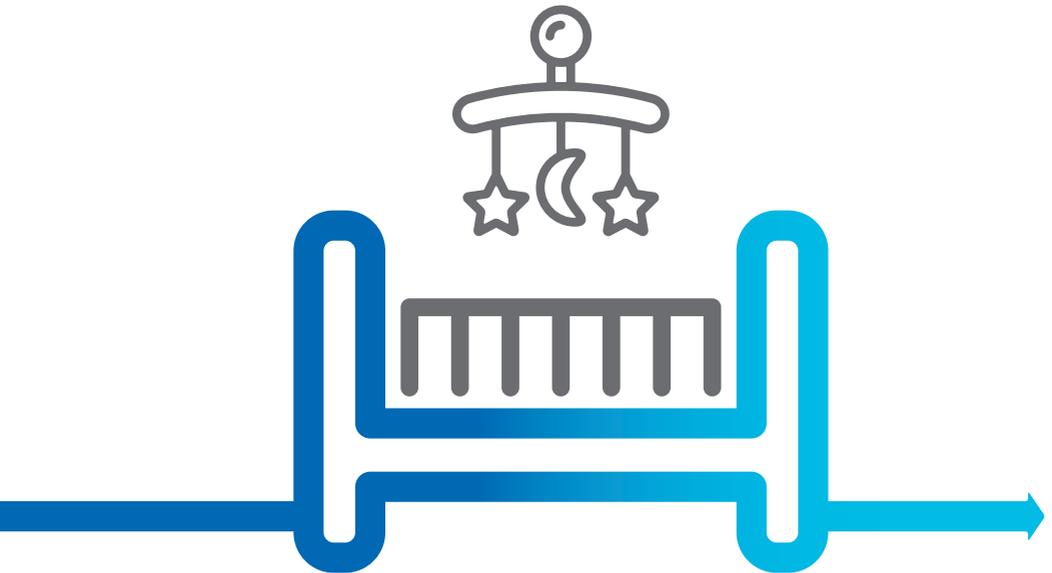


# The Gender Pensions Gap

Tackling the motherhood penalty



For people, not profit

the  
people's  
pension

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# About us

**B&CE is the provider of the People's Pension, a not-for-profit master trust which delivers a workplace pension to more than 4 million mostly low and medium income savers. B&CE is a not-for-profit provider of straightforward financial products, founded by construction industry employers and trade unions in 1942. We have recently completed the transfer of nearly half a million customers from our legacy contract based DC arrangement to The People's Pension master trust because of the higher governance standards and lower charges of the latter.**

# Introduction

Reports from pension providers usually focus on pensions and pensions alone. This report is not like that. As with any financial product or service, pensions link into the wider economy and into other aspects of everyday life in ways that, sometimes, we just cannot ignore. That's true about the interactions between pensions, investment and climate change. It's also true about the way that automatic enrolment links to wider debates about fairness in the UK labour market and, through that to debates about gender and fairness.

This report looks at the historic differences between men's pensions and women's pensions and whether they will be repeated in the future. Women have historically received a poor deal from workplace pensions. Often they received no pension at all from work and, where they did, it was often less generous in retirement than those of men.

Automatic enrolment is not likely to produce a future that is as unequal as the past but intentionally excludes the lowest paid part time workers, who are usually women. More lower paid workers should be brought into auto enrolment – we explain how below – to make auto enrolment fairer to women who could benefit from building up their own pension pot. This will help. But there is a bigger issue which structures the gender pensions gap. Workplace pension saving is tied to pay and rates of pay and pay progression are worse for women than for men.

As such policy must reach beyond the traditional confines of pensions policy and look in much more detail at what is happening in the labour market. Work on the gender pay gap tends to show that while a pay gap emerges between men and women before a woman has a child, this gap is comparatively small. As women frequently take on the bulk of child care, they tend to take on part time roles or not work at all. It seems that working part time has an enduring impact on rates of pay and progression such that reducing work to care for children has a permanent negative impact on a woman's earning potential that will also negatively affect her pension savings.

Drawing on UK and international evidence and featuring a new analysis of how women themselves feel about the barriers they continue to face in combining career and children, what emerges from our report is the crucial importance in a complex area of affordable childcare.

Nearly half of the women surveyed reduced their hours after having children, and more than a third left work altogether. Of those that left the workforce altogether nearly half said it did not make financial sense to work. Likewise, for mothers who remained in work but want to work more hours the cost of childcare is crucial. More than 1/3 of women who returned to work after having children but who had reduced their hours said that the availability of suitable and affordable childcare would encourage them to work more hours.

We hope this wide ranging in depth study is a useful addition to the growing debate around gender and fairness in our economy. Government must focus on bringing down the cost of childcare if the pensions gender gap is to be closed.



# Executive summary

Pension providers are increasingly alert to the sheer size of the gender pension gap.

**By the time a woman is aged 65 to 69, her average pension wealth is £35,700, roughly a fifth of that of a man her age, according to a study at the end of 2018 conducted by the Chartered Institute of Insurance (CII)<sup>1</sup>**

A recent report by the trade union Prospect found that the gender pensions income gap (39.5%) was more than double the size of the total gender pay gap (18.5%), with the average female pensioner £7000 p.a. poorer than their male equivalent.<sup>2</sup>

This inequality in the present is the result of the unequal accrual of pension entitlements over decades. It is mainly the product of women's lower state pension entitlement, the gender pay gap, lower historic access to workplace pensions and increased time out of the labour market to care for children and other family members. The challenge for pensions policy is to ensure that this historic inequality does not persist into the future.

Reforms to state pension entitlement should over the long term largely remove the state pension as a source of future inequality. But other interrelated factors: caring responsibilities, the gender pay gap and lower levels of entitlement to workplace pension saving through automatic enrolment may continue to combine to reduce women's retirement income in the future. This is in spite of the considerable progress made by automatic enrolment in increasing women's access to pension saving. Since 2012 the proportion of eligible women saving into a workplace pension has risen by 40 percentage points.

Workplace pensions are tightly tied to pay as pension contributions are typically a percentage of pay. As such, the pensions gender gap is largely a function of the gender pay gap. This has two angles to it: first the pay gap itself and second, the interaction between women's lower pay and the earnings trigger for automatic enrolment. Many women are out of scope of workplace pension saving because they earn below £10,000 – the threshold for automatic enrolment to kick in.

<sup>1</sup> CII: [https://www.cii.co.uk/media/9224351/iwf\\_momentsthatmatter\\_full.pdf](https://www.cii.co.uk/media/9224351/iwf_momentsthatmatter_full.pdf)

<sup>2</sup> Tackling the gender pension gap, Prospect, Nov 2018.

Recent studies show that the biggest single reason for the gender pay gap are changes in women's working patterns as a direct or indirect consequence of motherhood. A gender pay gap exists between men and women before the birth of children, but it is comparatively small. The gap grows once women become mothers and, either voluntarily or involuntarily reduce their work commitment in order to look after children.

Often, women reduce their hours to look after children and find that their earnings then grow at a much slower rate than that of comparable men. This seems to be due to a complex blend of factors, which seem to centre on the lack of pay and skills progression in part time work. This slower rate of earnings growth, combined with lower pay, will result eventually in lower retirement incomes as a result of lower pension contributions.

The gender pay gap, can partly be seen as a product of unequal attitudes to parenting. Women take on the bulk of caring responsibilities and bear the consequences of the "motherhood penalty" in their subsequent careers, pay progression and retirement savings. This issue is only likely to be resolved when men take an equal role in parenting and take equivalent time out of the labour market. The means of engendering a massive shift in societal attitudes to parenting run beyond the scope of this paper.

In order to better understand decisions about work and childcare, the People's Pension commissioned primary research. This looked at barriers and motivations to returning to work. It also looked at what women say they want after having children. This sort of research is useful as it may help guide the sort of solutions that could close the gender pay gap and with it the gender pensions gap.

Our research shows three main things:

- First, the decisions that women and their partners take after the birth of children are complex and there are often many factors at play. The survey suggests that choices about work are a balance of what people want and what they can afford.
- Second, women reducing their hours or stopping working after having children tend to have done so because they wanted to spend more time with their children.
- Third, access to affordable childcare emerges as the main obstacle for women who want to work or work more after having children.

From a policy perspective, there are two angles to explore. The first is understanding in more depth why time out of the labour market to care for children has such a serious and permanent impact on earnings potential. A majority of the women who stop work or reduce their hours after having children do so because they want to and it is probable that women will continue to want to do this in the future. It does not follow from this that these women know that the consequences for their future earnings will be as serious as historic data suggests that they are. Given that women will likely want to continue to stop working or work less in order to spend time with their children, policy makers will need to better understand how to encourage pay and job progression in part time work and from part time work.

Others want to work more and are prevented from doing so by the cost of childcare.

Childcare is too expensive in Britain.

**Families in the UK spend on average an astounding 1/3 of their household income on childcare compared to the OECD average of 13 per cent.<sup>3</sup>**

<sup>3</sup> OECD, Society at a Glance, 2016

Save the Children estimate that almost 90,000 mothers are directly missing out on opportunities to work or increase their hours because of problems with the childcare system, to the tune of £1.3 million in lost earnings every day.<sup>4</sup> Childcare costs amount to a tax on working mothers.

## Recommendations

Our package of recommendations for improving childcare provision are based on making sure every parent who wants to work is better off after paying for childcare:

1. A single, specific ear-marked grant to local authorities to cover the real cost of the guaranteed 30-hours per week childcare for all 3- and 4-year olds. The grant should take account of the numbers of children under the age of 5 in each local authority and not be based on some generalised population formula. It should be reviewed periodically.
2. Bring nurseries back to high street locations up and down the country. Britain has dying high streets with vacant shops all over. The opportunity to convert these to suitable nursery space must be examined. Often, high streets have good access to public transport, making it easier for parents to drop off and retrieve children while commuting. Indeed, the Local Authority could become the tenant if it received an additional grant from central government to do so. The payback for councils is that such an activity is likely to boost footfall in the high street and be a boon to local businesses. Landlords owning other properties nearby would also benefit.
3. Exempt private nurseries from business rates to further widen access to the guaranteed 30-hours per week childcare for all 3- and 4-year olds.
4. Increase the maximum amount of childcare costs paid for under Universal Credit to ensure parents are better off for every extra hour worked and switch to up-front payments for childcare so that parents can afford to begin work
5. Flat rate tax relief on childcare costs to help bring down the cost of childcare for children aged under 3 years. The biggest users of full-time childcare for children under age 2 are not the lowest wage earners and are generally in households with 2 working adults. If flat rated at 25 per cent of wages, the median tax rebate for childcare would be £2,600. That is more generous than the existing and confusing Tax-Free Childcare scheme (which gives up to £2,000).

<sup>4</sup> Save the Children (2018) 'Lost incomes, lost opportunities: why families in England need further reform of childcare and early education to get into work'.

Building on the success of auto-enrolment and making it work for women is crucial. Most women in the poorest 40 per cent of households have zero pension wealth. Men on median incomes have pension pots ten times bigger than women earning the same.<sup>5</sup> We recommend:

We recommend:

1. Cutting the earnings trigger to the primary National Insurance threshold of £8,628 bringing in half a million new pension savers, three-quarters of whom would be women.<sup>6</sup>
2. Setting a time table for the removal of the lower qualifying earnings band so that all those automatically enrolled contribute from the first pound of earnings. That reform will also remove the entitled worker category ensuring that all those earning below the earnings trigger who opt in to automatic enrolment will be entitled to an employer contribution.
3. Abolishing the net pay anomaly to increase the pensions savings of the 1.75m low earners estimated to be affected, two thirds and three quarters of whom are likely to be women.
4. Consideration should also be given to extending the existing system of state pension carers credits to auto-enrolment reducing the pensions gender gap in auto-enrolment savings.

<sup>5</sup> CII, <https://www.insuringwomensfutures.co.uk/wp-content/uploads/2018/01/Risks-in-Life-Report.pdf> p. 61  
Department of Work and Pensions: Review of the Automatic Enrolment Earnings Trigger and Qualifying Earnings Band 2019/20: Supporting Analysis

<sup>6</sup> file:///C:/Users/gym/AppData/Local/Microsoft/Windows/INetCache/Content.Outlook/RDG6FT2P/AE\_Earnings\_Trigger\_and\_Qualifying\_Earnings\_Band\_2019\_Review.pdf

# The motherhood penalty

The drive for gender equality is increasingly central to social, economic and political debate. In pensions policy, the scale of the issue is stunning. A recent report by the trade union Prospect found that the gender pensions gap (39.5%) was more than double the size of the total gender pay gap (18.5%), with the average female pensioner £7000 p.a. poorer than their male equivalent.<sup>7</sup>

**By the time a woman is aged 65 to 69, her average pension wealth is £35,700, roughly a fifth of that of a man her age, according to a study at the end of 2018 conducted by the Chartered Institute of Insurance (CII).<sup>8</sup>**

This inequality in the present is the result of the unequal accrual of pension entitlements over decades. It is mainly the product of women's lower state pension entitlement, the gender pay gap, lower historic access to workplace pensions and increased time out of the labour market to care for children and other family members. The challenge for pensions policy is to ensure that this historic inequality does not persist into the future.

Reforms to state pension entitlement should largely remove the state pension as a source of future inequality. But other factors: caring responsibilities, the gender pay gap and lower levels of entitlement to workplace pension saving through automatic enrolment may continue to combine to reduce women's retirement income in the future.

The gender pay gap for full-time employees is at a record low, falling to 8.6 per cent in 2018 from 9.1 per cent in 2017. For full-time employees aged between 18 and 39 years the gap is close to zero.<sup>9</sup> But six out of ten mothers who return to work after children opt for part time work, and women working part-time are on average paid 1/3 less than full timers. The average hourly rate for part time women is £9.36 compared with £14.31 for full time workers.<sup>10</sup> 5.4 million women work part-time but just 1.7 million men.<sup>11</sup> 44 per cent of the 5.4m women working part-time said they had downgraded occupations to do so.<sup>12</sup> Indeed, the overall gender pay gap when including part timers is 18 per cent.<sup>13</sup>

<sup>7</sup> Tackling the gender pension gap, Prospect, Nov 2018.

<sup>8</sup> CII: [https://www.cii.co.uk/media/9224351/lfw\\_momentsthatmatter\\_full.pdf](https://www.cii.co.uk/media/9224351/lfw_momentsthatmatter_full.pdf)

<sup>9</sup> ONS, Gender Pay Gap in the UK 2018, Oct 25 2018: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/genderpaygapintheuk/2018>

<sup>10</sup> CII: 'Securing the financial future of the next generation'.

<sup>11</sup> ONS, Gender Pay Gap in the UK 2018, Oct 25 2018: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/genderpaygapintheuk/2018>

<sup>12</sup> The economic disincentive to working full time is obvious - in a contributory pensions system this has disastrous consequences for women's pension savings.. Citing evidence from the Chief Secretary to the Treasury.

<sup>13</sup> House of Commons Library, 'The Gender Pay Gap', 8 Nov 2018: <https://researchbriefings.files.parliament.uk/documents/SN07068/SN07068.pdf>

The gender pay gap crystallises as men and women enter their 40s, when women return in greater numbers to the workplace with their kids reaching school age. The Chief Secretary to the Treasury, Liz Truss MP, told the Treasury Select Committee last year that:

**“If a parent is not able to go out to work when they want to and there is a gap in their CV, all the evidence is that they would tend to miss out on career opportunities as a result. For women, hourly wages on return to employment are £2 lower for every year out of work, which indicates what we are losing.”<sup>14</sup>**

Men’s earnings continue to rise after the birth of their first child but women’s earnings stagnate, meaning the gap widens when they become parents, and continues to widen until their children are in secondary school.<sup>15</sup> According to the IFS:

**“By the time their first child is aged 20, women have on average been in paid work for three years less than men and have spent ten years less in full-time paid work.”<sup>16</sup>**

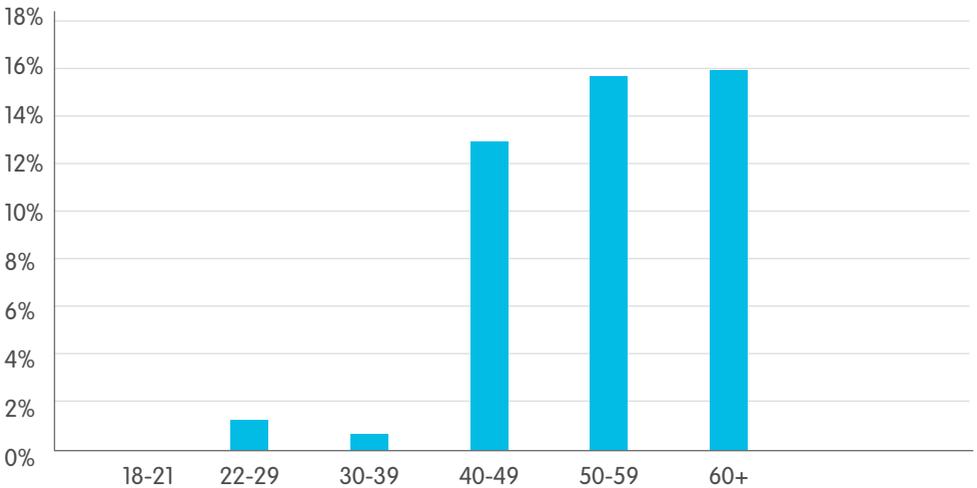
<sup>14</sup> Treasury Select Committee enquiry into Childcare, HC 757: <https://publications.parliament.uk/pa/cm201719/cmselect/cmtreasy/757/757.pdf>

<sup>15</sup> Institute of Fiscal Studies (IFS) The gender pay gap in the UK: Children and experience in work, 2018

<sup>16</sup> IFS Wage progression and the gender wage gap: the causal impact of hours of work, 2018

Official data on men’s and women’s pay go some way to highlighting this gap. The Office for National Statistics Annual Survey of Hours and Earnings publishes a calculation of the Gender Pay Gap by age groups. The numbers below apply to full-time employment.<sup>17</sup>

Figure 1: Women’s gender pay gap by age



Source: ONS

Even when we look at specific groups of jobs for full time workers, there is a gender gap that generally rises after women who have been on maternity leave begin to return to the workforce.

<sup>17</sup> ONS DataSet: Gender Pay Gap <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/annualsurveyofhoursandearningsashegenderpaygaptables>

Figure 2: Gender gap by select jobs and ages - Associate professional and technical occupations

Age group	Median pay gap
18-21	0.5%
22-29	4.1%
30-39	8.6%
40-49	12.8%
50-59	17.3%
60+	20.1%

Figure 3: Gender gap by select jobs and ages - Business & public service associate professionals

Age group	Median pay gap
18-21	-1.4%
22-29	6.6%
30-39	11.7%
40-49	14.5%
50-59	19.9%
60+	23.3%

Figure 4: Gender gap by select jobs and ages - Teaching and educational professionals

Age group	Median pay gap
18-21	-24.8%
22-29	-0.7%
30-39	2.4%
40-49	9.8%
50-59	4.8%
60+	9.6%

Figure 5: Gender gap by select jobs and ages - Sales and customer service occupations

Age group	Median pay gap
18-21	4.4%
22-29	-1.3%
30-39	4.1%
40-49	9.6%
50-59	9.0%
60+	9.9%

Figure 6: Gender gap by select jobs and ages - Process, plant and machine operatives

Age group	Median pay gap
18-21	0.0%
22-29	13.0%
30-39	17.9%
40-49	23.2%
50-59	20.9%
60+	20.3%

The gender pay gap accelerates from age 40 onwards as pay rises and promotions which otherwise would have gone to mothers accrue to those with unbroken full-time employment histories.

Women now contribute the majority of university graduates and holders of certificates of tertiary education. Of all those qualifications 436,055 - roughly 58 per cent – were awarded to women. Women are not only surpassing men in acquiring tertiary education, they are doing so in fields of study that have historically been dominated by men. For example, among those awarded degrees in medicine and dentistry in 2016/17, 56 per cent are women. When all sciences degrees at university level are aggregated – including those such as computer sciences where men still dominate - women are still the majority; they account for 51 per cent of university degrees in these subjects.<sup>18</sup>

<sup>18</sup> Higher Education Statistics Authority: <https://www.hesa.ac.uk/news/11-01-2018/sfr247-higher-education-student-statistics/qualifications>

Not only have these graduates invested capital in borrowing the funds to pay for tuition fees and living expenses while studying, they have invested their 'human capital' in the hard work needed to obtain valuable credentials. Women who have invested as heavily in tertiary education as their male counterparts are not only likely to be unable to earn as much over their lifetime, but they will – and do – accumulate much smaller pension pots to provide an income upon retirement.

Women today (graduates and non-graduates), like their mothers and grandmothers before them, continue to find their broken work histories and lower pay translated into poorer pensions. Not only are women's wages lower than they might have been had they not taken time off to have children or care for wider family, they are less likely to have been contributing to an occupational pension that could build up investment returns until they retire. The more years a pension pot remains in place with regular contributions, the higher the compounded investment returns that are available to deliver income in old age.



# Women's labour market choices: survey research

In order to understand the choices women make after having children, we commissioned a survey, focusing on women's labour market behaviour after their children were born. All of the women surveyed had at least one child under ten.

Immediately prior to the birth of their first child, 74 per cent of women in our sample were working full time. After having children, only 24 per cent returned to work on the same hours with 44 per cent returning to work on reduced hours and 36 per cent leaving the labour market altogether.<sup>19</sup>

A sizable minority (45 per cent) returned to work in their previous role, a small minority (5 per cent) returned to work in a more senior role, 15 per cent returned to work in a more junior role and 5 per cent became self employed.

For those who returned to work after having children but who had reduced the hours they worked, 38 per cent said that the availability of suitable and affordable childcare would have encouraged them to work more hours. 31 per cent said that family and friends being available to help with childcare would have made a difference to their worked hours and 28 per cent said that flexible working would have made a difference.

Location of childcare emerged as a factor too with 21 per cent citing suitable childcare conveniently located as something that would have encouraged them to work more hours and therefore build up a bigger pension pot. 18 per cent, meanwhile, suggested that they would have been more likely to work more hours if their partner had been able to change their working arrangements. For 39 per cent, there was no intervention that would have encouraged them to change their behaviour and work more.

A different pattern emerged for those who had either taken a more senior role when returning to work or who had returned to the same role with higher hours. For these women, 42 per cent benefitted from family or friends looking after their children, 34 per cent benefitted from flexible working and 31 per cent cited affordable childcare as a factor. If women are able to remain in the same role or progress in their careers, they often have family support. Partners' actions were important for a small minority with 14 per cent reporting that their partner was responsible for childcare.

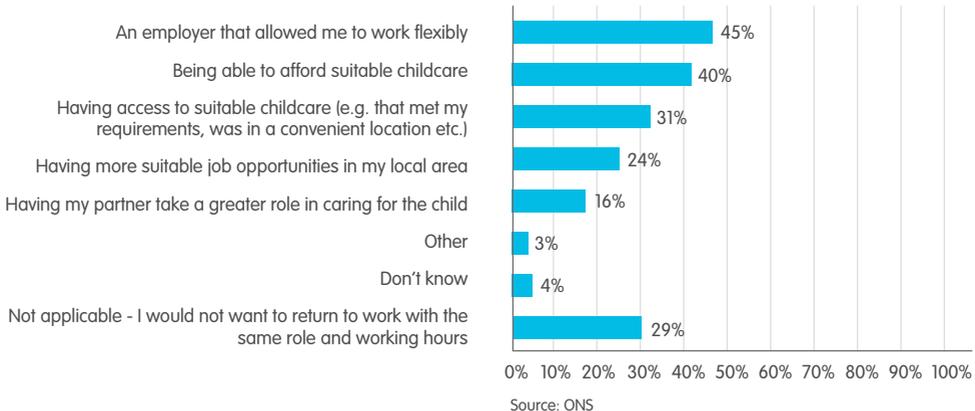
For those who reduced their hours after the birth of their children, the most important reason for not working full time was to spend more time with their children (65 per cent). The cost of childcare emerged as a serious issue for 36 per cent. With most women having given more than one reason, though, it is clear that this was a complex decision for most with more than one factor present. It is also clear from the survey that women often made different decisions after the birth of each child.

<sup>19</sup> Percentages do not sum to 100 as the question design allowed women to select multiple options to allow for different actions after the birth of more than one child.

This was also the case for those who had stopped working entirely after having children, with 67 per cent saying they want to spend more time with their children. As with those who had reduced hours, this was clearly a decision with more than one factor. Cost of childcare emerged again as an important component of the decision with 43 per cent saying that it did not make financial sense to keep working.

For those who returned to work part time or did not return to work, a number of potential motivators emerge: 45 per cent would value flexible working, 40 per cent see the affordability of childcare as a factor and 31 per cent see access to suitable childcare as a factor.

**Q. Which of the following would encourage you to return to work with the same role/hours since having children?** Base: Mothers with children aged 10 and under



Several things emerge from this survey. First, the decisions women and their partners make in the aftermath of having children are complex and multi-faceted. There are often many different factors at play. Second, a large proportion of women stop work or reduce their hours after having children because they want to and, for a proportion of these women, there are no things that could entice them back to work full time. Third, the cost of childcare emerges as a significant factor with many saying that more affordable childcare would encourage them to return to work or work more hours.

From a policy perspective, the survey results suggest that reducing the cost of childcare would likely encourage a large minority of women to return to work or to work more after they have had children. This would increase their pension savings. But it is equally clear that there is a large proportion of women who do not want to work more, largely as they want to spend time with their children. These women are most likely to feel the effects of the “motherhood penalty” if and when they return to work.

There is no one single solution to the gender pay gap. Better access to high quality, suitable childcare will likely motivate some women to return to work full time. But more research is needed into causes of low rates of pay progression in part time work. If working part time is a genuine free choice after having children then it is likely that many women will continue to take this route. Choosing to work part time, though, does not mean that women are consciously signing up to a reduction in their career prospects, earnings potential and retirement income that is seemingly permanent. As such, it will be important to understand how part time work can be made a genuine alternative to working full time rather than a poor relation.



# Is childcare too expensive?

British families with young children are heavy users of childcare; just over 70 per cent of households with pre-school children currently use some form of it, and the percentage of families with children aged two years or younger using formal childcare is 40 to 43 per cent. The households most likely to use formal childcare are those with two working parents (60 per cent) or those headed by a single working parent (49 per cent), while those with neither parent at work or households headed by a single, non-working parent are less likely with 37 per cent and 42 per cent calling on formal childcare.

It follows that households most reliant on formal childcare are not the nation's most deprived; 63 per cent of children whose household income was £45,000 or more received formal child care while only 47 per cent of those whose households earned less than £10,000 used it.<sup>20</sup> This is consistent with other studies. For example, a 2015 study conducted by researchers at Thomas Coram and UCL found that formal childcare is used more by higher income families and particularly by those households where both parents are at work. Those least likely to use it are single, unemployed parents.<sup>21</sup>

The costs and availability of childcare constrain parents' choices about working patterns, particularly pushing parents towards part time rather than full time work or with working hours that match childcare availability. Data from the ONS's 'Families and the Labour Market' report for the period to July 2018 showed that for those whose youngest child was under one year, less than a quarter were full-time, just over a third were part-time, and just under a third had withdrawn from the workforce entirely. Intriguingly, the percentage of mothers who are working part time, after initially dropping as their youngest child turned three, begins to rise again and peaks at 44 per cent of those at work when the youngest child is 10 years old. Even among mothers of children up to age 18, part-time employment remains a phenomenon; the data shows that over a third of these women do not go back to full-time work.

<sup>20</sup> DfE, Childcare and Early Years Survey of Parents in England, 2018: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/766498/Childcare\\_and\\_Early\\_Years\\_Survey\\_of\\_Parents\\_in\\_England\\_2018.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/766498/Childcare_and_Early_Years_Survey_of_Parents_in_England_2018.pdf)

<sup>21</sup> Institute of Education, UCL, Thomas Coram Research Unit Provision and use of preschool childcare in Britain : <https://www.ucl.ac.uk/ioe/sites/ioe/files/childcare-in-britain-web.pdf>

“The high costs of childcare continue to be a barrier for many seeking full-time work in the UK,” observes the OECD, who urge the government to facilitate the increase of working hours among women, and especially mothers, starting with more affordable high-quality child care.<sup>22</sup>

For Keziah, 37, from Leicestershire, if it wasn’t for family support she wouldn’t have been able to continue working after the birth of her daughter as childcare cost more than she earned.

**“As a single mum and the sole earner in our house I had to keep working full-time in order to pay our bills. Thankfully childcare wasn’t a cost I had to juggle as my mum looked after my daughter while I was at work. I’d already had to move to a different job and take a pay cut to allow me to balance parenting and work, and without mum I would have had to give up my job altogether as nursery fees cost more than I earned at the time.”**

Britain’s tax system does not penalise households where there are two wage earners; a woman’s earnings will not force a higher marginal tax rate on either partner. As such the tax system generally encourages women to work full time and does not penalise their households by imposing higher marginal tax rates. But the costs of childcare are so high in the UK that after taking childcare costs into account, the OECD’s most comprehensive study found that

**over two-thirds of a family’s second wage is effectively taxed away (68%) at a rate that is well in excess of the OECD average of 52 per cent.<sup>23</sup>**

<sup>22</sup> EU Labour Market and Labour Force Survey 2019. : [https://ec.europa.eu/eurostat/statistics-explained/index.php/Labour\\_market\\_and\\_Labour\\_force\\_survey\\_\(LFS\)\\_statistics#Labour\\_market\\_analysis\\_using\\_household\\_information](https://ec.europa.eu/eurostat/statistics-explained/index.php/Labour_market_and_Labour_force_survey_(LFS)_statistics#Labour_market_analysis_using_household_information)

<sup>23</sup> OECD (2011), [www.oecd.org/social/family/doingbetter](http://www.oecd.org/social/family/doingbetter)

Women working full time often don't earn enough to more than compensate for high child care costs. The data shows that British women are more likely than many in the European Union to choose to work part time when there are dependent children at home.

### Case study

Kate, 32, from East Sussex wanted to work part-time after her daughter was born as the commute and cost of childcare didn't make full-time work possible, but she ended up having to move jobs instead.

"I had to write a proposal and a business case and all of that but my bosses didn't accommodate it. My decision was purely financial as I would have to commute to London and pay for nursery for five days a week, and I'd never have seen my daughter. It left me feeling that I was killing my career. Somewhere I'd been for five years and that was that.

"You do feel that if you take two years out or three years out to focus on being a mother that you do take a step back and may not be considered for things like a promotion."

A recent paper from the European Commission, a Factsheet on Labour Force Participation of Women, likewise cites high childcare costs particularly in the UK and Ireland as a barrier to mothers working. The Commission estimates that childcare related costs represent more than 23 per cent of the net average family income.

Sam, 32, from Northamptonshire has three children under the age of eight.

**"When my eldest was born I decided to give up my job working in a supermarket as the cost of childcare would have been far more than my wages. I haven't worked since he was born – with my husband the sole earner – as the cost of childcare would only have increased and we were better off with me at home. I'm at a point now, with two of my kids in school, where I want to go back to work but finding something that makes sense financially with hours that work for us is really difficult."**

It's not costs alone that discourage mothers of young children from working, the EC notes. It is the accessibility of childcare services (physical distance from home) the perceived low quality of those services and the lack of opening hours that also keep mothers of young children from participating in the workplace.<sup>24</sup>

Calculations by The People's Pension suggest just how expensive childcare and associated costs can be. Assuming parent(s) can arrange eight weeks of stay-at-home care through annual leave each year (a big assumption), a woman earning the median full-time salary in London and with a child under two, will pay 60 per cent of their after-tax earnings in childcare and commuting costs (£15,082 on childcare and £2,200 on commuting and lunch).

A mother with a young child on a pay scale well above the national median will be left with roughly £9,700 per year, or a little over £800 per calendar month after all taxes, childcare and associated costs. Assuming commuting and lunch costs are £10 per day, the cost of working is £17,282. That leaves £11,278 in take-home pay after tax, childcare and the cost of commuting to work or around £940 per month. Tax, childcare and the cost of getting to work eat up 60 per cent of pay.

Outside London, where childcare costs – and wages - are lower, the numbers are not much better. With national median wages at £29,588, after tax pay is £23,500. Median nursery costs for a child under age two, assuming 8 weeks of home care can be found, bring annual expenses to £10,245. That leaves around £1,100 per month to spend on food, mortgage and commuting costs. Outside London, childcare costs alone will consume 44 per cent of post-tax earnings on a median salary. Take the North East of England where the median wage is £506.8 per week. A working mother on full time media wage earns £26,353 gross and after tax, £21,301 p.a. At average weekly childcare cost of £215.77 she pays £9,493. Per year in child care. That about 45 per cent of after-tax pay.<sup>25</sup>

<sup>24</sup> [https://ec.europa.eu/info/sites/info/files/european-semester\\_thematic-factsheet\\_labour-force-participation-women\\_en.pdf](https://ec.europa.eu/info/sites/info/files/european-semester_thematic-factsheet_labour-force-participation-women_en.pdf)

<sup>25</sup> Assumptions:

London median salary £37,086.40 (Source: ONS)

London median salary after tax £28,600. (Source: Reed)

London weekly 50 hrs per week childcare cost for under 3 £342.78.27 (Source: Money Advice Service)

London commuting/lunch costs £10 per day (Source: The People's Pension's calculation) National median salary £29,600 (Source: ONS)

National median salary after-tax £23,500 (Source: Reed) National weekly 50 hrs per week childcare cost for under 3 £232.84 (Source: Reed)

Note: A 50-hour week is likely for a child of two working parents; a mother working a full eight-hour day would likely need an additional hour at each end of the day for commuting time

Link to ONS data: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2018>

Link to Reed Calculator: <https://www.reed.co.uk/tax-calculator?salary=37086.4>

Link to Coram Childcare Trust Cost Survey (See P 8): <https://www.familyandchildcaretrust.org/childcare-survey-2018>

# UK childcare policy developments

British policy-makers have thought about how to make affordable childcare more widely available. Working parents of three- and four-year olds in England can now get 30 hours of free childcare a week.<sup>26</sup> However, the ability of local authorities to deliver that care is very limited. Fewer than half of English local authorities have enough childcare for children using the 30-hour extended entitlement. Local authorities report that 82 per cent of day nurseries offer the 30-hour extended entitlement to at least some children. This falls to 57 per cent of nursery classes and 53 per cent of child minders.

Councils, submitting evidence to a Treasury Select Committee review on childcare, expressed concerns about whether they will be reimbursed for the additional costs. Moreover, there is limited provision for out-of-school-hours care, care for children whose parents work unsocial hours or disabled children. There can also be an 'eligibility trap'. For example, a parent entering work at the end of January would not be eligible for additional hours until the end of March, a gap that many parents find it impossible to bridge. More widely, the cost of childcare services has recently risen faster than the rate of inflation generally.<sup>27</sup>

Meanwhile, a new program intended to offer parents of young children a tax rebate when they foot the cost of childcare out of after-tax income, is having almost no effect. At best, the rebate from the Tax-Free childcare scheme just about covers the tax but provides almost no additional assistance.<sup>28</sup> And in any event, too few parents even know about the scheme to apply for help. Only 10 per cent of the tax relief allocated for the scheme has been used. Instead of 415,000 tax-free accounts expected when the program was set up in October 2017, only 30,000 have been created. A further barrier is the fact that there is limited support under existing programs for parents who are in education or training. This varies with the age of the parent, the type of qualification the parent is pursuing and the policies of the education provider. Parents seeking to upgrade their skills will face difficulties in arranging childcare.

2015 legislation enabled shared parental leave but, the policy is more accurately defined as transferable maternity leave, with use by fathers dependent on their partner's agreement to transfer a part of her maternity leave. Genuine parental leave is an entitlement equally available to both parents. Furthermore, the legislation is unlikely to be impactful even on its own terms without much more generous income subsidies to make it a realistic option for most families, who can't afford to live on statutory maternity/paternity pay.<sup>29</sup>

<sup>26</sup> Parents also need to reconfirm they are still entitled to 30 hours every 3 months. If they forget they will receive a bill from their nursery to cover the costs.

<sup>27</sup> [file:///C:/Users/norma/Downloads/Childcare%20Survey%202018\\_Family%20and%20Childcare%20Trust.pdf](file:///C:/Users/norma/Downloads/Childcare%20Survey%202018_Family%20and%20Childcare%20Trust.pdf) P 4

<sup>28</sup> <https://www.moneyadvice.service.org.uk/en/articles/childcare-costs>

<sup>29</sup> In Sweden, Norway and Iceland, where new parents are paid 80 to 100 per cent of their usual incomes while on leave, between 85 and 90 per cent of fathers take up the rights. Many large employers offer enhanced maternity pay to mothers to top up the statutory rate in UK, but so far only 15 to 20 per cent have decided to offer the same deal for shared parental leave.

Overall, the effects of the government's policies aimed at helping women to both work and raise families have been limited, according to analyses conducted by independent bodies such as the Institute for Fiscal Studies. In a report released in December 2016, the IFS found that the change in childcare policy from one offering 15 hours per week of free care to one offering a full-time place at a primary school for 30 to 35 hours each week did not appear to make much difference to parental working patterns.

There was evidence of an effect for mothers whose youngest child became eligible for free, full-time care, but that effect was small. At the end of the first year of entitlement to full-time care, mothers whose youngest child had just become eligible for the expanded care were 5.7 percentage points more likely to be in the labour force and 3.5 percentage points more likely to be in work than mothers whose youngest child was at the end of their first year of 15 hours of free weekly care. This meant roughly 12,000 more mothers at work each year.

The IFS noted that one factor may be the relative structural rigidity of the scheme, offering no respite beyond school hours. The Family and Childcare Trust study, cited earlier, found that only a quarter of local authorities have enough places for after-school places for children aged 5 to 11 while only 14 per cent had childcare places for parents with atypical working hours. Other studies of other countries have pointed to the relative effectiveness of so-called out-of-school-hours care. And while the existing provision in the UK may help parents curb their expenditure on childcare, the evidence suggests that this provides a boost to disposable income which does not translate into significantly increased workforce participation rates.<sup>30</sup>



<sup>30</sup> <https://www.ifs.org.uk/publications/8792>

# What do other countries do?

Britain is hardly alone in looking at child care policies. Industrialised nations around the world are pondering measures that might reduce barriers to work. Among those policies are those to making affordable, high quality care for young children a staple of working life. There is evidence that offering free or nearly free childcare on a full-time basis encourages far more women back into the workforce and that this pattern increases over time. In 1997, for example, the Canadian province of Quebec introduced a generous subsidy for childcare prices that effectively cut the cost to C\$5.00 per day. By 2002 – just five years later – the participation rate of mothers with at least one child aged one to five years rose by eight percentage points and the average number of hours worked rose by 231 per year.<sup>31</sup>

Among the Canadian policies that provide the greatest incentives for new mothers to return to work are those which protect their job at the same level of wages and benefits as were in place before giving birth. These are paid for out of employment insurance and a parent's protection can last for up to 78 weeks when combined with other maternal leave benefits. As such this policy ensures that employers cannot use loopholes against the interests of returning mothers. For example, if an employer has had to fill a vacancy while a worker is on maternity leave. When she comes back, the employer offers her another job that he thinks is equivalent and she turns it down. Legally the employer can dismiss her.

In France – notable for its success in making full time work attractive to women after starting families, the introduction after 1994 of the parental leave allowances has been significant. This was paid for up to three years to mothers who stop working after the birth of a second child. Up until then, this had only been available to mothers after the birth of their third child. Between 2000 and 2005, the workforce participation rates of mothers with two children were found to have increased, as did moderate part-time employment for mothers of two or more children.<sup>32</sup>

One part of the world where rates of female workforce participation have increased from an already high base is the Nordics: Denmark, Finland, Iceland, Norway and Sweden. Social policy emphasises a “dual-earner, dual-carer” approach. The Swedish phenomenon of ‘latte papas’ reflects this emphasis. Men benefit from 90 days of paid paternity leave, are expected to play a large role in parenting by their partners, who in turn are much more likely to be in full time employment and thus making pension contributions at the same rate as men.<sup>33</sup> Each country has seen the percentage of women at work rise by 20 to 25 percentage points and currently ranges from 67.6 per cent in Finland to 83.4 per cent in Iceland.

<sup>31</sup> Lefebvre, P., Merrigan, P., Child-Care Policy and the Labour Supply of Mothers with Young Children: A Natural Experiment from Canada in *Journal of Labour Economics*, Vol26, Number 3, 2008, University of Chicago Press Journals: <https://www.journals.uchicago.edu/doi/10.1086/587760>

<sup>32</sup> Thevenon, O. P 246 (Norma emailed it)

<sup>33</sup> The parenting problem – what value do we place on caring?, *Financial Times*, 20 Feb 2019

Mothers are more likely to be in full time employment, a development aided by men's attitudes towards looking after their children and household responsibilities; work is shared more equally between couples there. Gender gaps – the gap between men's and women's wages – in the Nordic countries remain relatively high for women with relatively low levels of educational attainment. But for the highly educated, the gaps range from 3.6 per cent in Sweden to 8.4 per cent in Iceland. Still this compares well with the UK where even among the highly educated, the pay gap is 9.0 per cent.

Not all Nordic states take the same approach. Finland and Norway offer cash allowances to parents of the very young, even when only one adult is employed. In the case of Finland, this is thought to explain why mothers of very young children are less likely to be found in the workplace than in its Nordic peers.

Spending on so-called family services among Nordic countries varies from a high base. Benefits to parents include generous paid leave while children are very young, a place in subsidised early childhood education and care and out-of-school-hours care activities once children enter full time education. Of these, the early childhood education and care are probably most significant.<sup>34</sup> In Sweden the government spends more on childcare and early years education than on defence. In the UK by comparison, defence spending per annum is £36n and spending on childcare £6bn.<sup>35</sup> In the UK, the Women's Equality Party manifesto calls for a system of universal, high quality childcare available to all, at a cost of £55bn.<sup>36</sup>

<sup>34</sup> [https://read.oecd-ilibrary.org/social-issues-migration-health/is-the-last-mile-the-longest-economic-gains-from-gender-equality-in-nordic-countries\\_9789264300040-en#page31](https://read.oecd-ilibrary.org/social-issues-migration-health/is-the-last-mile-the-longest-economic-gains-from-gender-equality-in-nordic-countries_9789264300040-en#page31)

<sup>35</sup> The parenting problem – what value do we place on caring?, Financial Times, 20 Feb 2019

<sup>36</sup> Women's Equality Party's written submission to Treasury Select Committee enquiry into Childcare, HC 757, based on its 2017 election manifesto.

# Making auto-enrolment work better for women

Auto-enrolment (AE) is a success story, but it is in danger of not working for part-time women workers. Many more men than women are benefiting from the ‘free money’ which auto enrolment (AE) offers via employer and government contributions, because women are much more likely to be in low paid, part-time work and earning below the £10,000 earnings trigger. They therefore have to opt in to access workplace pension saving and, if they earn below £6,136 they do not have a legal right to the employer contribution to their pension. That latter unfairness should become a thing of the past once government fulfils its commitment to remove the qualifying earnings band for automatic enrolment in the 2020s.

The level of the earnings trigger is a difficult policy problem. The purpose of pension saving is to smooth income across the life course so that people have roughly the same standard of living in retirement that they have while they are working. It would be possible to design automatic enrolment so that people on very low incomes “over save”, meaning that they put money away for retirement that they would be better off spending on day to day essentials like food and heating.

The over-saving problem has to be balanced against the gender equality impacts of excluding people from the scope of automatic enrolment. On balance, we feel that the current level of the trigger is too high and is excluding women inappropriately. This is for several reasons: first, when thinking about low earner women as members of a household, household income will often be large enough to support them in pension saving. Second, many women work part-time during exceptional periods of caring, otherwise they work full-time. Persistency of saving is crucial and for women in this position being auto-enrolled would make economic sense. After all, 100 per cent of pension contributions are deducted from employed earnings when calculating entitlement to universal credit and tax credit. AE would harness this incentive on behalf of low-income earners who need it most. Third, older women on low incomes have lower financial resilience so supporting women during their working life to build up a pot of savings, accessible from age 55, will increase their resilience and mitigate their exposure to debt.

The government’s annual review of the AE rules indicates the policy has had knock on effects in increasing opt-ins among those earning below £10,000. But a close reading of the study cited by the government suggests other reasons for this uptick, namely employers making the choice to contractually enrol their workers who earn below £10,000.<sup>37</sup> Indeed the study went so far as to note that “it might be unlikely”, that voluntary employee opt-in “is the major driver” of this increase. Hardly surprising given the success of AE is based on harnessing inertia, the behavioural reality of which is most recently evident in the Help to Save scheme, which offers a 50 per cent bonus to certain people on low incomes if they save for two or four years. OBR predictions of take up have so proved over optimistic by 50 per cent.<sup>38</sup>

<sup>37</sup> <https://hansard.parliament.uk/Lords/2019-02-14/debates/9C4740C5-31D6-4F68-939C-8847296FDD48/GuaranteedMinimumPensionsIncreaseOrder2019?highlight=drake#contribution-0E393178-65A6-4531-8ABB-C407025EDC28>

<sup>38</sup> <https://www.bbc.co.uk/news/business-47853099>

More widely, the government's traditional argument since 2010 that the earnings trigger is needed in order to tackle large numbers of trivial pots being built up will no longer apply once contributions start to be paid from the first pound of earnings, to which the government is committed.

The net pay anomaly most recently estimated to affect 1.75m low earners also demands attention. As a pension provider The People's Pension provides employers with a choice between two different means of administering tax relief. This allows the employer to choose the system that is best suited to their workforce. This matters as the different systems, relief at source (RAS) and net pay have different impacts on different earners.

Under RAS, contributions are paid into pension pots net of income tax and basic rate relief is added to the pot by HMRC via the pension provider. Under net pay, contributions are paid from gross income, net of national insurance but not income tax. The upshot of this is that under net pay, basic, higher and additional rate tax payers receive all the tax relief they are entitled to automatically but non-income taxpayers, who have an annual allowance of £3,600 per annum, do not. Under RAS, meanwhile, all savers, irrespective of their tax status receive basic rate relief and higher and additional rate taxpayers have to claim further tax relief back through self assessment.

This leaves a group of people who would be entitled to tax relief if their scheme used RAS but who are not because their scheme uses net pay instead. As the minimum contribution rate for automatic enrolment may include tax relief, these people have to make higher contributions to receive the same level of pension saving than a comparable individual in a differently administered scheme.

There are two groups of people in this bracket. The first consists of up those who earn enough to be auto-enrolled into a workplace pension but not enough to pay income tax. The second comprises people earning below the £10,000 threshold that's required to be auto-enrolled into a pension but are still saving for their retirement in their employer's pension scheme. This problem has grown as more people have been auto-enrolled into pensions at the same time as the Government has increased the income tax threshold over time, to its current £12,500.

Following the successful implementation of real time information, HMRC now knows enough about individual's earnings to ensure that they get the right amount of tax relief irrespective of whether their pension provider uses net pay or relief at source. Following the implementation of RTI, HRC now has the ability to carry out an end of year reconciliation process and send out credit or debit notices to people where they have either paid too much or too little tax through PAYE. It would be possible to expand this year end reconciliation process to include tax relief. This would ensure that the tax treatment of lower earners did not depend on their employer's choice of pension scheme.

It is important that this issue is resolved by Government. Pensions tax relief is, in general, a poorly understood topic. If a solution was not imposed by HMRC it would require action either by employers or individuals. While large employers are often well advised in respect of pension scheme design, the same is not true for the hundreds of thousands of small employers now participating in automatic enrolment. Any solution that requires sophisticated choices to be made about pensions tax relief by small employers is unlikely to work.

# Recommendations

## Auto-enrolment

Automatic enrolment is a clear policy success but further fine tuning is needed to prevent historic gender imbalances manifesting in the future. We recommend:

1. Cutting the earnings trigger to the primary National Insurance threshold of £8,628 bringing in half a million new pension savers, three-quarters of whom would be women.
2. Setting a time table for the removal of the lower qualifying earnings band so that all those automatically enrolled contribute from the first pound of earnings. That reform will also remove the entitled worker category ensuring that all those earning below the earnings trigger who opt in to automatic enrolment will be entitled to an employer contribution.
3. Abolishing the net pay anomaly to increase the pensions savings of the 1.75m low earners estimated to be affected, two thirds and three quarters of whom are likely to be women.
4. Consideration should also be given to extending the existing system of state pension carers credits to auto-enrolment reducing the pensions gender gap in auto-enrolment savings.

## Childcare policy

The cost of childcare must be brought down for families, and its availability made much more flexible if the pensions gender cap is to be closed. We recommend:

1. A single, specific ear-marked grant to local authorities to cover the real cost of the guaranteed 30-hours per week childcare for all 3- and 4-year olds. It should be reviewed periodically.
2. Bring nurseries back to high street locations up and down the country. Britain has dying high streets with vacant shops all over. The opportunity to convert these to suitable nursery space must be examined. Often, high streets have good access to public transport, making it easier for parents to drop off and retrieve children while commuting. Indeed, the Local Authority could become the tenant if it received an additional grant from central government to do so. The payback for councils is that such an activity is likely to boost footfall in the high street and be a boon to local businesses. Landlords owning other properties nearby would also benefit.
3. Exempt private nurseries from business rates to further widen access to the guaranteed 30-hours per week childcare for all 3- and 4-year olds.
4. Increase the maximum amount of childcare costs paid for under Universal Credit to ensure parents are better off for every extra hour worked and switch to upfront payments for childcare so that parents can afford to begin work
5. Flat rate tax relief on childcare costs to help bring down the cost of childcare for children aged under 3 years. The biggest users of full-time childcare for children under age 2 are not the lowest wage earners and are generally in households with 2 working adults. If flat rated at 25 per cent of wages, the median tax rebate for childcare would be £2,600. That is more generous than the existing and confusing Tax-Free Childcare scheme (which gives up to £2,000).



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