The underpensioned report 2020

Examining the pension savings gaps for the most financially at-risk groups in our society

NOW: Pensions

The future is now

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Foreword

Lauren Wilkinson
Senior researcher and editor, Pension Policy Institute

Previous PPI work (2003, 2008 and 2016) on the underpensioned has identified that certain sections of the population (including women, BAME, disabled, carers, self-employed and multiple job-holders discussed in the report) are at greater risk of experiencing poor later life outcomes as a result of inequalities during working life.

While policies designed with the aim of increasing pension saving and/or reducing inequalities during working life, such as automatic enrolment and increased pay gap reporting, have had positive effects, these groups are often still disadvantaged, so it is important to be able to measure the extent of later life inequalities and the way in which they develop over time.

Pensions saving is inherently a long-term process, with individual savings building up over the course of an entire working life and, as a result, policies aimed at increasing pension saving take time to embed and impact later life outcomes.

The Underpensioned Index produced in this research can be used to track inequalities in pension income over time in order to assess the progress of policies aimed at redressing these inequalities.

Joanne Segars OBE
Chair of Trustees at NOW: Pensions

Despite the huge advantages of auto-enrolment, which has extended pension saving to over 10 million people, still too many are left behind and face an uncertain old age. That's why a core part of our mission at NOW: pensions is to fight for a fair pensions system to ensure that all pension savers get the retirement they deserve. It is why we were motivated to produce this report following our extensive work on the gender pensions gap and our ongoing collaboration with the Pensions Policy Institute (PPI). Some groups in the UK face huge savings gaps and those individuals who most need to save for later life are often the people who are effectively locked out of the current auto-enrolment system.

In this report, we present our key policy recommendations to the government, including how employers can support their employees and what action employees can take themselves.
We need to improve retirement incomes across the board - and that starts with creating a level playing field so that everyone has the same opportunity to save for later life.

We want to motivate the industry to find and share ways to close these pension savings gaps and create a fairer pension system. We hope that this report will help us raise the profile of these savings gaps and help us put workable solutions to government.

I would also like to thank the PPI for their expertise and terrific work that has allowed us to create this report, as well as a special thank you to all of the fantastic organisations who have contributed. This report is dedicated to our case study volunteers who shared their personal stories with us – we hope this report makes a difference.

This report was written by Samantha Gould, NOW: Pensions

Introduction

Auto-enrolment (AE) has been widely praised for its success in bringing more people into pension saving in the UK.

Prior to its introduction there were 11.7 million workers who were already active members of a qualifying workplace pensions scheme, as well as 440,000 covered by defined benefit arrangements. Since its introduction in 2012, we have an additional 10.3 million more workers enrolled into a workplace pension. This brings the total number of workplace pension savers to around 22.5 million out of a total workforce of 28 million.

Yet there are millions of people still missing out

The AE policy was designed for traditional patterns of work and isn't geared to help employees who take significant career breaks, work in multiple or part-time roles, or move frequently between jobs.

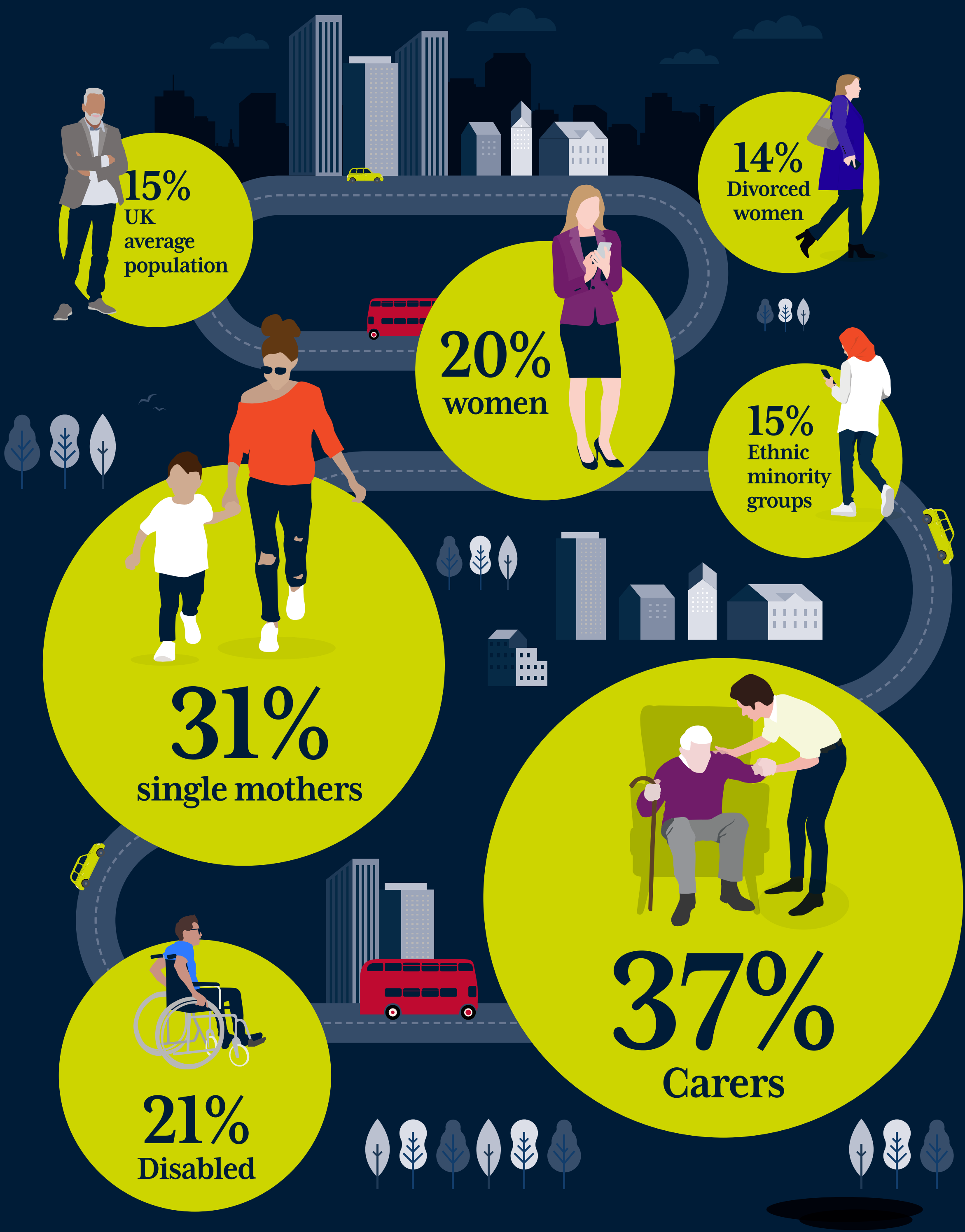
This exacerbates the widening savings gap and later-life inequalities experienced by the most financially at-risk groups, many of whom are more likely to be excluded from auto-enrolment.

In this report, we examine what happens to those people who don't follow the traditional career path for which the pension system was designed – the underpensioned.

We show how some of the most underpensioned groups are prevented from saving adequately for later life and will provide important policy proposals to the government to help bridge these gaps and create a fairer UK pension system.

Members of underpensioned groups are more likely to be ineligible for automatic enrolment

Proportion of those in employment who do not meet automatic enrolment qualifying criteria, compared to the baseline population, ages 16-64, 2019, UK



Background

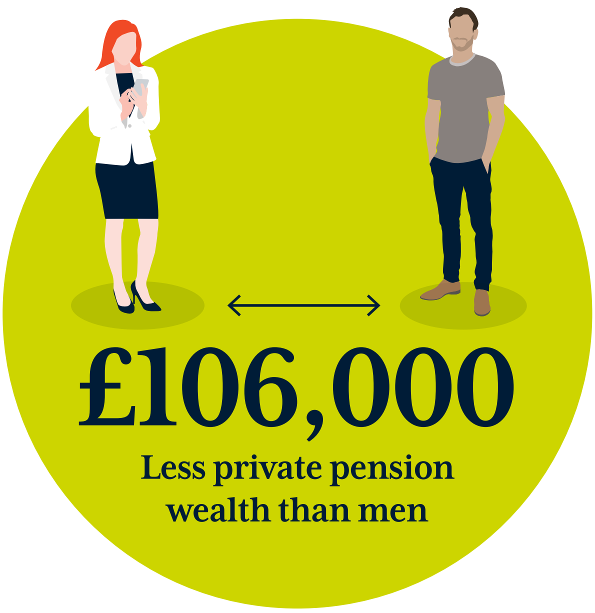
NOW: Pensions has a clear mission to help everyone save for a more financially secure future. This means achieving the best financial outcomes for our own members, while fighting for a fair pension system to enable all pension savers to enjoy the retirement they deserve. We do this by highlighting pension inequalities and campaigning for change.

We want to change attitudes towards pensions and saving in the UK, and to ensure that the underpensioned groups we've identified have the same opportunities for pension saving as the wider population.

In each of our reports, we have asked the following three key questions:

1 > **What can the government do?**
2 > **What can employers and organisations do?**
3 > **What can pension savers do?**

In 2019, we published a report produced by the PPI on the gender pension gap which revealed that women reach retirement age with, on average, £106,000 less in private pension wealth compared to men.



The gender pay gap and the gender pension gap are issues hiding in plain sight, largely caused by the differing working patterns between men and women. Typically, women take time out of work to care for children or elderly relatives and, as a result, are left with significantly smaller pension pots.

Following this report, we broadened our research to examine other groups who are missing out on pension saving through auto-enrolment.

1 > Self-employed and multiple job holders
2 > People with disabilities
3 > Black, Asian and minority ethnic (BAME) groups
4 > Single parents
5 > Divorced women
6 > Carers
7 > Women

These different groups often experience inequalities during their working lives which contribute to lower pension incomes in later life. These inequalities are largely caused by the factors outlined below.

>> They are more likely to adopt non-traditional work patterns.

Meaning they are less likely to meet the auto-enrolment criteria for periods of their career, so miss out on workplace pensions.

Men are twice as likely to work mostly full-time through their lives (45%) compared to just 27% of women.

Male lifecourses	Mostly full-time throughout	45%
	Mostly non-employed throughout	4%
	Full-time, very early exit (at about age 49)	12%
	Full-time, early exit (at about age 60)	30%
	Late start (at about age 23), early exit (at about age 60)	9%
Female lifecourses	Mostly full-time throughout	27%
	Mostly non-employed throughout	17%
	Weak attachment, early exit (at about age 49)	7%
	Family carer to part-time (long-break: 16 years)	12%
	Family carer to part-time (short-break: 4 years)	13%
	Family carer to full-time (10 year break)	18%
	Mostly part-time (from about age 23)	6%

>> They have a lower percentage of home ownership

Since rent payments tend to be higher than mortgages, and with no property or assets to benefit from, their ability to save outside of a workplace pension is significantly reduced.

With the exception of the self-employed, underpensioned groups are less likely to own their home, compared to the population average

Proportion of underpensioned groups that are homeowners, ages 16-64, 2018

>> They may suffer from inequalities in the labour market

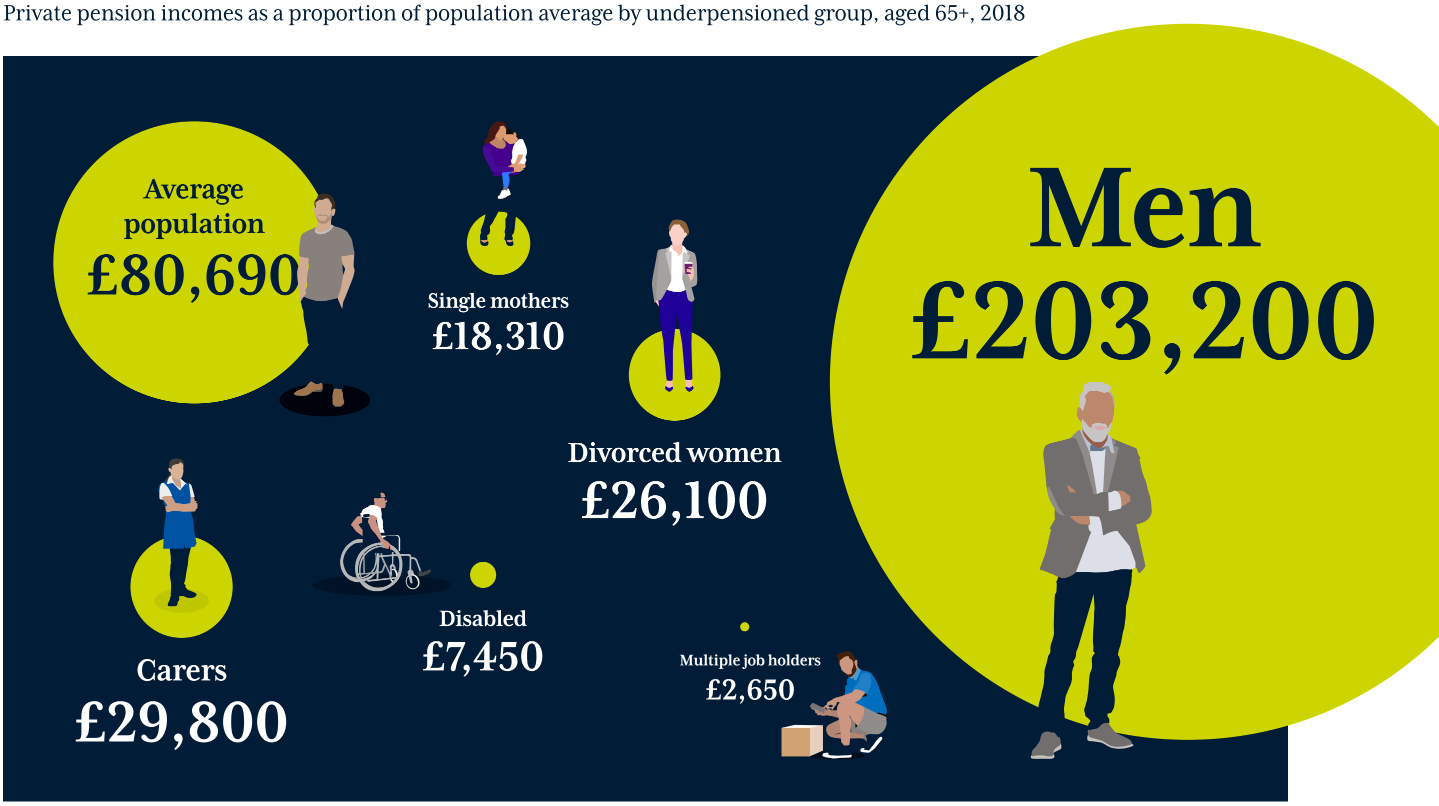
These groups may not have access to higher-paying jobs or opportunities for career development and promotion, affecting their finances in retirement.

Members of underpensioned groups earn less on average than the employed population average

Average annual earnings (full-time and part-time) compared to the population average, ages 16-64, 2018, UK

Underpensioned groups have retirement incomes equivalent to less than three quarters of the population average

Private pension incomes as a proportion of population average by underpensioned group, aged 65+, 2018



	Median pension wealth	% with any pension savings	Median pension wealth (among those with savings)
Men	£203,200		£302,500
Average population	£80,690	65%	£217,490
Single mothers	£18,310	55%	£140,400
Divorced women	£26,100	59%	£140,400
BAME	£0*	42%	£189,900
Disabled	£7,450	50%	£111,730
Carers	£29,800	53%	£180,620
Self-employed	£0*	36%	£121,200
Multiple job holders	£2,650	71%	£12,400

*This is £0 because the majority of people in these groups do not contribute to any pension saving, so when we divide the total pension wealth for this group with the number of individuals it averages out at £0.

The above table is not mutually exclusive, some people will have multiple underpensioned characteristics which will leave them even more disadvantaged when it comes to pension wealth.

With the labour market rapidly changing, more people will experience a non-traditional career.

These inequalities need to be tackled sooner rather than later, given that more people – not just in these groups – are more likely to have careers which feature periods of self-employment, flexible working patterns and multiple jobs.

NOW: Pensions plan for fairer pensions

We have presented five policy proposals to the government that could help to close gaps in pension income for the at-risk groups we've identified and create a fairer and more inclusive pension system.

The first two would be crucial in achieving equality and improve financial outcomes in later life for all the groups.

1. Removal of the £10,000 auto-enrolment trigger to get more underpensioned groups saving into a workplace pension

Employees are only enrolled into their workplace pension scheme if they earn more than £10,000 per annum, in a single role. We are calling for the government to reduce this threshold, with enrolment starting on the first pound of income.

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2. Auto-enrolment contributions from the first pound of earnings

The minimum total contributions under auto-enrolment have been set by the government at 8%. The employee pays 5% of this and the employer must pay the remaining 3%. Pension contributions are only taken after the Qualifying Earnings sum of £6,240 has been deducted. An employee earning just over the £10,000 threshold will only pay their 5% contribution on the remaining £3,860. We want the government to remove this barrier so that contributions are deducted from an employees' full salary.

3. The introduction of a family carer's top-up

People who take time out of work to care for their family are compensated with State Pension credits. However, they miss out on auto-enrolment. Our proposed family carer's top-up would see the government pay the equivalent of the employer's contribution at the same level as the National Living Wage into carers' pensions.

The top-up would equate to about £820 per year and boost pension outcomes by approximately 20% for individuals who take 10 years out of work due to caring responsibilities before returning to the workforce full-time.

4. Divorce – make pension sharing the default

Approximately 10% of men and 14% of women in their early 60s are divorced. Divorced women are particularly disadvantaged if pension savings aren't taken into account when marital assets are divided. Although pension savings are often the second most valuable asset, 71% of divorce settlements don't take them into account as there's a greater focus on property assets.

Ensuring that pension funds are taken into account by default in all divorce settlements will help to address pension inequality.

5. Greater action on the availability and cost of childcare to enable those who want to return to work to do so

Despite tax changes that help families with childcare costs, prices continue to rise. The Family and Childcare Trust reported in 2020[1] that childcare prices for children under three had risen to £131.61 for 25 hours per week, equating to £6,800 per year.

A freedom of information request by insurer Royal London shows that the high cost of childcare means working parents with toddlers often pay more for childcare than their mortgage. A full-time nursery place for a child under two typically costs £1,065 a month, for example, while the average monthly mortgage repayment is £1,040 and the equivalent figure for renters is £833. The total spend on full-time childcare in pre-school years is estimated at £35,943 for just one child.

[1]Coram Family and Childcare Report 2020

Chapter 1: Multiple job holders and the self-employed

1.Multiple job holders

Earning less, Saving less

The total private pension wealth for people with multiple jobs who are nearing or in retirement (aged 55 to 69) and earn less than £10,000 in each role is £12,400. This represents just 6.1% of the average man's pension of £203,200.

This is principally because multiple job-holders earn 39% less than the average population (£16,750 in comparison to the average of £27,380) and are often ineligible for auto-enrolment. When the State Pension and other benefits are taken into account, multiple job holders still have 46% less than the average population's pension income – just £210 a week compared with £390.

While many people with multiple jobs are excluded from auto-enrolment due to their low earnings, even those who earn more than the £10,000 threshold and are enrolled still miss out on potentially significant contributions from each job because of the Qualifying Earnings Limit[2]. This means instead of saving 8% into a pension, people who earn £10,000 are only able to contribute 3.8% of that total figure.

Case study: multiple job holder

Mike, 33, from Leeds, is married with one child and has another on the way. He said:

"Pre-covid, I worked multiple jobs – a delivery driver for local businesses and a part-time job bar-tending. My wife does occasional cleaning work but as she goes further into her pregnancy this is becoming less of an option.

"Before Covid-19, as a family we'd made enough money to live, but not to save. I was more focused on providing for the day-to-day and, while I occasionally thought about a rainy-day fund, I not only didn't think about pensions but wasn't aware that they were something I had to concern myself with. I assumed that when I reached a certain age a State Pension would be enough to see me through my old age.

"Covid-19 has changed my working life and consequently my perspective on savings and pensions. My second job, bar tending, is no longer there to give me an income stream, meaning I've had to search for more full-time driving jobs. It's made me realise how precarious my finances were and that I needed to start planning to ensure that I could provide for my family, both now and in the future."

[2] The first £6,240 is deducted from any pension contribution in auto-enrolment, meaning that their total contributions (employer and employee) are 8% of the remaining £3,860 – in effect 3.8%.

2. The self-employed

Self-employment is up, but pension savings are down

In contrast to people who are employed in traditional roles, the self-employed are cutting back on their pension saving.

Five million people in the UK are self-employed, contributing an estimated £305bn to the UK economy[3] and most of these individuals are men. Among those who have been self-employed for two years, 65% are male, rising to 71% of those who have been self-employed for 20 years.

85% of self-employed people do not save into a private pension, an increase from 73% in 2008/09. The remaining 15% who do manage to save into a pension only have a median pension wealth of £121,200, which is 55% of the median population average of £217,490 and just 40% of the men's median of £302,500.

Their situation, like every other group mentioned in this report, will be made worse by the Covid-19 pandemic and the continuing economic uncertainty associated with it.

The self-employed have lower incomes than full-time employees.

Average annual full-time earnings for the self-employed are £19,560, almost one third (29%) less than the average population (£27,380), although earnings typically increase the longer that someone is self-employed.

Low participation rates remain a problem, even among those closest to retirement.

Neither the level of income nor the closer you are to retirement have a material impact on the likelihood of being a member of a pension scheme. Less than one quarter (23%) of self-employed 60-64 year-olds are members of a pension scheme, and even among the highest-paid self-employed, pension participation rates are only around one in five (19%).

Ultimately, lower than average incomes, together with the need for financial flexibility, make it difficult for these groups to save consistently into a pension.

The self-employed are excluded from the benefits of automatic enrolment because they don't have an employer who can automatically enrol them and make contributions.
The changes to the automatic enrolment framework unfortunately won't assist them.

[3] The Self-Employed Landscape Report, IPSE 2019

Expert opinion

Andy Chamberlain, Director of Policy at the Association of Independent Professionals and the Self-Employed (IPSE), said:

"

This research is both valuable and concerning, chiming with our own past findings about the lack of pension saving among the self-employed. The reality is that the fluctuating incomes of the self-employed (particularly amid the financial turmoil of the pandemic) mean that rigid pension schemes such as the auto-enrolment programme simply do not work for them.

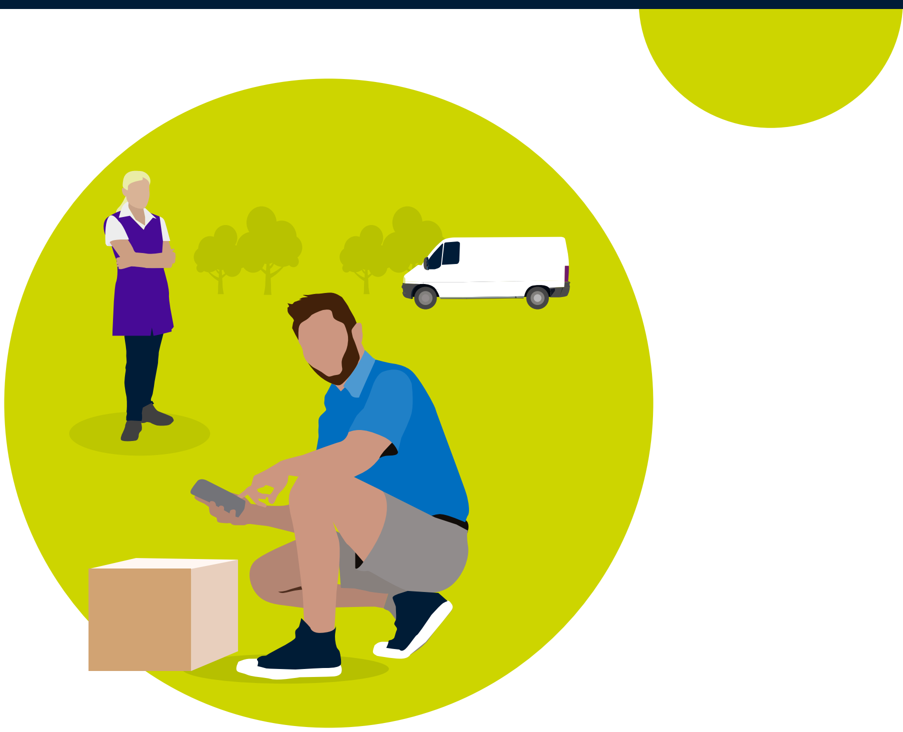
The self-employed need flexible pension plans that allow them to draw down on their savings when they need them. For both the self-employed and workers holding multiple part-time jobs – and anyone else whose style of work is not suited to rigid pension plans – it's important that more flexible, accessible savings options are made available.

"

Policy proposals to close the gap

1. Removal of the £10,000 trigger would get 106,000 multiple job-holders into auto-enrolment.

2. Pension contributions from the first £1 would increase pension wealth by 175%.



Chapter 2:
People with disabilities

Disabled people are at greater risk of experiencing pay inequalities and therefore lower retirement incomes.

Of 14.1 million disabled people in the UK, just over 4 million are in work. Not only is there a high level of unemployment among the disabled – individuals are more than twice as likely to be unemployed as non-disabled people[4] – but those who can work are often limited by the amount and type of work they can do and can be trapped in low paying or part-time jobs.

As a result, only 50% of disabled people are saving into a private pension and they have an average private pension wealth of £7,450 – just 9% of the UK average of £80,690.

Part-time working

One third (32%) of disabled workers are in part-time employment, compared to 22% of the total working population.

The pay gaps between disabled and non-disabled part-time workers are lower than those for full-time workers – see below graph. However, as disabled people are more likely to be working part-time than the general population, their overall incomes are substantially lower.

The pay gap between disabled and non-disabled groups is proportionately lower among part-time workers compared to full time workers

Average annual income by gender, disability and work-pattern, ages 16-64, 2018

[4] Scope.org.uk

Although the gap in rates of employment is smaller between disabled and non-disabled women than for men, disabled women are more likely to work part-time and their pay gap is more than double that of men. Similarly, while the disabled employment rate gap is smaller among ethnic minority groups compared to the average UK population, the pay gaps are greater.

Disabled people who are eligible for auto-enrolment have marginally higher participation rates than non-disabled employees.

83% of eligible disabled workers participate in auto-enrolment schemes, compared to 80% of non-disabled eligible employees. However, because they're less likely to meet the qualifying criteria (approximately 21%, or 800,000, disabled people in work don't qualify) as a group they still benefit less from automatic enrolment compared to non-disabled people.

However, people with disabilities are the only group for whom the average income from State Pension and benefits tops up private pension savings to a level equal to that of the population average, (page 29).

800,000

disabled people in work don't qualify for automatic enrolment

Expert opinion

Fazilet Hadi, Disability Rights UK's Head of Policy said:

"

This research is yet more evidence that far too many disabled people are unemployed, in low paid jobs and living in poverty. Even though the finding that disabled people only have 9% of the average amount of private pension wealth is not surprising, it is still deeply shocking. It shows that not only will disabled people of working age be poor, but they will continue to be poor in older age.

"The government needs to take steps in its forthcoming Disability Strategy to increase employment rates, introduce mandatory disability pay gap monitoring and review the benefits system to truly meet the additional costs of disability.

"

Policy proposals to close the gap

1. **Removal of the £10,000 trigger would get 660,000 more people saving through auto-enrolment.**

2. **Pension contributions from the first £1 would increase pension wealth by 36%.**

Chapter 3: Black, Asian and Minority Ethnic

People from some ethnic minority groups often face multiple employment barriers

In the 2011 census, 13% of the UK population (around 8.1 million people) identified themselves as Black, Asian or minority ethnic (BAME).

Only 42% of BAME groups are contributing to a pension, those who do contribute to a pension have a median pension wealth of £189,900.

	Median pension wealth	% with any pension savings	Median pension wealth (among those with savings)
UK average	£80,690	65%	£217,490
BAME	£0	42%	£189,900

Only 42% of BAME groups are contributing to a pension

Our report shows that BAME groups have lower levels of employment in comparison to the UK average, although the impact varies substantially between different groups. For example, while those in Indian groups have an employment rate of 76%, 1% higher than the UK average, those in Pakistani and Bangladeshi groups have a much lower employment rate at 57%.

People from ethnic minority groups can face multiple barriers in the labour market arising from:

- **lower vocational skills**
- **low levels of educational attainment**
- **discrimination**

These barriers can result in higher levels of unemployment and economic inactivity. This has many facets, including having to take casual work or zero-hours contracts, reduced career opportunities (including a focus on lower paid jobs in a narrow range of sectors), and limited opportunities for career progression.

Some ethnic minority groups have higher instances of part-time work, such as Bangladeshi groups, where one third (33%) of employees work part-time compared to 22% of the wider population.

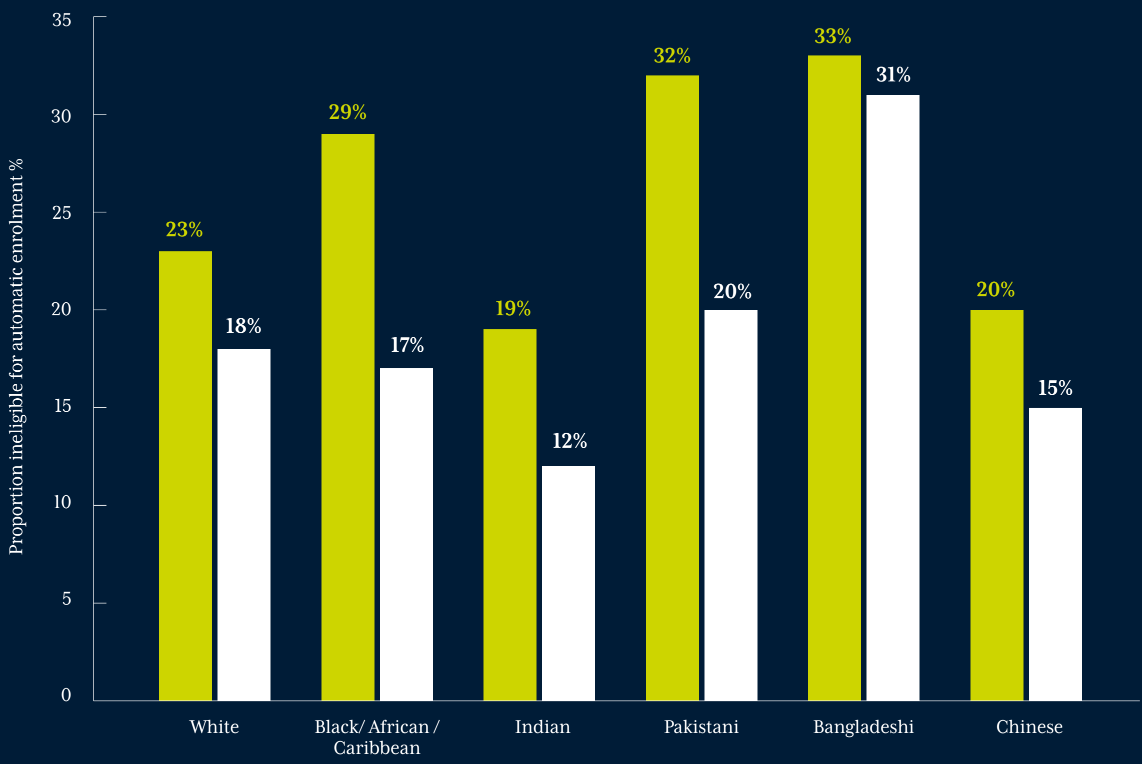
Auto-enrolment has increased participation rates among some ethnic minority groups

Between 2011/14 and 2015/18, there was clear evidence of large increases in pension participation rates among all ethnic groups. The largest increase was among Pakistani and Bangladeshi groups, where participation rose from 36% to 60%. In comparison, the lowest increase occurred in the mixed ethnicity group, although this group still experienced a substantial increase from 53% to 70%.

However, some groups are less likely to be eligible for auto-enrolment. Bangladeshi and Pakistani workers, especially women, are more likely than others to work part-time or in low-paid jobs. Thirty one per cent of Bangladeshi employees work part-time, compared to an national average of 22%, for example. This could be influenced by cultural differences and attitudes towards division of labour in the home, which tend to be more traditional than among some ethnic groups.

While some ethnic groups are less likely to be eligible for automatic enrolment, levels of eligibility have increased

Proportion ineligible for automatic enrolment, by ethnic group, 2015 v. 2019



The cost of housing is a threat to retirement incomes for some ethnic minority groups.

Non-white ethnic groups are likely to face substantially higher housing costs in retirement. Compared to the over 65 population average of £800, they pay an average of £1,730 in annual housing costs.

This is because they're more likely to live in concentrated urban areas where rents are higher and are less likely to get on the housing ladder due to rising house prices and living costs. These greater housing costs will further reduce their ability to save for retirement.

Average % increase in pension wealth per group*

	% increase
Mixed/multiple ethnic groups	29%
Asian - Indian	25%
Asian - Pakistani	38%
Asian - Bangladeshi	35%
Asian - Chinese	28%
Asian - Other	30%
Black/African/Caribbean/Black British	32%
Other ethnic group	32%

Expert opinion

Dawid Konotey-Ahulu, Board Director of Redington Ltd

REDINGTON

"

The pandemic has forced us all to reassess our goals and priorities, and to reflect on the lived experiences of others. And, it has become increasingly evident that some sections of society face systemic racial challenges that impoverish and constrain them – particularly in retirement. The BAME community, for example, spend a greater percentage of the income on housing in retirement than their White counterparts, and their pension wealth is a small fraction of the UK median. The plight of BAME people in retirement is a so-called "Wicked Problem" – one that is societally complex and with no easy solution. But that just means we have to try harder. We have a clear social responsibility to ensure that everyone, regardless of race or creed, has the means to live well in retirement.

"

Case studies:

Kuldeep, aged 45 from Kent has two children aged 16 and 14.

“

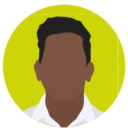
Prior to having children I always worked full-time in London, however, since having children I have worked part-time in order to care for my children. I am self-employed and own a couple of retail businesses, one of them is a salon which has been hugely impacted this year with covid. I also provide care to my mother who lives nearby and my in-laws who live with us in the family home (so covid has been very difficult with everyone under one roof)!

I know that I have four pensions, not really sure what they’re worth. I know that I get the letters every year and they are shoved into a drawer! I don’t really think about retiring as I have more pressing concerns and to be honest, I think that I will no doubt work part-time into my later years.

These statistics unfortunately do not surprise me – the fact that women’s and especially ethnic minorities pensions are so small – who has time to think about pensions? I think more needs to be done around education, it should start early in school.

”

Vikram, aged 28 lives with his parents in outer London



“

I am a self-employed graphic designer and also help out with my parents restaurant business. Although my main focus has always been establishing myself as a graphic designer, I have always supplemented my income by helping out with the family business – primarily as a waiter or front of house in my family’s restaurant.

Covid has changed the shape of my work life. Design work has become more scarce – and the family restaurant has focussed on its takeaway offer – and I have been working to help my parents fulfil orders, and continue to make money in these challenging times.

Before Covid, my main focus was on building my design portfolio and earning enough money to think about moving out of the family home. Although I was aware of pensions before, my focus was on the present and making enough money to move out and establish a more independent life.

My parents are approaching the ‘normal’ age of retirement and they have nothing to retire on other than a small pot of savings. I have resolved to get ‘better’ with money – both creating a plan to make the money that will help me achieve financial independence now; but also planning to save for my retirement and put money towards a pension in the future.

”

Policy proposals to close the gap

1. **Removal of the £10,000 trigger would get 400,000 more people saving through auto-enrolment.**

2. **Pension contributions from the first £1 would increase pension wealth by 31%***

Chapter 4:
Single mothers

Single mothers have the highest rate of employment yet tend to earn the least

Single parents are often faced with the impossible decision of either working or caring for their children, a choice that, for many, comes with huge long-term financial consequences. The combination of higher levels of part-time work, lower levels of pay and greater demands on their income as the sole earner in their household means they're likely to find it difficult to save adequately for retirement.

Of 1.8 million single parent households across the UK, 90% are headed by women. Because of the prevalence of single mother households, our report will focus on this group as the sample of men was too small to be statistically significant.

Single mothers face huge barriers to saving, resulting in private pension savings less than a quarter of the UK average. They reach retirement age with private pension wealth of £18,300, almost one-third less (32%) of the average woman's pension savings (£57,500) and only 9% of the average man's (£203,200). This is 23% less than the UK average of £80,690.

31%

of single mothers do not qualify for automatic enrolment

Part-time work limits their earning potential

Despite having employment rates of 76% (higher than the population average of 75%), many single mothers struggle to work full-time hours so may not contribute to a workplace pension.

While 22% of the total working population are part-time employees, that rate is almost double for single mothers (43%). That's nearly three times the number of single fathers who work similar hours (15%).

In addition, single mothers in part-time work earn on average just £6,922 annually, compared to the women's UK average of £9,976. for women working part-time. At these income levels, women in these groups are unlikely to be auto enrolled into a workplace pension.

Auto-enrolment is short-changing single mothers

More women would qualify for automatic enrolment if second jobs were included in the assessment. Auto-enrolment eligibility is assessed on a 'per job' basis, and anyone with several part-time jobs is assessed on their earnings for each job.

As a result, of the 13.4 million employed women in the UK, 3 million (23%) don't meet the qualifying criteria for auto-enrolment, compared to 12% of men. This number rises to 31% of single mothers. Many single women are therefore essentially locked out of auto-enrolment and miss out on vital employer contributions.

If auto-enrolment contributions started from the first £1 of earnings, this would increase the number of employed single mothers who are eligible by 9.3% – bringing an additional 300,000 single mothers into workplace pensions.

Home ownership remains low

Only 26% of single mothers own their homes, compared to the UK baseline (65%). This means they're less likely to be able to save for a deposit and their lower than average household income makes it more difficult to secure a mortgage. This has significant consequences for their future financial health.

Case study:

Kelly Glazer, 41 from London, lives with her four-year-old daughter. In the nine months she was pregnant, she had to stop her pension contribution to make ends meet.

“Having a child is like having a second mortgage. Where others may be able to do overtime to help top up wages, that’s not an option we all have as we have to consider childcare. As a society I don’t think we’re very well educated about pensions and what they can do for our futures. So raising awareness is absolutely crucial.”

Expert opinion:

Joe Richardson, Research and Policy Officer at Gingerbread, the charity for single parent families, says:

Gingerbread
Single parents, equal families

“Single parents face near-insurmountable barriers in securing work that pays the bills and allows for a decent standard of living. This new research shows that for many of them chronic low income will persist well into retirement. Single parents are unable to ‘shift parent’ like couples can, meaning they require external childcare support for every hour of work they do. High childcare costs mean many will only be able to work part-time and/or in insecure roles – two key determinants of low pay. Low pay, matched with the costs of raising children, makes poverty and debt the norm, while savings and pension pots become a pipedream.

Covid-19 has truly thrown oil onto the fire. Childcare options have been gutted during the pandemic – perhaps the biggest gap in the government’s response. With next to no childcare available, single parents are being forced to choose between going into work and leaving young children without supervision or staying at home and losing their job – a sure-fire route into unemployment. It is for this reason that, on average, single parents are around 50% more likely to be out of work than other family types throughout the pandemic. Urgent support is needed for the UK’s 1.8 million single parent families facing this dilemma. Without this, these families will face a generation of mass unemployment, poverty and debt.”

Policy proposals to close the gap

1. Removal of the £10,000 trigger would get 300,000 single mothers into auto-enrolment.

2. Pension contributions from the first £1 would increase pension wealth by 52%.

Chapter 5:
Divorced Women

Divorced women often face lower retirement incomes, primarily because pension assets are not usually considered during the separation process.

The median pension wealth of a divorced woman is £26,100, under half of the average woman's savings of £57,500. In comparison, the median pension wealth of a divorced man is £103,500, half of the average man's pension of £203,200.

Recent data from the Office for National Statistics (ONS)[5] shows that there were over 107,000 divorces in 2019, an increase of 18.4% from 2018 – the highest since 2014.

For divorced women, the primary barrier to achieving adequate retirement incomes is the division of assets during the divorce and the fact that pension sums are not usually considered within the separation process. Although pension pots can often be the second most valuable asset, 71% of divorces do not consider these when reaching a settlement, with people paying more attention to property assets.

Many divorced women, particularly those with children, are likely to have spent time out of the labour market or in low-paying, part-time work. As a result, they're less likely to have saved for a pension, often on the assumption that their spouse's pension savings will provide for their retirement. In some cases, this decision is made subconsciously which explains why pension wealth is often unaccounted for during divorce proceedings.

Policies to ensure that pension funds are considered by default in all divorce settlements would help to address pension inequality and increase divorced women's retirement incomes.

Home ownership is also lower among divorced women (49%) than the UK average (65%). As we've seen for previous groups, this has important ramifications for their long-term financial wellbeing.

As a result of all these factors, divorced women are twice as likely to fail to save anything at all for their retirement compared to divorced men.

[5]Office for National Statistics, Divorces in England and Wales 2019

Case study:

Danielle Burke, 40 from London, lives with her six-year-old daughter. Since her split from her partner in 2015, Danielle has been working part-time. Five years on from her divorce, Danielle is realising the financial cost of not recognising pensions as an asset during divorce proceedings. She's currently contributing the minimum to a workplace pension but can't save anything more.

"

I wish I'd known the importance of recognising pensions as an asset at the time of my divorce. I'm aware I need to be investing in my future, but my priority is ensuring I have enough savings to support us at the moment.

It's so important that we raise awareness of this problem so more women know to include pensions in their divorce settlements and don't have to struggle financially when they reach retirement.

"

Expert opinion:

Jane Portas, Insuring Women's Futures and Centre for Ageing Better, commented:

Insuring Women's Futures

"

Women's financial lives continue to be shaped by society's expectations of them at work and at home, as has been borne out through the covid-19 lockdown. Prior to the pandemic, women's life-time earnings were a mere fraction of men's at just 59%, culminating in a five times' gender pension gap. As my latest report evidences6, covid-19 has further compounded financial inequalities with young women's, mothers' and older female workers' livelihoods and pensions most impacted.

As NOW: Pensions' research clearly shows, the gender pension gap is even further exacerbated on divorce, with as few as 14% divorces with pensions resulting in pension sharing orders. Covid-19 has led to a surge in divorce enquiries, on top of already increasing numbers of couples divorcing in their 50s.

The complexity of many pension arrangements, the availability of Pensions Drawdowns, combined with a lack of pensions awareness, simultaneous to the rise in online and quickie divorces, means that in the absence of affordable advice and with pension sharing optional rather than the default, many divorcing women are losing out and risk financial hardship in later life.

"

Policy proposals to close the gap

1. Removal of the £10,000 trigger would get 100,000 divorced woman into auto-enrolment.

2. Pension contributions from the first £1 would increase pension wealth by 52%.

3. Ensuring that pension funds are always considered by default in all divorce settlements would help to address pension inequality.

[6] Living a financially resilient life in the UK beyond Covid-19 – 6 Moments that Matter to build back fairer financial futures

Chapter 6: Carers

Carers are more likely to work in low-paying or part-time roles to accommodate their caring responsibilities.

Around 6.5 million carers in the UK provide informal care worth an estimated £57-£100bn per year.

There is considerable 'turnover' within the informal carer population. Every year 2.1 million adults become carers and almost as many find that their caring duties cease. This means that caring duties will end up touching the lives of most people with three in five people taking on these responsibilities at some point in their lives.

Inevitably, many carers don't have time for paid employment. Around one half are in work compared to the population average of three quarters. Among female carers this falls to only two in five (42%).

They are also likely to look for part-time roles to manage their caring responsibilities, with 32% working part-time compared to an average of 22% of the wider population.

The impact of these working patterns on incomes is clear. Carers earn between 16% and 20% less than the average income for the whole UK population, depending on their gender and work patterns.

81% of carers are locked out of automatic enrolment

Four out of five (81%) carers who are working (and receiving care-related benefits) don't meet the qualifying criteria for automatic enrolment. This means that carers are reaching retirement age with private pension wealth of £29,800 - just 37% of the UK average of £80,690.

On average, carers earn £4,460 less in full-time work and £1,760 less in part-time work compared to the rest of the population

Average annual income by gender, caring responsibility and work-pattern, ages 16-64, 2018

Case study:

Helen Walker, Chief Executive of Carers UK, said:

"

Many of us don't expect to become an unpaid carer but the reality is two in three of us will do it in our lifetime.

Caring impacts on all aspects of people's lives, leaving carers facing difficult decisions about their loved ones' health, family finances and how best to combine paid work and care. Juggling paid work and caring responsibilities is a tricky balancing act, many carers feel they have no choice but to pass up promotions or reduce their hours and for some they have to give up work all together. This is not just affecting their finances now, but it impacts on their income in later life as well. It's vital that carers are provided with opportunities to build up pensions in later life.

Our research also shows women are disproportionately affected, facing these difficult choices on average more than a decade earlier than men. Just as childcare used to be a key issue stopping women from continuing to work, now caring is holding back thousands of people from enjoying a fulfilling career, retaining an income and saving for their retirement.

"

Jenny Jeffery, aged 61 works part time and is a carer for her husband, said:

"

I had always worked full-time until my husband got sick and then had to reduce my hours significantly so that I could care for him. This consequently means that I have historically had to work 20-hour days in order to both care for my husband and fulfil my workdays which were long shifts in a supermarket. In the past I have had to take a lot of unpaid leave at times when I am needed at home.

I am not surprised to see that carer's pension wealth is so small compared to the average as most carers are continuing to struggle with juggling work and caring. More needs to be done to ensure carers get better support as a whole, let alone allow them to even think about something such as their pensions. If carers were better supported including the receipt of Paid Carers Leave which would give them better financial support, they may be able to possibly think about saving for their pension.

"

81%

of carers are locked out of automatic enrolment

Policy proposals to close the gap

1. Removal of the £10,000 trigger would get 100,000 more people saving through auto-enrolment.

2. Pension saving from £1 would increase pension wealth by 38%.

Chapter 7: Women

Working part-time to accommodate their caring responsibilities has the biggest impact on women's ability to save for their retirement.

Since our 2019 report on the gender pensions gap, which analysed the difference in pension wealth between men and women, the gap has increased considerably. By their 60s, women typically have £57,500 in their pension. This is £145,700 less, and just 28% of, the average man's £203,200 pension.

	2014-2016	2016-2018	Difference
Men	£ 156,500	£ 203,200	+£46,700
Women	£ 51,000	£ 57,500	+£6,500
Gap	**£ 105,500**	**£ 145,700**	**+£40,200**
Women's pension wealth as a % of men	**32.58%**	**28.29%**	**+4.29%**

£145,700
LESS pension than the average man's

One reason why men's pension wealth has increased substantially more than women's is that the eligibility criteria for auto-enrolment means a disproportionate number of women find themselves excluded from workplace pension savings. This is only likely to get worse once the statistics for 2020 are published and we can see the full economic effects of the pandemic.

Many of the factors which lead to women being an underpensioned group stem from them bearing the lion's share of childcare and domestic responsibilities and historically working less than men.

In addition, women live on average 3.7 more years than men, meaning their pension needs to last longer. Our analysis shows that for women to draw the same pension income throughout their retired lifetime, they would need to have saved around 5%-7% more than men.

Women – both with and without children – are working more

The good news is that the proportion of women working is now 71.4%, the highest female employment rate since records began in 1971. Of those, 41% were working part-time in the last quarter of 2018, compared to 13% of men who work part-time.

As we've seen previously, however, a part-time salary might mean they don't meet the £10,000 a year threshold in a single job to qualify for auto-enrolment.

Unfortunately, the pandemic has affected working women more than men. According to the Institute for Fiscal Studies, mothers are one and a half times more likely than fathers to have permanently lost or quit their job since lockdown began[7].

[1] Institute for Fiscal Studies, IFS Briefing Note BN290

Expert opinion:

Dr. Yvonne Braun, Director of Policy, Long Term Savings and Protection at the Association of British Insurers (ABI):

"

We know that mothers are much more likely than fathers to have lost or quit their job as a result of the pandemic and this will further widen the pensions gap.

It is crucial that we don't lose sight of this trend among the wider economic impacts of the pandemic and that we find solutions to make pension outcomes more equitable.

"

Policy proposals to close the gap

1. **Removal of the £10,000 trigger would get 1.9 million more woman saving into auto-enrolment.**

2. **Pension saving from £1 would increase pension wealth by 140%.**

Summary

This report clearly highlights the need for policy changes to create a fairer UK pension system.

When private pension income is combined with the State Pension and other benefits, most underpensioned groups will struggle to achieve incomes above the minimum retirement living standard of £10,200 per year for a single person and £15,700 for a couple.

People with disabilities are the only underpensioned group who may reach the minimum retirement living standard once their income from the State Pension and benefits tops up their private pension savings to match those of the average population.

Even when state pension and other benefits are taken into account, on average underpensioned groups have lower overall incomes

Retirement incomes of underpensioned groups compared to the population average, split by state and private, aged 65+, 2018

The median retirement income (private pension, State Pension and benefits) for underpensioned groups falls between £13,000 and £14,000.

While this level of income would provide for a minimum retirement living standard, 50% of people in these groups will have lower levels of retirement income and find it hard to achieve adequate living standards. For many, a minimum standard of retirement living will be lower than their working life income and will represent a drop in income.

Targeted policy approaches aimed at addressing labour market and housing inequalities may be needed to reduce the retirement income inequalities suffered by underpensioned groups.

Policies aimed at redressing these inequalities could help to reduce the poorer later life outcomes experienced by people in underpensioned groups.

However, some people will be unable to change their employment status or housing situation and may need greater support from state benefits in later life to increase their retirement income and living standards.

NOW: Pensions key policy proposals to help close the pension savings gap

Getting more people saving via automatic enrolment would be the most effective way to start closing the current savings gaps faced by the UK's underpensioned.

1. **Removal of the £10,000 trigger would get an additional 2.5 million people saving into workplace pensions.**

2. **Pension contributions from the first £1 would increase pension wealth for these groups by an average of 30% - though for some groups such as single mothers this would increase by 52%.**

If both of these policies were introduced, we would generate an additional £1.2 billion in annual pension contributions.

What can employers do?

Employers play an important role in helping to reduce gaps in pension saving. The people in the underpensioned groups have a high prevalence of part-time work which means they might not meet the crucial £10,000 earnings threshold for auto-enrolment. Part-time and flexible working are important ways of enabling those individuals with disabilities or caring responsibilities to participate in the labour market.

One positive side-effect of Covid-19 is the rise in flexible working which opens up huge opportunities to some of the underpensioned groups in this report. However, these more flexible arrangements aren't always an option for people in some low-skilled and low-paid jobs.

If flexible working continues to be more widely adopted, then some members of these underpensioned groups could become eligible for their workplace pensions.

What can individuals do?

We can't rely on the government and our employers to close this gap. Here are a few things that employees can do to improve their finances in later life.

1 Don't delay

As soon as you start full-time employment, enrol in your company pension scheme. Even if you're not aged 22 or you don't earn the £10,000 minimum, you can still opt in. If you start contributing as soon as you start work, your pension savings will have longer to grow.

2 Don't opt-out

Pension saving is important to provide security in later life. Saving into a workplace pension means that you get the additional benefit of your employer's contributions and, if you're a taxpayer, you may also get tax relief.

3 Pay in the maximum you can afford

Find out what percentage your employer will match and aim to pay in at least this amount. For example, if your employer will match contributions at 8% then aim to pay in at least 8%. This means you'll be contributing 16% a month and you may get tax relief on top.

If you can afford to pay more, treat that as a bonus.

4 Don't forget about your pensions

Monitor your pension savings regularly. Each of your pension providers (workplace and personal) will send you an annual benefit statement which shows how much you've contributed to your pension so far, plus an estimate of how much your pension savings will be worth at your target retirement date. It's worth reviewing your statements regularly to check if you're saving enough and whether you could benefit from consolidating several smaller pension pots.

5 Set retirement goals

The Pension and Lifetime Savings Association (PLSA), an independent pensions body, publishes the Retirement Living Standards index. This explains how much you need to save to earn enough for three types of retirement: moderate, comfortable and luxury and are useful measure for pension planning and to set your savings goals.

6 Give a gift to your future self and put extra money in

If you're fortunate to receive a financial windfall consider using it to top up your pension.

Covid-19 update

We know that the Covid-19 pandemic is likely to have disproportionately affected the groups discussed in this report. We'll be publishing an update in March 2021 which takes into account the economic effect of the pandemic.

Our contributors

We want to say a special 'thank you' to all the case study volunteers who shared their stories and the individuals and organisations who contributed to this report.

Supporting Diversity

Now: Pensions is fully committed to creating a workplace where everyone can advance and thrive. Our Group CEO Mickey de Lathauwer chairs our Group Diversity and Inclusion Steering Group to drive the diverse representation of our workforce across the Cardano Group. We have implemented a range of initiatives to achieve this, including:

- **Gender Inclusion and BAME employee networks.**
- **Women's Board Mentoring programme.**
- **Gender pay gap reporting.**
- **We are a 'real living wage employer'**

We recognise that the right culture, accountability and transparency are key to progression. We are reviewing our compensation process and have voluntarily completed a gender pay gap report for 2019 which highlights our current performance and sets out the steps we are taking to improve the progression of our female employees. We are committed to providing a family-friendly working environment for all employees, including flexible working and working from home. We are committed to having 33% of women in senior management by 2025.

We have been pioneers in raising the issue of the Gender Pensions Gap and will continue to raise awareness and lobby for effective ways to address all pension inequality in the UK.

We are hugely proud to be working with the following organisations and projects to support employment opportunities for everyone in society.

#100BLACK INTERNS

DEBATE MATE

DIVERSITY PROJECT

FINANCIAL Flexible Working Pledge

INCLUSIVE CUSTOMER Financial Lives Pledge

imc weekendschool

Insuring Women's Futures

EiA entrepreneurs in action

KCB KINGS CROSS BRUNSWICK NEIGHBOURHOOD ASSOCIATION

MENDING THE GAP

NOW: Pensions Trust
6 Bevis Marks
London EC3A 7BA

nowpensions.com

PENSIONS POLICY INSTITUTE

PPI

Disclaimer

This report was created using the PPI Underpensioned Index, December 2020. To view the technical appendix and the full list of assumptions used to produce this data, please **click here**.

NOW: Pensions

The future is now

Information correct as at November 2020.
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