Older women in the workplace

Equal pay and pensions:

women's inequality in retirement

Introduction

This publication highlights some of the key areas where women are disadvantaged in the UK pensions system. It also suggests ways in which union reps can take action to address women members' inequality in retirement. This publication will provide an overview of the basic state pension and occupational pension schemes, and discuss the link between equal pay and pensioner poverty, the impact of this on women, and suggest actions for union reps to address the inequalities described.

Equal pay, pensions and poverty

Women make up the majority of pensioners, accounting for 61% of those who are of state pension age and above[1]. Single female pensioners are more likely to be in low-income households than their male equivalents. The average net income of female pensioners per week is approximately 85% of their male counterparts[2]. Furthermore, women do not only receive a lower average income than men from occupational pension schemes, they also receive a lower average state pension income.

The gender pay gap is a key factor in the disadvantage faced by women in the pensions system. Women are also more likely than men to have breaks in employment, often because of caring responsibilities, which impact on the accrual of State Pension benefits.

[1] www.pensionspolicyinstitute.org.uk/pension-facts/pension-facts-tables
[2] Department of Work and Pensions, Pensioners' Incomes Series 2012-13

The result of this is that, despite a slight reduction since 1994/95, over two-thirds of pensioners living in poverty are women.[3]

Basic state pension

The State Pension Age (SPA) is 65 for men born before 6th December 1953. For women born on or before 5th April 1950, the SPA is 60. The SPA for women born on or after 6th April 1950 will increase gradually between April 2010 and November 2018. Under current legislation, SPA will increase to:

- 66 between November 2018 and October 2020;
- 67 between 2034 and 2036;
- 68 between 2044 and 2046[4].

The State Pension age calculator[5] can be used to find out when they will reach SPA based on current legislation. Other changes are planned or have been announced from December 2018, when the SPA for both men and women will start to increase to reach 66 in October 2020. Further increases to bring the SPA to 67 are proposed to be phased in between 2026 and 2028.

The amount of state pension a person gets depends on how many qualifying years of National Insurance (NI) contributions they have paid or have had credited to them in each

[3] Office for National Statistics, Pension Trends - Chapter 13: Inequalities and Poverty in Retirement, 2012
[4] www.nidirect.gov.uk/changes-to-the-planned-increase-in-state-pension-age
[5] www.gov.uk/calculate-state-pension

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 to get NI credits from the government.

Women currently need to have 30 qualifying years to receive a full state pension. For those women who have fewer than 30 years, their basic State Pension will be lower, but they might be able to top up by paying voluntary NI contributions.

For those who reach State Pension age on or after 6 April 2016[6] the new State Pension must be claimed. The full new State Pension will be no less than £148.40 per week. The actual amount will be set in autumn 2015. Each individual's NI record is used to calculate their new State Pension, and ten qualifying years are required to get any new State Pension. Qualifying years are those in which an individual was:

- working and paid NI contributions; or
- in receipt of NI credits, eg for unemployment, sickness or as a parent or carer; or
- paying voluntary NI contributions.

Individuals do not have to stop working when they reach State Pension age, but for those who do remain in work they will no longer have to pay NI. There is also no requirement to claim the new State Pension as soon as an individual reaches State Pension age. Deferring the new State Pension means that individuals may get extra State Pension when they do claim it.

[6] www.gov.uk/government/uploads/system/uploads/attachment_data/file/372563/dwp026-state-pension.pdf

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 receives 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, if purchasing an annuity[7], rates at the time of retiring.

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

[7] Recent changes to rules governing access to money purchase pension savings mean pensioners no longer have to purchase an annuity if they do not wish to do so.

contributions decreases. 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. 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, changing and it has been argued that gender-based annuity purchases are increasingly unfair.

Pension drawdown

From April 2015, pensioners and individuals approaching retirement will be able to draw down a series of lump sums from any fund built up in a money purchase pension, rather than being forced to buy another financial product like an annuity after taking their 25 per cent tax-free lump sum. A quarter of each payment will be tax free and the other 75 per cent taxed at their marginal rate.

Although annuities provide a guaranteed income for life, or a set period, current rates are extremely low, and many people find that their money purchase pension fund is not enough to receive a meaningful monthly payment. The recent changes to rules, meaning there is no longer a requirement to purchase an annuity, may for some individuals mean they are able to better utilise their pension savings; however any decision regarding use of pension savings must take account of individual circumstances. The UK Government offers a free impartial advice service on available options and tax implications; however advisers are authorised by the Treasury and not by the Financial Conduct Authority, and there have been concerns raised that the guidance may not be sufficiently in depth or personalised, and individuals may have to seek independent financial advice to be sure any investments recommended are suitable for their circumstances.

Workplace pensions

In the past, many workers missed out on pension benefits, because their employer did not offer them a pension, or they did not apply to join their company's pension scheme. The law now requires all employers to automatically enrol their eligible workers into a pension scheme, called NEST (National Employment Savings Trust). The employer must also pay money into the scheme.

Eligible employees will be automatically enrolled into the workplace pension scheme if they are not already active members of a workplace pension scheme that meets a set of minimum standards. To be eligible a person must:

- be aged between 22 and State Pension Age;
- earn over the earnings threshold, currently, £10,000 per year; and
- work, or ordinarily work in the UK and have a contract of employment (i.e. so is a worker and not a self-employed contractor), or who have a contract to provide work and/or services personally (so can't sub-contract to a third party).

Automatic enrolment into workplace schemes is being phased in, starting with the largest UK employers. People who are eligible and have not yet been enrolled into their workplace scheme, should be by October 2018, at the latest. At the start of the scheme workers pay one per cent of their salary into the pension, and this is matched by their employer. This will grow in the years to come until, in 2018, workers will pay in a minimum of four per cent of their pay, with three per cent coming from employers and a further one per cent from tax relief.

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 which 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.

How this impacts 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. 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 are, therefore, less likely to have the required number of qualifying years for a full state pension. In order to balance their many caring responsibilities, women are more likely to work part-time, which means that they are less likely to be able to afford to pay into a pension scheme.

Lower rates of pay are a key factor in the disadvantage which women face in the pensions system. Women working full-time earn 11.5 per cent less than men working full-time and women working part-time earn 32.4 per cent less than men working full-time[8]. 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.

What 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.

[8] www.ons.gov.uk/ons/rel/ashe/annual-survey-of-hours-and-earnings/2014-provisional-results/index.html

Actions for reps

- Develop your understanding of the issues around pensions by accessing a trade union reps' training course on pensions, which may be available through your union, or using the resources listed below, 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 race, to ascertain whether any groups are being excluded.
  - What are 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.
- Check if your employer scheme applies an offset to earnings, and if so, whether this is reduced to part-time workers, the majority of which are likely to be women.
- Contact your union office to find out what work it is doing on women's pensions and whether there are any upcoming events on the issue.
- Developing resources or holding events to raise awareness of the issue among members.

Resources
www.closethegap.org.uk
www.stuc.org.uk
www.oneworkplace.org.uk
www.thefemaleannuity.co.uk
www.opas.org.uk
www.pensionspolicyinstitute.org.uk
www.acas.org.uk

Contact details
For further information on issues affecting older women in the workplace please contact your union office.

STUC WOMEN'S COMMITTEE

close the gap

ONE WORKPLACE EQUAL RIGHTS

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