EQUAL PAY AND PENSIONS:

The role of trade union reps in addressing women's inequality in retirement

INTRODUCTION

This briefing highlights some of the key areas where women lose out in the UK pensions system. It also suggests ways in which union reps can take action to address women members' inequality in retirement.

In 2009, reform of the pensions system was introduced to address the current inequalities between men and women. In 2008, only 40% of women were entitled receive a full state pension compared with 90% of men.[1] The changes, which aim to reduce poverty among older woman, will not, however, filter through until 2050. This means that women will continue to suffer pension inequality for the foreseeable future.

The content of this briefing does not constitute legal advice; only an employment tribunal can interpret the law.

[1] Pensions Policy Institute, *Pension Facts, December 2009*

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FEMALE PENSIONER POVERTY

In 2009, there were 12 million pensioners in the UK, which is 19% of the total population. Women make up the majority, accounting for 63% of those who are of state pension age and above. Single female pensioners are more likely to be in low-income households than their male equivalents. The average net income of single female pensioners' per week is approximately 87% of their male counterparts.[2] The result of this is that one in five single female pensioners lives in poverty.[3]

Furthermore, women who are part of a pensioner couple receive an income on average of £146 per week compared to £334 per week for a man in a pensioner couple.[4]

[2] Department of Work and *Pensions, Pensioners' Incomes Series 2007-08*

[3] http://www.fawcettsociety.org.uk/index.asp?PageI D=302

[4] Department of Work and Pensions, *Gender Impact Assessment of Pension Reform,* 2007

BASIC STATE PENSION

The basic state pension is currently paid to women at 60 and men at 65. From 6 April 2020, the state pension age will be 65 for both men and women. Between 2010 and 2020, the state pension age for women will increase from 60 to 65 to ensure equality.

The amount of state pension a person gets depends on how many qualifying years of National Insurance (NI) contributions they have paid or have credited to them in each tax year. Each 'qualifying year' counts towards their state pension. If a person is unable to make NI contributions, for example, if they are unemployed, ill or caring for someone, they may be able be able to get NI credits from the government. This is known as Home Responsibilities Protection (HRP). From 6 April 2010 the current HRP will be replaced, and parents and carers will be able to build up qualifying years through new weekly NI credits. Years before 6 April 2010 covered by HRP will be converted into years of credit. The changes will affect:

- people who receive Child Benefit for children up to the age of 12;
- people who spend at least 20 hours a week caring for sick or disabled people; and
- approved foster carers.

Women currently need to have 39 qualifying years to receive a full state pension.[5] For those reaching state pension age on or after the 6 April 2010, the number of qualifying years is reduced to 30 years for both women and men.

[5] This can be reduced to 20 years if they have spent years at home since 1978 bringing up children or caring for ill or severely disabled people.

MARRIED WOMEN'S STAMP

Women who were married before 6 April 1977 could opt to pay the 'Married Women's Stamp'.[6] This is a reduced NI contribution that does not build up a woman's right to her own individual state pension. Instead, a woman who paid the stamp is to be dependent on her husband's pension. She also cannot draw her reduced pension until her husband retires at 65. Women who have paid the Married Women's Stamp also cannot make voluntary contributions to 'buy back' some of the full NI contribution years.

This means that many women in their 50s and 60s will not be entitled to a state pension for periods which they paid the reduced stamp. If a woman is still married, she may be entitled to a reduced stamp pension by virtue of her husband's NI contributions. From 6 April 2010, a woman will no longer need to wait for her husband to draw his pension in order that she can access her entitlement to 60% of his total pension.

[6] The decision to pay the reduced rate had to be made before 12 May 1977.

OCCUPATIONAL PENSION SCHEMES

There are two main types of occupational pension schemes, salary-related pensions (also known as defined benefit) and money purchase pensions (also known as defined contribution). Salary-related pensions produce a pension that is calculated on the basis of how long a person has worked for the employer which runs the scheme, and the salary that they are paid. The most common type of salary-related pension is the final salary pension, which calculates the amount a person received based on their salary upon retiring.

Money purchase pensions do not guarantee a set level of pension related to either earnings or length of service. A pension is based on the amount of contributions, by both employee and employer, that have been paid into the fund; the investment performance of the assets into which the fund is placed; and annuity rates at the time of retiring. See page 8 for information on annuities.

In recent years, many employers have moved from offering final salary to money purchase schemes. Final salary, like other salary-related schemes promise an employee a certain level of pension and it is up to the employer to pay enough money into the fund to meet that level. The risk, therefore, lies with the employer. With money purchase schemes, however, the investment risk is with the employee. This means that if investments do not do well and annuity rates fall, then the employee will receive a lower pension.

The move to money purchase schemes is detrimental to all workers as the level of employer contributions tend to decrease. The impact on women specifically is that they will see their already low level of occupational pension deteriorate further.

ANNUITIES

An annuity is like an insurance policy which is usually purchased with funds from a pension once a person has retired. The annuity then provides the person with a regular income throughout retirement. The more a person has in their pension, the bigger the annuity they can buy.

Women fare worse than men when it comes to annuities. The calculation of annuities is based on a number of factors including life expectancy, so the longer a person is expected to live, the more payments they will receive and, therefore, the smaller each payment will be. As women have a longer life expectancy than men, their income from annuities is less than that of men's. This means that a woman will not get as high a pension as a male comparator when buying an annuity. The life expectancy difference between men and women is, however, decreasing and it has been argued that gender-based annuity purchases are increasingly unfair.

This is compounded by the fact that few people shop around when buying an annuity. Only 50% of women, compared with 64% of men, exercise this Open Market Option and look for the best annuity deal. This is usually because employees do not realise that they have this option and, therefore, opt for the default and purchase their annuity from their employer's pension provider. UK Government research found that 40% of information packs from pension firms do not advertise this option clearly. Many people are also not aware of the benefits; those exercising the Open Market Option can increase their pension by up to 30%.[7]

[7] See www.thefemaleannuity.co.uk

THE EFFECT ON WOMEN

Historically, women have faced disadvantage in occupational pensions schemes compared with men. Women are less likely to be in work and have access to occupational pension schemes and when they are in work, they experience lower rates of pay and so are less able to contribute to a pension. Moreover, as women on average earn less than men, any salary-related pension will also tend to be less.

Women still do the majority of the unpaid caring, which means that they are more likely to have had a break in their career and, therefore, less likely to have the required number of qualifying years for a full state pension. Furthermore, in order to balance their many caring responsibilities, women are more likely to work part-time[8], which means that they are less likely to be able to afford to pay into a pension scheme. Only 15% of women who work in part-time, unskilled jobs are in an occupational pension scheme.[9]

Lower rates of pay are a key factor in the disadvantage which women face in the pensions system. Women working full-time earn 12% less than men working full-time and women working part-time earn 32% less than men working full-time[10] . Work that is traditionally done by women, such as caring, cleaning and admin work, is low-paid. This means that women will often not earn enough to make NI contributions and are, therefore, not building up their entitlement to a state pension. Furthermore, each job is counted separately in terms of NI contributions, so those women who have more than one part-time job, will still miss out if each job pays less than the lower earnings limit.

[8] 40% of women, compared with 10% of men, work part-time. See *Labour Force Survey, April – June 2008,* Office for National Statistics

[9] TUC, *Time for Action*, 2004

[10] These figures are based on average hourly earnings. See *Annual Survey of Hours and Earnings* 2009

NEST

In April 2012, NEST (National Employment Savings Trust) will be introduced in an attempt to increase pension savings and will serve as a top-up to the state pension. This pension scheme focuses on low to medium earners, a need which is currently not being met by the pensions industry.

Employers will be legally obliged to enrol employees aged 22 and over into either NEST or a company scheme that is of at least equivalent value. The employee contribution will be set at 4% of their annual pay between £5035 and £33,540[11]. Although they will be enrolled automatically by employers, employees are able to opt-out. Employers will contribute 3%, and 1% will come from the Government through tax relief. All contributions will be phased in; employers will not be required to enrol their staff in NEST or an in-house equivalent until 2016, and they will not have to pay full contributions until 2017.

NEST will also eventually have a low annual management charge of 0.3%, compared with 2.5% which pension companies have charged in the past. It is estimated that 9 to 11 million people will be eligible because they are employed by an employer which has no occupational pension scheme or one which is paying less than 3% employer contributions.

[11] The threshold figures are index-linked and will, therefore, change over time, in line with inflation.

There is an annual cap on NEST of £3600 and transfers are not allowed in or out of the account. This cap, coupled with contribution rates and earnings threshold, is unlikely to produce a pension fund that is large enough in value to purchase a significant pension and

even more unlikely that it will provide a pension equivalent to two-thirds of final salary, the general benchmark for which savers should aim.

Although the introduction of NEST is a positive step, there are a number of concerns about the way in which this initiative will impact on low-paid workers, the majority of whom are women. NEST could lead to a levelling down of existing good quality pension provision as employers take advantage of a government-backed cheaper alternative to their existing arrangements.

A significant proportion of pensioners, most of whom are women, will still be entitled to claim means tested benefits, such as Pension Credit, in retirement. It is possible that those on low incomes may not benefit from saving into NEST, as they will not be able to save enough to lift them out of means testing in retirement. In other words, they could be subsidising money which they are likely to be able to claim through means tested benefits. Similarly, the low contribution rate also means that saving into NEST will provide some people with an amount of savings that will take them just over the threshold to apply for means tested benefits, thereby leaving them worse off. There are, therefore, concerns that this will disincentivise people on low incomes from saving and that it might also be difficult to advise women on NEST without risking mis-selling.

WHAT UNION REPS CAN DO

Many members think that they cannot afford to pay into a pension or that retirement is too far away to worry about. However, it is vital that members are aware of the issues and that the longer they leave to start saving, the more difficult it will be to build up a decent pension. It is even more crucial that women start saving as early as possible because on average, women work fewer years on less pay to fund longer retirements. Young women are particularly vulnerable as the most young people do not consider saving for retirement to be a priority.

Low pay throughout working life and absence from the labour market due to caring and domestic work restricts women's opportunities to build up pension contributions, both to state or private pensions. Dependence on a partner's pension scheme can also make women vulnerable to experiencing poverty in old age.

Workplace pension strategy

Unions reps should a develop strategy to increase pension enrolment for women members and ensure gender equality.

Develop your understanding of the issues around pensions using the resources on page 15 so that you are able to provide the most effective support to members.

Survey your workplace to establish who has access to your employer's occupational pension scheme.

When carrying out the survey, there are a number of key considerations:

- Establish which members in your workplace are in the scheme and which are not.
- It is useful to have this information broken down by equality groups, for example, age and ethnicity, to ascertain whether any groups are being excluded.
- Make a list of the reasons that members give for not being in the scheme. For example, this could be a personal choice or it could be related to the rules of the scheme. Not all members may have access to the scheme.

Contact your union to find out what work it is doing on women's pensions and whether there are any upcoming events on the issue.

A pro forma, which you can use to survey your workplace, is available on the Close the Gap website at:

www.closethegap.org.uk/pensions

Further ways to support women members

You can also support women members, in making the most of their pensions, in the following ways:

- Advise them to check their NI record to ensure that any periods for which they qualified for Home Responsibilities Protection are accounted.
- Explain to them the benefits of making voluntary contributions to 'buy back' years where no NI contributions were made.[12]
- When purchasing an annuity, advise them not to accept the default option which is the annuity provided by the employer's pension provider. Instead they should shop around to get the best deal.
- Encourage young women members to start saving as early as possible.
- When bargaining with employers, negotiate for the equality proofing of occupational pension schemes to ensure that there is not a differential impact on women members.
- When NEST is introduced, find out whether your employer is replacing their own scheme with the cheaper NEST alternative. This might be something that can be addressed through your bargaining agreement.

Members should also be encouraged to:

Get a pensions forecast: members should find out what they have already earned and what they can expect to receive at state pension age. Go to:

www.thepensionservice.gov.uk

Use the pension calculator: if the retirement income is less than what they expected, the pension calculator can be used to work out how much extra they should be saving now. Go to:

www.moneymadeclear.fsa.gov.uk/tools/pension_calculator.html

RESOURCES FOR UNION REPS

www.closethegap.org.uk
www.worksmart.org.uk/money
www.stuc.org.uk
www.thefemaleannuity.co.uk
www.thepensionservice.gov.uk
www.pensionspolicyinstitute.org.uk

[12] There is a time limit on this; a person can only buy back a qualifying year up to six years after it has taken place. However, if they are reaching state pension age between now and 2015, they can buy back up to six more years outside of this time limit, going back to 1975.

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