

PENSIONS POLICY INSTITUTE

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The under-pensioned
2016

Executive summary

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Introduction

In 2003 and again in 2008 the PPI explored current and future pension incomes of women, disabled people and people from ethnic minority groups. The research concluded that women, disabled people and people from ethnic minority groups are more likely to have many of the “alarm bell” characteristics that are associated with lower pension incomes. The reports identified current and future differences in pension income between these groups and a median-earning, traditionally employed, male pensioner. This report examines whether and by how much differences in state and private pension entitlement have changed since the 2003 and 2008 analysis, in light of reforms, and investigates how income differences may be reduced in future.

Chapter one introduces the under-pensioned, runs through the high-level results and methodology from the 2008 under-pensioned report, and looks at relevant policy developments since its publication.

Chapter two explores the labour market characteristics of people who belong to different groups.

Chapter three explores differences in pension savings, entitlement and income, and explores differences in eligibility for means-tested benefits, between people from the under-pensioned groups and the median earning male.

Chapter four explores the future pension incomes of the under-pensioned and how policy levers might affect differences in pension income.

Executive summary

This report explores outcomes for the “under-pensioned”, defined as people who have characteristics associated with lower than average levels of pension savings and income. This is the third in a series of Under-pensioned reports by the PPI and not only looks at current and future pension incomes, but also measures how income differences have changed over the past decade.

Differences in pension income are reducing, but some will remain

While the main groups explored in this report: women, ethnic minorities, disabled people, carers, and the self-employed, still experience differences in pension savings and income, there is evidence of a reduction in these differences, arising from past changes to state pension policy. This report shows that future policy changes, in particular the introduction of the New State Pension (NSP) and the National Living Wage, will contribute to further reductions in future.

Once the NSP has been phased in (after a lengthy transitional period) there will no longer be significant differences in state pension income between under-pensioned groups and the average for all pensioners. However, lower private pension saving and income levels among the under-pensioned are projected to continue. These mainly arise from particular labour-market characteristics found more prevalently among these groups.¹

Social and labour-market factors lie behind differences in labour market attachment

People from under-pensioned groups experience higher than average levels of low-pay, part-time working, caring, self-employment, and unemployment/inactivity,² though prevalence and contributing factors vary between groups. Underlying these characteristics are social and labour-market factors which affect employment for many people from under-pensioned groups:

- **Lack of flexibility:** many people in the UK need flexibility in order to work, including: carers, people with disabilities, and women across all ethnic groups with caring responsibilities (though women from some ethnic groups appear to experience a greater gender effect than those from the majority white group). A lack of availability of flexible work and a lack of understanding of employers about the need for flexibility leads to some people from these groups having limited employment options.³
- **Barriers to work:** people experience a range of barriers to work and often multiple barriers related to health, family and personal circumstances. Those from under-pensioned groups are more likely to face barriers than others, for example: disabled peoples’ conditions, or need for adaptations or flexibility can constitute a barrier to work;⁴ carers often find that their caring

¹ Such as high vs. low pay, full vs. part-time and employment vs. unemployment

² PPI analysis of Understanding Society Wave 5, Labour Force Survey data 2015, Wealth and Assets Survey Wave 3 (2010/2012), Annual Population Survey April 2014 - March 2015

³ Coleman et al (2013); Dr Buckner (2010); PPI analysis of Annual Population Survey April 2014 - March 2015

⁴ Coleman et al (2013)

responsibilities represent a barrier to work because of time commitments or the need to find a workplace close enough to home;⁵ people from some groups, particularly those from ethnic minority groups, might have language or literacy problems which hinder them from finding work.⁶

- **Discrimination:** people from some under-pensioned groups are more likely to experience discrimination and this can affect employment prospects in relation to hiring, promotion, pay and harassment/bullying at work.⁷
- **Job segregation:** a particular need for flexibility, barriers to work such as language barriers, and stereotyping or racial profiling can push people into particular roles (limiting choice) or out of the employed workforce altogether into self-employment. This is known as job segregation.⁸
- **Illegal low pay:** people from some under-pensioned groups, particularly some ethnic minority groups, are more likely to be paid below the minimum wage. This removes the chance of eligibility for automatic enrolment and reduces the level of entitlement which may be accrued in state and private pensions. Around 3% of white workers earn below the National Minimum Wage (currently £6.70 per hour), compared to:
 - Ø 5% of Black African worker,
 - Ø 5% of Indian workers,
 - Ø 11% of Pakistani workers,
 - Ø 11% of Chinese workers, and
 - Ø 18% of Bangladeshi workers.⁹

Lower median ages among some ethnic groups may partly account for a higher proportion of people from these groups working in low-paid or very casual jobs. Some of the people being paid below National Minimum Wage may also be below the eligibility age for automatic enrolment, meaning they would not be enrolled even if they were paid above the National Minimum Wage.¹⁰

Differences in pension income have reduced, but difference will continue without further change

Differences in pension savings and income matter because lower than average levels of income can indicate a greater likelihood of living in poverty or financial hardship, can negatively impact quality of life, and/or cause psychological or physical detriment.¹¹ Having a relatively low income in retirement can also be the result of life-long disadvantage extending beyond working life and can therefore indicate particular vulnerabilities and the need for support and social policy intervention.

Therefore, while it is encouraging that differences in pension income have reduced over the past decade, due to state and private pension reforms, still more needs to be done if these differences are to continue to be reduced.

⁵ Dr Buckner (2010)

⁶ Catney, Sabater (2015)

⁷ Catney, Sabater (2015); Coleman et al (2013); Gough, O. Adami, R. (2013)

⁸ Catney, Sabater (2015)

⁹ Runnymede (2015)

¹⁰ Runnymede (2015)

¹¹ DWP, ONS (2015); Hirsch (2015)

Differences in labour market attachment contribute to gaps

The majority of pension income differences arise from differences in labour market characteristics between those from under-pensioned groups and overall averages (Table Ex1).

Table Ex1:¹² Labour market characteristics of different groups (2015)

Groups	Proportion Employed (age 16-64)	Proportion Unemployed/ inactive (age 16-64)	Proportion of employed working Full-time	Proportion of employed working Part-time	Median earnings - full-time workers in this group
Men	78%	22%	88%	12%	£26,500
Women	68%	32%	57%	43%	£22,200
White	74%	26%	73%	27%	£24,900
Indian	71%	29%	78%	22%	£23,200
Pakistani	52%	48%	69%	31%	£18,200
Bangladeshi	52%	48%	61%	39%	£20,200
Chinese	54%	46%	75%	25%	£31,900
Black/African/ Caribbean/ Black British	63%	37%	69%	31%	£24,300
Disabled people	46%	54%	64%	36%	£22,200
Carers (caring for ten or more hour per week) ¹³	52%	48%	63%	37%	£21,300
Self-employed	n/a	n/a	72%	28%	£18,700
All (average)	73%	27%	73%	27%	£25,000

- Disabled people, Pakistani, Bangladeshi and Chinese people, carers, and women are more likely to be **unemployed/inactive** than people from other groups.
- Women, Bangladeshi people, disabled people and carers are far more likely to **work part-time** than other groups.
- Pakistani people, the self-employed, Bangladeshi people, carers, disabled people, and women are far more likely to **earn at lower levels** than average.
- Pakistani people are more likely to be **self-employed** than people from other groups.

¹² PPI analysis of Understanding Society Wave 5, Labour Force Survey data 2015, Wealth and Assets Survey Wave 3 (2010/2012), Annual Population Survey April 2014 - March 2015

¹³ For both men and women

Pensions policy, employment policy and social factors all affect labour market and retirement outcomes

Though pension's policy has played a strong role in reducing inequalities and will continue to support adequacy in retirement, the majority of the above factors cannot be tackled through pension's policy, as they involve labour-market, social and legal issues. Reducing inequalities in retirement therefore would involve tackling inequalities in working-age which lie behind differences in labour-market characteristics. Because of the diverse range of issues underlying these differences, tackling them would involve a joint effort from government departments, employers, social services, regulatory bodies and community support groups.

Labour-market characteristics lead to lower state and private pension savings for those from under-pensioned groups, though income differences have reduced over the past ten years

Women and people from ethnic minority groups currently receive 13% to 25% less, on average, from state pensions (Chart Ex1).

Chart Ex1¹⁴



State pension receipt is lower for women and people from particular ethnic minority groups. In particular:

- Asian/Asian British/Chinese pensioner households receive around 22% less than the average for all pensioners and around 25% less than pensioners from the majority white population.

¹⁴ PPI analysis of Family Resources Survey/Pensioner's Income Series data

- Women receive around 13% less than the average for all pensioners and around 25% less than male pensioners.

Differences between the average receipt of state pension income, and the state pension income of women and people from ethnic minority groups reduced between 2004/05 and 2013/14 mainly due to state pension reforms which made it easier for lower earners, part-time workers, disabled people and those with caring responsibilities to accrue entitlement:

- From 15% to 13% for women,
- From 31% to 21% for Asian/Asian British/Chinese pensioners, and
- From 23% (in 2008) and then to 16% for Black/African/Caribbean/Black British pensioners.¹⁵

The way that additional state pension is accrued accounts for a significant portion of differences in state pension income

Those who earn at lower levels (or are credited into the additional state pension) receive lower levels of state pension income than people who work regularly and earn at higher levels. Therefore people from under-pensioned groups who are more likely to be unemployed/inactive, work part time and receive low earnings, tend to accrue lower levels of state pension entitlement.

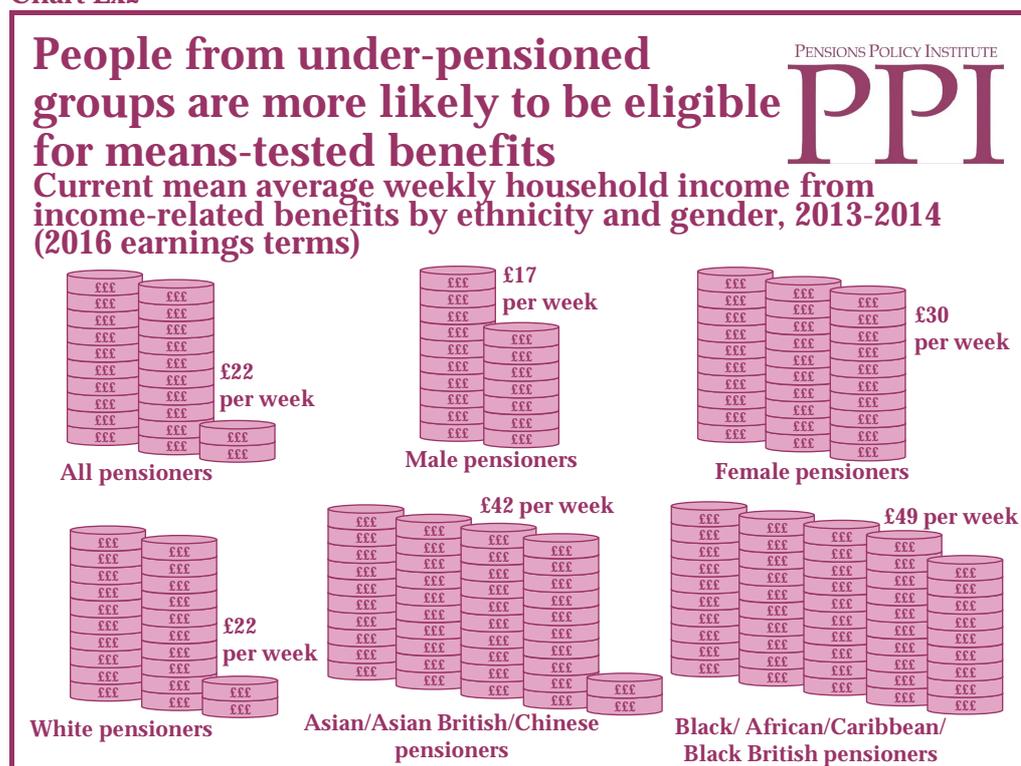
The introduction of the NSP will reduce future inequalities

After April 2016, people will no longer be able to accrue entitlement to the current additional state pension (State Second Pension). Instead the Basic State Pension and State Second Pension will be replaced by one, single-tier, flat-rate pension, the NSP. The NSP will provide a greater level of income redistribution in future as inequalities arising from the way in which additional state pension entitlement is accrued gradually reduce. However, there will be a lengthy transitional period in which some people receive higher than the full rate of the NSP based on their accrued entitlement under the two-tier system.

People from under-pensioned groups receive higher levels of means-tested benefits

Tracking eligibility for means-tested benefits is important because it indicates which groups are living on very low incomes in retirement and are more likely to be experiencing financial hardship and/or be in danger of living in poverty. Women and people from ethnic minority groups receive more income in retirement from means-tested benefits than the average for pensioners (Chart Ex2).

¹⁵ Family Resources Survey data 2004 - 2014 some ethnic groups combined due to low sample sizes, mean average

Chart Ex2¹⁶

In 2013/14:

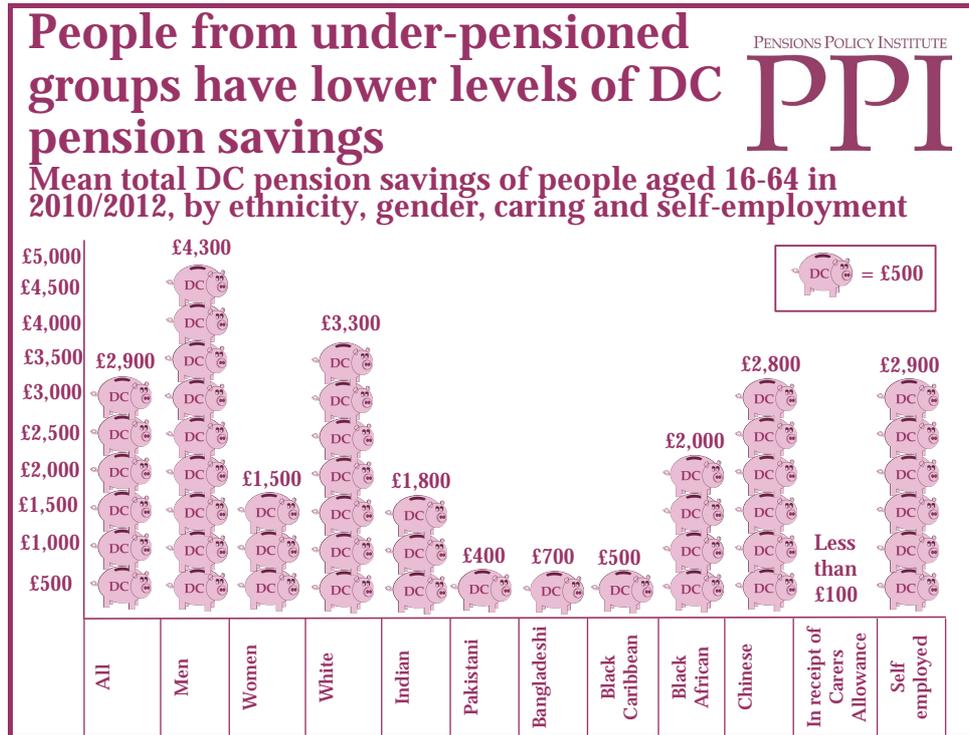
- Pensioner households received an average of £22pw from income-related benefits (2015 earnings terms),
- Male pensioner households received £17pw on average, compared to female pensioners who received £30pw on average; 76% more than men and 36% more than the average for all pensioners,
- White pensioner households received £22pw on average, compared to ethnic minority pensioners who received £42pw to £49pw on average, 90% to 123% more than white pensioners and the average for all pensioners.

Differences in private pension savings are more pronounced

Differences in private pension savings are more pronounced than those in state pension income, arising partly from low levels of participation in pension saving amongst under-pensioned groups (Chart Ex3).

¹⁶ PPI analysis of Family Resources Survey/Pensioner's Income Series data – includes Hous

Chart Ex3¹⁷



A major contributing factor for lower pension savings is lack of membership in a private pension scheme. People from under-pensioned groups are less likely to contribute to a private pension scheme (Table Ex2).

Table Ex2:¹⁸ Proportion of adults and employed adults saving in a private pension by ethnic group, gender, and disability (2012/13 and 2013/14)

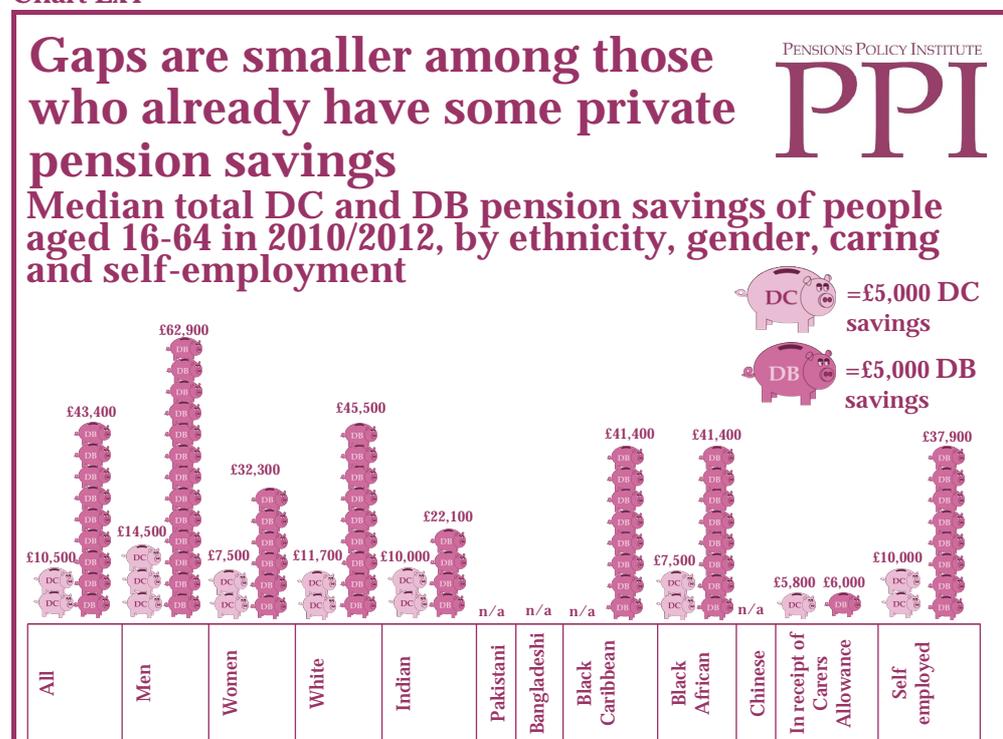
	Proportion of adults saving in a private pension	Proportion of employed adults saving in a private pension
All	27%	49%
Men	30%	45%
Women	27%	49%
White	28%	50%
Indian	27%	44%
Pakistani	9%	22%
Bangladeshi	13%	28%
Chinese	23%	33%
Black/African Caribbean/Black British	24%	43%
Disabled	12%	42%

¹⁷ Wealth and Assets Survey Wave 3 (2010/2012). Data on those aged 16-64, therefore may include some people over SPA, and some people under SPA may be excluded

¹⁸ Family Resources Survey (FRS) 2011/12, 2012/13 and 2013/14, presented by FRS 2013/14 Table 6.4

People from under-pensioned groups who are saving in a pension, tend to save at levels closer to the majority group. Chart Ex4 considers the median levels of total DC and DB pension savings (excluding those not saving in a pension).

Chart Ex4¹⁹



Automatic enrolment will help increase pension participation

Automatic enrolment, which is intended to increase participation of people with under-pensioned characteristics, particularly the low paid, should go some way to increasing levels of private pension saving for those in under-pensioned groups. However, the way that automatic enrolment eligibility criteria is currently structured means that employed people from under-pensioned groups are less likely to be eligible for automatic enrolment. Previous PPI research found that, of people employed in the UK (over age 22 and under State Pension Age (SPA)):

- 32% of women do not meet the eligibility criteria, compared to 16% of men,
- 32% of Pakistani workers, 33% of Bangladeshi workers, and 29% of Black/African/Caribbean workers do not meet the eligibility criteria compared to 23% of white workers,
- 30% of disabled workers do not meet the eligibility criteria, compared to 23% of disability-free workers,
- 81% of employed carers (defined by those who receive care-related benefits) are ineligible for automatic enrolment.²⁰

¹⁹ Wealth and Assets Survey Wave 3 (2010/2012). Data on those aged 16-64, therefore may include some people over SPA, and some people under SPA may be excluded

²⁰ PPI (2015)

Some of the workers who do not meet the eligibility criteria were already saving in a pension prior to automatic enrolment. Ineligible workers who are not saving have the option of opting-in to pension saving through their employer.

The self-employed do not benefit directly from automatic enrolment

While self-employed people are allowed to join a private pension scheme the majority of self-employed people still do not save in one. The proportion of self-employed people saving in a pension has decreased over the past few decades:

- 22% of self-employed men were saving in a private pension in 2013, a drop of 40% over 16 years.²¹

Lower saving levels among the self-employed can be partly attributed to the lack of an employer prompt for saving or an employer contribution, though the self-employed are eligible for tax relief on pension contributions. Self-employed people are not eligible to be automatically enrolled into pension saving (except in the case of some personal services contracts) though they can voluntarily join some private pension schemes. People may dip in and out of self-employment during their working lives and some will be automatically enrolled while in employment.

Knowledge of tax-relief, pensions and other financial products is relatively low among self-employed people and many hold negative views about personal pensions.²² This indicates that while some of the self-employed people not currently saving in a pension scheme might benefit from joining one, they may need support and guidance in order to make that decision.

While self-employed people stand to benefit from the NSP, unless a significant proportion of self-employed people choose to join a private pension scheme, private pension saving amongst this group will remain low or even continue to decline. As the self-employed are currently saving in private pensions at particularly low levels and also most are not directly affected by automatic enrolment, the pension provision of the self-employed might be an area which would benefit from more attention by policy-makers.

Differences are likely to continue in future, though state and private pension reforms have reduced inequalities

This report uses hypothetical individuals with some of the characteristics observed among the under-pensioned to illustrate potential future incomes and to explore how incomes could be affected by policy levers. The results indicate that:

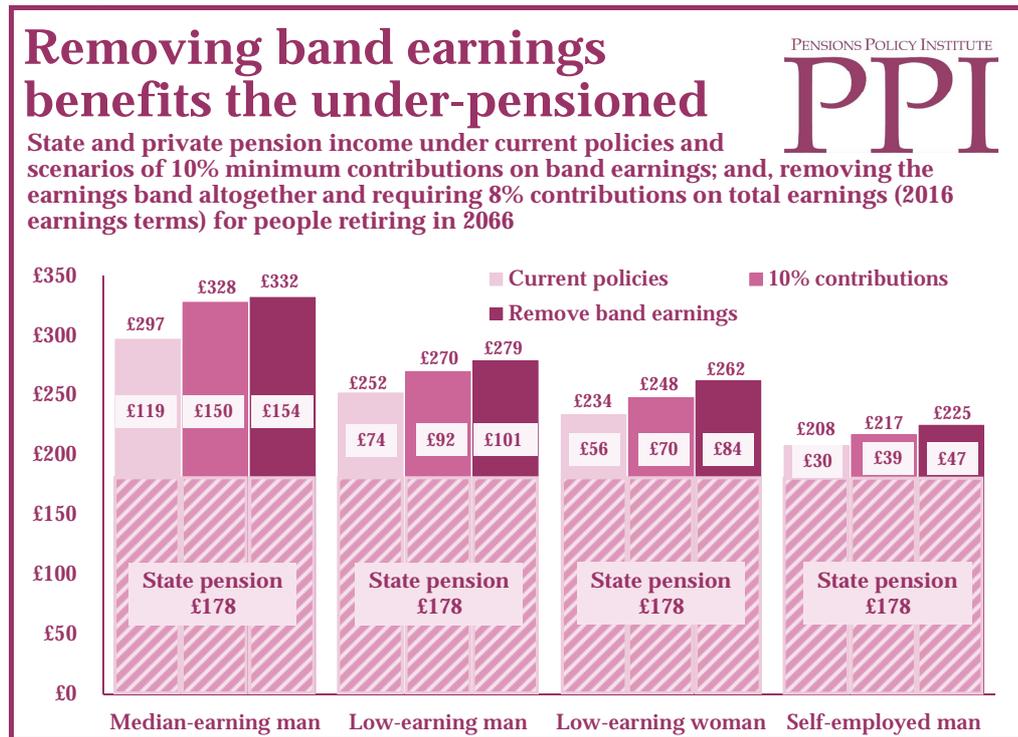
- Once the NSP has been phased in, there will no longer be significant differences in state pension savings and income between most people from under-pensioned groups and the average for pensioners.

²¹ Labour Force Survey Data JOBS01 Workforce Jobs, ONS (2014b) p. 16

²² DWP (2006a)

- The NSP system is likely to benefit people with persistent low earnings, time out of the labour market and/or part-time work as long as they generally earn above the Lower Earnings Limit, £5,824 (2016/17).
- Individuals with persistently very low earnings (£5,824 or below) will not benefit as much as others from the introduction of the NSP, in comparison with the old state pension system.
- The NSP system benefits people who are self-employed.
- Differences in private pension income are likely to continue in future as private pension income is related to working patterns and earnings.
- Some individuals might receive a higher proportion of income from private pensions in future due to the introduction of the National Living Wage.
- Lowering the automatic enrolment earnings threshold for eligibility would increase private pension saving for some people but could lead to higher opt-out rates or some people losing out on means-tested benefits in retirement.
- Removing the automatic enrolment qualifying earnings band entirely has a greater positive impact on retirement income than increasing minimum contribution levels to 10% of qualifying earnings, though both scenarios increase pension saving levels.
- Removing the qualifying earnings band entirely also has a greater proportional effect on people from under-pensioned groups than on the median earning man. This is due to those on lower earnings contributing a lower proportion of overall salary when subject to the qualifying earnings band (Chart Ex5).
- However, changing contribution levels could potentially result in an increase in opt-out rates from automatic enrolment.

Chart Ex5²³



People from under-pensioned groups tend also to have lower levels of other savings and assets

While this report focusses solely on the pension savings and incomes of people from different groups, some pensioners will use **non-pension savings and assets** to support themselves in retirement. It therefore follows that, if people in under-pensioned groups have higher than average levels of other savings and assets, this might go some way towards offsetting the disadvantages associated with lower than average pension income. However, as illustrated in Appendix Two, people from under-pensioned groups tend to have lower than average levels of non-pension savings and assets, with the exception of self-employed people, many of whom tend to hold greater wealth at any given time, partly due to business ownership and management of organisational assets and finances.

State and private pension incomes should continue to be monitored

Trends in state and private pension income should continue to be monitored and remaining differences should be measured. It would be helpful to revisit this work once automatic enrolment is fully staged and phased in.

²³ PPI Individual Model