Media Brief

The Gender Pensions Gap

June 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 Gender Pensions Gap?

The gender pensions gap is the percentage difference in pension income for female pensioners compared to male pensioners.

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)[1]

A study by Prospect[2]the union in 2018, estimated that the average female pensioner is £7,000 a year worse off than a man the same age.

The size of the gender pensions income gap (39.5 per cent) was more than double the size of the total gender pay gap (18.5 per cent)[2].

What causes the Gender Pensions Gap?

Our report *The Gender Pensions Gap; Tackling the Motherhood Penalty*' explores a number of reasons why women typically have a smaller retirement income than their male peers.

The retirement income of the average woman is impacted by a number of factors, which include:

- being largely responsible for caring responsibilities
- the gender pay gap
- lower levels of entitlement to workplace pension saving through automatic enrolment.

The heavy cost of childcare

An inescapable root cause of the gender pensions gap is the 'Motherhood Penalty' women pay when their children are born.

Our survey of 2,000 UK mothers of children under 10, carried out by You Gov, found that after having children:

- nearly half of women (44 per cent) reduced their hours
- more than a third (36 per cent) left work altogether
- more than one in five (15 per cent) returned to work in a lower grade or lower paid role.

These changes in their working lives have a significant impact on their ability to save for a pension at the same level as men; women are likely are likely to stop or significantly reduce their pension contributions, meaning they may miss out on employer contributions and lose the investment gains their contributions would earn.

While many women choose to reduce their hours or stop working because they want to spend more time with their children, the survey found that:

- of those that left the workforce altogether, more than four in 10 (43 per cent) said it didn't make financial sense to keep working and pay childcare, while three in 10 (29 per cent) said they couldn't afford suitable childcare[5]
- of those that reduced their hours or role after having a child or children, more than a third (36%) said it made more financial sense to work part-time than pay for childcare, while almost a quarter (23 per cent) couldn't afford suitable childcare[6]
- almost four in 10 women (38 per cent) who returned to work on reduced hours after having a child would have increased their hours if childcare was more affordable[2]

The cost of childcare in the UK is higher than anywhere else in Europe.[3] Our analysis suggested that a woman in London with a child under two, earning the median[4] full-time income, will pay three-fifths of their after-tax earnings (60 per cent) on childcare, commuting and associated expenses, reducing take home pay to £9,700 per year or a little over £800 per calendar month. Outside of London the numbers aren't much better with a woman on the median[4] full-time salary paying 44 per cent of after-tax income in childcare costs, leaving her with around £13,000 a year to live on.

Save the Children[5] estimates 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.

Changes needed to pension policy

Although the gender pensions gap is largely down to wider social issues, changes to pensions policy are needed in order to bridge this divide.

Since 2012 the proportion of eligible women saving into a workplace pension has risen by 40 per cent, but currently, women only make up a third of the workers who are eligible for an auto-enrolment pension. Building on the success of automatic enrolment and making it work for women is crucial. Due to caring responsibilities, many women miss out on workplace pension saving because they have multiple lower paid jobs or earn below the £10,000 required from one job in order to be eligible for an auto-enrolment pension. Hundreds of thousands more women would be able to save for a pension if the current earnings threshold was reduced from £10,000 to the lower National Insurance threshold of £6,240.

As it stands, automatic enrolment rules mean that automatic enrolment pension contributions are only calculated after the first £6,240 of your annual salary, rather than the first pound earned. The

Government committed to removing this trigger in the recommendations of the Automatic Enrolment Review of 2017.

Members of pensions schemes who do not earn enough to pay income tax – because they are on salaries of £12,500 or below - are granted 20 per cent tax relief on up to £2,880, meaning that HMRC will top up a maximum net contribution to £3,600. However, this is only available to members schemes who operate on a relief at source basis – when pension contributions are taken after tax and the provider then claims basic tax rate relief and adds it to the saver's pot - even though the majority of pension schemes use the net pay method, which means contributions are collected before tax. Women and other lower paid workers would benefit from an estimated extra £8,000 over their working lives if this flaw - 'net pay anomaly' - was fixed.

It is estimated that that this flaw affects 1.75m low earners, with at least two thirds of whom are likely to be women.

Solving the problem:

- The introduction of a single, specific ear-marked grant to local authorities to cover the real cost of the guaranteed 30-hours per week childcare for all three and four-year-olds.

- Abolishing the net pay anomaly would ensure 1.75m low earners, the majority women, receive much-needed tax relief through auto-enrolment that they currently miss out on.

- Cutting the auto-enrolment earnings threshold to £6,240 a year would bring 1.3 million new pension savers – three-quarters of whom would be women.

- Extending the existing system of state pension carers credits to auto-enrolment reducing the gender pensions gap in auto-enrolment savings.

Footnotes:

1. The CII/Insuring Women's Futures CII: https://www.cii.co.uk/media/9224351/iwf_momentsthatmatter_full.pdf
2. Prospect the union's report from 2018 https://library.prospect.org.uk/download/2018/01522
3. European Semester Thematic Factsheet Labour Force Participation of Women: https://ec.europa.eu/info/sites/info/files/european-semester_thematic-factsheet_labour-force-participation-women_en.pdf
4. 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)
   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)
5. Save the Children (2018) 'Lost incomes, lost opportunities: why families in England need further reform of childcare and early education to get into work'

https://resourcecentre.savethechildren.net/library/lost-opportunities-lost-incomes-why-families-england-need-further-reform-childcare-and-early

6. The People's Pension commissioned YouGov to survey 2,000 mothers across the UK - https://bandce.co.uk/childcare-costs-widening-gender-pensions-gap/