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Eradicating inequalities in pension provision in the UK and beyond: The case of women by Dr. Liam Foster, University of Sheffield

SDG1 "End poverty in all its forms everywhere" and inequalities in later life and policy implications, particularly in relation to pensions including a gendered focus

Context

This report looks at pension developments and their impact upon women in the EU with a particular focus on the UK. Initially it briefly explores pension challenges before focusing on reasons why women must be central to debates in relation to pensions. Recent changes in relation to first-tier, and second and third-tier pensions are explored, before recommendations to improve the position of women pensioners are outlined. By adopting these recommendations it will be possible to go some way to addressing the Sustainable Development Goals (SDGs) and improve global pension prospects for women.

The Pension challenges

Pensions play an integral role in the provision of income security in older age. As such, the pension measures adopted by countries have considerable implications for the eradication of extreme poverty. Pensioner poverty is a global issue, not just isolated to the developing world. Currently, around half of older adults in the world receive no pension benefit and coverage is lowest in developing countries, particularly for women, informal sector workers and people living in rural areas ((ILO, 2014: 73). Increases in population ageing have created further challenges in relation to eradicating poverty in older age. The number of people aged 65 or older is projected to grow from an estimated 524 million in 2010 to nearly 1.5 billion in 2050, with most of the increase in developing countries (WHO, 2012). Increasing life expectancy (and declining fertility rates in many countries) has led to changes in the age composition of populations. In EU countries there are currently four people of working age for every person over 65. This picture will have changed considerably by 2060 when there will be just two people of working-age for every person over 65 in the EU (European Commission 2010). In the UK in 1981 an average man aged 65 could expect to live to the age of 79, in 2010 he could expect to live to 86. A woman aged 65 in 1981 could expect to live to 83, increasing to 89 for a 65 year old woman in 2010 (ONS, 2012). ONS (2015) projections estimate this trend will continue, with the pensionable age population expected to grow at twice the rate of the working age population and to account for 24 per cent of the total UK population by 2037.

The failure of many EU countries, including the UK, to adapt to these long-run trends, in addition to rising pension deficits exacerbated by the financial crisis, has demonstrated serious weaknesses in the design of many pension schemes and led to concerns about future pension sustainability (Diamond, 2008; EC, 2010). This has accelerated the momentum of change in relation to pensions in a number of EU countries and forced 'policymakers to address pension issues more urgently' (Casey, 2012: 246). As a result pension developments across the EU in particular have largely been characterised by retrenchment of state provision and an increasing emphasis on the role of non-state pension provision as governments transferred public liabilities for retirement income into private hands in an attempt to contain welfare costs (although some countries' governments have also extended help in order to safeguard private schemes) (Ebbinghaus et al., 2012). In the EU and beyond new schemes have also been established, including those with non–contributory protection floors, such as in Nepal and Bolivia, which provide a guarantee of basic income security in older age. These have been promoted by the UNCEB (2009: 31) which advocates a global Social Protection Floor that should ensure 'access to basic social services, shelter, and empowerment and protection of the poor and vulnerable'.

Women and pensions

Governments and the pensions industry face the difficult challenge of satisfying two potentially contrasting demands: to ensure that government pension spending remains stable and also to respond to the needs of the

poorest pensioners, many of whom are women. As such it is important to ensure that pension developments by no means affect women in a discriminatory or disproportionate manner (Curdova, 2010). This is particularly important given that on average the gender gap in pensions in the EU is 38.5 per cent (ECU, 2015) and poverty rates are higher among women than men, particularly in retirement. In the 27 European Union countries women are poorer than men, with the exception of Hungary. For example, the poverty rates for women/men over 65 years of age in Estonia, Latvia and Lithuania are respectively 39 per cent/21 per cent, 39 per cent/22 per cent and 38 per cent/15 per cent, approximately twice as high among women than among men (Curdova, 2010). While the gap is smaller in other countries, it is almost exclusively to the detriment of women. The gendered nature of retirement income evident throughout the EU including the UK, relates to many women's experiences and opportunities to contribute to pensions throughout their life course (Foster, 2011; Ginn and MacIntyre, 2013). Pensions have traditionally been strongly geared to the male-breadwinner model (Grady, 2015). In every region in the world women are more likely than men to have jobs that are characterised by poor pay, insecurity and a lack of basic rights or pension (UN, 2014). The number of workers in vulnerable employment, among whom women are overrepresented, continues to grow, reaching 1.49 billion in developing countries in 2012 (ILO, 2013). Gender inequalities in older age are affected by the provision of care, largely carried out by women, its impact on employment patterns (interrupted work histories, high levels of part-time and low-paid employment) and subsequently women's greater likelihood of reaching retirement with inadequate pension resources (Foster, 2015; Ginn, 2003; Price, 2007). The gendered pay gap in 2005 was 15 per cent on average for the EU-27 (Eurostat, 2005) which has considerable implications for the amount of pension men and women receive. In the UK, as a proportion of men's median full-time hourly pay, women full-timers receive 81 per cent and part-timers only 52 per cent (Pike, 2011). Among mothers with a child aged under sixteen at home in the UK less than a third work full-time (Ginn and MacIntyre, 2013) and career breaks have an effect on income and pension contributions, even amongst the most highly qualified (Ginn, 2003). In the UK 54 per cent of men and 58 per cent of women working full-time were members of an occupational pension scheme, but for women employed on a part-time basis, only 30 per cent were members emphasizing the effect of employment status on pension contributions and subsequent income in retirement (ONS, 2014).

First-tier Pensions

In the EU a number of measures have been introduced over recent years to reduce or stabilise first-tier pension spending especially through reduced eligibility (Casey, 2012). These were largely in accordance with the European Commission's 'Ageing Report', which maintained that raising the retirement age, restricting access to early retirement schemes, and stronger links between pension contributions and pension benefits may create a better incentive to remain in the labour market. Tightening eligibility criteria for public pensions is expected to constrain the growth in public pension expenditure in almost every EU Member State (EC, 2010). Reductions in the eligibility of state pensions serve to erode their redistributive function, as women are more reliant on statutory pension provision as a result of their tendency to have irregular employment (Curdova, 2010). At the same time a number of countries have introduced measures to improve old-age protection for those at risk of poverty, among whom women are overrepresented.

The most common development in state pensions over recent years concerns increasing the age at which the state pension is received for men and women. For instance the UK announced a phased increase in the pension age to 66 in 2020 (for men and women) and in France, the government announced plans to lift the pension age from 60. This may also be problematic for women (and men) who have already made work, saving and retirement decisions based on having a particular state pension age and who may not be able to adjust to the receipt of a state pension at a higher age by working or saving for longer (PPI, 2012). Given significant differences in employment rates of women and men aged 55–64 (41 per cent compared with 59 per cent) in the EU, particular attention needs to be given to gender aspects of longer working lives (EC, 2012; Foster and Walker, 2013). In 2011 in the UK the employment rate for men was 74 per cent for those aged 55 to 59 and 55.2 per cent for those aged 60 to 64. For women aged 55 to 59, who were nearing the State Pension Age, the employment rate was 65.6 per cent. It fell substantially to 34.2 per cent for those in the 60 to 64 age group, which mainly comprised of women who are over State Pension Age (ONS, 2012). According to the European Commission's (2009) 'Ageing Report' the participation of women (55–64) is expected to increase to about 58 per cent by 2060 and to 67 per cent for men. This still leaves a considerable shortfall for many between the age at which they retire and the age at which they can start to draw their pension.

A number of changes to pension benefits have also been introduced over recent years in the EU. These include: increasing or changing contribution periods (such as in Spain where the last 25 years rather than 15 years has been used as a base), a practice which will inevitably disproportionately affect women given the challenges they often face in building a contributions record (Ginn and MacIntyre, 2013); and, in extremis, cutting current pension benefits (which is again likely to hit women hardest given their greater reliance on public pensions). For instance, in Greece, major changes in state pensions were a condition of receipt of EU/International Monetary Fund (IMF) assistance in 2010 (Casey, 2012; Orenstein, 2011). These reform measures to improve sustainability have largely led to the reduction of pension rights of workers and affected most those who have the greatest reliance on public pensions (Curdova, 2010).

While eligibility criteria have been tightened in a number of EU countries, first-tier pensions have been increased in

some to act as automatic stabilisers 'as a means of mitigating the potential social consequences of the negative state of the economy' (Natali, 2011: 5). Automatic stabilisers may be of greatest benefit to women as they offer protection for those most in need. Some countries have created special payments to older people. For example, Greece has made a one-off payment to people on low incomes, including pensioners, of between €100 and €200 (D'Addio and Whitehouse, 2010). In Portugal the indexation of pension benefits has been revised in a more favourable manner (Natali, 2011) and Finland proposed a substantial change from 2011, with the introduction of a new safety net old age income 23 per cent higher than the existing benefit (Whitehouse, 2009). In the United Kingdom, indexation of the Basic State Pension (BSP) and the Pension Credit, targeted at those with low-incomes (500,000 extra women than men are reliant on these), have become more generous (Foster, 2012). In 2011, the UK government also announced its intention to combine the BSP and State Second Pension (S2P) into a flat rate Single-Tier Pension (STP) from 2016 set at about the rate of the basic level of means-tested support provided by the Guarantee Credit level in the means-tested Pension Credit, at £151.25 per week (in 2015/16 prices). Women with low lifetime earnings are likely to be the major beneficiaries as it will ensure most working-age women receive a pension slightly above the level of means-tested entitlement, regardless of their lifetime earnings. However, women who would otherwise have accrued state pension entitlements above this through S2P will actually be worse off (Ginn and MacIntyre, 2013). Although the STP will ensure that most women will have a state pension in their own right in retirement, it is apparent that women will be less likely than their male counterparts to receive the full amount. This is as a result of the stipulated 35 years of National Insurance (NI) contributions or credits required for receipt of the full STP, which is less likely to be achieved by women, given their greater likelihood of time out of employment which does not qualify for NI credits (Ginn, 2013). Furthermore, those who have fewer than 10 years of contributions or credits will not receive a state pension under the STP scheme. There are large proportions of women in the UK who are already retired or due to retire in the near future who will not be eligible for the STP and will continue to receive the state pension in its current form (PPI, 2013). If the STP were to include those reaching the State Pension Age prior to 2016, including existing pensioners, by 2025 this would reduce the projected percentage of pensioners living in relative poverty from around 11 per cent of pensioners under current policy to around 7 per cent, rather than 10 per cent when just including those reaching the State Pension Age post-2016 (Carrera et al., 2012).

Second and third-tier pensions

Private pensions have traditionally generated a wider gap between older men and women's personal income than arose from state pensions alone. Private pensions serve to translate women's labour market disadvantages into low income in later life (Ginn and MacIntyre, 2013). In effect they magnify existing labour market inequalities such as those experienced by women. The role of private pension funds has been at the core of a renewed and intense debate over recent years, with different strategies pursued in different countries in the EU. Some countries have pursued the attempt to reinforce the public/private mix. This is the case in France, Sweden and the UK, for example (Natali, 2011). This is likely to exacerbate the challenges women face in accumulating a pension comparable with their male counterparts (Foster, 2012). In contrast, some Central and Eastern European countries in particular (such as Poland) have looked at limiting the role of private pension funds through the reduction of statutory contributions for private pensions with a parallel increase in those used for public pension schemes. This is not an isolated case among Central and Eastern European (CEE) states (Natali, 2011). Hungary, for example, has recently re-nationalised private pension schemes (Casey, 2012). Although there are considerable long-term benefits of pension privatisation for governments since they take pension liabilities of government books, in the short term the transition to private pension schemes requires paying burdensome transition costs. At times of fiscal austerity, short-term fiscal pressure may make governments unwilling to cover these costs (Orenstein, 2011). Ultimately this may benefit women as there is generally less emphasis on individual responsibility for pension provision in state schemes (Foster, 2012, 2014).

The move towards defined contribution (DC) schemes from defined benefit (DB) schemes has sped up in many countries. In DB pensions financial and longevity risks are borne by the scheme sponsor as benefits to members are usually based on a formula linked to members' wages and length of employment. Benefits to members in DC schemes are a function of the amount contributed by the member and sponsor and any return on that investment. Recent falling equity prices and declining annuity rates mean that a larger DC fund is now required to provide a decent retirement income (Foster, 2010). However, it is also worth noting that in 2011 the European Court of Justice banned gender-based risk calculations, meaning that unisex insurance contracts, including annuity rates, must be applied to private pensions which are likely to benefit women as a result of their greater longevity (Ebbinghaus and Whiteside, 2012). The move towards DC schemes represents a change from a more buffered system to an individualised exposure to financial market risks (Ebbinghaus and Wiß, 2011). DB schemes are also more likely to include benefits for spouses on death (Disney et al., 2009). Therefore, women's greater longevity compared to men means that the move towards DC schemes is likely to have further consequences for women on the death of a spouse given that annuity purchases tend to be for single annuities (Ginn, 2003). This is potentially problematic for those women unable to gain a decent pension in their own right (Ginn and MacIntyre, 2013).

In the UK automatic enrolment of individuals into a low-cost saving scheme was introduced in a phased manner from July 2012 (there are similarities with the Kiwisaver launched in New Zealand in 2007) in order to offer access to a portable occupational pension to millions of people without access to good-quality workplace provision, while

allowing existing schemes with benefits or contributions above the National Employment Savings Trust (NEST) (the default option auto-enrolment scheme) minimum to continue. Employees who are eligible in terms of age and earnings are automatically opted into the scheme chosen by their employer but may withdraw. Minimum contributions are being gradually increased and will be set at 4 per cent for the employee, 3 per cent for the employer and 1 per cent in tax relief by 2018. It is estimated that around 11 million people will be eligible, with six to nine million people newly saving or saving more (DWP, 2013). The stated logic behind auto–enrolment is that while structured advice and information may improve understanding, behavioural barriers, including myopia, cynicism and inertia, all inhibit pension saving (Foster, 2012). In the UK the introduction of auto-enrolment will increase the numbers of lower earners saving into pensions. However, the NEST, the default auto-enrolment option, incorporates DC-type features of investment choice and individualised risk (Strauss, 2008). As such, extra saving may not be advisable, due to its potential interaction with means testing (Price, 2007). Many low to middle earners will lose where employers reduce their pension contributions to minimum levels: about half the average made by employers who now operate a scheme. Employees earning below £10,000 pa are not auto–enrolled although those earning between £5,772 pa and £10,000 pa may choose to opt in. Those earning below £5,772 pa may opt into NESTs but they will not attract an employer's contribution (figures are reviewed annually). This may incentivise employers to keep wages low and restrict hours of work. As in other private pensions, no credits are provided for periods of family care for children or parents.

Recommendations

The adverse implications for many women, particularly those with caring commitments, of the move towards greater individual responsibility in pension saving (with increasing moves towards DC schemes) in many countries in the EU is particularly problematic. It has repercussions for income in older age, creating new challenges and risks (EC, 2010). These risks are not experienced equally (Strauss, 2009). Private pensions tend to reproduce (or even amplify) market-income inequalities existent during working life in the period after retirement, while public insurance provides more universal and redistributive benefits by mandating wide coverage and by pooling risks (Ebbinghaus, 2011). It is important to ensure that the design of pension schemes does not result in them performing in a way which adversely affects women, a situation which is occurring in a number of EU countries, including the UK. A number of possible ways forward may be suggested. These will assist the 2030 agenda for sustainable development which aims to*, 'by 2030, eradicate extreme poverty for all people everywhere'*.

- **Public Pensions** - Appropriately financed sustainable public pensions based on strong legal regulatory frameworks can ensure a basic standard of living for all pensioners (above the poverty line) if they are provided at a satisfactory level to all citizens. They can form the foundation which, in turn, encourages the build-up of supplementary entitlements through occupational and personal schemes (EC, 2010). In essence pensions should 'ensure that all people have access to essential goods and services' (ILO, 2012: 6). As such there is a need for universal rights-based entitlements (UNRISD, 2015). This would benefit a larger number of women than men given their greater likelihood of being in pensioner poverty than their male counterparts. A Social Protection Floor (SPF) can assist in this process by providing a basic income security for people in older age as advocated in the SDGs. National SPFs are context specific. As such they have to be carefully designed, tailored and adapted to country contexts. A sufficient universal entitlement can prevent declines in physical and mental health and engagement with other welfare services.

- **Employment** - There is a need for policies which facilitate women's employment at all stages of the life course. For instance, improvements in paternity leave, training opportunities, as well as in-work financial support and the provision of sufficient affordable childcare of a good quality to provide women with choice in their employment patterns are required. There is a need for pension systems to consider the role of self-employed and informal workers, for instance the large number of women undertaking informal caring responsibilities. Pension systems are often contributory systems that only cover formal sector workers with sufficient disposable income to make regular contributions. This population constitutes a small elite in most developing countries (HelpAgeInternational, 2012).

- **Working longer** – If people are expected to work longer this needs to be accompanied by policies to facilitate this. These will need to be accompanied by policies to eradicate age discrimination (particularly common among women), promote life-long learning, flexible retirement pathways and healthy job opportunities for older workers (Foster and Walker, 2013). Measures that combat age barriers and/or promote age diversity in encouraging women to work longer are important. However, most age management policies are gender-blind. Gender-specific age management strategies could be invaluable in view of the discrimination faced by older women, who are often seen as older earlier (Duncan and Loretto, 2004). While workplace discrimination based on age is prohibited in EU-legislation, the application of the EU Directive is variable (Walker and Maltby, 2012). Effective legislation needs to take into account the varied and complex nature of gendered age discrimination.

- **Care credits** – More extensive care credits can help to avoid the penalty for caring years incurred in both public and private pensions. For instance fully portable pay-as-you-go schemes, which include carer credits as in many

state pensions (through either cross-subsidy or a grant from the Exchequer in lieu of tax relief), could be implemented thus avoiding the penalty for caring years incurred in private pensions (Ginn and MacIntyre, 2013; Townsend and Walker, 1995).

- **Pensions education** - More widely, engagement and education (including independent advice) is also important given low levels of understanding among women (and many men) in relation to pensions to raise awareness about eligibility and opportunities. There is a need to improve educational resources and access to information and advice that is designed to resonate with a female audience and is delivered at key trigger points, such as career breaks. This would assist women who are less confident about making pension decisions. It is vital to encourage women to save in their own right rather than being reliant on a partner, especially given increased divorce rates across the EU. In the UK the number of divorces has risen from 11 per cent of the number of marriages in 1948 to about 50 per cent in 2012 (DWP, 2013). Therefore, creating pension schemes which are simple to comprehend, low cost and suited to the modern workplace is vital to address the ageing transition. Pensions advice needs to be more specialised, tailored towards individual needs including those of the poorest pensioners, among whom women are over-represented (Waine, 2009).

- **Education** - Combating gender segregation in education is important given that it can affect career choices and gender segregation in employment, including by promoting the presence of more women in higher paid decision-making positions. There is a need to combat gender stereotypes and encourage girls and boys/women and men to choose educational fields and occupations freely, in accordance with their abilities and skills (ECU, 2015).

- **Visible activities** - Current notions of 'productive' or 'active' ageing through extending working life are simply too narrow to portray women's circumstances or to assess adequately their contribution to society. For example Loretto and Vickerstaff (2015) found that many of the older women in their study were working flexibly and productively, but invisibly, on an informal basis. Moreover, much of this unpaid work is arguably even less visible than that undertaken by younger women because caring responsibilities for the elderly are viewed as less legitimate than obligations to small children, with the result that this type of caring is often hidden from employers. It has implications for one's capacity to contribute to a pension.

- **Inclusive measures** - Current female pensioners are particularly at risk of poverty in many countries. Therefore it is important that pension developments do not purely focus on future pensioners, but also take into account the situation of current pensioners. For instance, in the UK existing pensioners should be allowed to opt into the STP. This would have a significant impact on current pensioner poverty rates.

- **Gender mainstreaming –** Gender mainstreaming involves the systematic attempt to embed gender equality in governance and culture (Rubery, 2005). This means systematically examining policies and taking possible gender effects into account when implementing them. This could help to ensure that the pension agenda is not a gender neutral one. Despite its potential, gender mainstreaming has not led to the desired transformative change as it has been obscured by piecemeal implementation. In effect, a gender lens analysis, applied to all policy areas regardless of perceived relevance to gender, may need to be incorporated in order that any effects across disparate groups of women are visible (Foster and Walker, 2013; Lewis, 2006). An approach with a transparent organisational structure with enforcement mechanisms has the potential to benefit women of all ages and ensure that policies undergo a comprehensive analysis through a gendered lens.

Conclusion

Ensuring that pension spending remains sustainable, while reducing pensioner poverty represents an enormous challenge. Policy needs to recognise women's diverse life course experiences while encouraging women, wherever possible, to build up pensions in their own right (Foster, 2011). Pension policy needs to take into account the realities of women's lives which are often fragmented, steering pension policy away from traditional patterns of male employment (Peggs, 2000). It is important to understand that contributions to pensions during people's working lives depends, among other things, on the pension offered by their employer, the pension requirements in place at a given time and immediate financial needs (Gough, 2004). This has inevitable implications for levels of pension contributions and subsequently pensions in retirement. However, as Villa and Smith (2010: 53) state, 'there has often been a gender-blind approach at the European and Member State level'. Thus far pension reform measures in the EU to improve financial sustainability have largely led to the reduction of pension rights and been more negative for women than for men (Curdova, 2010).

The recommendations proposed in this report are aimed at '*creat(ing) sound policy frameworks at the national, regional and international levels, based on pro-poor and gender-sensitive development strategies, to support accelerated investment in poverty eradication actions'* in relation to pensions and older people. At the same time

policies oriented to improve gender equality in old age need to be carefully designed, considering country-specific features, including labour markets, demographic patterns, institutional configuration and fiscal space, as well as family structures and women's life-course patterns (Azra, 2015). It is also vital that countries invest in satisfactory SPFs to help put the focus on the core function of pension systems, to guarantee income security to all. Policies that have established adequate minimum protection floors, extended pension rights to previously uncovered groups and made access to benefits for non-standard or informal workers more flexible have the potential to contribute to enhancing women's rights to old age pensions (Azra, 2015).

While this report has identified a number of recommendations which, if implemented appropriately, have the potential to reduce gender inequalities in retirement and address the SDGs, more work needs to be done on taking these measures forward. Indeed, there is a need for an in-depth discussion about pension systems in the EU and beyond which places the position of women at the heart of these debates.

References are available on request.