married women to build up their own pension insurance record, with a provision to opt out and rely on their husband’s insurance record if they chose to. Like its predecessor, the Beveridge scheme provided for a woman’s State Pension to be paid on her husband’s insurance – but at the reduced rate of 60 per cent of the full State Pension rather than the 100 per cent rate that the 1925 Act provided.

10. At the time of the Beveridge Commission, the majority of married women did not work. Beveridge assumed that married housewives would not work full time and would be financially dependent on their husbands as breadwinners. The model assumed a high degree of family and marital stability and stability protected married women’s pension rights.

11. Women’s formal employment patterns were still more fragmented than men’s, and in the early 1930s, from which period Beveridge drew most of his research data, only 10 per cent of married women were in the workforce. By 1951, 22 per cent of married women worked outside the home. Even so, the Commission underestimated the numbers of women who worked before marriage.

12. The 1975 Social Security Act was the next significant milestone for women. The Act introduced the State Earnings-Related Pension Scheme (SERPS) and Home Responsibilities Protection, both of which were tailored to meet the circumstances of women. SERPS would be calculated over the ‘best 20 years’ which helped women with fragmented working lives. Widows could inherit a full earnings-related pension.

---

National Insurance Act 1948

- Comprehensive compulsory insurance.
- Dependency increases.
- Allowed married working women to opt out and rely on their husband’s insurance for a pension, but at a reduced rate of 60 per cent of the full basic State Pension.
- Pension earned over a working life of 44 years (women)/49 years (men).
- Pensions paid on condition of retirement, not old age.
- Retirement age of 60 for women and 65 for men.

---

6 Census 1931, Great Britain.
7 Census 1951, Great Britain.
13. In 1986, the Government introduced measures to reduce the long-term costs of SERPS and removed the 'best 20 years' provision, reduced accrual rates from 25 per cent to 20 per cent, and halved survivors’ benefits.8

14. The State Second Pension was introduced in 2002 and reformed SERPS. It rewards low earners and is a more redistributive state-funded second pension. The State Pension Credit Act introduced Pension Credit in 2003, building on the Minimum Income Guarantee. Pension Credit has made a significant impact on pensioner poverty and, in particular, women’s poverty.

15. The improved State Pension deferral rights in the 2004 Pensions Act help women as women’s average retirement age is actually above current women’s State Pension age (see Chapter 3, section 3.8).

2.4 Life expectancy and pensioner populations

16. Life expectancy in the UK is increasing and this presents a challenge for pension systems. Individuals are receiving more years of State Pension benefits in their retirement, and any private pension accrued during a working life has to stretch further to cover their retirement.

17. Life expectancy for women is greater than for men. The majority of today’s pensioners are women: women currently retire earlier and live longer. This gender gap in life expectancy is a consistent phenomenon across the developed world, although its size differs between countries, and across all social classes within the UK. However, the gap in the UK has been narrowing since hitting a peak in the early 1970s (Figure 2.1).

---

8 See Annex 7.
18. From 2010, the State Pension age for women will gradually increase, and by 2020 the State Pension age for men and women will equalise at age 65. The male and female pensioner populations are expected to grow significantly as the post-war baby-boom generation reaches State Pension age: from 4.1 million in 2005 to 6.3 million in 2025 and 8.1 million in 2051 for men, and from 7.1 million in 2005 to 7.4 million in 2025 and 9.5 million in 2051 for women (Figure 2.2).

19. While the higher pensioner population growth among men will have an impact on the gender balance, women will still make up more than half the pensioner population. In 2005, 63 per cent of those over State Pension age are women; by 2051 it will be 54 per cent. Women will also continue to predominate in the ever-growing group of pensioners aged over 80 (Figure 2.2).

---

20. Improvements in life expectancy increase the proportion of over-65s in the population, and also increase the proportion of those over 65 who are in the oldest age groups. Between 2005 and 2051, the number of people aged over 65 in the population is expected to increase by around 80 per cent, but the number aged over 80 will increase by 175 per cent. There may be 16 times as many centenarians as there are today, though the majority of pensioners will still be under 80. However, people are not only living longer, they are staying healthier longer, and tomorrow’s older pensioners should be fitter and more active than people in these age groups today.

21. Life expectancy varies by social class for both men and women, with those in higher social classes outliving those in lower social classes, and with women in every social class outliving men in the same social class. There has been no change in this overall picture in recent years.
22. Women in all social classes have seen increases in their life expectancy since the early 1970s. Women reaching age 65 in the late 1990s had a life expectancy of 16.9 and 20.6 years for the lowest and highest social classes respectively (Figure 2.3), compared with men at age 65 who had a life expectancy of 13.3 and 18.3 years for the lowest and highest social classes respectively.

![Figure 2.3: Trends in female life expectancy at age 65, by social class](image)


Note: Social class I: professional; Social class II: managerial and technical; Social class III: skilled non-manual; Social class III: skilled manual and supervisors of manual workers; Social class IV: partly skilled; Social class V: unskilled.

2.5 Pension income and pension wealth\(^{10}\)

23. In 1979, an average pensioner household's income after housing costs was just £80 per week in today's money.\(^{11}\) The average single female pensioner had just £63 a week and nearly half of all pensioners were in the poorest fifth of the population, with 80 per cent dependent on the state for the majority of their income.

---

\(^{10}\) The term ‘income’ refers to a flow of money, goods or services, whereas the term ‘wealth’ refers to a stock of assets with the potential to yield income.

\(^{11}\) In current prices, median, after the deduction of housing costs (Pensioners' Income Series 2003/04).
24. Over the next 25 years, average pensioner income roughly doubled in real terms, growing twice as fast as average earnings. Figure 2.4 shows this for single pensioners; married couples saw similar increases. However, this growth was not evenly shared between men and women, with much of it coming from increases in occupational pensions which go disproportionately to men. Figure 2.4 also shows this persistent gap between male and female incomes.

![Figure 2.4: Real income of single pensioners by gender, 1979–1996/97 and 1994/95–2003/04](image)

Source: Pensioners’ Income Series 2003/04. The data in the first and second halves of the figure come from different sources, and so the levels are not directly comparable.

25. Between 1979 and 1996/97, the incomes of the richest fifth of pensioners grew more than twice as fast as those of the bottom fifth. As a result, by 1996/97, despite the significant increase in average pensioners’ incomes, 28 per cent of pensioners and 37 per cent of single female pensioners had less than 60 per cent of the median income. Overall, pensioners’ incomes have continued to grow significantly faster than earnings since 1996/97, but this time the growth has been fairly evenly spread across the income distribution.

---

12 Sixty per cent of net median equivalised income after housing costs: Households Below Average Income 2003/04.
26. Between 1996/97 and 2003/04, the number of pensioners in low income fell by about a quarter in relative terms (which allows for rising real average incomes) and two-thirds in absolute terms (which allows for inflation), with 1.9 million older people lifted above absolute low income.14

27. Around 1.3 million of those lifted above absolute low income are women. Single female pensioners’ risk of relative low income in 2003/04 was the same as that for the population as a whole, at 21 per cent on the relative measure, but higher than that for male pensioners (14 per cent) or pensioner couples (20 per cent). These figures are significantly lower than in 1996/97 (Figure 2.5) and should fall further in 2004/05 because of the introduction of Pension Credit. The number of pensioners in relative low income fell by 300,000 in 2003/04, the biggest fall since the series of figures began. This reduction is concentrated in the second half of 2003/04, following the introduction of Pension Credit.

28. Nearly 60 per cent of the extra £2 billion15 spent each year on Pension Credit goes to the poorest third of pensioners, and around 80 per cent to the poorest half. Around half of those in receipt of Pension Credit are single women.

14 ‘Absolute low income’ refers to individuals in households with below 60% of the 1996/97 median income and ‘relative low income’ refers to those in households with below 60% of contemporary median income, both measured after housing costs.

15 On top of annual Minimum Income Guarantee expenditure.
29. As at 30 June 2005, there were 3.3 million individuals (in 2.7 million pensioner households) benefiting from Pension Credit – 2.18 million (around two-thirds of them) women. There were 2.5 million individuals (in 2.1 million pensioner households) benefiting from the guarantee credit – including 1.7 million women. Estimates also suggest that around 90 per cent of single women entitled to the guarantee element of Pension Credit are now receiving it.

30. But simply looking at average women’s income and average men’s income does not give the whole picture. There are very different patterns for different marital groups (Figure 2.6).

31. Married or cohabiting women pensioners have, on average, very low personal incomes compared with married or cohabiting male pensioners. For every £1 received by a married or cohabiting woman, a married or cohabiting man will get nearly £3 and will receive approximately twice as much in state benefit, far more in private pension, and more in other income. Of course, the living standards of these women are likely to be much higher than their personal income would suggest, since many goods and services will be shared among all members of a household or family.
32. Widowed, divorced and separated women pensioners have more personal income than married or cohabiting women, but less than the equivalent men. Widowhood, divorce or separation may increase women’s income with inherited State Pension rights and survivors’ benefits from occupational pension schemes. But this may not increase their living standards above those of married or cohabiting women, as household costs will no longer be shared with a partner.

33. Tomorrow’s never-married women pensioners will not have the same characteristics as never-married women pensioners today. Tomorrow’s never-married women pensioners are more likely to be mothers than today’s, whether living with partners or without, with the fragmented working lives that usually accompany childcare and family responsibilities, and they may not have the inheritance rights divorced or widowed women would have.

34. Single women in retirement (that is, not currently married or cohabiting) have, on average, 10–15 per cent less income than single men of the same age.16 The predominant driver is the difference in private pension income;17 men of all ages typically receive £50 to £100 a week more private pension income than women of the same age.18 Older pensioners tend to be slightly poorer than younger pensioners, though the effect is very small compared with the variation in incomes within age groups (Figure 2.7 shows this for female pensioners). It is even smaller if earnings are excluded, which relatively few pensioners are receiving. These patterns repeat themselves across the income distribution.

---

Figure 2.7: Female pensioners’ income per week by age group


17 See Chapter 7.
18 See Chapter 7, Figure 7.1.
35. Over recent years women have moved into the labour market in greater numbers. More women are paying National Insurance contributions and generating their own income which can be invested in a private pension. This trend suggests that the next cohort of women to retire will have higher state and private pension incomes in their own right.

36. But if women’s salary levels during working life are lower, women will still find themselves worse off than their male equivalents, irrespective of basic State Pension. The reasons for looking at the private pension outcomes for women set to retire in 30 to 40 years’ time are to address inequalities remaining between men and women, and between women with caring responsibilities, those in paid employment and those combining caring and work. This is particularly important given the Pensions Commission’s analysis, which concluded that people are not saving enough to build up adequate incomes in retirement.

37. On current mortality rates, 90 per cent of 20-year-old women will reach age 65, compared with 84 per cent of men; beyond age 65, women can expect to live three years longer than men. The effect of this is that by 2025 the average newly-retiring woman will receive more basic State Pension over her life than the average man. On the latest projections she will receive about the same pension each week as the average man but she will get it for longer – and is more likely to inherit a spouse’s pension.

38. Measures of pension wealth for individuals approaching retirement consider future streams of state and private pension income. Men tend to have higher pension wealth than women, with women having between 50 and 60 per cent of the wealth of men (Figure 2.8). This considers only wealth in a person’s own right. Women tend to have a higher share of wealth than income, relative to men, because they live longer and retire earlier.

---

19 Government Actuary’s Department, Period Rates.
20 Similarly, both men and women from higher social classes who live longer are likely to receive pension for longer, though in their case their extra contributions will outweigh this advantage.
Chapter 2
Context of women and pensions debate

39. The equalisation of State Pension age between 2010 and 2020 will mean that women receive their state pensions from a later age – potentially reducing their State Pension wealth approaching retirement, relative to men. But later retirement should mean improved contribution records for women in both state and private pension schemes – potentially increasing state and private pension income in retirement, relative to men.

40. Even given this higher State Pension wealth, the very low private pension wealth among women means that both median and mean pension wealth among women aged 55–59 (£66,000 median and £60,000 mean) is lower than the maximum possible from the basic State Pension on its own (£71,000 and £78,000 respectively). In contrast, younger women, aged 50–54, have average State Pension wealth (£54,000 median) that is about the same as their current maximum basic State Pension entitlement (£42,000 and £59,000 respectively).

41. Figure 2.9 illustrates the distribution of pension wealth within age and gender groups. For men there is little discernible difference in the distribution of pension wealth across different age groups, although the gap between the richest and poorest is greatest for men aged 50–54. In contrast, for women the distribution of pension wealth is a little more equal in the younger 50–54-year-old age group than in the 55–59-year-old age group. There is less of a gap between the richest and poorest women than between the richest and poorest men.

---

21 This range is lower than the maximum basic State Pension wealth of those aged 55–59 because this group will be affected by the change in State Pension age for women.
Chapter 2
Context of women and pensions debate

2.6 Chapter summary

42. Marriage and cohabitation produce different pension outcomes for partnered women.

43. Women are living longer: life expectancy in the UK is increasing, and life expectancy for women is greater than for men. The majority of today’s pensioners are women and they will still make up more than half the pensioner population in the longer term: in 2005, 63 per cent of those over State Pension age are women; by 2051 it will be 54 per cent. Women will also continue to predominate in the ever-growing group of pensioners aged over 80.

44. Over recent years women have moved into the labour market in greater numbers. More women are paying National Insurance contributions and generating their own income which can be invested in a private pension. This trend suggests that the next cohort of women to retire will have higher state and private pension incomes in their own right.

Figure 2.9: Distribution of total individual pension wealth by gender and age, assuming retirement at State Pension age

45. But if women’s salary levels during working life are lower, women will still find themselves worse off than their male equivalents, irrespective of basic State Pension. The reasons for looking at the private pension outcomes for women set to retire in 30 to 40 years’ time are to address inequalities remaining between men and women, and between women with caring responsibilities, those in paid employment and those combining caring and work. This is particularly important given the Pensions Commission’s analysis, which concluded that people are not saving enough to build up adequate incomes in retirement.

46. Pensioners’ incomes have been rising faster than inflation and faster than average earnings. Between 1996/97 and 2003/04, the number of pensioners in low income fell by about a quarter in relative terms (which allows for rising real average incomes) and two-thirds in absolute terms (which allows for inflation), with 1.9 million older people lifted above absolute low income.

47. Married or cohabiting women pensioners have, on average, very low personal incomes compared with married or cohabiting male pensioners. For every £1 received by a married or cohabiting woman, a married or cohabiting man will get nearly £3 and will receive approximately twice as much in state benefit, far more in private pension, and more in other income.

48. Widowed, divorced and separated women pensioners have more income in their own right than married women pensioners, but less than the equivalent men.

49. Today’s women pensioners who have never married do just as well in median income terms as men who have never married. Tomorrow’s never-married women pensioners will not have the same characteristics as never-married women pensioners today. Tomorrow’s never-married women are more likely to be mothers than today’s never-married women, whether living with partners or without, with the fragmented working lives that usually accompany childcare and family responsibilities.

50. Older pensioners tend to be slightly poorer than younger pensioners, though the difference is very small compared with the variation in incomes within age groups. The difference is even smaller if the comparison excludes income from earnings, which relatively few pensioners receive. These patterns repeat themselves across the income distribution.
Chapter 3: Education, employment and earnings

3.1 Educational achievement

1. Long-term equality between women and men depends on improvements in education, skills and employment opportunities, supported by flexible working arrangements and family-friendly policies that lift the glass ceiling for progression affecting some women. Opportunity to gain promotion, as well as the quality of jobs and salary levels, form key determinants in women’s ability to build up entitlement to an adequate income in retirement.

2. Qualifications influence labour market experience and this in turn largely determines state and private pension assets (see section 3.2). Men in their late 40s and 50s are less likely to have a degree than those in their 30s, but both generations will be better qualified than women of a comparable age.

3. A higher proportion of women than men in Great Britain have low-level qualifications or none at all, but this overall picture is skewed because older women are much less likely than older men to have any qualifications. The level of qualifications among both men and women has been increasing steadily over time, and women’s position relative to men has seen a dramatic improvement.

4. Twenty-nine per cent of women aged between 55 and 59 have no qualifications – 11 per cent more than the equivalent figure for men in the same age group. But among 20–24-year-olds, only 9 per cent of women have no qualifications – only 2 per cent more than the equivalent figure for men.22

5. Girls are now more likely than boys to gain five or more grade A*–C GCSEs and more likely to gain at least two passes at A-level.23 In addition, the growth in participation in higher education in recent years has been particularly rapid for women. As Figure 3.1 shows, in the youngest age groups, women are more likely than men to have a degree.

23 Department for Education and Skills; National Assembly for Wales; Scottish Executive; Northern Ireland Department of Education.
Chapter 3
Education, employment and earnings

3.2 Returns on educational achievement

6. These improvements in women’s educational achievement will feed through over time to improve the relative position of women in the labour market – increasing the probability that more women will secure work that provides the opportunity to save and invest for retirement.

7. This outcome depends on the relationship between education, employment and earnings. While women are now more likely than their male counterparts to gain a degree, this does not automatically imply that they will have better employment and earnings prospects.

8. Investigation into the effect of degree study on earnings shows a high financial return on degree-level education. However, the return varies considerably by degree subject and by gender. The percentage increase in wages resulting from a degree qualification, rather than from two A-levels, is higher for women: around 20 per cent on average compared with 15 per cent for men (Figure 3.2).

---

9. Women may not be maximising their returns from education. Women are more likely than men to take degrees in arts, education and social sciences, which provide lower returns than, for example, degrees in business studies and sciences, where men predominate (Figure 3.3).


Note: Comparator is average earnings of those with two or more A-levels.
10. Just under half of young women go to university in the UK, but women are still concentrated in subjects that lead to traditionally ‘female’ occupations. This is not diminishing with time. Social attitudes and individual preferences may drive both subject and occupational choices, but segregation by subject is part of the explanation for the gender pay gap.

11. While degree choice is largely gender biased, there are some ethnicity factors at work too.\textsuperscript{25} Ethnic minority groups are in aggregate well represented in undergraduate-level study compared with their distribution in the population, but particular groups, such as Pakistani and Bangladeshi students, are under-represented. And women are less well represented in ethnic minority groups at university than in the undergraduate population in aggregate. Again, this is particularly true among Pakistani and Bangladeshi students. Subjects with strong representation of female ethnic minority groups are law and those allied to medicine. Social, economic and political sciences are more popular with female Black and Bangladeshi students than with other female students.

3.3 Occupational sectors

12. Just as men and women at university tend to select different subjects, there are considerable differences between the sectors in which men and women work. The picture of women concentrated in certain jobs has not changed much over time.

13. Evidence suggests that this segregation may, in part, be driven by women’s job preferences. Women make employment decisions to fit work around other responsibilities and priorities, such as caring for children or sick or elderly relatives. But research undertaken for the Department for Work and Pensions did not find any evidence to show that, in the couple of years running up to the birth of their first child, women make career choices based on expectations of future responsibilities.

14. Figure 3.4 shows the distribution of jobs across industrial sectors by gender, and how the distribution has changed between 1985 and 2005. Men have increased their domination of the manufacturing sector and women of the public sector. In manufacturing, men hold 80 per cent of jobs, compared with 74 per cent 20 years ago. Men hold 56 per cent of jobs in finance and business, around the same proportion as 20 years ago. Women hold around 70 per cent of jobs in public administration, education and health, compared with around 60 per cent 20 years ago.

---

**Figure 3.4: Distribution of jobs across industrial sectors by gender**

<table>
<thead>
<tr>
<th>Industrial Sector</th>
<th>Number of Jobs (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other services</td>
<td>18</td>
</tr>
<tr>
<td>Public administration, education</td>
<td>16</td>
</tr>
<tr>
<td>and health</td>
<td></td>
</tr>
<tr>
<td>Banking, finance, insurance, etc</td>
<td>14</td>
</tr>
<tr>
<td>Transport and communications</td>
<td>12</td>
</tr>
<tr>
<td>Distribution, hotels and restaurants</td>
<td>10</td>
</tr>
<tr>
<td>Manufacturing and construction</td>
<td>8</td>
</tr>
<tr>
<td>Agriculture, energy and water</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: Workforce Jobs Series, UK.

---

15. In addition, women are more likely than men to work for small employers. In the public sector, women will generally have access to good-quality occupational pension schemes. Those working in small firms are less likely to have access to an occupational pension (see Chapter 7). Smaller organisations may offer fewer opportunities for training and promotion, which will have a negative effect on women’s earnings.

16. Figure 3.5 is an analysis of occupations instead of industrial sectors, but the same view of a segregated workplace emerges. Around one in five employed women work in an administrative or secretarial job, compared with fewer than one in twenty men. Men predominate in the higher-paid, skilled-trade occupations.

17. This occupational segregation is a concern for pension policy makers because it is part of the explanation for the gender pay and pension gaps. Women in unskilled, service or manual occupations are also losing out on access to good occupational pension schemes. And these economic disadvantages compound those faced by women who have gaps in their savings history because of time taken out of work with family responsibilities.

---


29 Men in these sectors are affected too, but it is significantly a women’s issue.
3.4 Employment rates

18. Female employment rates have increased over time, from 55 per cent in 1983 to 70 per cent in 2005, and the gap between men and women has fallen by 12 percentage points since the early 1980s (Figure 3.6). These changes will mean that future women pensioners will have higher average lifetime earnings than current pensioners and, with appropriate savings and investment decisions, this should mean higher levels of income from state and private pensions.

![Figure 3.6: Employment rates by year: men and women aged 16 to State Pension age](image)


19. One of the most important predictors of female employment is age. Figure 3.7 shows how female employment rates are similar to those of men for people in their 20s. For those in their 30s and above, there is a large gap between male and female employment rates, though it closes slightly for those aged over 40.
20. In part this is driven by the fact that younger women – the later cohorts – are more likely to be in work at any given age than women from earlier generations. Figure 3.8 tracks four cohorts of women through their lives. Employment varies with age, but the employment rate for most age groups has increased over time. Employment is highest around the mid to late 40s. When today’s young women retire, they will have fuller employment histories than today’s women pensioners or women who are now approaching retirement.
21. The key underlying reason for the variation in women's employment rates is whether or not they have had children and the age of those children. Although around one in five women never have children, the employment experiences of those who do strongly influence the average picture. Women without dependent children are almost as likely as their male counterparts to be in work. Just over half of women with dependent children aged under 2 are in employment, compared with more than 70 per cent of women without dependent children.

22. Lone mothers are less likely to be in work than their partnered counterparts. In spring 2005, the employment rate for partnered women with children stood at 72 per cent, around 17 percentage points above the rate for single women with children (55 per cent). The difference is most marked for women with children of pre-school age; for this group the employment rate for partnered mothers is over 20 percentage points higher than the employment rate for lone mothers. For mothers with children aged 5–9, the partnered mother’s employment rate is 18 percentage points higher, and for those with children aged 10–14 it is 12 percentage points higher (Figure 3.9).

---

Declining fertility rates are part of the explanation for the long-term growth in female employment. The average number of children per woman has fallen from 2.19 for those born in 1945 to less than 1.9 for women born after 1965. Over the same period, 1945 to 1965, the proportion of women choosing not to have children increased. The fertility rate is expected to continue to fall, with women born in the 1990s or later having an average of 1.75 children each. Women are also having their children later than earlier generations did; the average age for women to have their first child is now nearly 27 years compared with 25 years in 1988. There is evidence that women who have spent longer in the labour market before they have children are more likely to return after they have children. Around one in five women never have children.

However, fertility rates appear to be stabilising. Since the mid-1990s, employment growth has been strongest for those women with the youngest children – the employment rate for those with children aged under 2 years has risen by 9 per cent since 1994, compared with 7 per cent growth for all women with dependent children and 4 per cent for women overall. Women are increasingly likely to return to work while their children are relatively young.

---

23. Office for National Statistics.
3.5 Employment breaks and returning to work

25. Women are far more likely than men to be outside the labour market at any given age. Around 27 per cent of all women aged between 16 and State Pension age are economically inactive, compared with 17 per cent of men. There are even greater differences in particular cohorts: more than 20 per cent of women aged 25–49 are economically inactive compared with around 8 per cent of men (Figure 3.10).

26. Reasons for economic inactivity polarise along gender lines. Men are most likely to be inactive for health reasons while more than 40 per cent of the women aged 16 to State Pension age who are out of the labour market are looking after their family or home. As female employment rates fall behind those of men in the mid-20s, a large proportion of women surveyed say they are out of the labour market looking after their family or home.

27. The decision to have and care for children has a critical impact on women’s choices and priorities, their economic position, and their consequent prosperity in employment and retirement.

---

**Figure 3.10: Economic inactivity rates and reasons by age and gender**

```
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Inactive – family/home</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inactive – retired</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inactive – sick and disabled</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
```


---

Chapter 3
Education, employment and earnings

28. Women with long breaks from work will miss out on the promotion and career progression achieved by male peers who do not take time out. Among women aged 16–49 and out of work, more than 50 per cent have been out of work for more than a year and almost 30 per cent have been out of work for more than five years. For men, the equivalent figures are 31 per cent and 14 per cent. Women with lower levels of skill tend to spend more time out of the labour market after having a child than is the case for more highly educated women, so they lose out on more years of potential saving.

29. For women who have been out of the labour market for significant periods, the return to work can be difficult. The probability of someone returning to work within a three-month period falls the longer they are out of work. Among people who have been out of work for fewer than three months, almost 40 per cent return to work within the next three months. For those out of work for between a year and two years, the figure is only 7 per cent.

30. Self-evidently, at least historically, it is clear, that breaks in employment lead to an overall reduction in lifetime earnings, and hence it is important to help women who choose to have children or care for other family members to stay in touch with the labour market, whether through improved maternity leave, flexible working arrangements or support to return to work through welfare and skills programmes.

3.6 Full-time and part-time work patterns

31. As women take on childcare responsibilities, they will often change jobs, hours and work patterns to suit their home and family life. These changing patterns will reflect a degree of personal choice, but choices can be limited by a lack of local, flexible work. Choices can also be limited by the accessibility and affordability of childcare, and by the attitude of families and partners. Women often take lower-paid local jobs because these are the jobs that allow them to combine work and family.

32. Women are far more likely to work part time than men, and research suggests that women are more likely to return to work full time after the birth of their first child and part time after the birth of their second child. Over 40 per cent of all women in employment work part time, compared with around 10 per cent of men. Figure 3.11 shows full and part-time employment rates for men and women aged 16–68. Patterns of full and part-time working vary with age for both men and women, but while hardly any men aged between the mid-20s and mid-50s are in part-time work, part-time working is

38 Women's incomes over the lifetime, Cabinet Office Women's Unit Research Report, 2000.
40 The gender pay gap, T Anderson et al., Women and Equality Unit, 2001.
common for women in all age groups. From the mid-20s, the proportion of women in full-time work falls, and the proportion working part time rises; this reflects the ages at which many women are likely to have childcare responsibilities.

33. For all ages between 30 and 40, the difference in the proportion of men and women working full time is more than 30 percentage points. Notably, more than half of all women in work in their mid-30s and late-50s are working part time.

![Figure 3.11: Full-time and part-time employment rates by gender](image)


34. Among women who work part time, more than half say that they do not want full-time work because they want to spend time with their family, or they have domestic responsibilities that prevent full-time work. Among men who work part time, fewer than 10 per cent give the same reasons.43

35. The types of jobs held by women who work part time differ substantially from those held by women working full time. The average hourly wage for a woman working part time is more than 25 per cent lower than the average for a woman working full time. Part of the explanation for this is that part-time workers are concentrated in certain different occupations.

---

36. Women often have to take a lower-skilled job in order to find part-time work.\(^4\) Only 22 per cent of women in managerial or professional occupations work part time, compared with 42 per cent in administrative and secretarial occupations and 70 per cent in unskilled occupations.\(^5\)

37. There is some evidence that this difference is not driven by women’s part-time job preferences alone. Figures 3.12 and 3.13 show the proportion of female employees split by occupation who would work fewer hours for less pay in their current job, and, of those, the proportion who report that their employer would be able to let them change. They show that a higher proportion of women in highly-skilled occupations would like to reduce their hours than women in other jobs, but that a relatively low proportion of these women believe that their employer is able to let them do so. But the figures need to be treated with caution. In all occupations the percentage who would like to work fewer hours is very low, and the gender differences are small.

---

**Figure 3.12: Percentage of employees by occupation who would work fewer hours for less pay in their current job**


---

\(^4\) *The part-time pay penalty*, Alan Manning and Barbara Petrongolo, for the Department of Trade and Industry, November 2004.

38. This evidence of an apparent lack of opportunities for women to work reduced hours in higher-skilled occupations is supported by an analysis of outcomes for women who actually change their hours. Women who change from full to part-time work are much more likely to have changed job or employer than women who stay in full-time work. A return to part-time rather than full-time work after time out of the labour market, or changing to part-time work by changing employers, involves a significant pay penalty. This penalty is particularly acute for graduates, indicating underutilisation of skills among better-qualified mothers.46

39. There is a benefit to companies in promoting quality part-time employment so that women who choose to work part time can be employed in jobs that make full use of their education, training and skills.47

---

46 The part-time pay penalty, Alan Manning and Barbara Petrongolo, for the Department of Trade and Industry, November 2004.

47 See, for example, Part-time is no crime, Equal Opportunities Commission, February 2005 and The part-time pay penalty, Alan Manning and Barbara Petrongolo, for the Department of Trade and Industry, November 2004.
40. The Department of Trade and Industry’s *Second work–life balance study*\(^4\) provides evidence from a number of studies that employers have introduced more family friendly and flexible working patterns in the last few years. The increases appear to have occurred across all workplaces rather than being confined to workplaces of a particular size, sector or industry. Around four-fifths (81 per cent) of employers provided at least one of the following flexible working practices: part-time working, job sharing, flexi-time, annualised hours, term-time working, compressed working weeks and reduced-hours working. Part-time working was by far the most common, offered by 74 per cent of all employers.

41. Numerous quantitative and qualitative studies have attempted to identify the costs and benefits that arise from flexible working.\(^4\) Most of this evidence has highlighted the positive rather than negative effects derived from introducing these policies. The more recent *Work–life balance study* corroborated this evidence. A high proportion of employers in Great Britain reported that work–life balance practices had had a positive impact on employee relations (71 per cent), employee commitment and motivation (69 per cent) and labour turnover (54 per cent). Nearly half saw a beneficial impact on recruitment (47 per cent), absenteeism (48 per cent) and productivity (49 per cent).\(^5\)

### 3.7 Earnings

42. Women earn less than men – £260 weekly compared with £437.\(^5\) Even after adjusting for differences in working hours, a gap remains – median hourly earnings of women working full time are around 86 per cent of those of men working full time, while median hourly earnings of women working part time are around 57 per cent of those of men working full time. The gender pay gap has fallen over time. In 1971, median female full-time wages were only 70 per cent of the male figure\(^5\) – but a gap remains, even 35 years after the introduction of equal pay legislation. Progress has been particularly slow for part-time work.

43. The gender pay gap varies with age (Figure 3.14). Women working full-time in their 20s are paid less on average than their male counterparts, but the difference is relatively small, particularly for those without dependent children.

\(^4\) *Second work–life balance study: Results from the employers’ survey*, [WLB2] Woodland et al., Department of Trade and Industry, 2003. WLB2 was based on a sample of 1,509 interviews between December 2002 and April 2003 with employers with five or more employees.


\(^5\) Base: all employers with five or more employees. Includes those employers with no flexible working practices operating.

\(^5\) Annual Survey of Hours and Earnings 2004, Office for National Statistics (median figures).

44. The larger pay gap opens up in the 30s and 40s age groups. In part this is a cohort effect – younger cohorts of women, with better average qualifications and work histories than the older cohorts, have higher average pay than older women. But it is also driven by patterns of wage growth among men and women of the same cohort. Until their late 20s, women and men tend to do similar types of full-time work for similar levels of pay. After their late 20s, the pay gap widens as women start to take breaks from work and assume childcare responsibilities. Given comparable educational achievements with men, the pay gap for younger women is narrower than the pay gap that affects women who have had children.

45. There is a great deal of research seeking to explain the gender pay gap. The root causes include: different full-time employment experiences; interruptions in labour market attachment due to family care; years of part-time employment; and education and occupational segregation. Discrimination and other factors associated with being female also play a role.\textsuperscript{53} The pay gap is largest for women with degree-level qualifications. The pay gap is smallest between men and women in occupations such as teaching, where the pay structure may be more transparent or regulated.\textsuperscript{54}

46. Earnings are important determinants of whether or not an individual makes pension contributions and the size of those contributions. Low and mid-skill women in particular have lifetime earnings much lower than their male counterparts; lower average pay over the course of a working life carries through the private pension system into lower average income in retirement.\textsuperscript{55}

47. The Government introduced the National Minimum Wage in response to the problem of low pay. The National Minimum Wage has made an enormous difference to women’s working lives, benefiting nearly 1 million women.\textsuperscript{56}

### Key facts: The National Minimum Wage

- The National Minimum Wage is a set hourly rate below which pay must not be allowed to fall.

- 1.3 million workers are benefiting from the National Minimum Wage, including 0.9 million women (October 2005 figures, Department of Trade and Industry).

- The adult rate (for workers aged 22 and over) is £5.05 (October 2005) and a proposed £5.35 from October 2006.

- The 2006 increase is subject to confirmation by the Low Pay Commission in February 2006.

\textsuperscript{53} The impact of women’s position in the labour market on pay and implications for UK productivity, Walby et al., November 2002.


\textsuperscript{55} Women’s incomes over their lifetime, Cabinet Office Women’s Unit Research Report, 2000.

\textsuperscript{56} Department of Trade and Industry.
48. The Department of Trade and Industry estimated in spring 2003, using the Office for National Statistics Labour Force Survey, that there are around 1 million homeworkers in the UK. The largest sectors were banking, finance and insurance (240,000), followed by public administration and health (160,000). The Government was concerned, however, that some homeworkers might be paid less than the minimum wage. The Department of Trade and Industry therefore amended the minimum wage regulations in 2004 to introduce a system of ‘fair piece rates’ for homeworkers, on the basis that this system was easier to understand and should help homeworkers claim their entitlement to the minimum wage. The Government will be keeping this under review.

49. The Government is committed to promoting equality between men and women and to addressing the disadvantages that women face in the labour market. The Women and Work Commission was set up in 2004 to consider how to close the gender pay and opportunities gaps, to examine the different barriers and to seek solutions to these complex and multi-layered problems. The Commission published its interim report\textsuperscript{57} in March 2005, and these issues will be explained more fully in its final report.

3.8 Extending working life

50. The Government is implementing measures to facilitate and support longer working lives.

51. The Government believes that increased workplace participation in the mid to later stages of a person’s working life provides an important source of income, and an opportunity to save when the focus has moved from financing children to increasing provision for retirement.

52. There are 13.4 million people aged between 50 and 69, and this figure is likely to increase to 16.3 million by 2024.\textsuperscript{58} As older people become an ever larger proportion of the population, society will increasingly depend on the contribution they can make in the workforce.

53. Employment rates among 50–69-year-olds are currently 62 per cent for men and 48 per cent for women.\textsuperscript{59} For women, this reflects increases over the long term, while the male rates have been increasing since 1993 after declining in the 1970s and 1980s. Figure 3.15 shows male and female employment rates by age, as they were in 1979 and as they are today.

\textsuperscript{57} A fair deal for women in the workplace, Women and Work Commission, March 2005.

\textsuperscript{58} National population projections based on 2004 figures from the Government Actuary’s Department.

\textsuperscript{59} Labour Force Survey, spring 2005.
54. Employment rates for older people (aged 50–69) are still lower than for people aged 16 to State Pension age – 55 per cent compared with 75 per cent. And among women, who have tended to retire earlier than men, partly because of their lower State Pension age, there is greater scope for increased workplace participation. For those aged 50–69, the gap between male and female employment rates is 14 percentage points, compared with 9 percentage points for those aged 16 to State Pension age.

55. The drop in women’s employment rates with age is in part driven by the impact of State Pension age and the consequential right to draw specific age-related sources of pension income. Recent research found that nearly half (49 per cent) of those who retired at State Pension age did so precisely because it was the first opportunity to draw their State Pension.

56. The normal pensionable age set by employers for occupational pension schemes can also have an impact on employment rates where the age is set relatively low. The age will be the same for men and women within a particular occupational pension scheme.

---


61 Now set at age 60, women’s State Pension age is due to rise to 65 between 2010 and 2020.

57. While most people aged 50–69 are in employment, a third of men and half of women are not, for a variety of reasons. These include age discrimination in employment, inflexible working patterns, or a lack of confidence or relevant skills. Most people over 50 are in good health and many want to carry on working. However, 46 per cent of the over-50s who are not in work cite ill-health as a reason for leaving their most recent job. And many older people, particularly women, care for sick, disabled or elderly people. Adult caring responsibilities peak in the 55–59 age group, where 21 per cent of women and 15 per cent of men spend time caring for a sick, disabled or elderly person.

58. Pathways to Work pilots are testing measures to help recipients of incapacity benefits re-engage with the labour market and move into work. With about 1.2 million people aged 50 to State Pension age claiming incapacity benefits, including almost 450,000 women, these pilots are particularly important to over-50s who want to work.

59. The Pensions Act 2004 provides for more attractive State Pension deferral options, which were introduced in April 2005. These could help women in particular, whose current State Pension age is 60, while on average they retire at almost 62. These changes could mean that a woman retiring on an average State Pension after delaying her claim for two years could increase her weekly pension from £69 to £83 (payable for life and uprated each year) or, alternatively, she could take a lump sum of around £7,690 instead of the pension increase.

60. A woman who delays claiming her State Pension until 65 could now increase her pension by 50 per cent. And because women have a higher average life expectancy than men, they can expect to benefit from the higher pension for longer. There will also be an option for people who delay claiming their State Pension to receive a lump sum, instead of a weekly increase, if they delay claiming for 12 months or longer.

3.9 Chapter summary

61. Long-term equality between women and men depends on improvements in education, skills and employment opportunities, supported by flexible working arrangements and family-friendly policies that lift the glass ceiling for progression affecting some women. Opportunities to gain promotion, as well as the quality of jobs and salary levels, form key determinants in women’s ability to build up entitlement to an adequate income in retirement.

---

64 Family Resources Survey, 2003/04.
66 Lump sum based on interest at 6.5 per cent. Figures do not take account of benefit-rate changes or lump-sum interest-rate changes during the deferment period.
62. Girls are now more likely than boys to gain five or more grade A*–C GCSEs and more likely to gain at least two passes at A-level. Women are more likely than men to have a degree.

63. Investigation into the effect of degree study on earnings shows a high financial return on degree-level education, so women’s increased university participation will boost their future earnings power. The percentage increase in earnings resulting from a degree qualification, rather than from two A-levels, is higher for women: around 20 per cent on average compared with 15 per cent for men.

64. Occupational segregation studies show that men and women tend to predominate in different sectors. Men hold 80 per cent of jobs in manufacturing and 56 per cent in finance and business. Women hold 70 per cent of jobs in public administration, education and health; one in five employed women work in an administrative or secretarial job, compared with fewer than one in twenty men. For skilled-trade occupations, the story is reversed: men predominate in this sector.

65. Female employment rates have increased from 55 per cent in 1983 to 70 per cent now; the gap between men and women has fallen by 12 percentage points since the early 1980s.

66. Declining fertility rates are part of the explanation for the long-term growth in female employment. Families are getting smaller, and women are waiting longer before they start their family. The average number of children per woman has fallen from 2.19 for those born in 1945 to less than 1.9 for women born after 1965. Over the same period, 1945 to 1965, the proportion of women choosing not to have children increased. The fertility rate is expected to continue to fall, with women born in the 1990s or later having an average of 1.75 children each. Women are also having their children later than earlier generations did; the average age for women to have their first child is now nearly 27 years compared with 25 years in 1988. Around one in five women never have children.

67. Women who have spent longer in the labour market before they have children are more likely to return after they have children.

68. Women are far more likely than men to be outside the labour market at any given age. Around 27 per cent of all women aged between 16 and State Pension age are economically inactive, compared with 17 per cent of men. More than 20 per cent of women aged 25–49 are economically inactive, compared with around 8 per cent of men.

69. Reasons for inactivity polarise along gender lines. More than 40 per cent of women aged 16 to State Pension age who are out of the labour market have caring responsibilities. Men are most likely to be inactive for health reasons.
70. The decision to have and care for children has a critical impact on women’s choices and priorities, their economic position, and their consequent prosperity in employment and retirement.

71. Women are far more likely to work part time than men. Over 40 per cent of all women in employment work part time, compared with around 10 per cent of men.

72. There is evidence of an apparent lack of opportunities for women (and men) to work reduced hours in higher-skilled occupations. A return to part-time rather than full-time work after time out of the labour market, or changing to part-time work by changing employer, involves a significant pay penalty. This penalty is particularly acute for graduates, suggesting that there is a specific problem with underutilisation of skills among better-qualified mothers.

73. Median hourly earnings of women working full time are around 86 per cent of those of men working full time, while median hourly earnings of women working part time are around 57 per cent of those of men working full time. The gender pay gap is multi-layered, with different root causes for different cohorts of women.

74. Given comparable educational achievements with men, the pay gap for younger women is narrower than the pay gap which affects women who have had children.

75. Self-evidently, at least historically, it is clear, that breaks in employment lead to an overall reduction in lifetime earnings, and hence it is important to help women who choose to have children or care for other family members to stay in touch with the labour market, whether through improved maternity leave, flexible working arrangements or support to return to work through welfare and skills programmes.

76. The Department of Trade and Industry estimated in spring 2003, using the Office for National Statistics Labour Force Survey, that there are around 1 million homeworkers in the UK. The largest sectors were banking, finance and insurance (240,000), followed by public administration and health (160,000). The Government was concerned, however, that some homeworkers might be paid less than the minimum wage. The Department of Trade and Industry therefore amended the minimum wage regulations in 2004 to introduce a system of ‘fair piece rates’ for homeworkers, on the basis that this system was easier to understand and should help homeworkers claim their entitlement to the minimum wage. The Government will be keeping this under review.

77. The Women and Work Commission was set up in 2004 to consider how to close the gender pay and opportunities gaps, to examine the different barriers and to seek solutions to these complex and multi-layered problems. These issues will be explained more fully in the Women and Work Commission’s final report.
Chapter 4: Women, family and households

1. Women’s roles within families and households drive their experience in the labour market. It is useful to assess the ongoing impact of traditional gender roles and the division of labour within the home in any analysis of the causes of lower incomes in retirement.

4.1 Marriage, divorce and cohabitation

2. The UK has the highest divorce rate in the EU, and it is estimated that four out of every ten marriages entered into in the UK in 1996 will end in divorce.67 A divorced woman can use her ex-husband’s National Insurance record for the years before and during their marriage towards her basic State Pension, but not for the years after their divorce. Private pensions and additional State Pension can be shared on divorce. Few retirees have yet experienced old age as divorcees, but the proportion is growing.

3. Figure 4.1 shows that since the 1970s the number of marriages each year has been falling while the number of divorces has been rising steadily. In 2001 there were around 285,000 marriages and 155,000 divorces.

---

67 Office for National Statistics.
4. The fall in the number of marriages is expected to continue while the number of women cohabiting who are not married is expected to increase – from around 2.2 million in 2005 to around 3.6 million in 2025, a 60 per cent increase over just 20 years (Figure 4.2).

5. Women derive pension rights from their husbands’ State Pension contribution record and, where provided for in the scheme, from their husbands’ private pensions.
6. A marked increase is expected in both the number and proportion of women cohabiting who have never married – from around 74 per cent in 2005 to around 85 per cent in 2025. These overall trends may partly reflect the established trend for younger couples to live together before marriage, and do not necessarily imply that older women will choose to remain unmarried into retirement.

7. Focusing instead on women reaching or approaching retirement, there is convincing evidence of changing partnership trends affecting retirement. The number of cohabiting women aged 50–64 who are not married is expected to increase from around 200,000 in 2005 to over 650,000 in 2025. And a rapidly growing proportion of that group is expected never to marry (or will never have been married), increasing from around 17 per cent in 2005 to around 67 per cent in 2025 (Figure 4.3).
8. This suggests that cohabitation is likely to become far more popular as a life choice in later life and quite possibly as a permanent life choice for many couples throughout their relationship.

9. But the choice may store up financial problems if women have not made their own provision for retirement. Non-working wives earn their basic State Pension on their husband’s insurance. State Pension inheritance and substitution provisions protect widows and divorcees. A man drawing his State Pension cannot get a dependency increase for a cohabiting partner unless she is looking after his/her children.

10. Many private-sector occupational pension schemes pay a pension to a surviving unmarried partner, often at the discretion of the trustees. Most public service occupational pension schemes limit payment to a surviving spouse, but there are exceptions.68

4.2 Roles within the household

11. Despite changing attitudes towards gender roles and women’s increased participation in the labour market, women still perform the bulk of unpaid domestic work, on top of childcare responsibilities.

---

68 The new Premium Scheme for civil servants, for example, now allows for inheritance by cohabitees.
12. Figure 4.4 suggests that women and men spend similar amounts of time doing work-related activities. The total time spent in doing any paid or unpaid work (including employment, household chores, childcare and voluntary work) is only slightly higher for women overall (around 10 minutes more a day). However, a smaller proportion of women's time working is spent in paid work (around 30 per cent) compared with men's time working (around 60 per cent of time working is spent in paid work).

![Figure 4.4: Average time spent in paid and unpaid work each day by gender](image)


13. This traditional division of labour, whereby men are more likely to spend time in paid work while women are more likely to spend time doing unpaid work, has clear implications for pension provision.

4.3 Children and childcare

14. The evidence shows that declining fertility rates over the last few decades have improved women's employment rate. However, fertility rates appear to be stabilising, such that further growth in women's employment rates will need to come from higher employment rates of women with children and higher employment rates of women approaching retirement (see Chapter 3 on extending working lives).

15. The Government has invested over £17 billion in expanding early years and childcare services since 1997. Maternity pay and maternity leave periods increased in 2003. The Sure Start programme of early learning, childcare, health and family support assists women and men in their role as parents and in their aspirations to enter and progress in the workforce.
16. The Government’s ten-year childcare strategy, *Choice for parents, the best start for children*, published in December 2004, announced improved access to quality affordable childcare to help more women into the labour market and maximise the opportunities for part-time workers to increase their hours. Parents are currently entitled to free early education for 3- and 4-year-olds for 12.5 hours a week, 33 weeks a year. From 2006, all 3- and 4-year-olds will receive their free early education entitlement for 38 weeks a year. The childcare element of Working Tax Credit increased to (a maximum of) £300 a week from April 2005.

### 4.4 Lone parenthood

17. Around 90 per cent of all lone parents are women and 24 per cent of all children in Great Britain live in lone-parent families. Lone mothers are less likely to be in work than their partnered counterparts, with an employment rate of 55 per cent, compared with 72 per cent for partnered mothers. This does, however, mask an improvement of 11 percentage points since 1997 and academic work has shown that half of this increase can be attributed to lone parent policies.

18. Nevertheless, lone parents and lone mothers in particular face challenges in building up pension entitlement. They typically take time out of the labour market to look after children, but do not benefit from a partner’s earnings, or from a partner building up pension entitlement which they may later share in retirement. A report on savings and life events, for example, found that full-time family carers tend to save for short-term ‘treats’ such as special occasions and holidays.

### 4.5 Caring for disabled children and adults

19. The Family Resources Survey shows that there are around 3.6 million carers below State Pension age caring for adults in the UK. Most of these carers are accruing rights to the basic State Pension because they are either making sufficient National Insurance contributions or they receive a benefit which attracts a credit towards their basic State Pension. However, around 390,000 carers are not accruing basic State Pension rights; 120,000 of them are caring for 20 hours or more a week, and this group of carers appears to face more difficulties in the labour market than those caring for fewer than 20 hours a week and when compared with the overall population.

---

69 Between 2007 and 2010 all parents should receive an enhanced entitlement of 15 hours a week. The longer-term goal is 20 hours a week of free high-quality care.

70 Office for National Statistics, 2004 data.


72 Although a divorced single parent may benefit from Pension Sharing.


74 The Census 2001 shows that there are around 4 million carers below State Pension age who care for a family member or friend, but the Census figure also includes those caring for disabled children.
20. Figure 4.5 shows that employment rates for men and women caring for disabled offspring are likely to be lower than those for all people of working age, but far more so in the case of women. Fewer than 50 per cent of all women aged 30–44 caring for disabled children are in work, compared with over 70 per cent of all men aged 30–44 caring for disabled children. This does not make any distinction for hours spent caring.

Figure 4.5: Employment rates for carers of disabled offspring by gender

Source: Family Resources Survey 2002/03 and 2003/04.

21. While one in six adults cares for another person with a long-term health condition or a disability, women are slightly more likely than men to be filling this role (18 per cent of women compared with 14 per cent of men: Figure 4.6). The 45–64 age group is the peak age for caring, when one in four adults have caring responsibilities, slightly more in the case of women (27 per cent) and fewer than one in five in the case of men (19 per cent).

22. Among those aged 65 and over it is more common for men to be adult carers than women (18 per cent compared with 15 per cent) but at this age caring is far less likely to have a negative impact on earnings potential or retirement income.
23. Employment rates for all female carers (irrespective of hours spent caring) are 5–10 percentage points below those of the comparable parts of the overall working-age population by age. Women with formal caring responsibilities of 35 hours a week on Carer’s Allowance receive National Insurance credits towards their State Pension, as do recipients of other key benefits including Jobseeker’s Allowance and Incapacity Benefit.

24. Employment rates of both men and women are lower for those who report greater caring responsibilities (Figure 4.7). Women with caring responsibilities of 20–34 hours a week who remain in work are still more likely to be working full time than part time; while the majority of women with caring responsibilities of 35 hours or more a week who work are working part time rather than full time. The majority of men (under State Pension age) who are carers tend to work full time whatever their age or caring responsibilities.

---

75 Family Resources Survey 2002/03 and 2003/04.
25. Those carers who are employed juggle work and home, family and caring responsibilities, but not all employers provide the opportunities for carers of adults in particular to work flexibly. Employees are reluctant to reveal their carer status to employers or to take advantage of existing discretionary flexible working arrangements, since they fear being thought of as potentially unreliable employees. Carers often need to use their own holiday entitlement or even go on sick leave to cope with caring demands. To help open up flexible working to carers of adults the Government plans to extend the scope of the current right to request flexible working from April 2007 to include carers of adults. This will provide many carers with a legal right to ask to work flexibly.

---

*Carers’ aspirations and decisions around work and retirement*, Kemp and Kotchetkova, to be published shortly.
Chapter 4
Women, family and households

4.6 Chapter summary

26. Since the 1970s the number of marriages each year has been falling while the number of divorces has been rising steadily.

27. The state and many private pension structures provide derived pension rights on the basis of marriage.77 Cohabitation may store up financial problems if women have not made their own provision for retirement.

28. The number of women cohabiting who are not married is expected to increase – from around 2.2 million in 2005 to around 3.6 million in 2025, a 60 per cent increase over just 20 years. A marked increase is expected in both the number and proportion of women cohabiting who have never married – from around 74 per cent in 2005 to around 85 per cent in 2025. This trend could have impacts on future pension outcomes and so we must take care that government policies do not exacerbate any situations that produce unfair outcomes for women.

29. Women and men spend similar amounts of time doing work-related activities. The total time spent in doing any paid or unpaid work (including employment, household chores, childcare and voluntary work) is only slightly higher for women overall; however, a smaller proportion of women’s time working is spent in paid work.

30. Lone mothers are less likely to be in work than their partnered counterparts, with an employment rate of 55 per cent, compared with 72 per cent for partnered mothers. This does, however, mask an improvement of 11 percentage points since 1997 and academic work has shown that half of this increase can be attributed to lone parent policies. Nevertheless, lone mothers are likely to face particular challenges in building up pension entitlement.

31. While one in six adults cares for another person with a long-term health condition or a disability, women are slightly more likely than men to be filling this role (18 per cent of women compared with 14 per cent of men). The 45–64 age group is the peak age for caring when one in four adults have caring responsibilities, slightly more in the case of women (27 per cent) and fewer than one in five in the case of men (19 per cent).

32. Among those aged 65 and over it is more common for men to be adult carers than women (18 per cent compared with 15 per cent), but at this age caring is far less likely to have a negative impact on earnings potential or retirement income.

33. Employment rates for all female carers (irrespective of hours spent caring) are 5–10 percentage points below those of the comparable parts of the overall working-age population by age.

77 Or civil partnerships, from December 2005.
34. Women with caring responsibilities of 20–34 hours a week who remain in work are still more likely to be working full time than part time; while the majority of women with caring responsibilities of 35 hours or more a week who work are working part time rather than full time. The majority of men (under State Pension age) who are carers tend to work full time whatever their age or caring responsibilities.

35. The Government has already introduced a number of measures to help parents balance caring responsibilities more flexibly. It has invested over £17 billion in expanding early years and childcare services since 1997. Maternity pay and maternity leave periods increased in 2003. The Sure Start programme of early learning, childcare, health and family support assists women and men in their role as parents and in their aspirations to enter and progress in the workforce.

36. The Government’s ten-year childcare strategy, *Choice for parents, the best start for children*, published in December 2004, announced improved access to quality affordable childcare to help more women into the labour market and maximise the opportunities for part-time workers to increase their hours.

37. We need to consider what more, if anything, can be done to help women to continue to build up retirement income during and after breaks from the labour market.
5.1 Introduction

1. The State Pension scheme is available to those who make certain contributions over the course of a full working life.

2. Even at the outset in 1948, National Insurance did not only cover those who were working. Credits fill gaps in the contribution records of those who would normally be in the labour market but who are unable to work because of sickness or unemployment. These arrangements have expanded to recognise certain social contributions, such as caring responsibilities.

3. This chapter analyses National Insurance rules and State Pension outcomes, and presents evidence on actual and projected pension accruals.
5.2 Building a basic State Pension

**Key facts: Components from which to build a basic State Pension**

- Class 1 National Insurance contributions payable on earnings from one employer of £82 a week or more.

- Class 2 contributions payable by self-employed people.

- Voluntary Class 3 (non-employed) National Insurance contributions paid within six years of their falling due.

- National Insurance credits.

- In addition, widowed or divorced women can add on to their own State Pension insurance record with inheritance and substitution rights from:
  - the late husband’s National Insurance contribution record for widows; or
  - the former husband’s National Insurance contribution record if divorced.

*Note: Widows inherit their late husband's record in its entirety. A divorced woman who does not remarry can substitute her ex-husband's National Insurance contribution record and use it as her own or in addition to her own for pension purposes.*

4. To qualify for a basic State Pension, people have to satisfy National Insurance qualifying conditions.

**Key fact: The first contribution condition**

To gain entitlement to a basic State Pension, a person must normally have at least one qualifying year made up of *paid* contributions.

5. Basic State Pension entitlement then accrues with qualifying years and the second contribution condition applies.\(^{79}\)

---

\(^{78}\) There are similar arrangements on dissolution of civil partnerships from December 2005.

\(^{79}\) This rule, which effectively requires at least a ten-year engagement with the labour market or the National Insurance system (that is, at least an active engagement for a quarter of a working life) is often referred to as the ’25 per cent rule’.
6. Qualifying years are currently based on a working life of 39 years for women and 44 years for men: 39 (or 44) qualifying years give entitlement to a full basic State Pension. A person will get a proportion of the full basic State Pension of between 25 per cent and 100 per cent depending on the number of qualifying years they have.  

7. The second contribution condition effectively requires a person to have active engagement with the labour market for a quarter of their working life – 10 years for a woman compared with 11 years for a man. The minimum basic State Pension payable on this basis in 2005/06 is £20.51 a week.

8. People who have paid, been treated as paid or credited with full National Insurance contributions for less than a quarter of the required qualifying years will receive no basic State Pension, although their contributions would have insured them for incapacity and unemployment benefits and, in the case of women, for maternity benefits.

9. Estimates indicate that there may be around 130,000 current women pensioners who appear to have no title to any basic State Pension but may have paid some contributions (see section 5.6 Non-accrual patterns and the under-pensioned).

10. Class 3 contributions must be paid within six years of the date they were due. They can be paid by anyone wishing to make up gaps in their National Insurance record except women who elected to pay the married women’s reduced-rate option. Six years at the 2005/06 rate costs £2,293. If no time limit existed within which to pay contributions on deficient years, it would be in many people’s interests to wait and see whether they could benefit from paying Class 3 contributions, or in extreme cases a lifetime’s insurance at Class 3, as they approach State Pension age.

---

Key fact: The second contribution condition

And then, after the first contribution condition has been met, to get a minimum basic State Pension a person normally needs to have paid, been treated as paid or been credited with full National Insurance contributions to qualify for at least 25 per cent of a full basic State Pension.

---

Key fact: Class 3 National Insurance contributions

People who are not building a National Insurance record through work or with credits may pay Class 3 non-employed National Insurance contributions (£7.35 a week in 2005/06) to make up a deficit.

---

80 Entitlement is calculated on a pro-rata basis. For example, a woman with a 30-year working life (that is, 30 qualifying years) will get a pension entitlement of 30/39ths of a full pension.
11. However, employed earners and the self-employed would still continue to have to pay their National Insurance contributions on a pay as you go basis.

### Key facts: Lower Earnings Limit

- The point at which contributions can be treated as paid even though there is no liability to pay.
- State Pension entitlement accrues on earnings from one employer from £82 a week.

12. State Pension entitlement accrues on earnings from a single job from £82 a week, the Lower Earnings Limit, which mirrors the level of full basic State Pension. Low earners (those earning between £82 and £94 a week) are treated as paying National Insurance contributions and continue to build up entitlement to contributory benefits such as State Pension, but do not actually have to pay National Insurance contributions. Employees start to pay National Insurance contributions at £94 a week – the Primary Threshold.

13. *Around 600,000* women in paid employment (including self-employment) are not liable to pay or are not treated as paying National Insurance contributions because they **earn less than the Lower Earnings Limit from their main or only job**. The existing rules do not allow people to combine earnings from two or more jobs, earnings from each of which fall below the Lower Earnings Limit. **Fewer than 50,000 of these women have more than one job** (see section 5.6 Non-accrual patterns and the under-pensioned).

### Key facts: Home Responsibilities Protection

- Home Responsibilities Protection was introduced on 6 April 1978.
- It protects the basic State Pension record, for complete tax years only, of men and women who have significant long-term caring responsibilities and who:
  - care for a child under the age of 16; or
  - care for a sick or disabled person (and do not receive Carer’s Allowance for the same period); or
  - from 2003, are a registered foster carer.
- Home Responsibilities Protection is not a credit; it reduces the number of qualifying years needed to earn a basic State Pension.

---

81 Includes 150,000 women in education and excludes women covered by National Insurance credits and women protected by Home Responsibilities Protection.
14. Home Responsibilities Protection\(^{82}\) protects State Pension rights for people who care for children, full-time adult carers and full-time carers of disabled children. It reduces the number of qualifying years needed to earn a basic State Pension, though it cannot reduce the number of years needed for a full basic State Pension to fewer than 20. A mother who has done some work (or has some credits) in a year, but not enough to make a qualifying year, will get the benefit of Home Responsibilities Protection – providing she has received Child Benefit for the entire tax year.

15. Individuals may lose out on a year’s protection at the beginning of their claim if a child’s birthday falls near the beginning of the tax year (6 April). Most full-time working women would have sufficient contributions paid (or deemed paid) during employment in the run up to maternity leave and during the Statutory Maternity Pay period itself to provide them with a qualifying year.

### An example of how Home Responsibilities Protection works

A woman leaves university and works full time for eight years. She gives up work on marriage and spends 19 years caring for her children. She then works full time for another five years before moving to a low-paid part-time job in the years before retiring at 60.

Without Home Responsibilities Protection, she would have two years’ starting credits (from 16–18-year-old education) and contributions from 13 years of full-time work. She would, therefore, accrue 15/39ths, or 38 per cent, of a full basic State Pension. This could rise to up to 60 per cent of a full basic State Pension when her husband retires.

With Home Responsibilities Protection, she would have still accrued 15 years worth of contributions and credits but the number of qualifying years she would need for a full basic State Pension is reduced by the 19 years of Home Responsibilities Protection. Her pension would, therefore, be 15/20ths, or 75 per cent, of a full basic State Pension.

16. The evidence on basic State Pension accruals in this report shows that Home Responsibilities Protection has made a significant difference to the basic State Pension outcomes of future women pensioners. However, it is not widely understood\(^{83}\) and its eventual effect – whether a woman needs to draw on Home Responsibilities Protection for her pension or not – is only apparent at the point when her pension is calculated.

---

82 See Annex 6.

5.3 Basic State Pension accrual patterns and entitlements

17. Figure 5.1 shows how working-age women built up their entitlement to a basic State Pension between 1979 and 2003. In 1978/79, when Home Responsibilities Protection came in, 22 per cent of women accrued a qualifying year through Class 1 or Class 2 contributions and 40 per cent of women were covered by Home Responsibilities Protection. By 2002/03, with significantly more women working and earning, 50 per cent accrued a qualifying year through Class 1 or Class 2 contributions and only 16 per cent needed to rely on Home Responsibilities Protection. The number accruing through Class 3 contributions or credits (or a combination of credits and contributions) increased from 15 per cent to 22 per cent. The number of women who did not accrue qualifying years halved during this period.

Source: Contributions and qualifying years, Department for Work and Pensions, June 2005. The figures are provisional and subject to revision as some employers submit their information late. Also, the information for Class 2 contributors is likely to be under-estimated, as the self-employed have longer to make their contributions. (Working-age population data from the Office for National Statistics.)
18. Figure 5.2 shows how successive cohorts of women build up a State Pension record. It counts the number of qualifying years, including Home Responsibilities Protection. The graph shows the 25th percentile – this means that 75 per cent of women will have better records than this, 25 per cent will have worse records. It excludes those who do not have any links with the National Insurance system at all but this is a very small number – for the younger age groups it will be 1 per cent or less of the population.

**Figure 5.2: Women’s basic State Pension accruals by cohort**

![Graph showing total number of qualifying years by age and cohort](image)

*Source: Lifetime Labour Market Database.*

*Note: 25th percentile total qualifying years for basic State Pension by age – women.*

19. Almost 75 per cent of women in the youngest age groups are on course for a full basic State Pension if they continue to work until 65. Of course not all will, but most are on a better course than their predecessors. The average (median) woman in all the under-50 cohorts is on course for a full basic State Pension. But, by comparison, most men are on course for a full basic State Pension in every cohort.

---

84 See Annex 6 on Home Responsibilities Protection. As it is not possible to predict the final value of a Home Responsibilities Protection year until actual State Pension entitlement is calculated at pension age, for prediction purposes Home Responsibilities Protection is counted as a full year, up to the maximum number (19) allowed.
20. Women aged 25 to 45 are as likely as men to be building a State Pension record, as a result of Home Responsibilities Protection. The cohort analysis in Figure 5.2 shows the dramatic improvement between women aged 60 or over and younger cohorts of women. Much of this is due to Home Responsibilities Protection; the oldest cohort will have been in their late 30s when Home Responsibilities Protection was introduced and will not have benefited to any large extent. Those in the youngest cohort were in their late teens, so nearly all their childcare years are covered. The final State Pension outcomes may vary – for the worse – because it is not possible to calculate the final value of Home Responsibilities Protection until the final State Pension calculation since it depends on the overall work history.  

21. Figure 5.3 shows the average amount of basic State Pension accrued by each age group in 2003/04. Women aged in their early 40s or younger have very similar records to men, which suggests that, for these women, Home Responsibilities Protection is successfully protecting their basic State Pension if they take time out to raise children. Women currently aged over 45 have poorer records than men of the same age – these women were aged over 20 at the introduction of Home Responsibilities Protection so may not have had all their childbearing years covered by Home Responsibilities Protection, or may have elected to pay the married women's reduced-rate option.

![Figure 5.3: Mean basic State Pension entitlements for men and women in 2003/04](image)

Source: Lifetime Labour Market Database. An estimated 1 per cent of men and 0.5 per cent of women with no record at all are excluded.

Note: Includes migrants who have left the UK. These are individuals with an 'abroad' liability, or who have not interacted with any National Insurance system for several years.

---

85 See Annex 6.
22. Government statisticians have over recent months undertaken a detailed exercise to update knowledge about the current and future flow of women from the labour market into retirement.

23. There are several measures to quantify the percentage of women with full basic State Pension entitlement. Firstly, there is the measure of those actually in receipt of full basic State Pension. The latest data on this measure relates to September 2004, when 23 per cent of women age 60 were in receipt of full basic State Pension – 17 per cent on their own record and 6 per cent relying in full or in part on derived rights.

24. However, this measure excludes those who are entitled to a full basic State Pension but have chosen to defer it, or who have made a late claim. (Five per cent of women defer taking their pension for at least a year, though not all of these will be on full basic State Pension.) The data are also a year out of date, at a time when women’s entitlements are improving rapidly. The latest figures from the Government Actuary’s Department say that in 2005/06, 30 per cent of women reaching State Pension age are entitled to a full basic State Pension (24 per cent on their own record). Another 30 per cent have earned less than a full pension, but more than a Category B pension. On average, women reaching age 60 in 2005/06 have 70 per cent of a full basic State Pension.

25. The Government Actuary’s Department estimates women’s future pension entitlement: it forecasts significant improvements in women’s pension entitlement. Although estimates are inevitably uncertain, the latest estimates suggest that by 2025, men and women will be reaching age 65 with similar basic State Pension entitlements. The mean entitlement of both men and women reaching State Pension age will be over 90 per cent of a full basic State Pension for both genders. The changed picture for women is largely due to women’s improved work records and the effect of Home Responsibilities Protection. There will still be a small proportion of people who do not get a full or nearly full basic State Pension, but it will no longer be predominantly a women’s issue. The Government Actuary’s Department estimates that by 2025, over 80 per cent of women reaching State Pension age will be entitled to a full basic State Pension, and a slightly lower proportion of equivalent men will be entitled to a full basic State Pension.

5.4 Building a State Second Pension

26. The introduction of the State Second Pension (which reformed SERPS) in 2002 significantly increased women’s additional pension rights – it is one of the key changes to the State Pension system to give women with low earnings or time out of the workplace a better State Pension record.

---

86 See Annex 9 Glossary of terms for a definition of Category B pension.
27. With the enhancement of State Second Pension rights for low to moderate earners and the extension of second pension rights to the disabled and carers through the State Second Pension, women today are as likely to be accruing additional State Pension as men. Female entitlement to additional State Pension is projected to grow from a very small base to match that of men by around 2050.\(^{87}\) Self-employed people paying Class 2/Class 4 National Insurance contributions are not covered by the State Second Pension scheme. It is possible to accrue entitlement to an amount of State Second Pension without entitlement to basic State Pension.

28. State Second Pension accruals are calculated on three bands of earnings – low, moderate and high.\(^{88}\)

- Employees earning £82 a week build up entitlement at a rate of 40 per cent of £12,100 after a full working life; plus
- 10 per cent of any earnings between £12,100 and £27,800; plus
- 20 per cent of any earnings between £27,800 and £32,760.\(^{89}\)

---

\(^{87}\) This includes income from credits, but is before contracted-out deductions, which is equivalent to assuming the pension gained from contracted-out rebates is equal to the State Pension foregone.

\(^{88}\) Low, moderate and high earners as defined annually in Department for Work and Pensions Parliamentary Orders and HM Revenue and Customs Uprating Regulations. The figures quoted are 2005/06 rates.

\(^{89}\) The Lower Earnings Limit, Primary Threshold, Upper Earnings Threshold and Upper Earnings Limit respectively.
29. State Second Pension also provides additional State Pension for carers (engaged in caring for 35 hours a week or more) and people with a long-term illness or disability who do not work outside the home. Parents of children aged under six years, adult carers and disabled people are also brought into the scheme and are deemed to earn at the Low Earnings Threshold. Almost all of the 1.9 million carers who will benefit from the State Second Pension are women with around 1.6 million building up entitlement solely because they are caring for a child under the age of six.

5.5 State Second Pension accrual patterns and entitlements

30. Although men and women are equally likely to be accruing additional State Pension, men are more likely to be accruing more than the minimum. Differences in economic activity between men and women and wage differentials mean that women are on average building smaller State Second Pensions. Men retire later, and are more likely to have earnings above the Low Earnings Threshold and so gain more than the minimum entitlement (Figure 5.4).

Source: Lifetime Labour Market Database (a 1 per cent sample of NIRS 2 data). Data relate to 2002/03 and include those accruing the contracted-out equivalent.

Note: More men than women gain State Second Pension because their later State Pension age means there are more men in the working-age population.
31. As the State Second Pension scheme matures, women’s State Second Pension entitlement will get closer to men’s. There are several reasons for this, including:

- women’s increasing attachment to the labour market aligned with the equalisation of State Pension age increases the number of years in which they can build entitlement;
- the uprating mechanism for State Second Pension means that the gap between the minimum Low Earnings Threshold level and maximum entitlements will narrow, benefiting the low paid and those on credits relative to those with high earnings;
- men are more likely to be self-employed than women, and so not part of State Second Pension; and
- non-working mothers of children who are under the age of six will be building their State Second Pension on credits.

However, it will take many years for these changes to feed through to State Second Pension entitlements.

5.6 Non-accrual patterns and the under-pensioned

32. There are currently about 80,000 women in today’s retired population in Great Britain and overseas who are not entitled to basic State Pension, but do have entitlement to some additional State Pension or Graduated Retirement Benefit – an indication that they paid contributions for some period of their lives.

33. There may be a further 50,000 married women pensioners who did not meet the first or the second contribution conditions, and have no title to any basic or additional State Pension. These are likely to be women who elected to pay the married women’s reduced-rate option. The number of women paying reduced-rate contributions has fallen from 3.5 million in 1977 to around 50,000 now. It will be around 3,000 in 2010. Many of these women will have some entitlement from their husband’s record once he reaches 65 and claims a pension and, if household income is low, Pension Credit will step in to protect these women.

34. The Family Resources Survey\(^91\) showed that 2.2 million women and 1.6 million men aged over 20 (but below State Pension age) were not participating in any activity to qualify for basic State Pension at a given point in time during the 2003/04 year. These tended to be those with low family income.

- For both men and women, at least a quarter of these 2.2 million women and 1.6 million men are working, but not earning sufficient to gain a qualifying year for basic State Pension. Women are more likely to be in part-time work, men in self-employment.

\(^{90}\) Government Actuary’s Department estimates.

\(^{91}\) Family Resources Survey is based on self-reported data and may not correspond to official statistics.
A significant proportion of women and men describe themselves as sick/disabled, but do not appear to be in receipt of the necessary qualifying benefits to safeguard pension entitlement.

A significant proportion of women describe themselves as ‘looking after the home’ – these are women without children who do not qualify for Home Responsibilities Protection.

Finally, many describe themselves as ‘students’ or ‘retired’.

Around 600,000 of these 2.2 million women were in paid work (including self-employment), including 150,000 who were also in education. Fewer than 50,000 had more than one job. Of the 1.6 million men not accruing basic State Pension entitlement, 350,000 were in paid work, including 100,000 who were also in education. People earning but not accruing basic State Pension tended to be in the older or younger age groups – only a quarter were aged between 30 and 50 years. Working Tax Credit provides working mothers who are able to increase their hours to at least 16 hours a week with the means to earn a credit to a basic State Pension.

There is little evidence that women in better-off families are choosing not to work. Women in families with earnings over £26,000 a year are most likely to be gaining contributions through earnings, least likely to be on credits, and less likely than any but the very poorest to be building a State Pension record based solely on Home Responsibilities Protection.

Figure 5.5 is an analysis of basic State Pension non-accruals and self-reported activity by gender based on the Family Resources Survey. It is a point-in-time snapshot view. Some of these people will in fact be gaining State Pension because they are getting a benefit they have not reported, or they have or will earn sufficient in other months. Others who appear to be accruing State Pension (for example, those who report themselves as employed and self-employed) will not in fact earn enough during the year to make it a qualifying year.

---

92 As State Pension entitlement is based on complete qualifying years, these estimates are subject to a degree of uncertainty. The surveys do not indicate whether the respondents subsequently continued with their reported activities for the rest of the year.

93 This small group may be misreporting their circumstances, or may genuinely be earning less than the Lower Earnings Limit for a job they consider full time – possibly through voluntary work, working in a family business, or on short-term sick leave.
Figure 5.5: Basic State Pension non-accruals by gender

Source: Family Resources Survey 2003/04. The figures relate to those between age 20 and State Pension age.
38. Similarly, Figure 5.6 shows an analysis of State Second Pension non-accruals and self-reported activity by gender. The 14 per cent of women in this data from the Family Resources Survey who are not building basic State Pension entitlement are not building State Second Pension either, and a further 10 per cent are gaining basic State Pension only. Three-quarters of those gaining entitlement to just a basic State Pension have school-age children over the age of six. Most of the rest are self-employed.

Source: Family Resources Survey 2003/04.

Figure 5.6: State Second Pension non-accruals by gender

Source: Family Resources Survey 2003/04.

---

94 Or the contracted-out equivalent.
39. There will be overlaps of women within groups not accruing entitlement to basic State Pension or State Second Pension. **There are 2.2 million women** in total **not accruing a basic State Pension**. Of these, about **1.3 million are married** and **National Insurance inheritance rules may apply**. **There are 600,000 women earning under the Lower Earnings Limit.** Family Resources Survey estimates are that **around 390,000 carers are not accruing basic State Pension entitlement**, around 120,000 of them caring for 20 hours or more a week.

### 5.7 Pension Credit\(^{95}\)

40. Historic under-provision for women in retirement contributed substantially to the decision to tackle pensioner poverty and the introduction of Pension Credit in 2003 has had a huge and immediate positive impact on the living standards of today’s female pensioners. Women, who in the past may not have been able to build up an entitlement to a good pension, are among those to benefit the most. Two-thirds of people in receipt of Pension Credit are women, and half of these are aged 75 or over. At 30 June 2005, Pension Credit had reached 2.18 million women.

#### Pension Credit

- Pension Credit, introduced in October 2003, is an income-related entitlement for people aged 60 or over living in Great Britain.

- Pension Credit provides those aged 60 or over with a contribution to a guaranteed minimum income of at least £109.45 a week for single pensioners and £167.05 a week for couples (2005/06). The level of minimum income may be higher for people with caring responsibilities, severe disability and certain housing costs.

- Pension Credit rewards those aged 65 or over for modest saving with an extra amount worth up to £16.44 a week for single pensioners or £21.51 for couples.

41. As a result of the introduction of Pension Credit, more people aged 60 or over are eligible for Housing Benefit and Council Tax Benefit; Pension Credit may provide more direct access to these benefits.

42. Pension Credit also rewards those people who have made modest provision for their retirement with savings or a second pension. The savings credit gives people aged 65 or over a cash addition worth up to a maximum of £16.44 a week for single people (£21.51 for couples). It provides a reward of 60p per £1 of income above the level of full basic State Pension up to the guarantee credit level. After that the amount of savings credit reduces by 40p for every £1 of income above the guarantee credit level.

---

\(^{95}\)This section has been compiled with the latest figures available when the report went to print.
43. The Work and Pensions Select Committee welcomed the fact that Pension Credit has increased the incomes of many pensioners. Pension Credit has already helped lift around 1.3 million women above low-income levels since 1997. At the same time, it ensures that pensioners who have saved and have income above the level of the full basic State Pension are better off than they would be had they not saved.

5.8 Chapter summary

44. Government statisticians have over recent months undertaken a detailed exercise to update knowledge about the current and future flow of women from the labour market into retirement.

45. There are several measures to quantify the percentage of women with full basic State Pension entitlement. Firstly, there is the measure of those actually in receipt of full basic State Pension. The latest data on this measure relate to September 2004, when 23 per cent of women age 60 were in receipt of full basic State Pension – 17 per cent on their own record and 6 per cent relying in full or in part on derived rights.

46. However, this measure excludes those who are entitled to a full basic State Pension but have chosen to defer it, or who have made a late claim. (Five per cent of women defer taking their pension for at least a year, though not all of these will be on full basic State Pension.) The data are also a year out of date, at a time when women’s entitlements are improving rapidly. The latest figures from the Government Actuary’s Department say that in 2005/06, 30 per cent of women reaching State Pension age are entitled to a full basic State Pension (24 per cent on their own record). Another 30 per cent have earned less than a full pension, but more than a Category B pension. On average, women reaching age 60 in 2005/06 have 70 per cent of a full basic State Pension.

47. The Government Actuary’s Department estimates women’s future pension entitlement: it forecasts significant improvements in women’s pension entitlement. Although estimates are inevitably uncertain, the latest estimates suggest that by 2025, men and women will be reaching age 65 with similar basic State Pension entitlements. The mean entitlement of both men and women reaching State Pension age will be over 90 per cent of a full basic State Pension for both genders. The changed picture for women is largely due to women’s improved work records and the effect of Home Responsibilities Protection. There will still be a small proportion of people who do not get a full or nearly full basic State Pension, but it will no longer be predominantly a women’s issue. The Government Actuary’s Department estimates that by 2025, over 80 per cent of women reaching State Pension age will be entitled to a full basic State Pension, and a slightly lower proportion of equivalent men will be entitled to a full basic State Pension.

97 See Annex 9 Glossary of terms for a definition of Category B pension.
48. Women aged 25 to 45 are as likely as men to be building a State Pension record, as a result of Home Responsibilities Protection.

49. In 1978/79, 40 per cent of women relied on Home Responsibilities Protection to protect their State Pension record. By 2002/03, with significantly more women working and earning, only 16 per cent needed to rely on Home Responsibilities Protection.

50. There are 2.2 million women in total not accruing a basic State Pension. Of these, about 1.3 million are married and National Insurance inheritance rules may apply.

51. Around 600,000 of these 2.2 million women are earning under the Lower Earnings Limit of £82 a week and not accruing basic State Pension or covered by Home Responsibilities Protection. Fewer than 50,000 of these have more than one job; 150,000 are in education. The biggest groups of these workers with earnings under the Lower Earnings Limit tend to be in the oldest or youngest age groups.

52. The majority of the 3.6 million adult carers in the UK are accruing basic State Pension entitlement. But there are around 390,000 of these carers not accruing basic State Pension entitlement – around 120,000 of them caring for 20 hours or more a week.

53. Men and women are equally likely to be accruing some State Second Pension, but more men are accruing State Second Pension because there are more men of working age. There are 12.4 million women of working age accruing a State Second Pension, compared with 13.5 million men. Of these, 10.4 million women are better off than under State Earnings-Related Pension Scheme, compared with 8.4 million men.

54. Historic under-provision for women in retirement contributed substantially to the decision to tackle pensioner poverty as an immediate objective, with the introduction of Pension Credit in 2003. Two-thirds of people in receipt of Pension Credit are women, and half of these are aged 75 or over. At 30 June 2005, 2.18 million women were receiving Pension Credit.

55. Given the improvements in women’s National Insurance records, would there be benefits from altering the National Insurance rules and qualifying conditions to create entitlements to the basic State Pension to better reflect today’s society?

56. Given the improvements in basic State Pension accruals, which are providing pension coverage for more and more people, would the gains from a residence-based (as opposed to contributions-based) eligibility for the basic State Pension provide a cost-effective and practical alternative way of improving equity of entitlements?
6.1 Women’s attitudes to pensions

1. As part of the review of women’s pension position in the UK the Department for Work and Pensions commissioned research exploring how women plan financially for retirement and how their partners influence their decisions. Qualitative, in-depth interviews were carried out with a range of women (69 in all) and the male partners of some of them (27). The findings from the research provide insights into how women’s decisions and plans about pensions and retirement finance are made – at household level in some instances and individually in others.

2. Typically, labour market explanations have been used to explain the ‘pension gap’ between men and women. This research paints a more complex picture of the layered and interrelated factors affecting women, pensions and retirement. Day-to-day family priorities override women’s concerns about their personal financial future. A household-based view of retirement income – where women take the view that their partner will provide as it is his responsibility – as well as fragmented, part-time, low-paid employment patterns for many women, all affect the pension picture.

3. The research showed that women rarely had a clear picture of retirement – it was a remote concept, often associated with their partner’s retirement. Women were not sure what income they would need in retirement, nor how to finance it. They were often vague both about how much retirement income they might need, and how much they can expect from existing provision. This was also the case for many men interviewed as well.

4. Women were increasingly doubtful that the state will support the growing pensioner population financially. This implies a need for private pension provision, but there were also rising concerns about the value and reliability of private schemes. Pensions seemed a relatively low priority in women’s minds, at least until retirement approaches. The research showed that retirement is a difficult and distant topic, and there are more pressing calls on women’s attention and resources. Many women prioritised their spending, putting their families’ financial needs first over their own financial futures. There was some awareness among women that it is better to start preparing for retirement at an early stage, but many women felt that there are too many other competing – especially familial – demands on their own or the household’s resources.

---

98 Financial plans for retirement: women’s perspectives, W Sykes et al., Department for Work and Pensions Research Report No. 247, 2005. The research excluded women in households from the lowest income quintile for whom lack of disposable income would tend to override all other considerations in determining their pension status.
5. Many women assumed they will be supported to some extent in retirement by their partner's pension income. This theme recurred – even among younger career-minded women. Women were, on the whole, well aware of the high rates of divorce and partnership breakdown, and younger cohorts felt that a degree of independence in retirement planning is desirable for its own sake. However, there was a powerful association between pensions and paid work which naturally affected women removed from the labour market (for example those with caring responsibilities). The research showed that some women still see pension planning and provision as essentially a male role, linked to breadwinning.

6. Other research studies have produced similar findings: for example, in a study on planning for retirement99 only 22 per cent of women said they had worked out what their retirement income would be, compared with 35 per cent of men. Similarly, only 47 per cent of women say they have looked into saving or investing for retirement, compared with 60 per cent of men.

### 6.2 Knowledge and understanding of pension arrangements

7. The Department for Work and Pensions research found that women who belong to private pension schemes were often unclear about how these work or what they will provide. There was usually even more uncertainty about their partners' pension holdings. Many women did not know how divorce, separation or bereavement would affect either their state or private pension situation.

8. Women's knowledge about their State Pension prospects was variable, but often poor. There was widespread uncertainty about eligibility criteria, and about the value of the State Pension. Many women had no idea what they might get, and were unaware that they can have a pension forecast. Women typically did not know about Home Responsibilities Protection or other measures aimed at protecting women involved in caring for their families.

9. Levels of knowledge and understanding tended to be highest among women approaching retirement age. Women paying into the occupational schemes of major employers tended to know a little more about their pensions, having picked up information from their employers or from discussion with fellow employees.

10. Again, research on planning for retirement100 supports this evidence. When asked whether they felt able to decide where best to invest their money if given a choice of funds, only 29 per cent of women answered positively compared with 42 per cent of men. And only 34 per cent of women claimed that they were aware of the tax benefits of a pension, compared with 52 per cent of men.

---

99 Retirement Planning Monitor 2004, Marketing Sciences Ltd (a sample of over 1,000 respondents).

100 Retirement Planning Monitor 2004, Marketing Sciences Ltd (a sample of over 1,000 respondents).
6.3 Partnership and women’s pensions

11. Women’s financial standing in retirement was affected both by active decisions and the repercussions of other life choices – for example to have children or to be a ‘stay-at-home’ mother. The effects on retirement income of the latter can be profound but are not necessarily known or taken into account at the time. The research findings showed that such decisions tended to be conditioned by a range of social and economic factors and their impact on pensions was rarely considered. Women rarely thought of pensions when making child-related employment choices and few women interviewed said they would have made different life choices if they had considered their future financial position.

12. The primacy of the maternal role was a very strong theme in the lives of many women – children shape and drive the lives of most mothers interviewed in the research. Children affected women’s pension holdings mainly through their impact on women’s work patterns, but the way women with young children engaged with work often reflected their personal preferences as well as the labour market opportunities open to them. Children not only influenced work patterns, they also established new child-focused priorities for spending, and increased financial pressure by bringing additional costs.

13. In the research sample, gender identity played an important part in the financial planning arrangements of couples, including some younger people. In couples where men were mainly responsible for retirement planning, women often claimed to be correspondingly passive and dependent in relation to this activity – lacking in information, interest and motivation, and leaving key financial decisions to their partner.

14. Research finds that children affect women’s pension holdings mainly through their impact on women’s work patterns. Children not only influence work patterns, they also establish new child-focused priorities for spending and increased financial pressure by bringing additional costs.

15. A recent report from Scottish Widows looks further at the impact of children, finding that half of all women stop saving for retirement when children enter the equation: among women with children aged 0–5, only 15 per cent are saving for a pension; among women with children aged 6–15, the proportion of women saving rises marginally to 17 per cent. Forty per cent of men with children aged 6–15 are still saving in a pension.

16. This finding is not completely surprising. The decision to have and care for children has a critical impact on women’s choices and priorities, their economic position and consequent prosperity in employment and retirement.
6.4 Different approaches to financial management

17. The Department for Work and Pensions research found that couple households fall into several categories. ‘Household planners’ focused mainly on thinking jointly about retirement income, while ‘Individual planners’ mainly considered the needs of the separate individuals in the household unit. ‘Hybrid planners’ tended to have a foot in both camps, seeing the household unit as important but also trying to foster individual interest, for example as insurance against relationship breakdown or to maintain a sense of individual independence within the relationship.

18. Many couples in the research placed a high value on the sharing of finances in their relationships. Sharing brings greater financial flexibility, but is not usually merely for financial convenience. Many apparently successful relationships are rooted in the notion that partners should share each other’s lives and resources – hence the widespread appeal of the ‘Household planning’ approach to retirement finance. This also makes financial independence a difficult issue to discuss in many families.

6.5 Relationship breakdown

19. Although couples valued the sharing aspect of the ‘Household planning’ approach, it only worked as long as the relationship lasted. Partnership breakdowns had left some women who were interviewed with inadequate retirement provision. In the wake of separation or divorce, the research found that many women developed a new and more focused approach to financial planning and management. Those entering new relationships were less likely to leave financial matters unquestioningly to their partner, or to assume that someone else would look after their retirement needs. However, by that stage there may have been little scope for enhancing their pension status significantly, especially if they have children.

20. Women (and their partners) tended to recognise that partnership breakdown is now common, but there was little sign that couples anticipate the possibility by ensuring women have independent provision. This is partly because it is difficult for couples to confront the possibility that the relationship may not last, but also because pensions do not usually have the same priority as many more immediate pressures and demands that families face. Moreover, families who are not putting enough into pensions to support them as a household unit may be even less able to make separate individual provision for the event of relationship breakdown.

6.6 Men’s perspectives on women’s pensions

21. The research found that men typically seemed better informed than their partners about pension finance and about their financial plans for retirement. Some were even better informed about their partners’ arrangements. However, there was a large degree of uncertainty and concern about pensions among men as well as women.
22. Male views about responsibilities for financial planning varied. At one extreme some made it clear that their role as breadwinner and financial planner was important to them and they did not want to share this with their partners. Some did not regard it as important for their partner to have an independent pension.

23. At the other extreme the man took a financial ‘back seat’ in a few households, and the woman was the main driver in planning retirement finance. Between these extremes lay a range of situations. Some men had tried unsuccessfully to engage their partners in decisions about financial planning, but their partners saw this as a chore they preferred not to get involved in.

6.7 Differences between cohorts

24. The research provided some evidence of a cultural shift over time. Younger partnered women were less likely to have married, particularly at a young age, and tended to have spent longer in the workforce before entering their first partnership. They were more likely to value a degree of financial independence. They recognised that many partnerships do not endure, and were more likely to consider it important for women to earn a living and make independent pension provision.

25. By contrast the youthful aspirations of older women were more likely to have focused on marriage and children. Many expected to give up work when they married or had children, and to accept financial dependency throughout their lives. The cultural norms of the day meant that women were more likely to look after their children themselves, and childcare options were limited. Women typically expected that their marriages would last, and assumed they would benefit from their husband’s pension when they reached retirement age.

26. While these are real and important differences, it is the similarities in the way the cohorts behave in relation to pensions which are more striking. The research found that traditional elements persist even in the lives of many younger women, and the effects of changing values and expectations, higher education and improved labour market opportunities are often diluted by other factors – notably the priority women accord to their children and the persistence of traditional gender roles even in young couples. This perpetuates the gender pension gap. The research did not find signs of many women taking active steps to secure independent provision, and this was often true among younger as well as older women.

6.8 Chapter summary

27. Independent research for the Department for Work and Pensions has shown that pensions are not high among women’s priorities. Women were more concerned with their families’ short- to medium-term needs than with saving for their own future, and felt that their partner should or would provide for their retirement.
28. Women rarely think of pensions when making child-related employment choices, and few would have made different life choices if they had considered their future financial position.

29. For many women interviewed, pensions were perceived to be associated with paid employment, and therefore not applicable to them.

30. Research finds that children affect women’s pension holdings mainly through their impact on women’s work patterns. Children not only influence work patterns, they also establish new child-focused priorities for spending and increase financial pressure by bringing additional costs.

31. A recent report from Scottish Widows looks further at the impact of children, finding that half of all women stop saving for retirement when children enter the equation: among women with children aged 0–5, only 15 per cent are saving for a pension; among women with children aged 6–15, the proportion of women saving rises marginally to 17 per cent. Forty per cent of men with children aged 6–15 are still saving in a pension.

32. This finding is not completely surprising. The decision to have and care for children has a critical impact on women’s choices and priorities, their economic position and consequent prosperity in employment and retirement.

33. Many couples pool their finances to a degree and this sharing is valued. The research showed that independent pension provision for women was not seen as salient – either by women or their partners.

34. While people know that partnerships often terminate, they do not like to think about it or plan for that eventuality. Many women interviewed did not know how their pension position (state or private) would be affected by divorce, separation or bereavement.

35. The research showed some evidence of a cultural shift over time. Younger women seem more likely to value a degree of financial independence. They recognise that many partnerships do not endure, and are more likely to feel it is important for women to make pension provision in their own right.

36. However, traditional elements of gender roles and financial dependency persist in the lives of many younger women (particularly those who are married or have children), and the effects of changing values and expectations are often diluted by other factors. This tends to perpetuate the pension gap.

37. How can we continue to improve awareness, information and education on pensions and continue to improve opportunities for people to invest for their retirement?
Chapter 7: Women, private pensions and investments

7.1 The increasing role of private pensions

1. A woman’s private provision for retirement will consist of a combination of any occupational pension and personal pension she has accrued during her working life, with any additional income she may have from earnings and investments. She may also share a husband’s, ex-husband’s, or partner’s private provision in retirement, and may inherit pension rights and other assets if she outlives a husband or partner.

2. Future women pensioners should have higher private pensions than their mothers because of the improvements in education, employment rates and earnings outlined in Chapter 3. Improving long-term trends in employment and pension coverage across different industries and sectors mean that more women have access to employer-sponsored pension schemes. Women’s membership of occupational pension schemes saw a rise from 1.3 million members in 1953 to 5.5 million members in 2000.\textsuperscript{101}

3. However, the impact of interrupted work patterns on career progression means that many future women pensioners will still accrue lower private pensions than men. And while in many households a woman’s husband or partner may be saving more on her behalf (particularly if, for instance, he is a higher-rate tax payer and entitled to higher tax relief on pension contributions), many partnerships do not survive until retirement.

7.2 Today’s women pensioners: private pension income

4. Women pensioners today receive relatively little individual private pension income compared to men. Figure 7.1 shows that the differences in private incomes (to include private pensions, earnings and investment income) are the predominant drivers in the difference between women’s and men’s income in retirement – with men of all ages receiving between £50 to £100 a week more average private income than women of the same age.

\textsuperscript{101} Government Actuary’s Department Occupational Pension Schemes Survey, 2000 (latest available data).
5. This is particularly marked for the 65–69 age group, where men have the highest private income. Younger women pensioners tend on average to have higher private incomes (to include private pensions, earnings, and investment income) than older women pensioners, despite older women pensioners as widows often having a share of their late husband’s private pension. This suggests that there is an upward trend in private pensions among women and bodes well for future cohorts of women pensioners.

6. Current women pensioners receive much smaller private pensions than men because of their tendency to work in low-paid and part-time jobs, often with long periods out of the workplace and with fragmented work patterns. These generations of women were more likely to work in sectors that had poor workplace pension provision.

7. But for married, widowed and divorced women pensioners, low private pension income may also be the result of a general expectation that the husband would be the main provider of income in retirement. Over 20 per cent of married women pensioners have no private pension income of their own. For many of today’s women pensioners this approach works well, with married women in particular having little private pension income in their own right but often being relatively well off as part of a couple if household income is shared. In 2003/04 the average pensioner couple received around £186 a week in private pension and investment income, more than three times the £57 a week received by the average single female pensioner and well over the £100 a week received by the average single male.102

---

8. Figure 7.2 shows that single women pensioners who never married have the highest private pension income of women pensioners in all age groups. And without marriage women have tended to do as well, or better, in terms of building up private pensions than equivalent men. However, the demographics have shifted, with detrimental implications for future cohorts. Single women who never married in this current pensioner cohort are likely to have been unattached and child-free for most of their working life, with a life-long insurance record. Tomorrow’s never-married women are less likely to have this career or life history; a higher proportion are likely to have been in a cohabiting partnership, and are more likely to have been mothers, with a pattern of career breaks and pension gaps.

9. Widows aged 60–74 tend to have much higher private pension incomes than their older counterparts. This is likely to be because of higher inherited private pension income from their late husbands.

10. Younger married women pensioners have on average over twice the private pension incomes of older married women pensioners, although still far lower than single or widowed women.

---

Figure 7.2: Private pension income received by women, by age and marital status


---

7.3 Tomorrow’s women pensioners: contributions to private pensions

11. Although today’s working women are far more likely to be contributing to a private pension than today’s women pensioners ever did (or could) there is still a significant pension contribution gap between today’s men and women of working age – both in the numbers making contributions at any point in time and in the size of those contributions.

12. Overall, 38 per cent of today’s working-age women are contributing to a private pension compared with around 46 per cent of working-age men. Looking just at those who are contributing, women contributors are more likely than men to be employees (as opposed to self-employed or out of work) and are more likely than men to be contributing only to an occupational pension. Around one in five of the women who are contributing save in a personal pension, compared with around one in three of the men.

13. The size of the private pension contribution gap between men and women varies significantly by age and by employment status. Figure 7.3 shows that for most age groups there is a direct connection between a woman’s contribution to a private pension and her employment status.

| Figure 7.3: Whether contributing to a private pension, by age and employment status |
|-----------------------------------------------|----------------|----------------|----------------|----------------|
|                                               | 18–29 | 30–39 | 40–49 | 50–State Pension age |
| All men                                        | 23%   | 57%   | 62%   | 43%             |
| All women                                      | 24%   | 43%   | 46%   | 40%             |
| All employed men                               | 32%   | 67%   | 73%   | 65%             |
| All employed women                             | 35%   | 60%   | 62%   | 59%             |
| All full-time employed men                     | 35%   | 68%   | 74%   | 69%             |
| All full-time employed women                   | 42%   | 69%   | 69%   | 70%             |


104 Family Resources Survey, 2003/04.
14. Younger women (under the age of 30) are just as likely as younger men to be contributing to a private pension. And for younger women and men in work, women are actually more likely to contribute.

15. The divergence between women and men starts in the late 20s and early 30s when women start to take time out of the labour market or reduce their hours to look after families. Overall, women in their 30s (including women out of the labour market and women working part time) are less likely to be contributing to a private pension than their male counterparts, but women working full time are just as likely to be contributing as men.

16. The most notable differences occur for women in their 40s, when even women working full time are less likely to be contributing to a private pension than men. This implies that women over 40 working full time are either less likely to have the opportunity to save in a private pension or are less likely to choose to save in a private pension than men of the same age, perhaps because they earmark their income for other purposes. This leads to concerns that women in this position retiring in 20 years’ time will remain at a disadvantage to men in relation to their income in retirement.

17. Women over 50 are less likely to be contributing to a private pension than men of the same age because women of this age are either less likely to be in work or more likely to work part time. Nearly three-quarters of men and women aged 50–State Pension age who are working full time are contributing to a private pension.

18. On the evidence of current social and familial behaviours, women will still take time out of the labour market to have children, will still miss out on contributions and will still have gaps in their private pension provision. They will need to make higher contributions to their pensions earlier, or later, in life if they wish to maintain their financial position in retirement relative to men.

19. Figure 7.4 shows that women who do make contributions to private pensions contribute on average less than men. The figure shows individual contributions to all types of pension and does not include employer contributions. Women are far more likely to contribute under £100 a month to their private pensions, while men predominate in the groups contributing £200 or more a month. The most common reason women cite for not saving more is that they do not have any spare money, and women are more likely to say this than men.

---


Women’s lower overall contributions to a private pension are largely determined by the cumulative effects of the gender pay gap, spells of part-time work and lower employer contributions in some occupations and employment sectors where women are concentrated. The state system has some non-contributory mechanisms for women to catch up; conversely, gaps in private pensions can only be made good by paying Additional Voluntary Contributions.

### 7.4 Workplace pensions

21. Women in work are overall less likely to be contributing to employer-sponsored pension schemes than men. Figure 7.5 shows that women working part time are less likely to be contributing to a workplace pension than women or men working full time.

22. Until the late 1980s and early 1990s many private sector and public service occupational pension schemes did not allow part-time workers to join and in most cases this affected a greater proportion of women than men. There were several successful legal challenges to this practice on the grounds that it amounted to indirect sex discrimination.

---

23. Since the 1990s there has been a rapid increase in the number of women working part time who are members of their employer’s pension scheme. This should lead to improvements in the private pension position of women pensioners in future years.

![Figure 7.5: Membership of current employer’s pension scheme by gender and employment status, 1983–2003](image)


24. Despite these improvements, there remains a significant pension contribution gap both between men and women overall, and between women employed full time and women employed part time. Only around a third of women employed part time are members of an employer’s pension scheme (Figure 7.5).

25. Figure 7.6 shows that in groups with lower earnings and access to an employer pension scheme, women are more likely than men to be contributing to a private pension (includes both workplace pensions and personal pensions). At higher earnings this pattern is less marked, with men in some groups, and particularly those working in the private sector, more likely to be paying into a private pension than comparable women. Both men and women with access to an employer pension scheme are more likely to be paying into a private pension than those without. Similarly both men and women with higher earnings are more likely to be paying into a private pension than those with lower earnings.
26. Figure 7.7 suggests that women working part time are at the greatest risk of having an employer who does not offer a pension scheme. Around 40 per cent of women employed part time say their employer does not have a pension scheme, compared with 30 per cent of men employed full time and 25 per cent of women employed full time. The fact that women who work full time are more likely to have an employer who offers a pension scheme than men who work full time is partly explained by the higher concentration of women working in the public sector.
27. Figure 7.7 also shows that women working part time are more likely than other groups to report they are ineligible to join an employer’s pension scheme. Around 15–20 per cent of women working part time who have an employer with a pension scheme report that they are not eligible to join.

28. Some schemes have minimum service requirements that only allow employees to join after they have worked for a company for a fixed length of time. A survey by the National Association of Pension Funds in 2004 found that an estimated 5 to 10 per cent of members of occupational pension schemes have a minimum period of qualifying service of a year or more before they can join their employer’s scheme.

29. Figure 7.8 shows that employees with shorter job tenures are less likely to be members of occupational or personal pension schemes. Women employed part time are more likely than other employees to have a job tenure of less than two years and are therefore more likely to be affected by minimum service requirements. Around 35 per cent of women working part time have been with their current employer for less than two years, compared with around 30 per cent of women working full time and 25 per cent of men working full time.
30. Women working part time are also more likely to work for small employers with fewer than 100 employees. Figure 7.9 shows that around 73 per cent of women working part time work for employers with fewer than 100 employees, compared with around 55 per cent of men working full time and 58 per cent of women working full time. Employees of larger companies, both men and women, working either part time or full time, are more likely to be in a pension scheme sponsored by their employer.
31. Figure 7.10 shows that employees working in lower occupations in both the public sector and the private sector are less likely to have an employer who provides a company pension scheme, and are also less likely to be contributing to a private pension than those in other occupations.

32. However, women are still less likely to contribute than men, even where they are equally likely or more likely to have an employer with a pension scheme, in both the public sector and the private sector.

33. Some schemes operate ‘vesting periods’ of up to two years. A person who leaves before the end of the vesting period normally gets just a refund based on their own contributions less tax. While this money can be used to start a new pension, research evidence suggests that women are more likely to have other household spending priorities.

34. The Government is intending to introduce new provisions from April 2006 to deal with this situation. Where a person has been a member of an occupational pension scheme for at least three months but leaves before the end of the vesting period, they must be offered either a refund of their contributions or a cash sum representing the value of their pension rights (including the value of the employer’s contributions). This cash sum must be transferred to another employer’s scheme or to a personal or stakeholder pension and should help kick-start pension saving for those who might at present think that they would not benefit from contributing, or who just do not bother.

Source: Family Resources Survey, 2003/04

Note: ‘Higher’ occupations include managers and senior officials, professional occupations, and associate professional and technical occupations. ‘Mid’ occupations include administrative and secretarial occupations, skilled trades occupations and personal service occupations. ‘Lower’ occupations include sales and customer occupations, process, plant and machinery operatives and elementary occupations.
35. The terms and conditions of occupational pension schemes may deter women savers. While employers now have to allow pension scheme access for part-time workers on the same basis as full-time workers, other institutional factors that exclude or put off members from joining a scheme may disproportionately affect part-time and low-paid workers.

36. For example, some employers integrate their pension schemes with the state system, and do not take account of some or all earnings below the Lower Earnings Limit (£82 per week). The Government Actuary's Department's Occupational Pension Schemes Survey in 2004 suggested that more than one in three schemes may integrate in some way, and for four in five workers this means that some of their earnings do not count towards a pension. For those on earnings below or close to the Lower Earnings Limit, this reduces the incentive to join an employer's pension scheme.

37. Evidence collected for the Association of British Insurers found that women are more likely than men to be in jobs where the employer does not make contributions. This may act as a major disincentive to save – with 25 per cent of women in the same survey saying they would save more if their employer were to start to increase contributions.108

7.5 Stakeholder pensions

38. Personal pensions offer an alternative to occupational pension schemes and may allow greater flexibility for women taking time out of the labour market. Stakeholder pensions are a type of personal pension introduced in April 2001 as part of the Government’s long-term reforms to ensure that everyone has the chance to save for a decent income in retirement.

<table>
<thead>
<tr>
<th>Key facts: Stakeholder pensions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• They are flexible, low-charging, defined contribution products targeted at low to mid earners who are not members of an employer’s pension scheme.</td>
</tr>
<tr>
<td>• They suit people with flexible employment patterns.</td>
</tr>
<tr>
<td>• They are portable – a person can take their pension plan with them when they change jobs or move out of the employment field.</td>
</tr>
<tr>
<td>• They have a cap on annual management charges.</td>
</tr>
<tr>
<td>• They are not restricted to people who are working.</td>
</tr>
</tbody>
</table>

Women who wish to save towards a decent income in retirement but do not have access to a company pension scheme can now do so and benefit from tax relief on the contributions paid into a stakeholder pension, as well as being assured that the proportion of contributions going on management charges rather than into their pension fund is limited.

The rules of stakeholder pensions also allow someone to contribute towards someone else’s pension (for instance a partner or family member), which may help the large number of women who are taking time out of work to look after children or care for others.

Figure 7.11 suggests that, of the 1.06 million people contributing to stakeholder pensions in 2002/03, 36 per cent were women. This compares with 32 per cent of all those contributing to a personal pension, so stakeholder pensions appear to be a little more effective at attracting women than other personal pensions. And, at just over £1,500, the average annual contributions are similar for women and men.

While women across all age groups are less likely to be contributing to a stakeholder pension than men, this is more marked between the ages of 25–34 and 55–64. This suggests in particular that women are less likely than men to make contributions in their late 20s and early 30s when they may be taking breaks out of the labour market to have children, and less likely to make contributions after they reach State Pension age. These are exactly the periods of a woman’s life where savings fall behind and pension gaps open. For the crucial child-rearing years, some ongoing financial investment, from a partner’s income if necessary, needs to compensate for periods out of the paid workforce and out of occupational pension schemes (Figure 7.12).
43. Prior to April 2001, tax relief was available only on occupational and personal pension contributions paid out of earnings, and so it was not available to non-earners. More flexible arrangements were introduced with stakeholder pensions. Tax relief available to non-earners and on behalf of non-earners is now available on contributions up to a maximum of £3,600 a year. Tax relief is awarded at the marginal rate of the contributor, so a higher-rate tax payer would receive 40 per cent tax relief on contributions paid on behalf of a non-working wife or partner.

44. Figure 7.13 shows that, of the 380,000 women contributing to a stakeholder pension in 2002/03, the majority (79 per cent) were employees. That leaves only a small number of women who were self-employed, carers or unemployed who were also investing in stakeholder pensions.
45. The stakeholder pension is a savings product developed with the needs of the cautious investor in mind. The Government has introduced ‘life-styling’ into the stakeholder pension to further reduce risk to scheme members. Life-styling means that, as the member approaches retirement, their pension savings are moved gradually into less volatile investments, such as gilts. This reduces the risk of a sudden downturn in the stock market at or nearing retirement. This new arrangement should be of particular benefit to women, on low and medium incomes, who want to save but are cautious about investments.109

7.6 Pension pots and annuities

46. By the time they reach retirement, women are likely to have accrued much smaller total pension pots than men. While information available on actual sizes of pension pots is not widely collected, survey information from the English Longitudinal Survey of Ageing (2003) suggests that, of those now approaching retirement with defined contribution

---

109 Watson Wyatt research (April 2005) found that women are more likely to be risk averse to investments than men, and more likely to dislike investing in shares.
pension pots, men have total defined contribution funds around two to three times higher than women of the same age. Women’s lower funds will buy a lower monthly annuity income. Women have lower annuity rates if they retire at the same age as men because they tend to live longer. It follows that on current retirement patterns a woman’s monthly income from an annuity will be much lower than a man’s, as shown in Figure 7.14 – 56 per cent of women are reported to have annuity incomes of £100 a month or more, compared with around 80 per cent of men.

Figure 7.14: Monthly incomes from annuity by gender

Source: Annuities – the consumer experience, Association of British Insurers, 2002.

47. Widowhood in retirement can leave many women with little or no private pension income: for those with defined contribution or personal pensions, the most popular annuity type is the basic single life annuity, even though the vast majority of individuals are married when they reach retirement. Some couples would get better value for money with a single life annuity because of the impact of income-related benefits if one partner is left with no income, or because of their personal longevity expectations.

48. Nearly 70 per cent of annuities purchased are single life annuities.110 As a general rule, it seems that products are chosen on the basis of first-year income more than any other factor. Annuity rates can generate sharply divided opinions. It has long been the practice to take gender into account as a factor in setting the cost of buying an annuity. Annuities are provided by insurance companies that have to underwrite risk. As, on average, women live longer than men, it costs them more to buy the same level of annual income as it is likely to be paid out for a longer period.

---

110 Annuities – the consumer experience, Association of British Insurers, 2002.
49. The Equal Opportunities Commission commissioned a report from the Pensions Policy Institute which concluded that because men predominantly buy annuities, and annuities account for only a proportion of retirement income, unisex annuities would actually mean that more pensioner households would see a lower retirement income.

Source: The Annuity Bureau.

7.7 Women and the defined benefit to defined contribution shift

50. Trends in private pension schemes, and in particular the defined benefit to defined contribution shift, may affect men and women differently. Defined contribution schemes may offer advantages over defined benefit schemes to some groups of women, in particular those with broken careers (especially those who took an early break in their career) and those with low salary progression.

51. There may also be implications for inheritance and other benefits. Most defined benefit occupational pension schemes pay survivor benefits to widows and widowers, and many private sector schemes also pay benefits to surviving unmarried partners. Survivor benefits (where they are part of the terms of a scheme) are automatic. Survivor pensions are paid at a proportion of the rate paid to the member – often 50 per cent but sometimes higher. In a defined contribution scheme, the pension is usually secured by

---

112 The shift from defined benefit to defined contribution pension schemes has been well documented; see, for example, Pensions: challenges and choices, Pensions Commission report, October 2004.
using the individual’s total share of the fund to buy an annuity from an insurance company to provide an income for life.

52. It is possible to buy a joint life annuity which will also provide a survivor’s pension to a nominated person. As that represents a greater risk to the insurance company than insuring a single life, the annual amount of pension paid from a joint life annuity will be lower than that paid from a single life annuity.

53. Currently, most annuities are single life annuities and are bought by men. With the defined benefit to defined contribution shift, pension scheme members are increasingly likely to be a member of a defined contribution rather than a defined benefit scheme. Those members will have to make an active decision at retirement to buy a joint life annuity. If they do not, this may mean that fewer married couples provide satisfactorily for inheritance. On the other hand, in the future more women will have personal or occupational pensions in their own right.

7.8 Examples of the effects of labour-market decisions on pension pots and annuity incomes

54. To improve the future position of women in retirement relative to men, it is important to increase women’s ability and motivation to save when they are working and, if possible, when they are taking breaks from work. The examples below consider two stylised examples of a husband and wife retiring today where the husband worked throughout his life while the wife took a career break to look after their children.

**The husband’s tale**

- The husband works from age 21 to age 64, in continuous employment.

- He contributes 7 per cent of his salary per working year, starting from age 25, to his defined contribution pension.

- He saves privately for 40 years in total, starts earning at 100 per cent of median earnings, and his salary increases by above-earnings growth throughout his working life, but by smaller amounts closer to his retirement.

- At his retirement in 2005, at age 65, he can buy a Retail Prices Index-linked, single life annuity of around £370 a month, assuming he finds the best rate on the market and he does not take a lump sum.

---

113 Although for contracted-out, defined contribution schemes at least part of the fund must be used to buy a pension for a surviving spouse where the scheme member is married at the time the annuity is purchased.
Chapter 7
Women, private pensions and investments

The wife’s tale

- The wife works from age 21 to age 59, taking breaks to look after their children.
- She also contributes 7 per cent of her salary each working year, starting from age 25, to her defined contribution pension.
- She has a break from work between the ages of 28 and 39 to have and look after children, and on returning to work, works part time for five years before returning to full-time work.
- She starts earning at 80 per cent of median earnings, and her salary increases by above-earnings growth throughout her working life, but by smaller amounts closer to retirement. She saves privately for 23 years in total, and when she returns to work she works part time until age 45 (at 40 per cent of median earnings) before returning to work full time (at 80 per cent of median earnings).
- At retirement in 2005, at age 60, she can buy a Retail Prices Index-linked, single life annuity of around £102 a month, assuming she finds the best rate on the market and does not take a lump sum.

Note: These examples do not take into account additional factors such as a change of employer and employer pension scheme that may reduce the value of the pension pot, particularly for women who may have little choice but to leave their employer; nor do they take into account the apparent lower likelihood of a woman’s employer making a contribution in the first place. Therefore they are likely to overestimate pension provision for both the husband and wife, but possibly more so for the wife.

55. The husband worked continuously throughout his working life and contributed to the same pension scheme from age 25 to retirement, with steady wage progression throughout his working life. The wife also had a substantial work and contribution history, although she took 11 years out of the labour market to look after children and then returned to work part time for five years before returning to full-time work. Her wages progressed steadily while she was in work, but she returned to work on lower relative earnings than when she left, and her own pension entitlement was reduced as a consequence of the break.

56. The wife receives a personal annuity income less than a third the size of her husband’s, despite contributing continuously while she was in employment and saving for over half the number of years that her husband did.
57. If instead of retiring at age 60 she had continued working until age 65, and cashed in her pension pot at that age, she would have achieved an annuity income at retirement of £157 a month (a 53 per cent increase) – because of the combined effects of another five years’ earnings and a higher annuity rate at a later age.

58. The increase in the State Pension age for women to 65 between 2010 and 2020 and accompanying policies on extending working lives should make important contributions to improving the private pension incomes of tomorrow’s women pensioners.

59. A decision to work full time immediately after returning to work, instead of working part time for five years, might have meant that she would be able to buy a private pension income of around £173 a month at retirement – still less than half of her husband’s because of her lower earnings and 11-year career break.

60. Finally, if she took only a five-year career break, and returned to work full time at age 34, she would be able to buy a private pension income of around £208 a month at retirement – just over half of her husband’s private pension income.

7.9 Catch-up mechanisms in private pensions

61. There are some means by which private pension saving can be boosted on return to work, and the availability of tax relief on contributions from earned income will become greater under the tax simplification changes to be introduced from April 2006.

62. For many years occupational pension schemes have been required to offer Additional Voluntary Contribution facilities, which provide a means for employees to increase their private pension saving. Employee contributions of up to 15 per cent of earnings (including contributions to the main occupational scheme) are tax free. In some schemes the employer also contributes to the Additional Voluntary Contributions.

63. Employee contributions to personal pensions can increase considerably according to the age of the member, while continuing to be tax allowable. The limits in the 2004/05 tax year were in the range of 17.5 per cent of earnings up to age 35 to 40 per cent by age 61.

64. From April 2001, employees on earnings of up to £30,000 a year have been able to contribute to a personal or stakeholder pension scheme as well as to an occupational pension scheme. Contributions up to an annual limit attract tax relief. The 2004/05 limit on contributions to a personal pension was £3,600 – which actually means employee payments from net pay of £2,808 plus, for a basic-rate tax payer, a tax refund of £792, which is paid direct to the scheme. The earnings limit will be removed from April 2006, and the contributions limit will also become much higher – employees will be able to make pension scheme contributions equal to their total annual earnings and the total contribution will attract tax relief.
65. Since April 2001, self-employed people and non-earners have been able to take out personal or stakeholder pensions. Another person may pay contributions on behalf of a non-earner, again up to £3,600 in the 2004/05 tax year, attracting tax relief at the rate charged to the earner. So contributions paid by an earner who pays income tax at 40 per cent will qualify for tax relief at that rate if, for example, they are made to a non-earning partner’s personal pension scheme. And that earner will also be able to make tax-free contributions to their own occupational pension (see Chapter 7, section 7.5 on stakeholder pensions).

66. Legislation protecting the pension rights of employees taking maternity leave was introduced in 1994. During the 26 weeks of ordinary maternity leave, women should be treated as if they were in work and employer pension scheme contributions maintained at the level they would have been on their normal salary. Employee contributions, on the other hand, can be reduced to take account of actual income received.

7.10 Pensions on divorce

67. Many women have tended to rely on their husband’s financial knowledge and decision making to plan for their retirement. While this arrangement may work well provided a marriage lasts, it may be inadequate where a marriage ends in divorce. Historically, divorced women were left with little or no share of their former husband’s private pension in retirement. To remedy this, the Government introduced Pension Sharing on Divorce in December 2000. Before 2000, the only options available to the courts for dealing with the value of pensions were ‘offsetting’ and ‘earmarking/attachment’.114

68. However, Pension Sharing is not mandatory. Qualitative research studies115 with solicitors and separating and divorcing couples show the priority in divorce settlements is to meet each party’s immediate needs; this usually means that decisions on child maintenance and a home for the children take precedence over pensions when the courts consider assets. Pension Sharing on Divorce is likely to be more significant for particular groups of couples – for example, those who are better off or those divorcing later in life where no childcare is involved. However, in cases where Pension Sharing is a suitable option, it enables both parties to achieve financial independence from each other through a clean-break settlement and provides a secure income in later life for the spouse without a pension.

---

114 ‘Offsetting’ means that the value of the pension is set against the value of other assets when making financial settlements. ‘Earmarking’ or ‘attachment’ orders mean that the court can order the former husband, or his pension scheme, to pay either a lump sum or periodical payments to his former wife when the pension becomes payable.

69. Based on the number of people with pension provision and divorce statistics, potentially there could be tens of thousands of pension-sharing orders in any given year. However, it was expected that Pension Sharing would be a suitable option in a relatively small proportion of cases. Data collected by the Courts Service indicate that over 7,000\textsuperscript{116} pension-sharing orders were made between December 2000 and March 2005 (representing around only 3 per cent of divorces). The average share of the value of the pension awarded in these cases was 55 per cent. Although incomplete, the data show that the number of women benefiting from Pension Sharing is growing steadily, albeit from a very low base, as the legislation beds in and awareness increases: nearly half the orders recorded were made between July 2004 and March 2005.

7.11 Chapter summary

70. Future women pensioners should have higher private pensions than their mothers because of improvements in education, employment rates and earnings. However, the impact of interrupted work patterns on career progression means that many future women pensioners will still accrue lower private pensions than men.

71. There is still a significant pension contribution gap between today's men and women of working age – both in the numbers making contributions at any point in time and the size of those contributions.

72. Overall, 38 per cent of today's working-age women are contributing to a private pension, compared with around 46 per cent of working-age men. Women who do make contributions to private pensions contribute on average less than men: they are far more likely to contribute under £100 a month to their private pensions, while men predominate in the groups contributing £200 or more a month.

73. Women's lower overall contributions to private pensions are largely determined by the accumulated effects of the gender pay gap, of part-time work, and, in some occupations and employment sectors where women are concentrated, by poor availability of employer schemes and/or lower employer contributions.

74. Women who work full time are more likely to have an employer who offers a pension scheme and are more likely to be a member of an employer's scheme than men who work full time. This is partly explained by the higher concentration of women working in the public sector.

75. Women's membership of workplace pension schemes rose from 1.3 million members in 1953 to 5.5 million members in 2000.

\textsuperscript{116} However, these figures are approximate since the data are incomplete – the real figure is likely to be much higher.
76. Women in their 20s are more likely than equivalent men to be contributing to a private pension. Women in their 30s in full-time work are just as likely to be contributing as men. Women in their 40s are less likely to be contributing to a private pension than men – whatever their work pattern. This leads to concerns that women in this position retiring in 20 years’ time will remain at a disadvantage to men in relation to their income in retirement.

77. The question of portability and continuity of personal pension rights is becoming more important for future pension accruals. Historically, a person may have worked all of their life for one employer, but, in today’s flexible labour market, someone may work for six, ten or even more employers before retiring. Questions of portability and continuity are perhaps more important for women who take breaks from the labour market and need more flexible working patterns to combine paid employment with caring responsibilities.

78. Women working part time are still at the greatest risk of having an employer who does not offer a pension scheme. Around 40 per cent of women employed part time say their employer does not have a pension scheme, compared with 25 per cent of women employed full time. Thirty per cent of men employed full time say their employer does not have a pension scheme.

79. The differences in private (non-state) incomes are the predominant drivers in the difference between women’s and men’s incomes in retirement – with men of all ages receiving on average between £50 and £100 a week more private pension income than women of the same age.

80. In 2003/04, the average pensioner couple received around £186 a week in private pension and investment income, more than three times the £57 a week received by the average single female pensioner and nearly twice the £100 a week received by the average single male.

81. Part-time workers have improved access to occupational pension schemes.

82. For people now approaching retirement with defined contribution pension pots, men have total defined contribution funds around two to three times higher than women of the same age.

83. The shift from defined benefit to defined contribution schemes may have implications for inheritance.

84. Of the 380,000 women contributing to a stakeholder pension in 2002/03, the majority (79 per cent) were employees. That leaves only a small number of women who were self-employed, carers or unemployed who were also investing in stakeholder pensions.

85. How can the availability of, and incentives to join, private pensions be widened to include more women, especially part-time workers, low-earners and carers?
8.1 Age profiles of women in ethnic minority groups

1. There are 2.35 million ethnic minority women in the UK who represent just over half the ethnic minority population. The proportion of the current population aged 65 or over in each of the ethnic minority communities is considerably lower than the proportion in the white majority.\textsuperscript{117} Around 19 per cent of the White population is aged 65 or over, compared with almost 10 per cent and around 5 per cent of the Black Caribbean and South Asian populations respectively (Figure 8.1).

\textsuperscript{117} Due to small numbers in the data sets, it is not possible to distinguish between White, White British, and other White ethnic minorities.
2. At present there are no gender-specific demographic projections for ethnic minority women but it is clear that the ethnic minority population is ageing. Census figures show a 40:60 split between men and women in the 65 and over White population; around a 45:55 split in the Chinese and Mixed 65 and over populations; but more men than women in Black/Black British and Asian/Asian British populations – 51:49 and 53:47 splits respectively. Whether the number of female pensioners from ethnic minority communities will increase over time as the ‘bulge’ of working-age people enter retirement depends upon whether the life expectancy of the ethnic minority population differs dramatically from that of the white majority.\textsuperscript{118}

8.2 Employment and economic activity rates

3. Figure 8.2 shows that the rate of employment in each of the ethnic minority groups is lower than that in the White majority. Pakistani and Bangladeshi women have the lowest employment rates while Black Caribbean women have employment rates approaching those of White women. The employment rate is higher for men than for women in all groups.

\textbf{Figure 8.2: Employment rates by ethnic group and gender}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{employment_rates.png}
\caption{Employment rates by ethnic group and gender}
\end{figure}

\textit{Source: Four-quarter average to winter 2004 of the Labour Force Survey.}

\textsuperscript{118} Work on population projections by ethnicity is currently being undertaken by the Office for National Statistics. It is reported that ethnic minority groups suffer poorer health than the white majority but whether this results in lower life expectancy is at present unclear.
4. Figure 8.3 shows that the economic inactivity rates of women from ethnic minority groups are in general significantly higher than for White women. Bangladeshi and Pakistani women have the highest economic inactivity rates. Black Caribbean and White women are comparable; Black Caribbean women have economic inactivity rates which are only marginally lower (by 1 per cent) than for White women.

Source: Four-quarter average to winter 2004 of the Labour Force Survey.

Note: Disaggregating the employment and inactivity figures in Figure 8.3 by age group could help distinguish between first- and second-generation ethnic minority groups, enabling a richer analysis. However, small sample size means such figures are not sufficiently robust.

5. Around two-thirds of economically inactive Pakistani and Bangladeshi women identify themselves as homemakers; for Black Caribbean and Black African women, 40 per cent are homemakers and a similar proportion are students. For Chinese women, 36 per cent are homemakers and 45 per cent are students.¹¹⁹

¹¹⁹This information is extracted from a small sample from the Labour Force Survey (four-quarter average to spring 2005). Data on homemaker/student status are complete. Fewer ethnic minority women reported themselves as inactive because of long-term illness, but the data are incomplete.
6. There are no foreseeable national large-scale changes to the pattern of labour market participation for ethnic minority women to indicate a significant change to pension accrual rates.

8.3 Root causes of pension disadvantage

7. Women from ethnic minority communities can potentially face multiple economic disadvantages in later life, which will have a negative impact on their lifetime pension accrual. In addition to the gender pay gap implications, ethnic minority women have to deal with the issues of discrimination and economic disadvantage faced by the ethnic minority population as a whole, and also deal with issues specific to them as ethnic minority women. They face, in effect, a potential three-pronged erosion of retirement income.

8. Research has shown that women from the South Asian ethnic minority communities are less likely to control their own finances than White women. In addition, older economically inactive South Asian women may be less accustomed to interacting with people from outside their community.120

9. There is no single explanation for the generally higher economic inactivity rates and lower employment rates of ethnic minority women compared with their white counterparts. Patriarchal family structures, the perception of the role of women and the undervaluation of overseas educational qualifications may all play a role. In addition, ethnic minority women plan to have more children.121 Consequently, they are likely to have longer absences from the labour market with the additional responsibilities of larger families; the importance of the intergenerational contract reinforces their role as elder carers. Even if an ethnic minority woman were to return to work immediately following each period of maternity leave, she would still spend more time out of the workforce than a white woman with fewer children.

---


121 Research has shown that with the exception of Chinese women, all other ethnic minority group women plan larger families than White women. White women plan, on average, for 2 children, Black African women plan for 2.5 and Bangladeshi women for 3.5. Population Trends 112, Office for National Statistics, summer 2003 and data from 1979–2001 General Household Survey.
8.4 Relative economic position of ethnic minority women in retirement

10. Given the redistribution in the state system and the effect of Pension Credit, it is differences in private provision that drive financial inequality in retirement. So an effective way to analyse the relative financial situation of ethnic minority women in retirement is to rank all sectors of the population from the least to the most disadvantaged societal groups in terms of their likelihood of having a private pension income. Using combined Family Resources Survey data from 1994/95, 1995/96 and 1996/97, the hierarchy for private pension coverage looks like this:

White men
Indian men
White women
Black men
Chinese/Other men
Black women
Indian women
Chinese/Other women
Pakistani men
Bangladeshi men
Pakistani women
Bangladeshi women

Note: The term ‘Black’ in this hierarchy refers to Black African, Black Caribbean and Black Other.

11. The message from this hierarchy is explicit: within every ethnic group, women are less likely than men to have private pension provision, while White women are the female ethnic group most likely to have private pension provision. White women do better than most male minorities. Furthermore, of the population as a whole, the two groups least likely to have private pension provision are Pakistani and Bangladeshi women.

---


123 Note that the classification of ethnic minority groups used in the Family Resources Survey from these years is less detailed than that used in the current Family Resources Survey and in Census 2001.

124 Gender inequality in the provision of private pensions between Black men and Black women is significantly less than among other groups. This is more as a result of low coverage among Black men than because of particularly high coverage among Black women.
8.5 Impact of State Pension policies on today’s ethnic minority women

12. Figure 8.4 shows basic State Pension and State Second Pension accrual by gender and ethnic group for the working-age population. With the exception of Black or Black British women, women from an ethnic minority group are less likely than White women to be entitled to a State Pension. Even when women from ethnic minority groups are accruing entitlement to State Pension, they are more likely to be accruing entitlement to the basic State Pension only.

- Around 22 per cent of Pakistani and Bangladeshi women are accruing just the basic State Pension compared with around 11 per cent of White women and 11 per cent of Black women.
- Twenty-three per cent of Pakistani and Bangladeshi women are not accruing any State Pension, compared with around 13 per cent of White women and around 12 per cent of Black women.

**Figure 8.4: Basic State Pension and State Second Pension accrual in the working-age population by ethnic group and gender**


Note: Home Responsibilities Protection is included as a basic State Pension accrual.
13. There are alternative ways to protect or build up basic State Pension entitlement, namely Home Responsibilities Protection and credits from, for example, Incapacity Benefit or Jobseeker’s Allowance. Disaggregating basic State Pension entitlement in the working-age population by gender and ethnic group into its constituent parts shows a more detailed ethnic profile of the source of pension entitlement (Figure 8.5).

Figure 8.5: Basic State Pension entitlement for working-age women by ethnic group

![Figure 8.5: Basic State Pension entitlement for working-age women by ethnic group](image)


14. Figure 8.5 shows that the proportion of basic State Pension entitlement resulting from contributions from paid employment is lower for all ethnic minority women than is the case for White women. There is little variation in the proportion of basic State Pension entitlement resulting from credits between White women and ethnic minority women. But the proportion of basic State Pension record protected by Home Responsibilities Protection is higher for all ethnic minority women than for the white majority, most significantly for Pakistani and Bangladeshi women.
15. The lower levels of entitlement from work and the greater proportion of protection from Home Responsibilities Protection are particularly pronounced for women of Pakistani or Bangladeshi origin. Home Responsibilities Protection only serves to protect actual basic State Pension entitlement when combined with ‘qualifying years’ of contributions and credits. It is impossible to earn a State Pension through Home Responsibilities Protection alone. As women of Pakistani or Bangladeshi origin are less likely than White women to gain entitlement through working and are only slightly more likely than White women to gain entitlement through credits, the probability of women from these communities being able to translate their Home Responsibilities Protection into actual State Pension is lower than that for the white comparator group.

16. The accrual of State Second Pension rights is dependent on earnings (or deemed earnings for adult carers and mothers of children aged under six years). The more years spent in the labour market, and the more years on earnings between £12,100 and £32,700, the larger will be the resulting pension in retirement. Ethnic minority women in general have higher inactivity and unemployment rates than white women and consequently will accrue lower levels of State Second Pension.

8.6 Private pension coverage

17. Figure 8.6 shows that, with the notable exception of Black Caribbean women who have coverage levels approximately equal to White women, ethnic minority women have lower private pension coverage than their White counterparts. Given the higher unemployment and inactivity rates of some groups of ethnic minority women, this ethnic divergence in private pension coverage will be greater still when compared with the female working-age population as a whole.

---

125 At 2005/06 levels.
8.7 Attitudes to work, pensions and retirement

18. As there is only limited attitudinal material available, the Department for Work and Pensions has commissioned new research from the Policy Studies Institute. This will examine the expectations and priorities of both ethnic minority pensioners and working-age participants with regard to work, retirement and pensions. It will examine how people from ethnic minority groups save and make financial plans; examine feelings about extending working lives for ethnic minority groups; and identify the differing work, retirement and pension needs of ethnic minority groups. This research, examining both men and women, will focus on six main ethnic minority groups – Indian, Pakistani, Bangladeshi, Black Caribbean, Black African and Chinese. The final report is expected to be published in summer 2006.
19. Existing studies on attitudes to work and pensions among ethnic minority groups have highlighted a lack of engagement with the pension system and large diversities across different subgroups. Emerging findings from research investigating perceptions of ageing and financial planning in the Indian Gujarati and Bangladeshi communities, for example, has indicated a complex response to attitudes, with responses differing greatly between the two communities. This is unsurprising given the large differences in socio-economic backgrounds and educational qualifications and attainment of the two communities.

20. Indian Gujarati participants anticipated that they would be active in later years and would continue working well past State Pension age. In contrast, Bangladeshi participants tended to see their old age in more negative terms and expected to become frail and dependent. While Indian Gujarati participants expected to manage on their savings and retirement income, Bangladeshi participants expected to have few personal savings and to be financially dependent on their children.

21. In general, there appear to be positive expectations from ethnic minority communities that the state will provide for retirement income, but that these benefits will be smaller in the future. There are also clear preferences towards accumulation in the form of private wealth rather than the use of pension schemes to save for retirement.

8.8 Chapter summary

22. There are 2.35 million ethnic minority women in the UK who represent just over half of the ethnic minority population. The proportion of the current population aged 65 or over in each of the ethnic minority communities is considerably lower than the proportion in the white majority.

23. Pakistani and Bangladeshi women have the lowest employment rates while Black Caribbean women have employment rates approaching those of White women.

24. Higher economic inactivity rates of some groups of ethnic minority women may result from the perceptions of the role of women within their communities.

25. There is no single explanation for the generally higher economic inactivity rates and lower employment rates of ethnic minority women compared with their white counterparts. Patriarchal family structures, the perception of the role of women and the undervaluation of overseas educational qualifications may all play a role. Ethnic minority women are likely to have longer absences from the labour market with the additional caring responsibilities of larger families. The importance of the intergenerational contract reinforces their role as elder carers.

126 Perspectives on ageing and financial planning for old age communities in South Asian communities, Dr Savita Katbamna, Leicester University for the Nuffield Foundation, March 2005.
26. Ethnic minority women are more likely than White women to be accruing entitlement to a basic State Pension only, without any State Second Pension.

27. The proportion of basic State Pension record resulting from Home Responsibilities Protection is higher for all ethnic minority women than for White women. Home Responsibilities Protection by itself has no value without one qualifying year of paid contributions.

28. Within every ethnic group, women are less likely than men to have private pension provision; of the population as a whole, the two groups least likely to have private pension provision are Pakistani and Bangladeshi women.

29. There are no foreseeable national large-scale changes to the pattern of labour market participation for ethnic minority women to indicate a significant change to pension accrual rates.

30. Can we do more to ensure that women from ethnic minority communities have the opportunity to build up an adequate retirement income?
9.1 Women and pensions

1. Today’s women pensioners are on average still experiencing lower retirement incomes than men. Life events – like childbirth, marriage, divorce and widowhood – often have particularly significant pension implications for women, and this is reflected both in the incomes of today’s pensioners and the predicted incomes of women retiring in the future.

2. The National Insurance system in the past resulted in poor pension outcomes for some women, especially those who had taken considerable time off paid work to care for children or adults. But it is clear that measures introduced to protect women engaged in caring activities and their higher participation in the labour market are leading to much higher levels of state pensions for future generations of women.

3. While this is good news, it appears that some groups of women may not be achieving the same level of State Pension as others. Women from some ethnic minority groups are not building up substantial entitlement to state pensions.

4. More women than men work part time and some of them may not be accruing State Pension entitlement. Sometimes this is because they earn under the Lower Earnings Limit; a minority of this group are combining multiple part-time jobs or other activities, none of which on their own pay more than the Lower Earnings Limit.

5. The availability of occupational pensions is still limited for part-time workers and so many of these women are not getting, or taking up, the opportunity to build up a pension through this route.

6. Take-up of personal pensions is also low among low-earning women and women who are not in employment.

\[127\] Although many may be receiving National Insurance credits through receipt of benefits.
7. Those looking after adults with care needs are another group that miss out too often. The care work of some is recognised through Carer’s Allowance and, in these cases, a National Insurance Class 1 credit is awarded each week.\textsuperscript{128} But not all caring work meets the conditions for award of Carer’s Allowance and so much care is thus not ‘visible’ to the system, leaving gaps in terms of State Pension coverage. Carers also tend not to take up personal or occupational pensions if they are not in full-time work.

9.2 Future pensions

8. The Pensions Commission interim report on private pensions published in October 2004 provided a comprehensive analysis of the state of the British pension system. It concluded that, in future, we would be faced with the following four possible options:

- pensioners becoming poorer relative to the rest of society;
- higher taxes/National Insurance contributions devoted to pensions;
- higher savings; or
- higher average retirement ages.

Any proposal for the future of pensions will involve one, all or a combination of some of these options.

9. Later this year, the Pensions Commission will be publishing its recommendations for private pensions and long-term saving. We expect the Pensions Commission to address equality and fairness as part of its findings and recommendations. The Government’s response to those recommendations will be guided by the principle that pension systems should produce fair outcomes for women and carers.

10. From the evidence presented in this report, there are a number of further questions to be asked within the context of the ongoing pensions debate and the Government’s response to the forthcoming Pensions Commission proposals:

   a. How can women be helped to stay in, or return to, work through and after periods of caring?

   b. What more, if anything, can be done to help women to continue to build up retirement income during and after breaks from the labour market?

   c. Given the improvements in women’s National Insurance records, would there be benefits from altering the National Insurance rules and qualifying conditions to create entitlements to the basic State Pension to better reflect today’s society?

\textsuperscript{128} Unless the carer is a married woman who has elected to pay reduced-rate contributions, or contributions are being received with another benefit. Receipt of other benefits will also maintain entitlements.
d. Given the improvements in basic State Pension accruals, which are providing pension coverage for more and more people, would the gains from a residence-based (as opposed to contributions-based) eligibility for the basic State Pension provide a cost-effective and practical alternative way of improving equity of entitlements?

e. How can we continue to improve awareness, information and education on pensions and continue to improve opportunities for people to invest for their retirement?

f. How can the availability of, and incentives to join, private pensions be widened to include more women, especially part-time workers, low earners and carers, while not unduly increasing burdens on industry?

g. How do we ensure that women who are not in employment are still informed about opportunities to build up their pension?

h. Can we do more to ensure that women from ethnic minority communities have the opportunity to build up an adequate retirement income?

11. These important questions will be considered as part of the ongoing National Pensions Debate (www.dwp.gov.uk/debate). The Debate aims to increase understanding of the pensions challenge and to capture the opinions, views and experiences of a wide range of members of the public and stakeholders. The Government is looking to create as broad a consensus as possible – a consensus from which a long-term solution to the issue of ensuring a fair and adequate retirement for all can be developed. Assessment of options for pension reform will be developed in response to the work of the Pensions Commission.
Annex 1: Bibliography

Women’s attitudes towards pension reform
IFF Research for the Equal Opportunities Commission, July 2005

Financial plans for retirement: women’s perspectives
W. Sykes et al., Department for Work and Pensions Research Report No. 247, June 2005

The women and pensions scandal – a blueprint for reform
Age Concern, April 2005

Part-time is no crime
Equal Opportunities Commission (Interim Report), February 2005

Pensions not pin money: ensuring a decent retirement for all
Help the Aged, March 2005

Ending pensioner poverty: setting a direction
Help the Aged, March 2005

Money, money, money: is it still a rich man’s world?
Fawcett Society, March 2005

The part-time pay penalty
Alan Manning and Barbara Petrongolo for the Women and Equality Unit, Department of Trade and Industry, November 2004

Perspectives on ageing and financial planning for old age communities in South Asian communities
Dr Savita Katbamna, Leicester University for the Nuffield Foundation, March 2005
Report on Women and Pensions Helpline  
The Pensions Advisory Service, March 2005

A fair deal for women in the workforce: an interim statement  
Women and Work Commission, March 2005

To save or not to save: workers’ pensions and provisions for retirement  
Labour Research Department Report for Age Concern, January 2005

Age Concern’s response to the Pensions Commission  
January 2005

Association of British Insurers’ response to the first report of the Pensions Commission  
January 2005

Equal Opportunities Commission’s response to the Pensions Commission  
January 2005

National Association of Pension Funds’ response to the Pensions Commission  
January 2005

Trades Union Congress’ response to the Pensions Commission Interim Report  
January 2005

Poverty and income maintenance in old age: a cross-national view of low income older women  
Luxembourg Income Study, January 2005

Towards a citizen’s pension  
National Association of Pension Funds, December 2004

Integrated findings from the evaluation of the first 18 months of Lone Parent Work  
Focused Interviews 2004  
Andrew Thomas and Rita Griffiths, for the Department for Work and Pensions

One in four  
Fawcett Society and Age Concern, February 2004

Pensions: challenges and choices  
Pensions Commission Report, October 2004
Annex 1
Bibliography

The gender pensions gap – encouraging women to save for retirement
Association of British Insurers, September 2004

Securing our future – developing sustainable pension provision in the UK
Confederation of British Industry Pensions Strategy Group, July 2004

The under-pensioned
Pensions Policy Institute, November 2003

Delivering benefits and services for black and minority ethnic older people
Helen Barnard and Nick Pettigrew, Department for Work and Pensions Research Report No. 201, December 2003, p. 1

Ethnic minorities and the labour market
Cabinet Office, March 2003

Closing the savings gap – carrots or sticks?
Association of British Insurers, June 2002

New Deal for Lone Parents evaluation: a quantitative survey of lone parents on Income Support
J Hales et al., Department for Work and Pensions, 2001
## Annex 2: Women and pensions: key dates in the evolution of social security

<table>
<thead>
<tr>
<th>Year</th>
<th>Act</th>
<th>Details</th>
</tr>
</thead>
</table>
| 1908 | **Old Age Pension (Old Age Pensions Act)** | - non-contributory  
- flat-rate – 5 shillings a week  
- payable below tapered income ceiling of £25 a year  
- equal for both men and women  
- payable at age 70  
- increased to 10 shillings in 1919, then not increased again until 1946 |
| 1925 | **Widows, Orphans and Old Age Contributory Pensions Act** | - contributory system  
- higher earners (above £250 a year) and certain occupations excluded from insurance (twin-pillar approach)  
- flat-rate benefits  
- equal for both men and women  
- pensions payable at age 65  
- derived rights for married women when both spouses at pension age  
- no dependency increases |
| 1940 | **Old Age and Widows’ Pensions Act** | - women’s pension age reduced to 60  
- people over pension age and widows become eligible for means-tested assistance – ‘supplementary pensions’  
- 940,000 claims in first nine months – four times the number on poor relief |
| 1941–43 | **Redefinition of household and family unit** | - abolished household means test  
- increased capital limit, decreased tariff income, separate rent allowance |
1948  **Beveridge plan implemented (National Insurance Act)**
- comprehensive insurance (except for housewives)
- state pensions seen as a platform on which other savings could build
- pension earned over working life of 44/49 years
- married women encouraged not to be insured – a third dropped out of insurance
- instead, derived rights of 60 per cent of husband’s entitlement when he reached pension age
- retirement condition – not just old age
- flat-rate – same rate for all maintenance benefits
- dependency increases
- payable at age 60/65 for women/men

1948  **National Assistance Act**
- unified system of means-tested assistance
- aligned amounts for elderly and others
- discretionary
- about 25 per cent of caseload had special additions

1950s  **Two nations in old age – beginnings of national superannuation debate**
- attempt to raise Retirement Pension ahead of National Assistance

1961  **Graduated contribution scheme**
- broke with flat-rate contribution/flat-rate benefit principles
- no clear pension income objectives – aim to float National Insurance Fund
- earnings-linked contributions bought extra pension units – unequal cost for men and women
- initially no provision to revalorise units
- occupational schemes could contract out
- scheme terminated 1975

1969–73  **Heated debate over how to introduce better state earnings-related pensions**

1975  **Full earnings-relation of contributions**
- collection by Pay As You Earn on earnings between upper and lower threshold
- benefit and contribution rates equalised for men and women
- one week of contributions at Lower Earnings Limit equals one flat-rate contribution
- introduction of National Insurance credits for carers receiving Carer’s Allowance
Annex 2
Women and pensions: key dates for women in the evolution of social security

1978  State Earnings-Related Pension Scheme (SERPS)
• basic pension linked to Lower Earnings Limit – minimum contributions buy basic benefit; higher contributions buy extra
• basic pension to be uprated by better of earnings or prices
• extra pension was 25 per cent of lifetime revalorised earnings between Lower Earnings Limit and Upper Earnings Limit
• calculated over ‘best 20 years’, to help lower earners
• Home Responsibilities Protection awarded for up to 20 years
• reduced-rate married women’s option abolished
• survivor inherited full earnings-related pension
• aimed to deliver State Pension of about half average earnings when mature but in partnership with occupational pension schemes – contracting out on guarantee of paying at least as good a pension

1986/87 Accelerated earnings factors for low earners – same benefits for lower contributions; survivors’ benefits halved

1995 Pensions Act
• equal men’s and women’s pension ages phased in 2010–20
• equal access to derived rights after 2010
• changes to revalorisation process affecting 1997/98 to 2001/02 tax years

1999 Welfare Reform and Pensions Act
• stakeholder pensions introduced to provide low charging defined contribution schemes for low to mid earners who do not have access to an employer’s scheme
• new rights to pension sharing on divorce created, including the sharing of state scheme additional pension

2000 Child Support, Pensions and Social Security Act
• State Second Pension replaces SERPS from 2002 with redistributive accrual rate in three bands linked to earnings
• More generous provisions for carers and low earners; mezzanine floor between Lower Earnings Limit and Upper Earnings Limit with a Primary Threshold; low earners were brought up to the threshold with deemed entitlement to State Second Pension
• 40 per cent accrual on band below Threshold
• carers and the disabled treated as if at new Threshold
• State Second Pension also applies to people in contracted-out employment
• inherited SERPS reduction to 50 per cent to be phased in from 2002 to 2010
### 2002 Pension Credit Act
- Pension Credit introduced from 2003

### 2004 Pensions Act
- **early leavers**: new rights for employees who leave occupational pension schemes after a short period of time to help people in short-stay jobs build up pension rights by enabling people to take a cash equivalent transfer value of their pension rights to another scheme. This is particularly important for women who have more varied employment patterns
- **trivial commutation**: the limit below which a pension can be taken as a lump sum will be significantly increased from £260 a year. The aim is to set it at 1 per cent of the Inland Revenue’s proposed lifetime allowance – equivalent to a fund value of around £15,000. This will help people who have built up small funds, particularly women and lower earners
Annex 3: Government measures for women pensioners

The Government has introduced a range of policies to help both current and future women pensioners, and the priority for the Government since 1997 has been to improve the finances of poorer pensioners.

**State Second Pension** will boost the pensions of low and moderately paid employees and, for the first time, provides additional pension for carers and some long-term disabled people. This is of particular benefit to women who work part-time or are carers. Almost all of the 2.5 million carers who will benefit from the State Second Pension are women.

**Pension Credit** was introduced to combat poverty among pensioners and reward past saving. Two-thirds of people receiving Pension Credit are women, half of whom are aged 75 or over.

**Winter Fuel Payments** at £200 for each eligible household (£300 for a household with someone aged 80 or over) aim to ensure that no older person is fearful of turning up the heating in cold weather. Last winter around 6.3 million women received a Winter Fuel Payment, 1.5 million of whom also gained from the extra £100 for those aged 80 or over. The payments are both tax-free and disregarded for benefit purposes. This means that they have become a significant contribution to the incomes of the poorest, predominantly female, pensioners.

**One off 70+ Payment** (2004/05) for households including someone aged 70 or over in recognition of the difficulties that older pensioners, often on fixed incomes, face meeting extra expenditure.

**Women on low earnings:** National Insurance contributions only become payable on earnings from £94 a week whereas entitlement to National Insurance benefits starts accruing at £82 a week. This has benefited around 500,000 women.

**Pensions on divorce:** in December 2000, the Government brought in legislation that enabled couples to share the value of their pensions on divorce or annulment of their marriage. This allows a former spouse to acquire a pension in their own right, and provides security of income throughout retirement and a clean break.
Annex 4: State pensions qualifying conditions

**Qualifying years:** a person can get a basic State Pension by building up enough qualifying years before State Pension age. A qualifying year is a tax year in which they have sufficient earnings upon which they have paid, are treated as paid or have been credited with, National Insurance contributions. In 2005/06 a person needs to have earnings of £82 or more a week if they are an employee; or £4,345 a year or more if they are self-employed; or have paid voluntary Class 3 contributions if they do not have earnings.

A **self-employed person** can pay Class 2 contributions on any level of earnings, however low, if they choose and these contributions will count the same as earnings at the Lower Earnings Limit. They can apply for exemption from paying National Insurance contributions if profits are below £4,345 a year.

**The first contribution condition:** by State Pension age, a person needs to have one qualifying year (the first contribution condition) of paid National Insurance contributions or from National Insurance contributions treated as paid to be eligible for any State Pension. The first contribution condition cannot be satisfied with credits.

**The second contribution condition:** to get a minimum basic State Pension a woman needs to have paid full National Insurance contributions for at least one year, and to have paid, been treated as paid or been credited with full National Insurance contributions to qualify for at least 25 per cent of a full pension.

**Treated as paid:** before April 2000, employees started paying National Insurance contributions on all their earnings below the Upper Earnings Limit from any single job as soon as they were earning above a set level, known as the Lower Earnings Limit (£82 a week for 2005/06). In April 2004, a new employee’s Primary Threshold (£94 a week for 2005/06) was introduced as the point from which employees start to pay contributions. Because this is set at a higher amount than the Lower Earnings Limit, employees who earn between the Lower Earnings Limit and the employee’s Primary Threshold no longer pay National Insurance contributions, but are treated as if they have paid them. This means they continue to build up entitlement to contributory benefits such as State Pension, even though they are not paying National Insurance contributions.

**Basic State Pension** entitlement can also be built on a range of National Insurance credits awarded as appropriate on receipt of National Insurance benefits or tax credits. Full details are given in Annex 5.
Graduated Retirement Benefit: Graduated Retirement Benefit is based on the amount of graduated National Insurance contributions paid when the Graduated Retirement Benefit scheme existed between 3 April 1961 and 5 April 1975. Graduated Retirement Benefit is paid as an additional amount to the State Pension but is not regarded as additional State Pension – SERPS came in from 1978. A Graduated Retirement Benefit unit is 9.93p for 2005/06.

State Earnings-Related Pension Scheme (SERPS): the SERPS scheme ran from 1978 to 2002 when it was replaced by State Second Pension in April 2002. The amount of additional State Pension a person can get from SERPS (1978 to 2002) depends on their earnings in each year since 1978 and their National Insurance record.

State Second Pension: the additional State Pension from 6 April 2002. A person can build up additional State Pension if they are: an employee with earnings of at least £4,264 in 2005/06 on which they have paid or are treated as having paid National Insurance contributions; or in some circumstances, a carer entitled to Home Responsibilities Protection or receiving Carer’s Allowance, or a person receiving long-term Incapacity Benefit or Severe Disablement Allowance. Additional State Pension cannot be built up while a person is self-employed.
Annex 5: Summary of National Insurance credits provisions

People who are normally liable for National Insurance contributions but who are temporarily not working due to a specified contingency, for example they are unemployed and available for work or incapable of work due to sickness, may be eligible for National Insurance credits to assist them to maintain their insurance record during these periods.

Credits are not sufficient by themselves to earn entitlement to social security contributory benefits. It is necessary for some contributions to have been paid during the relevant tax years on which a benefit claim is based.

A full list of the contingencies for which credits may be awarded follows:

**Starting credits** – for the tax year in which age 16 is reached and for each of the two following tax years to the level required to make those years reckonable for pension purposes.
*Status: Class 3 credits which build towards basic State Pension and bereavement benefits only.*

**Credits for approved training** – for each week during any part of which a person was undergoing a course of full-time training or a course of training introductory to such a course provided that the course was not intended at outset to continue for more than 12 months. The person must have attained the age of 18 before the beginning of the tax year relevant to the credits. More flexible conditions apply to disabled people. Approved training covers most types of training except for training which is part of employment. All government-sponsored employment training is covered automatically. For non-government sponsored courses, trainees need to apply to the National Insurance Contributions Office for credits.
*Status: Class 1 credits which build towards entitlement for all working-age and retirement benefits.*

**Carer’s Allowance credits** – for each week in which Carer’s Allowance is paid or, in the case of a widow, would have been payable but for the provisions of the Social Security (Overlapping Benefits) Regulations.
*Status: Class 1 credits which build towards entitlement for all working-age and retirement benefits.*
Credits for unemployment – for each week for the whole of which a person is in receipt of Jobseeker’s Allowance or satisfies certain conditions set down in Section 1(2) of the Jobseekers Act 1995. These include that they are available for, capable of and actively seeking remunerative work. It is also possible to award unemployment credits, where required, to persons in receipt of certain compensatory payments following dismissal from employment.

Status: Class 1 credits which build towards entitlement for all working-age and retirement benefits.

Credits for incapacity – for each week in which each of the days was a day of incapacity for work within the terms of the Incapacity Benefit legislation (which includes weeks in the Maternity Allowance period) or was a week in which an Unemployability Supplement or allowance was payable.\(^{129}\)

Status: Class 1 credits which build towards entitlement for all working-age and retirement benefits.

Credits for persons approaching pensionable age\(^{130}\) – for the tax year in which a person attains the age of 60 and for each of the four succeeding years to the level required to make those years reckonable for contributory benefit purposes. At present, only men get these as women have no contribution liability over age 60. As legislation stands, as State Pension age is equalising, women will get them too. They are not available where there is Class 1 or 2 contribution liability or where the person is abroad for more than half the tax year. Self-employed persons with small earnings exception get them.

Status: Class 1 credits which build towards entitlement for all working-age and retirement benefits.

Credits for jury service – for each week for any part of which a person attended at court for jury service provided that, if they were employed, their earnings that week were below the Lower Earnings Limit for National Insurance contributions. Very few people get these as most have sufficient earnings in the remainder of the tax year. They may be claimed following receipt of a contribution deficiency notice but, sometimes, where the person is unemployed, the jobcentre may make a note of their entitlement.

Status: Class 1 credits which build towards entitlement for all working-age and retirement benefits.

Credits for maternity pay period – for each week during a maternity pay period for which a woman was paid Statutory Maternity Pay.

Status: Class 1 credits which build towards entitlement for all working-age and retirement benefits.

---

\(^{129}\) Unemployability Supplement is an increase of War Disablement or Industrial Injuries Disablement Benefit.

\(^{130}\) Often referred to as ‘auto-credits’.
Credits for adoption pay period – for each week for which Statutory Adoption Pay is received.
Status: Class 1 credits which build towards entitlement for all working-age and retirement benefits.

Credits on termination of full-time education, training or apprenticeship – awarded for either one of the last two complete tax years before the beginning of the relevant benefit year if during any part of that year, the claimant was undergoing a course of full-time education, training or other full-time occupational/vocational course or was an apprentice. The course or apprenticeship must have terminated at the time the claim was made and must have commenced before the claimant was 21. More flexible conditions apply to disabled people.
Status: Class 1 credits which give entitlement to unemployment and incapacity benefits only.

Credits on termination of Widowed Mother’s Allowance or bereavement benefits – awarded where entitlement to Widowed Mother’s Allowance ends (other than by remarriage or cohabitation). From April 2001, the credits apply to the cessation of bereavement benefits and are available to widows and widowers.
Status: Class 1 credits which give entitlement to unemployment and incapacity benefits only.

Working Tax Credit – where Working Tax Credit is paid for any week in respect of an employed earner or a self-employed earner who has been excepted from liability to pay Class 2 contributions on the grounds of small earnings, that person may be credited with earnings equal to the Lower Earnings Limit in respect of that week.
Status: Class 3 credits, for the purposes of entitlement to a Category A or a Category B retirement pension, Widowed Mother’s Allowance or a Widow’s Pension or bereavement benefits.

Where the Working Tax Credit has a disability element
Status: Class 1 credits which build towards entitlement for all working-age and retirement benefits.

Credits for certain periods of imprisonment or detention in legal custody – where a person has served a period in prison for a conviction which is subsequently quashed. For each tax year in which there was any period of imprisonment (including the period spent on remand – but not normal remand prisoners who are subsequently found not guilty). Former prisoners need to make a claim for the credits from the National Insurance Contributions Office. This was only introduced from 26 March 2001 (but will cover any past period).
Status: Class 1 credits which build towards entitlement for all working-age and retirement benefits.
Annex 6: Home Responsibilities Protection

Home Responsibilities Protection was introduced on 6 April 1978. It protects the basic State Pension of men and women with significant long-term caring responsibilities who do not work outside the home or whose earnings are low.

Home Responsibilities Protection is not a credit. It works by reducing the number of qualifying years needed for a full basic State Pension.

It is possible for a woman to work and get Home Responsibilities Protection if she does not earn enough in the tax year to get a qualifying year through her paid (or treated as paid) National Insurance contributions. All that is required is that she is awarded Child Benefit throughout the tax year – up until her youngest child is 16. Home Responsibilities Protection does not stop if a woman returns to work during a qualifying tax year; if she does not earn enough to get a qualifying year, she will get Home Responsibilities Protection just as if she was not working.

It protects the basic State Pension position, for complete tax years, for those who:

- care for a child under the age of 16; or
- care for a sick or disabled person in receipt of Attendance Allowance, Constant Attendance Allowance or Disability Living Allowance at middle or higher rate (and do not receive Carer’s Allowance for the same period); or
- are a registered foster carer.

In order to qualify for a full 100 per cent basic State Pension, a person must normally have qualifying years for about 90 per cent of the years in their working life (currently, working life for men is 49 years and 44 years for women).

Therefore, to qualify for a full basic State Pension a man requires 44 qualifying years and a woman 39 qualifying years. Home Responsibilities Protection works by reducing the number of qualifying years needed for a full basic State Pension – so when calculating a person’s basic State Pension the number of years for which they were covered by Home Responsibilities Protection (that is, self-certified full-time caring or in receipt of Child Benefit) is taken away from the number of qualifying years required for a full basic State Pension. Home Responsibilities Protection cannot reduce the number of qualifying years required below 20 (22 for men from 2010 and gradually rising to 22 for women from 2020 when State Pension age for men and women is equalised at 65 years).
Home Responsibilities Protection accrues on an annual basis and can only be awarded if a person has been caring for a full tax year. The intention is that Home Responsibilities Protection should protect a person’s pension over substantial periods of caring responsibilities, not short periods of a few weeks or months.

**Overlap with Carer’s Allowance credits**

Many carers of sick or disabled adults or children qualify for Carer’s Allowance. The qualifying conditions are:

- the individual must be looking after someone for at least 35 hours a week, and the person receiving the care must be receiving Attendance Allowance, Constant Attendance Allowance (at the normal day rate) or the highest or middle rate of the Disability Living Allowance care component;
- the individual does not have net weekly earnings of more than the National Insurance Lower Earnings Limit (£82 a week in 2005/06) after deduction of a range of specified allowances.

Carer’s Allowance is a weekly benefit that carries a weekly credit for basic State Pension. This is equivalent to a Class 1 contribution at the Lower Earnings Limit. Therefore, an individual does not need Home Responsibilities Protection if they receive Carer’s Allowance for the same period. However, some carers may not claim or qualify for Carer’s Allowance. The main reasons for this are:

- the disabled person already has another carer who receives Carer’s Allowance (but requires two carers);
- the Carer’s Allowance has been given up or no claim has been made because it would reduce the disabled person’s premium in Income Support;
- the Carer’s Allowance claim was made outside the time limits for getting benefit.

In these circumstances, the carer will need to make a formal application to the Department for Work and Pensions for Home Responsibilities Protection to protect their basic State Pension.
Annex 7: Derived entitlements in state and private pension schemes

<table>
<thead>
<tr>
<th></th>
<th>Wives</th>
<th>Husbands</th>
<th>Widows</th>
<th>Widowers</th>
<th>Divorced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic State Pension</td>
<td><strong>60% of husband’s pension</strong> if both</td>
<td>(Provisions for wives due to be extended to husbands in 2010)</td>
<td><strong>100% of spouse’s pension</strong></td>
<td></td>
<td><strong>Spouse’s National Insurance contributions record before and during marriage</strong> may be used to improve pension up to a maximum for a single person</td>
</tr>
<tr>
<td></td>
<td>are over State Pension age and less than</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>60% from own contributions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SERPS/State Second Pension</td>
<td>–</td>
<td>–</td>
<td><strong>50% of spouse’s pension</strong> (was 100% until October 2002) in addition to their own up to maximum for a single person</td>
<td>Divorce court must consider pension provision and may make a pension sharing order</td>
<td></td>
</tr>
<tr>
<td>Occupational Pensions</td>
<td>–</td>
<td>–</td>
<td><strong>Surviving spouse gets pension on death in service</strong></td>
<td>Divorce court must consider pension provision and may make a pension sharing order</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(provisions other than for contracted-out rights depend on scheme rules, most common provisions are shown)</td>
<td></td>
<td><strong>Surviving spouse gets pension on death in retirement where the scheme is contracted out</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Discretionary lump sum to surviving spouse or cohabitee</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>Surviving spouse gets pension on death in retirement, based on protected rights portion of the fund only</strong> (for contracted-out schemes)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal pensions</td>
<td>–</td>
<td>–</td>
<td>Fund or annuity is paid on death in service to a nominated beneficiary</td>
<td>Divorce court must consider pension provision and may make a pension sharing order</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(includes stakeholder pensions)</td>
<td></td>
<td><strong>Surviving spouse gets annuity on death in retirement, based on protected rights portion of the fund only</strong> (for contracted-out schemes)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The **bold** entries indicate statutory rights.

Note: From December 2005, civil partnerships will provide for derived entitlements on dissolution of a partnership.

---

Annex 8: Ethnic minority groups

There are a considerable number of ethnic sub-groups within the UK population, including a not insignificant number of white minorities such as those from Ireland and Eastern Europe. Work in this area tends to focus on non-white ethnic minorities. The exact terminology used to describe ethnic minority groups is controversial and as a result varies considerably within the literature. Two of the most commonly used definitions are Black and Ethnic Minority Groups and Ethnic Minority Groups. Given that of those from a non-white ethnic group, only 24 per cent are black (while over 50 per cent define themselves as Asian) it appears unnecessary to use a term which distinguishes between black groups and all other Ethnic Minority Groups. Statistically, black groups are in the minority in the ethnic minority population as a whole. Given this and the proliferation of references to ethnic minorities/ethnic minority groups in the more recent literature, it is fair to suggest that the term Ethnic Minority Group is more appropriate and in line with current best practice recommended by the Commission for Racial Equality.

Salient attributes of ethnic minority groups

Size: According to Census 2001, there are over 4.6 million people in the UK from ethnic minority groups, who represent 7.9 per cent of the population as a whole. 2.5 per cent of the UK population over the age of 65 are from an ethnic minority group and this group of 2.5 per cent has a younger age structure than the white majority; 17 per cent of the white population are aged 65 or over while only 5 per cent of the ethnic minority population are aged 65 or over.

Ethnicity: The ethnic minority population is made up of a number of sub-groups, the two largest of which are Indian and Pakistani.

---

132 Arguments for the exclusion of white minority groups from analysis include the relative scarcity of such groups and the fact that the economic profile of white minority groups, particularly those of Irish descent, is very similar to that of white British people. It is worth noting that the Census classification for ethnicity only contains three options for white people; British, Irish and Any Other White background.

133 Census 2001.


135 The Census and the Family Resources Survey altered their ethnic minority group classification in 2001 by among other things introducing a 'Mixed' category.
**Geographical concentration:** 70 per cent of people from ethnic minority groups in Great Britain live in five major urban areas; the West Midlands, West Yorkshire, Greater Manchester, East Midlands and London.\(^{136}\)

**Migration patterns:** migration from the Caribbean peaked in the early 1960s; from India and Pakistan in the early 1970s; from Bangladesh and Hong Kong in the early 1980s. Additionally, estimates suggest that there are upwards of 350,000 refugees in the UK whose origin and arrival have tended to reflect the location and timing of conflict.\(^{137}\)

**Religion:** unsurprisingly a wide variety of different religions are practised by the various ethnic minority sub-groups including Islam, Judaism, Christianity, Hinduism and Sikhism.

**Language:** similarly the array of languages spoken in the countries of origin of ethnic minority groups is considerable. Consequently, exposure to and fluency in the English language varies hugely between members of ethnic minority groups.

**Education:** educational qualifications and access to education vary significantly between countries and thus between members of ethnic minority groups.

---

\(^{136}\) Year 1 Progress Report, Ethnic Minority Employment Taskforce, p. 6.

Labour market disadvantage: the labour market disadvantage faced by ethnic minority groups is in general well documented. A 2003 Pensions Policy Institute report usefully summarises the situation. Using mainly Office for National Statistics data it demonstrates that people from ethnic minority groups have lower economic activity rates, have higher unemployment rates, are more likely to work part time or be self-employed, are less likely to be working in pensioned industries, are less likely to have managerial roles and have lower earnings at most ages. Work in this area culminated in the publication of the *Ethnic minorities and the labour market* strategy report from the Cabinet Office in March 2003.

Non-labour market disadvantage: various papers have identified a number of less tangible, non-labour market sources of potential economic disadvantage faced by various ethnic minority sub-groups including: (a) higher demands placed on income due to intergenerational contract\(^{138}\) and larger average family size;\(^{139}\) (b) tendency to invest in businesses within the community rather than in savings vehicles; (c) religious beliefs disallowing the use of certain savings vehicles;\(^{140}\) (d) stigma attached to claiming means-tested benefits more acutely felt in ethnic minority group communities;\(^{141}\) and (e) lack of engagement with the pensions system due to its complexity and scarcity of culturally sensitive information.\(^{142}\)

---

\(^{138}\) *Ethnic minorities and their pensions decisions*, Steven Nesbitt and David Neary, in *Findings*, 531, Joseph Rowntree Foundation.


\(^{140}\) *The under-pensioned: ethnic minorities*, p.17, PPI, November 2003.


Annex 9: Glossary of terms

**Basic State Pension** is payable at State Pension age calculated on a person's lifetime contribution record of contributions and credits.

**Category B pensions** are contributory and consist of two parts, either or both of which are payable: Basic Pension, dependent on the number of qualifying years; and Additional Pension, dependent on earnings since 1978. Category B pensions are payable by virtue of the spouse's qualifying years or earnings. Those who can get a Category B pension are married women, widows and widowers. (Wives get 60 per cent of the husband's entitlement.)

**Child Tax Credit and Working Tax Credit** – payable from April 2003. The general rule is that to qualify for tax credits a person must be aged 16 or over and usually live in the United Kingdom. Couples must make a joint tax credits claim. A member of a couple cannot claim as a single person. Child Tax Credit is for people who are responsible for at least one child or qualifying young person. Child Tax Credit is paid direct to the person who is mainly responsible for caring for the child or children. Working Tax Credit is for people who are employed or self-employed (either on their own or in a partnership), who:

- usually work 16 hours or more a week;
- are paid for that work; and
- expect to work for at least 4 weeks;

and who are:

- aged 16 or over and responsible for at least one child; or
- aged 16 or over and disabled; or
- aged 25 or over and usually work at least 30 hours a week.

Working Tax Credit is paid to the person who is working 16 hours or more a week. Couples, if both are working 16 hours or more a week, must choose which one will receive it. As part of Working Tax Credit a person may qualify for help towards the costs of childcare. The amount of tax credits will depend on annual income.
**Class 1 National Insurance contributions** are paid by employed earners and build towards entitlement for all working-age and retirement benefits.

**Class 2 National Insurance contributions** are paid by self-employed earners.

**Class 4 National Insurance contributions** are paid by self-employed earners and are based on a percentage of their profits over a set level.

**Class 3 National Insurance contributions**: people who are not building a National Insurance record through work or with credits may pay Class 3 Non-employed National Insurance contributions to make up a deficit. These contributions are wholly voluntary and payable at a flat weekly rate; £7.35 at 2005/06 rates. Class 3 contributions can be made by anyone wishing to make up gaps in their contributions record – except women who elected to pay the married women’s reduced-rate option.

**Defined benefit** pension schemes define the benefits independent of contributions and benefits are not directly related to the investment.

**Defined contribution** pension schemes determine member benefits based on the member’s contributions, usually increased by an amount based on the investment return on those contributions.

**Graduated Retirement Benefit** (pre-SERPS) was an increase in the weekly amount of State Pension, and can be paid to a pensioner with no entitlement to basic pension.

**Home Responsibilities Protection** protects the State Pension record of people who take time out of the labour market to care for children and disabled adults.

**Lower Earnings Limit** is the point at which contributions can be treated as paid even though there is no liability to pay.

**Low Earnings Threshold** is a statutory amount a person is treated as having earned in a given year when calculating their State Second Pension entitlement. Certain carers, long-term sick and disabled people and low earners will be treated as having earnings at the Low Earnings Threshold.

**Married women’s reduced-rate option** is a lower level of National Insurance contribution for married women in force from 1948 to 1978 which only gave entitlement to the National Health Service and industrial injuries benefits.

**National Minimum Wage** is a set hourly rate below which pay must not fall.
**Pensioner** as used in this report means a person who is in receipt of State Pension benefits.

**Primary Threshold** is the level of earnings at which National Insurance contributions become payable.

**State Second Pension** is calculated over a lifetime as a percentage of annual earnings, divided into three bands each with a different accrual rate, and paid with the basic State Pension.

**Survivors’ benefits** are benefits payable to a widow or widower or to a person nominated by a member of a pension scheme as the person to whom benefits should be paid in the event of his or her death.

**Upper Earnings Threshold** is the upper limit of the second earnings band used to calculate State Second Pension.

**Upper Earnings Limit** is the limit on the amount of earnings on which National Insurance contributions are levied and the upper limit of the third earnings band used to calculate State Second Pension.
Annex 10: List of Figures

Figure 2.1 Cohort life expectancy for men and women at age 65, UK
Figure 2.2 Projected pensioner population by age and gender, UK
Figure 2.3 Trends in female life expectancy at 65, by social class
Figure 2.4 Real income of single pensioners by gender, 1979–1996/97 and 1994/95–2003/04
Figure 2.5 Risk of living in households with less than 60 per cent of contemporary median household income
Figure 2.6 Median incomes of current pensioners by marital status
Figure 2.7 Female pensioners’ income per week by age group
Figure 2.8 Total estimated pension wealth, men and women aged 50 to State Pension age, assuming retirement at State Pension age
Figure 2.9 Distribution of total individual pension wealth by gender and age, assuming retirement at State Pension Age
Figure 3.1 Percentage of the population with a degree by age
Figure 3.2 Proportional effect of a degree on wages by degree subject
Figure 3.3 Subject of first degree by gender
Figure 3.4 Distribution of jobs across industrial sectors by gender
Figure 3.5 Distribution of employees across occupations by gender
Figure 3.6 Employment rates by year: men and women aged 16 to State Pension age
Figure 3.7 Employment rates by age and gender
Figure 3.8 Female employment rates by age and cohort
Figure 3.9 Employment rates of women by age of youngest dependent child
Figure 3.10 Economic inactivity rates and reasons by age and gender
Figure 3.11 Full-time and part-time employment rates by gender
Figure 3.12 Percentage of employees by occupation who would work fewer hours for less pay in their current job
Figure 3.13 Percentage of employees by occupation who would work fewer hours for less pay in their current job and whose employer is able to let them
Figure 3.14 Mean hourly earnings by age, gender and whether employees have dependent children
Figure 3.15 Employment rates for men and women aged 50–69, 1979 and 2005
Figure 4.1 Marriages and divorces in UK/GB
Figure 4.2 Number of women cohabiting who are not married by marital status
Figure 4.3 Number of women approaching retirement (aged 50–64) who are cohabiting and not married by marital status
Figure 4.4 Average time spent in paid and unpaid work each day by gender
Figure 4.5 Employment rates for carers of disabled offspring by gender
Figure 4.6 Percentage of adults by age and gender who are carers of persons aged 16 or over, GB
Figure 4.7 Working-age employment rates by age and gender, with carer employment rates by age and gender
Figure 5.1 Numbers of working-age women building a basic State Pension by method of qualification
Figure 5.2 Women’s basic State Pension accruals by cohort
Figure 5.3 Mean basic State Pension entitlements for men and women in 2003/04
Figure 5.4 State Second Pension accruals by gender
Figure 5.5 Basic State Pension non-accruals by gender
Figure 5.6 State Second Pension non-accruals by gender
Figure 7.1 Individual income by age and gender
Figure 7.2 Private pension income received by women, by age and marital status
Figure 7.3 Whether contributing to a private pension, by age and employment status
Figure 7.4 Average monthly contributions to private pension by gender
Figure 7.5 Membership of current employer’s pension scheme by gender and employment status, 1983–2003
Figure 7.6 Percentage of public and private sector employees contributing to a private pension by gender, earnings and by whether they have access to an employer’s pension scheme
Figure 7.7 Membership of current employer’s pension scheme by gender and employment status
Figure 7.8 Membership of a pension scheme by employment status and length of job tenure
Figure 7.9 Membership of a pension scheme by employment status and size of employer
Figure 7.10 Percentage of employees contributing to a private pension and with access to an employer’s pension scheme by gender, occupation, and public or private sector
Figure 7.11 Numbers contributing to personal and stakeholder pensions by gender
Figure 7.12 Numbers contributing to a stakeholder pension by age and gender
Figure 7.13 Women contributing to a stakeholder pension and average annual contribution by status in the year ending April 2003
Annex 10
List of figures

Figure 7.14  Monthly incomes from annuity by gender
Figure 7.15  Changes over time in annuity rates for men and women at age 65 purchasing an annuity of £100,000
Figure 8.1   Age breakdown of women by ethnic group in the UK
Figure 8.2   Employment rates by ethnic group and gender
Figure 8.3   Economic inactivity rates by ethnic group and gender
Figure 8.4   Basic State Pension and State Second Pension accrual in the working-age population by ethnic group and gender
Figure 8.5   Basic State Pension entitlement for working-age women by ethnic group
Figure 8.6   Private pension coverage for working-age women in employment by ethnic group

Annex 8
Figure 1    Analysis of ethnic minority population according to the 2001 Census