

Media Brief

The ethnicity pensions gap

May 2020

Note: This paper is intended as background information for the media. It is not intended as a comprehensive policy paper for The People's Pension.

What is the Ethnicity Pensions Gap?

The ethnicity pension gap is the difference in pension income for pensioners who belong to an ethnic minority group compared to pensioners of a white ethnicity.

Our analysis, explained in [Measuring the Ethnicity Pension Gap](#), revealed that the average pensioner from an ethnic minority is £3,350 a year worse off than other pensioners, representing a 24.4 per cent gap in retirement income, based on 2017-18 figures.¹

The divide is even bigger from a gender perspective. On average the gap in annual pension income between a female pensioner from an ethnic minority and a white male pensioner is 51.4 per cent.¹

The analysis, based on Government data, shows a breakdown of the size of the ethnicity pensions gap for defined ethnic groups¹:

2017-18	
Black African, Caribbean or Black British	26.9%
Mixed or multiple ethnic groups	12.8%
Asian (Chinese, Indian, Bangladeshi, Pakistani, Other Asian)	30.35%
Other ethnic group (Arab, Other ethnic group)	-6.0%

Source: FRS Data 2017-18

Note: A negative gap indicates that pension earnings for that group were higher than for pensioners from White ethnic groups.

The ethnicity pensions gap is a problem that will only increase unless action is taken, as the proportion of the UK population that identifies as Black and Minority Ethnic is projected to grow by about 50 per cent between 2011 and 2051 (from 14 per cent to 21 per cent), as well as age significantly over the same period).²

The causes of the gap

The ethnicity pension gap is driven by several, complex factors, largely relating to inequalities in the job market, ineligibility for workplace pension schemes and an historic ethnicity gap in the state pension.

These include:

- Inequality in the level of state pension by ethnic group, where there is an ethnicity gap of £600, reflecting the fact that some ethnicities have below average rates of employment. This gap is likely to narrow due to state pension reforms.
- The cumulative impact on workplace pensions over time of some members of ethnic minorities earning less on average than people of a white ethnicity (both through lower employment rates and ethnicity pay gaps).
- The current minimum contribution threshold and earnings trigger of £10,000 for auto-enrolment depress ethnic minorities participation rates. People from ethnic minorities are twice as likely to live in poverty compared to white people across Britain.

Closing the gap

Reform of state pension

While recent reforms to the State Pension, which introduce a more flat-rate benefit and should reduce the level of variation in state pension awarded by ethnic group in the future, an ethnicity state pension gap is likely to persist unless other factors are also addressed.

The new State Pension also makes less provision for dependent spouses (either through entitlement to a pension on a partner's contribution record or through inheritance of state pension) than the old system. This will have a greater impact on those ethnic groups that have higher levels of female economic inactivity.

This group is more likely to be adversely affected by the move towards a more individual state pension than others. We believe that a new Pensions Commission (explained further down) should consider these issues.

Reform of automatic enrolment

Removing barriers to membership of occupational pension schemes is crucial to closing the gap because ethnic minority employees are more likely to be low earners excluded from auto-enrolment. The earnings trigger for automatic enrolment currently sits at £10,000 – a figure that disproportionately excludes members of ethnic minorities with lower average earnings from occupational pension provision.

We want the Government to implement recommendations from its own Automatic Enrolment Review of 2017⁴, which would benefit millions of workers. We want ministers to implement the report's recommendation which would require pension contributions to count from the first pound earned rather than from the National Insurance Lower Earnings Limit of £6,240. This should disproportionately benefit employees from those ethnic minorities, who have lower average earnings.

A new Pensions Commission

In January 2020, a cross party report by think tanks The Fabian Society and Bright Blue, recommended the establishment of a new Pensions Commission, which received backing from the Pensions Minister.

A Commission would have a broad remit, but we believe it would be particularly important for it to consider what level of income is required for a decent standard of living in retirement and whether increases to the minimum contributions under automatic enrolment are needed to ensure all workers have an opportunity to achieve this.

Such a commission would also be able to consider data on pension provision by ethnicity and consider policies that might be necessary to tackle the ethnicity pension gap.

Improve pension provision for the self-employed and those in the gig economy

There have been numerous recommendations to improve pension provision for the self-employed, including from the Taylor Review of Modern Working practices and the DWP's Automatic Enrolment Review of 2017.⁵

Relatively poor pension provision for the self-employed and in the gig economy is a contributor to the ethnicity pension gap, because some ethnicities are disproportionately represented in these groups.

What we're calling for:

- Lowering the amount workers need to earn to be eligible for a workplace pension from £10,000 to the lower earnings limit for National Insurance (£6,240), bringing an extra 1.2 million workers into auto-enrolment – 15 per cent of whom would be from ethnic minorities.
- Making pension contributions count from the first pound someone earns rather than counting only on earnings above the current £6,240 threshold.
- Establishing an independent pension commission to monitor and address ethnicity pension inequalities and advise on the best way to bring the self-employed into workplace pension saving.

Footnotes

1. Our report presents estimates of ethnicity pension gap, based on analyses of the Department for Work and Pension's Family Resources Survey
<https://www.gov.uk/government/collections/family-resources-survey--2>
2. Healing a divided Britain: Equality and Human Rights Commission (2016)
<https://www.equalityhumanrights.com/en/race-report-healing-divided-britain>
3. Data from the 2020/21 review of the earnings trigger:
<https://www.gov.uk/government/publications/automatic-enrolment-review-of-the-earnings-trigger-and-qualifying-earnings-band-for-202021/review-of-the-automatic-enrolment-earnings-trigger-and-qualifying-earnings-band-for-202021-supporting-analysis>
4. Automatic enrolment review 2017: Maintaining the momentum:
5. <https://www.gov.uk/government/publications/automatic-enrolment-review-2017-maintaining-the-momentum>. Good work: the Taylor review of modern working practices
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/627671/good-work-taylor-review-modern-working-practices-rg.pdf