

**PPI publishes *The Under-pensioned***

Most people are at risk of being 'under-pensioned' and recent reforms to the pension system will not solve the problem, a new report published today by the Pensions Policy Institute says.

There will always be disadvantage with the type of pension system the UK has, which assumes people are employed throughout a working life on a good income. But this is not a reality for most people. According to *The Under-pensioned* report, women, ethnic minorities, disabled people and people with varied work patterns are all disadvantaged. The current system produces significant under-pensioning:

- Low earnings is the most important cause of low pension income. An employee on typical earnings could receive a pension of around £200 a week. The pension of someone who earned half as much could be one-third lower.
- Someone with a varied working life could have a pension that is one-quarter lower.
- Women can be even more disadvantaged because they tend to earn less and spend time not working or working part-time.

Chris Curry, the report's author said:

"The structure of the UK pension system means that any group with low earnings or an irregular employment record will lose out in retirement.

The system disadvantages groups such as women, ethnic minorities and disabled people, who are more likely to work part-time and have low earnings. Although recent reforms aim to solve these problems, significant under-pensioning will continue."

Despite the number of different pensions and benefits available to older people, many are at risk of low retirement incomes. Alison O'Connell, Director of the PPI said:

"A contributory system can give good pensions for some, but there is a potential for under-pensioning that has been under-analysed.

This report shows that the current system struggles to cope with the variety of work patterns that people actually have. There is a need for state pension reform that is fair to all groups. The PPI will continue to explore potential reform models, using fairness as a key test."

A short summary of the report's main conclusions is attached.

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*Notes For Editors -*

- *The Under-pensioned* looks at various groups at risk of low income in retirement, comparing them to the 'stereotype person' often used in policy planning. The report identifies the characteristics that make these groups susceptible to low retirement income and quantifies their relative importance.
- In addition to the main report, separate detailed papers on women, disabled people, ethnic minorities and people in non-standard employment are available.
- A copy of the complete report, the individual papers and information on the PPI can be found at: [www.pensionspolicyinstitute.org.uk/](http://www.pensionspolicyinstitute.org.uk/). Copies can be obtained from the PPI on 020 7848 3744 or [info@pensionspolicyinstitute.org.uk](mailto:info@pensionspolicyinstitute.org.uk)
- A technical paper describing the hypothetical model used in the paper is also available on the website.
- The Pensions Policy Institute is an independent research organisation, focused on pension provision. Its aim is to improve information and understanding about pensions (state and private) through research and analysis, discussion and publication. 70 governors from a wide range of pension-related backgrounds support the PPI.

### *The Under-pensioned: Summary*

**For most people pension income is likely to be lower than that of the 'stereotype' person typically used in policy planning.** In particular women, disabled people, ethnic minorities, people with experience of non-standard work and people living to very old ages are more likely to have low pension incomes. Together, these groups cover the majority of the population.

- More than half of the population are women, increasing to three-quarters of the population aged 75 or older
- One-quarter of the population are disabled
- Approaching one in ten people in the UK belong to ethnic minority groups
- Two-fifths of all workers are either self-employed, working part-time, or in temporary jobs
- One-quarter of women and one-fifth of men are expected to live into their nineties

**Low earnings are the most important cause of low pension income.** The direct link between the amount of state or private pension and earnings level means that pension income is directly linked to earnings when in work. Women, disabled people and people from ethnic minorities are more likely to have low earnings.

**Any time not spent in full-time work reduces pension income.** Part-time work results in lower pension income. Men and women who are caring for children, the elderly or disabled people are more likely to be in part-time work, or not in paid employment at all. Disabled people and people from ethnic minorities are more likely to be unemployed or not working.

**Low or irregular private pension contributions reduce pension income.** Lack of access to private pension arrangements, either through an employer or individually, reduces pension income. Low earnings tend to result in no, or low, pension contributions. Women and people from ethnic minorities are less likely to contribute to private pensions. Self-employed workers lose employer contributions to private pensions.

**Retiring later can improve pension incomes.** The positive impact of working one year longer can be larger than the negative impact of retiring one year earlier. Women and non-standard workers are more likely to work after state pension age, while disabled people and some ethnic minorities are more likely to retire early.

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**Living to older ages reduces pension income.** Pension income falls relative to earnings after retirement. Most women will be widowed or divorced, further reducing income. Disability increases with age, and the additional costs of disability are not fully covered by benefits. Older pensioners are more likely to need means-tested support, but may be less likely to receive it.

**Disadvantage is cumulative.** People in under-pensioned groups are likely to suffer from a series of disadvantages that combine to reduce pension income substantially.

**The current pension system will not resolve the under-pensioned problem.** Increased redistribution through State Second Pension and the rapid expansion of means-testing through the Pension Credit will not fully compensate under-pensioned groups. In future, even the policy stereotype will need to claim the Pension Credit from state pension age, reducing the value of making private pension contributions.

**Any contributory pension system will disadvantage people who are less likely to be in permanent, full-time employment, particularly if the resulting pensions are higher for those who had higher earnings during their working life.**