BARNETT WADDINGHAM
beyond the expected

Bridging the gap

The gender pensions gap and what can be done about it.

RISK | **PENSIONS** | INVESTMENT | INSURANCE

The background

Modern society has undergone a massive transformation since the UK pension system was first created in the early 1900s. Back then, most women stayed home to look after the children, men were typically the breadwinners, and the traditional nuclear family was commonplace.

More than a century on, more women than ever before are in the workplace, and single-parent families and divorces have become much more common.

> Whilst society has significantly evolved, the UK pension system has not. Its foundations are based on the traditional nuclear family and, despite governments introducing various policy changes, these have failed to adapt to current working practices.

Our study explores whether we have a system intrinsically biased towards men, creating a stark disparity in wealth at retirement. By looking at the trends and behaviours of different cohorts of people, we want to understand where things can change, so we can have a pensions system with fewer biases and that is genuinely fair to all pension savers.

The study

We have analysed the data and saving trends of some 35,000 members in seven DC pension schemes. The schemes, picked at random, ranged in size from containing 600 to 14,000 members with sponsoring employers from a range of industries.

As well as looking at current levels of pension saving across different age groups and affluence bands (as defined by the Joseph Roundtree Foundation[1]), we also considered the differences amongst men and women in projected pension income against the PLSA's Retirement Living Standard[2] income.

Whilst we include state pension provision in our projections, we only take into account savings accrued in DC pension plans.

We also note there is very little data collected on people identifying as trans or non-binary[3], so our analysis does not go into detail here. However, we suspect that biases and gaps are also affecting trans and non-binary people.

1 www.jrf.org.uk/

2 www.retirementlivingstandards.org.uk/

3 Trans is a really broad umbrella term. In general, it refers to anyone who isn't cis (someone who identifies as the gender assigned at birth throughout their life) and is inclusive of a range of identities such as trans woman, genderqueer and trans man. Some people who cross dress will also identify as trans.

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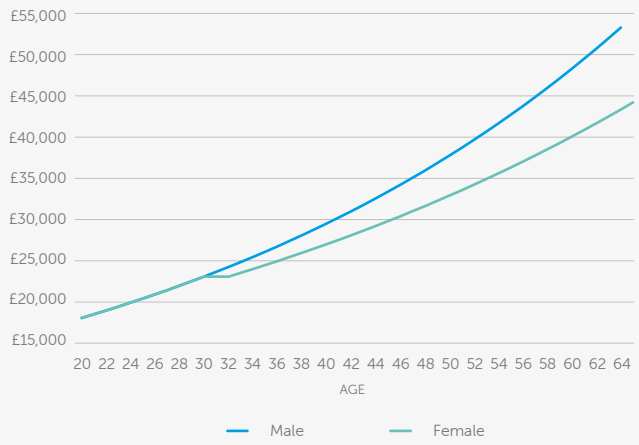
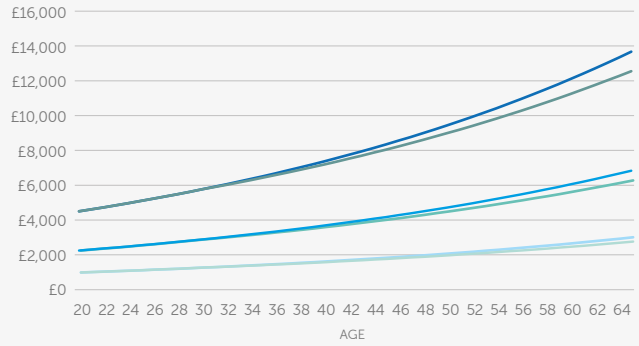
The key findings

On average, women are saving less than men and have less in their pension pots at retirement compared to men; the differences ranging from 25% to 45% across the schemes we analysed. This is no surprise, but we wanted to delve deeper to understand what the main causes of this are. The trends we found are common across the DC schemes we analysed.

TYPICAL PENSIONABLE SALARY INCREASES



PROJECTED ANNUAL CONTRIBUTION AMOUNTS BY AFFLUENCE



The power of inertia

Whilst contribution amounts are less for women, up until their mid-50s, men and women generally contribute the same percentage of pensionable pay. This is even the same after people return from career breaks.

> Inertia, and lack of pension education and/or knowledge about what to do, are clearly driving forces behind the level of contributions someone typically pays.

For example people tend to remain at the same contribution level as when they are entered into a pension plan, irrespective of their gender or where they are in the career.

From their mid-50s, women typically increase their contribution rate higher than men, generally at around an additional 1% of pensionable pay. As we commonly find that people engage more with pensions the older they get, women closer to retirement are seemingly realising the need to catch up with their retirement saving.

Career breaks impact women's pension savings

For a woman taking two 12 month career breaks in her early 30s, with no pension saving or salary increase during this time, it can lead to a level of pension savings at retirement of around 10% lower compared to a woman with no career breaks.

A 35 year old would need to increase contributions by an additional 1% of pensionable pay to make up this shortfall. A woman waiting until she's 55 will need to increase contributions by around 6% of pensionable pay, which is generally much higher than the increase we currently see in women's contributions as they approach retirement.

The design of auto-enrolment disadvantages women

There is a higher proportion of women earning under the auto-enrolment threshold of £10,000pa than men. In some schemes, there are three times more women earning less than £10,000 compared to men.

Women are further away from men in providing for a sufficient level of income in retirement

Whilst men and women are generally saving less than required to provide for a sufficient income in retirement, the gap amongst women is more pronounced. The below table illustrates the percentage of the PLSA Living Standard income being funded by males and females in different affluent groups. This includes State Pension income[4].

Affluence band	% of PLSA Living standard Income - Male	% of PLSA Living standard Income - Female
Low	30%	20%
Medium	60%	50%
High	120%	95%

Contributing factors

The significant pensions gap between men and women is most stark in the high affluence group, mainly because men's typical pay in this group is significantly higher than women.
The driving force behind the gender pension gap is clearly the gender pay gap. However, there are many other factors that contribute to the difference between how much men and women save for retirement.

These include:

- the imbalance of females working in lower skilled / lower paid occupations;
- women (working in lower skilled roles) are also more likely to be on zero hour contracts or working multiple part-time roles so do not reach auto-enrolment thresholds;
- the low level of default contribution rates generally;
- the limits of some employers' support to help offset the effect of career breaks;
- family constraints and caring responsibilities typically give less flexibility for many women to progress in their careers, earn more and contribute more to workplace pensions.
  More often than not, women take on responsibility for caring for aging parents or family disability care;
- the increasing rates of divorce, particularly in later life; and
- the impact of social marginalisation and discrimination for trans and non-binary people in their ability to find and keep employment.

4 We have assumed a low affluence annual starting salary of £11,000, a medium affluence salary of £25,000 and a high salary of £50,000. We have assumed 2.5% pa salary increases, investment returns of 6% pa ex. charges, inflation of 2.5% pa, total contribution rate of 9% pa, and a state pension allowance of £9,339 pa.

That said, we also need to be conscious of household income in totality. Many couples will have made conscious choices for one person to be the main breadwinner, as they plan for retirement collectively. The pension system is designed for this. However, for many people falling outside of this model, the pension system does not work.

Time for a new framework?

It is simply too easy to say, "women need to contribute more". Whilst this is of course an answer, it does not appreciate that the gender pension gap is a multi-faceted issue. We need to consider fiscal, behavioural and societal issues collectively. It is clear that we cannot have a one size fits all solution; however we could create a more robust and inclusive pensions framework, offering fairer solutions for all.

Such a framework should consider the changes that need to be made by the key stakeholders: individuals; their employers and pension policy makers. Here's what we think should be considered.

Considerations for individuals

- pay in more, when it is affordable to do so;
- proactively, and regularly, increase contributions when receiving a pay rise;
- work for longer before retiring;
- pay in more after career breaks. The sooner this is, the cheaper it will be to make up the shortfall. Although we note that when looking after young children there are a multitude of pressures on disposable income;
- if in a couple, take account of the merits of each person's pension arrangements. It might be more advantageous to contribute more into one person's pension scheme if it offers better benefits, lower charges, and is more tax efficient to do so; and
- for parents, both be more active in sharing parental leave, with pension contribution shortfalls split more equally across both parents. Alternatively, if only one parent takes leave, consider sharing pension contributions across both parents' pensions.

Considerations for employers

Address the gender pay gap

This is the most significant factor leading to the gender pensions gap. You can read more about how we think you can reduce the gap here.

Take advantage of inertia.

This is the most powerful tool to encourage good saving habits. This means:

- Setting higher default contribution levels for when employees enter the pension scheme;
- setting higher default levels of contributions for when someone returns after a career break; i.e. to make up any shortfalls in pension saving as soon as possible. However, people should still have the option of opting for lower contributions if there are too many pressures on disposable income following parental leave;
- bring in a period of auto-escalation (supported by pension education) for returners to work after career breaks, easing them into a sufficient rate of pension saving and ensure this is over any minimum level; and
- using auto-escalation generally across the workforce. This could be for employer and employee contributions, or employee contributions only. Someone increasing contributions just by an additional 1% of pay each year can significantly improve retirement outcomes. And if the contribution increases are aligned with pay increases, individuals should not see a decrease in take home pay.

4 Women Approaching and In Retirement – Global Review of the Challenges for Pension Reform and Generating Social Fairness – Primer, TOR Financial, 28 July 2020.

5 National LGBT Survey, UK Government Equalities Office, July 2018.

Improve pay and benefits during and after career breaks.

- Pay employer pension contributions based on full time equivalent earnings, irrespective of the level of pay made to individuals during parental leave; and
- for parents moving to part time working after taking family leave, pay employer pension contributions on full time equivalent earnings, rather than actual earnings (subject to a maximum and possibly subject to committing to remaining employed by the business for a period).

Introduce more targeted financial education

- Explain the importance of paying in more, when affordable to do so, particularly soon after career breaks to make up for reduced saving during that period;
- if they are part of a household with more than one income, communicate the importance of determining if their or their partner's pension arrangement is best into to which to contribute;
- educate employees about the advantages of other tax efficient savings vehicles and taking advantage of collective savings allowances in the household; and
- specify factors employees should consider when returning to work, and create safe inclusive spaces for people to speak freely.

Considerations for policy makers

Of course, careful consideration of any possible trade-offs and possible disadvantages of other socio-economic groups is needed before effecting any of these changes.

Review auto-enrolment rules

- It is clear the auto-enrolment minimum threshold impacts women more than men. The government should review this in the context of gender. Whilst there are proposals to remove the minimum earning requirement, we think this should be done sooner rather than later;
- increase minimum level contributions. People typically anchor to the default level of contribution when joining a pension plan, which is generally impacting women more than men. This again should be reviewed in the context of gender, and done so as soon as possible;
- remove the upper age band for pensions auto-enrolment; and
- if not removing the lower earnings threshold, auto-enrolment rules should consider income from multiple jobs, not just one job.

Review state pension provision

Make sure the state pension provision better reflects career breaks, and periods of being ineligible for auto-enrolment (if the minimum level of contributions remains). In addition to this, provide more education on how to assess the state pension – i.e. the people most affected may be the ones less able to access this information. Start with better financial education in schools.

Move to flat rate of pension tax relief

The current tax relief system benefits higher earners more than lower earners, which typically benefits men more than women. Moving to a flat rate will help women save more; e.g. moving to a tax relief flat rate of 30% will typically increase a women's total amount of pension savings by 35%.

Allow couples to pay into each other's pension plans

This will allow pension benefits to shared more equally and will allow both parties to take advantage of the incentives to save for retirement; i.e. tax savings. Consideration should also be made to allow couples to transfer assets between each other's pension plans.

Encourage the industry to design default investment funds better suited for women.

Currently default funds assume a linear working pattern, with a gradual reduction in the exposure to risky assets as someone approaches retirement. Arguably, this is not the most optimal strategy for the typical career of women. Other strategies should be considered that better account for people with low-income and for those who take career breaks. The use of alternative assets providing stable, longer term, returns without the need to de-risk (e.g. infrastructure) could prove a more ideal solution for those having less regular contributions and an unknown retirement date[7].

Collect data on people identifying as trans or non-binary.

We know the evidence base on inequality of employment outcomes by sexual orientation is weak and inconsistent[8] and we also know that what is measured is what matters when we look to create change. To meaningfully develop a system that works for everyone, data needs to be collected and reported to understand progress and the impacts of policy changes.

Final thoughts ...

Like houses built hundreds of years ago, the structure of the UK pension system has resolutely remained the same whilst the environment around it, and the people it safeguards, have changed considerably.

Without addressing the system's intrinsic biases in the context of today, the disparity between men and women's pension savings will only get wider.

If the structure does not change, then individuals and employers need to view things through a different lens to ensure people take advantage of the system as best they can.

However, it is very clear the system does need to change, with the biggest changes needed from policy makers. We need a new framework that encompasses the needs of everyone in the UK: a system designed for today, without any unconscious bias and with the clear priority that there must be **fairness for all.**

7 OECD (2021), Towards Improved Retirement Savings Outcomes for Women, OECD Publishing, Paris, https://doi.org/10.1787/f7b48808-en.

8 Inequality among lesbian, gay bisexual and transgender groups in the UK: a review of evidence, National Institute of Social and Economic Research, July 2016.

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively get in touch via the following:

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