

Introduction

In November 2008 the PPI published *The under-pensioned: disabled people and people from ethnic minorities*¹. This research, commissioned by the Equalities and Human Rights Commission (EHRC), examines the likely future pension incomes of disabled people and people from ethnic minorities. This Briefing note summarises the research.

Overall, the research found that disabled people and people from ethnic minorities have many of the 'alarm bell' characteristics that are associated with lower pension incomes. If current trends continue, they, like many women, are likely to have lower pension incomes in future than the traditionally-employed median-earning male.

The UK pension system is being reformed

Pensions Acts in 2007 and 2008 have introduced a number of reforms with the intention of making the state pension fairer, in particular to women and carers, and increasing the amount of pension saving among low to moderate earners².

These reforms will mean that over time the incomes received from state pensions will become more equal between men and women (Chart 1)³. By 2025 the Government estimates that 95% of men and women reaching state pension age will be entitled to a full Basic State Pension. However, there are still some

PPI Briefing Notes clarify topical issues in pensions policy.

Chart 1: Pension outcomes between men and women become more equal in future

Income from BSP and SERPS/S2P for median-earning men and women reaching SPA in different years under the proposed pension reforms (in £ per week, 2006/7 earnings terms)



characteristics that could lead some individuals to have lower pension incomes from both the state and private saving.

These include:

- Low earnings
- Breaks from full-time work
- Self-employment

A number of groups are more likely to have some or all of these characteristics than the traditional median earning man, including:

- Women
- Disabled people
- People from ethnic minorities

Women

Female pensioners currently have lower incomes than male pensioners. Although (as discussed above) the Government's reforms to state and private pensions are likely to improve pension incomes for men and women in the future, some differences in their average incomes are likely to remain.

This is because reforms to state pensions, and S2P in particular, will take many decades to filter through the system. Although the link between individuals' earnings and their state pension entitlements is reducing, private pension income is linked to paid employment. The gender pay gap is improving but women still earn less than men on average, so their private pension incomes are likely to remain lower than men's on average for some time.

Disabled people

Using the broadest definition of disability, one-fifth of today's working-age population is disabled⁴. These disabled people have many of the characteristics that are associated with lower pension incomes. For example, they:

- **Are less likely to be in work:** Only 50 per cent of working-age disabled people are in work, compared to 80 per cent

of working-age non-disabled people⁵. This is of concern because the UK pension system is built upon the contributory principle, so the amount of pension received is closely linked to employment.

- **Are less likely to qualify for state pensions:** The crediting system to state pensions, which rewards certain non-work activities, helps many disabled people build up entitlement. Although almost everybody is expected to receive the full amount of Basic State Pension in future, this is not true for the State Second Pension. 33 per cent of disabled people might not qualify for the State Second Pension each year, compared to 24 per cent of non-disabled people⁶.
- **Have lower earnings when in work:** Lack of affordability is the main reason people give for not saving in a private pension⁷. But disabled people in full-time employment earn less than non-disabled people at every age and disabled people are also more likely to work part-time.
- **Are less likely to be saving for a private pension:** Disabled workers are less likely than non-disabled workers to be saving in a private pension at every age. For example, 55 per cent of 45 to 54 year old disabled people in work are saving for a pension, compared to 64 per cent of comparable non-

Chart 2: Disability tends to reduce income in retirement

Income from state and private pensions for different individuals (in £ per week, 2006/7 earnings terms)



disabled people⁸.

- **Are less likely to work after state pension age:** For example, only 9 per cent of 65 to 69 year old disabled people are in employment, compared to 19 per cent of equivalent non-disabled people.

Disabled people are not a homogeneous group. Some types of disability can have a more acute impact on pension incomes than other types. For example, only 21 per cent of people whose main disability is a mental health condition and 27 per cent whose main disability is a learning difficulty are in employment, compared to 65 per cent of people with diabetes.

To illustrate the potential implications of these characteristics for future pension incomes, the research uses two hypothetical case studies of disabled individuals (Chart 2)⁹.

These can be compared to a median-earning man with a full savings history. The median-earning man illustrated is likely to have an above-average pension income, receiving around £254 a week in a combination of state and private pensions when he reaches state pension age. In comparison:

- Robert is a manual worker who saves for a pension from age 25. At age 55, he becomes disabled with a back condition and stops work. His pension income is around £199 a week, which is £55 a week lower than the median-earning man, mainly as a result of lower earnings and less saving.
- Deborah has a stress-related disability in her thirties. Although she returns to work after five years, her earnings on returning to work are lower than they would be if she had not become disabled. Her pension income is around

£182 a week, which is £72 a week lower than the median-earning man, again due mainly to lower earnings and less saving.

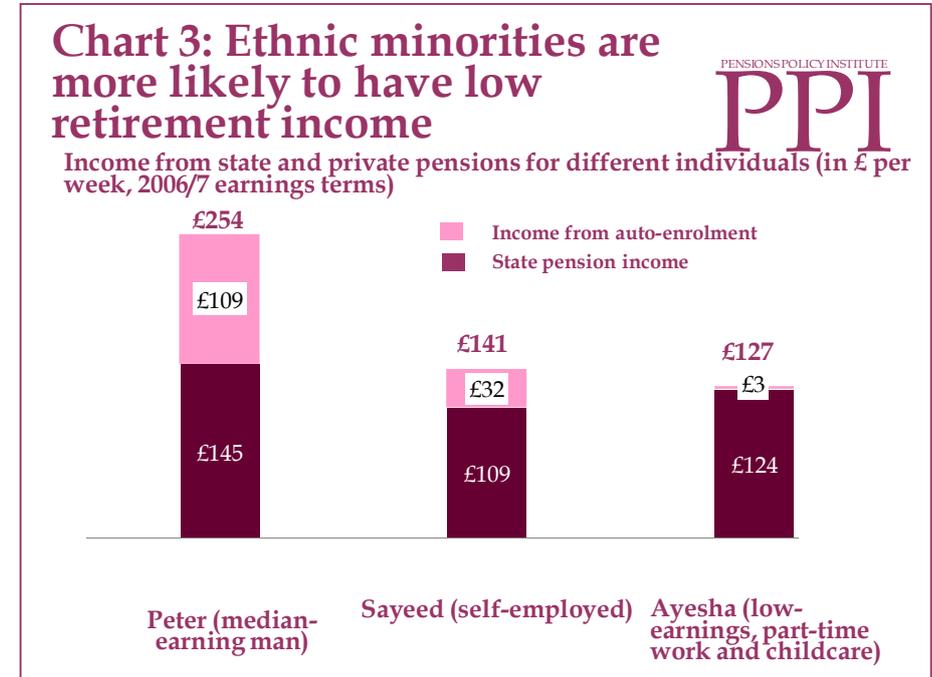
Additional state help is available to some disabled people in retirement, in the form of Attendance Allowance and Pension Credit. The single pensioners who receive these state benefits have higher incomes on average than other single pensioners¹⁰. However, some organisations have expressed concern that these benefits may not fully meet the extra cost that some disabled people face, for example, for care and mobility¹¹.

People from ethnic minorities

Ten per cent of the UK population belong to an ethnic minority group¹³. Ethnic minority groups in the UK are younger on average than the rest of the population and there are currently very few older people from this segment of society¹⁴. This means that the number of older people from ethnic minorities could increase rapidly in future. Pension provision for this group is, therefore, of particular interest to policy.

There is a great deal of diversity among ethnic minority groups. In this report, 'ethnic minority' is taken to mean non-white, rather than non-British. Of course, many people from ethnic minorities are British Citizens and some white people are not.

Taking an overall view across all of the different ethnic minor-



ity groups, we can say that people from ethnic minorities are more likely than the rest of the population to have the characteristics associated with lower pension incomes. For example, they:

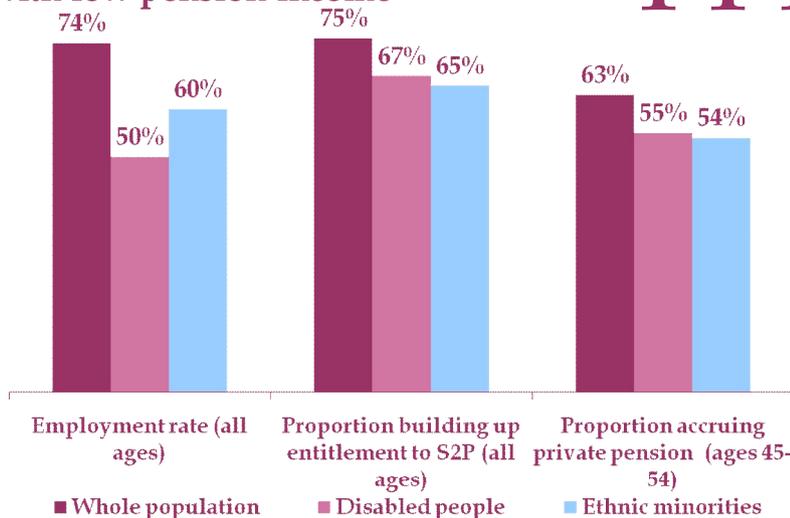
- **Are less likely to be in work:** 60 per cent of working-age people from ethnic minorities are in employment, compared to 76 per cent of working-age white people¹³.
- **Are less likely to qualify for state pensions:** The difference in employment rates means that 35 per cent of people from ethnic minority groups might not qualify for the State Second Pension each year, compared to 24 per cent of white people (Chart 2).
- **Have lower earnings when in work:** full-time employees from ethnic minority groups have lower earnings than white people at most ages.
- **Are less likely to be saving for a private pension:** Ethnic minority workers are less likely than

white workers to be saving for a pension at every age. For example, 54 per cent of 45 to 54 year old people in work from ethnic minorities are saving for a pension, compared to 63 per cent for comparable white people¹⁴.

- **Are less likely to work at older ages:** For example, 32 per cent of 60 to 64 year old people from ethnic minorities are in employment, compared to 45 per cent of corresponding white people.

People in some ethnic minority groups are more likely to work part-time or be self-employed. For example, around a third of Pakistani (31 per cent) and Bangladeshi (35 per cent) people work part-time compared to around a quarter (26 per cent) of white people and, as with the white population, women in these groups are considerably more likely than men to work

Chart 4: People from ethnic minorities and people with disabilities are more likely to have characteristics associated with low pension income



part-time. Around 26 per cent of Pakistani people are self-employed, compared to 13 per cent of white people, and the self-employed do not qualify for State Second Pension.

Two hypothetical case studies of ethnic minority people illustrate some of the impacts of these characteristics (Chart 3):

- Ayesha is a Bangladeshi woman who only begins to work at age 40, after spending time at home with her family. When she does work, she works part-time. Her pension income is around £127 a week, which is £127 a week lower than the median-earning man, due to lower earnings, less saving and part-time work.
- Sayeed is a Pakistani man who is in full-time employment for

the first half of his adult life. At age 40 he becomes self-employed when he takes over the family business. His pension income is £141 a week, which is £113 a week lower than the median-earning man, due mainly to his self-employment.

The relatively few ethnic minority pensioners who are currently in the UK have incomes that are substantially lower than the rest of the population.

Conclusions

This report highlights that disabled people and people from some ethnic minority groups are more likely than the rest of the population to have the characteristics associated with lower pension incomes (Chart 4)¹⁶.

While there is a range of variation, this does suggest these groups are likely to have lower pension incomes in future than a traditionally-employed median-earning male.

Further analysis of the future distributions of incomes of disabled people and people from ethnic minorities, and how they compare to the population as a whole, would help assess the need for a policy response.

Further research could also examine in more detail the situation of people who fall into more than one of these disadvantaged groups and who might therefore experience multiple, or 'cross-sectional', disadvantage. This might include the differences between disabled men and women and the situation of disabled people from ethnic minorities.

¹ Pensions Policy Institute (2008) *The under-pensioned: disabled people and people from ethnic minorities* Equality and Human Rights Commission (EHRC) Research Report number 5

² For further details of the reforms see PPI (2008) p 5–7

³ PPI analysis (from PPI (2008) p 6)

⁴ PPI analysis of the Labour Force Survey (Q2 2007) using disability as defined in the Disability Discrimination Act (1995) and self-reported work limiting disability. Unless otherwise stated, all disability statistics use this source and definition of disability

⁵ ONS Labour Force Survey Historical Quarterly Supplement, Q2 2007

⁶ PPI analysis of the Family Resources Survey 2005/06; illustrates what proportion of working-age people would have received a qualifying year towards state pensions if the Pensions Act 2007 reforms had been in place in 2005/06. Disabled people are those registered with their Local Authority, or with a long-standing disability or illness that limits their behaviour

⁷ Department for Work and Pensions (DWP) (2007) *Attitudes to pensions: The 2006 survey*

⁸ PPI analysis of the Family Resources Survey 2005/06; Disabled people are those registered with their Local Authority, or with a long-standing disability or illness that limits their behaviour.

⁹ For further details PPI (2008)

¹⁰ PPI calculation using the DWP Pensioners' Incomes Series 2005/06. Figures are for gross income, i.e. income from all sources received by the pensioner benefit unit including income from state benefits (including Housing Benefit), earnings from employment and self-employment, any private pension income, and tax credits, before the deduction of taxes and housing costs

¹¹ See for example Buchardt, T. and Zaidi, A. (2003) *Comparing incomes when needs differ: Equivalisation for the extra costs of disability* CASE paper 64, Centre for Analysis of Social Exclusion.

¹² PPI analysis of the Labour Force Survey (Q2 2007). Unless otherwise stated this is the source for figures on ethnic minorities.

¹³ ONS Labour Force Survey Historical Quarterly Supplement, Q2 2007

¹⁴ PPI analysis of the Family Resources Survey 2005/06

¹⁵ For further details see PPI (2008)

¹⁶ For sources see footnotes 5, 6, 8, 13 and 14

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