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The gender pensions gap

Why our pension system delivers lower incomes for women, and how to close the gap

The gender pensions gap

Women in the UK have to get by in retirement on significantly lower incomes than men. Among today's pensioners women have annual incomes £7,100 a year – or 40.5 per cent – lower than men according to research by Prospect.[1]

The UK is not alone in having high levels of income inequality between men and women in retirement, but our gap is unusually wide. According to the latest figures from the Organisation for Economic Cooperation and Development the gender pensions gap in the UK was 40.5 per cent in 2015, compared to an average of 25.6 per cent across all member countries.[2]

And the gender pensions gap in the UK shows no sign of shrinking any time some. It has remained stable over the five years Prospect has been calculating it, and this year's figure is actually slightly higher than the average gap of 39.6 per cent over this period.

Looking forward, differences in incomes from the state pension have shrunk in recent years and will continue to narrow, although state pensions are not projected to be equal for men and women reaching retirement until 2041.

But there are still extreme differences in the value of pensions built up by men and women below state pension age in their workplace pensions.

Modelling by the Pensions Policy Institute (PPI) finds that on average women in their early 60s will have built up just a third of the pension wealth as men, with a median pension value of £51,000 for women and £157,000 for men.[3]

Data from the ONS suggests a gap that is smaller, but still significant. According to its Wealth and Assets Survey the median pension wealth for men aged 55-64 who have some pension saving is £228,200 – 50 per cent higher than the median £152,000 built up by women.[4] Although the pensions wealth gap generally increases as people get older, women have lower levels of pension wealth in every age bracket.

TUC analysis has revealed that these differences persist across all industries, with the largest disparities in percentage terms in manufacturing, wholesale and retail, and other service activities, where women typically have less than a fifth of the pension wealth of men. In cash

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[1] Prospect, *What is the gender pensions gap*, March 2023 - https://prospect.org.uk/article/what-is-the-gender-pension-gap/

[2] OECD, *Towards improved retirement outcomes for women, 2021 - https://www.oecd-ilibrary.org/sites/f7b48808-en/index.html?itemId=/content/publication/f7b48808-en*

[3] Pensions Policy Institute, *Understanding the gender pensions gap*, July 2019 https://www.pensionspolicyinstitute.org.uk/media/3227/20190711-understanding-the-gender-pensions-gap.pdf

[4] ONS, *Pension wealth: Wealth in Great Britain*, January 2022 - https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/pensionwealthwealthingreatbritain

terms, the gaps are largest in the industries dominated by public sector employment like public administration and defence, health and education.[5]

Some groups of women are particularly acutely affected by these disparities, with single mothers and divorced women having lower incomes from private pension wealth on average than women in general.

These large disparities in pension wealth among the working age population show that, without significant policy changes, the retirement income gap will persist for future pensioners.

What causes the gender pensions gap?

There are three main drivers of the gender pensions gap:

- The gender pay gap, exacerbated by a workplace pension system that excludes many low earners altogether
- Different lifetime working patterns that mean women are more likely to take time out of the labour market or work part-time, most often because of unpaid caring responsibilities
- Differing levels of state pension entitlement

The gender pay gap

The fact that women on average earn less than men in work means that they are likely to build up their workplace pensions more slowly than male colleagues. Women's average hourly pay is currently 14.9 per cent lower than men's, rising to 20 per cent for workers in their 50s.[6]

This results in lower pensions being built up in both defined contribution schemes, where employee and employer contributions into the pension pot are based on a percentage of pay, and defined benefit schemes, where the amount of pension received is calculated based on average or final salaries.

It also means that women are more likely than men to fall below the £10,000 a year earnings threshold at which an employer must auto-enrol a worker into a workplace pension scheme. TUC analysis of ONS data has found that proportion of female employees who fall below this threshold is more than twice as high as it is for male workers. While fewer than one in twenty (4.3 per cent) men in employment are potentially excluded from auto-enrolment because of low incomes, this figure rises to more than one in ten for women (10.9 per cent).

[5] TUC, *Gender pensions gap means retired women go the equivalent of four and a half months each year without a pension*, May 2023 - https://www.tuc.org.uk/news/gender-pensions-gap-means-retired-women-go-equivalent-four-and-half-months-each-year-without

[6] TUC, *Jobs and recovery monitor - gender and pay*, March 2023 - https://www.tuc.org.uk/research-analysis/reports/jobs-and-recovery-monitor-gender-and-pay

Figure 1: Percentage of employees aged 22-65 with earnings below the auto-enrolment threshold

	Male	Female	Total
Employees earning less than £10k	565,562	1,387,291	1,952,853
Total employees	13,125,518	12,768,222	25,893,740
Percentage of employees below the AE earnings threshold	4.3	10.9	7.5

Source: TUC analysis of the ONS Labour Force Survey, Q4 2022

This is a particularly acute issue for those with multiple part-time jobs, as the threshold applies to each job, rather than to total earnings. So someone with multiple jobs earning under £10,000 a year in each of them would not need to be auto-enrolled by any of their employers.

The number of women excluded from workplace pension schemes because of low earnings is likely to increase when the government reduces the auto-enrolment age threshold from 22 to 18. This move is intended to bring more young people into the workplace pension system, so that they start saving for retirement earlier.

But the impact of this change will be severely weakened – for women in particular – by the large number of young people working part time and on low incomes. TUC analysis shows that more than one in three women in this age group (36.3 per cent) currently fall below the income threshold, and would therefore still be excluded from the requirement to be enrolled into their workplace pension. This is more than twice the percentage of mail employees (14.6 per cent) in this age group who would be still be excluded one auto-enrolment is extended.

Figure 2: Percentage of employees aged 18-21 with earnings below the auto-enrolment threshold

	Male	Female	Total
Total employees	209,421	240,005	449,426
Employees earning less than £10k	30,656	87,022	117,678
Percentage of employees below the AE earnings threshold	14.6	36.3	26.2

Source: TUC analysis of the ONS Labour Force Survey, Q4 2022

Another feature of auto-enrolment into workplace pensions that can work against people on low pay is the Lower Earnings Limit, which allows the first £6,240 of income to be excluded when calculating pension contributions. This means that the minimum statutory minimum contribution rate of '8 per cent of band earnings' actually works out as just 4 per cent for a worker on £12,500 – far below the level needed to maintain a decent standard of living in retirement.

Lifetime working patterns

The most significant contributor to the gender pension gap is the fact that women are much more likely than men to spend time out of paid work to bring up children or do other forms of unpaid care. TUC analysis has found that women are seven times more likely than men to be out of work due to caring commitments, with those in their 30s the most affected.[7]

This time out of the labour market is time not building up pension wealth by contributing to – and receiving employer contributions into – a workplace pension scheme.

Women are also more likely than men to work part-time to enable them to fit caring commitments around paid work. Some 38 per cent of women in employment work part-time, compared to 14 per cent of men.[8] As well as contributing to the difference in hourly pay between men and women as part-time jobs have lower pay on average, working fewer hours also results in lower weekly or annual pay. This means women are more likely to fall below the earning thresholds discussed above. Almost one-third of all part-time workers (31.7 per cent) earn less than £10,000 in their main job.

PPI modelling shows these differences in lifetime working patterns reduce women's average pension wealth by their late 50s to just over half that of men's, even before other factors such has the pay gap are taken into account.[9]

State pensions

Historic differences in state pension entitlements also play a significant role in the income gap among current pensioners. The disparity is greatest for older pensioners, with women born in the 1940s receiving 25% less on average than men, as they are likely to have built up less earnings-related state pension than men and are more likely to have incomplete National Insurance records.[10]

The gap falls to 5 per cent for the most recent retirees, as a result of the move to a flat rate state pension, which is relatively more generous to those with incomplete working histories. But even with these reforms state pension incomes are not projected to be equalised for men and women on retirement until 2041.

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[7] TUC, *Women 7 times more likely than men to be out of work due to caring commitments,* March 2023 - https://www.tuc.org.uk/news/women-7-times-more-likely-men-be-out-work-due-caring-commitments

[8] House of Commons Library, *Women and the UK economy*, March 2023 https://commonslibrary.parliament.uk/research-briefings/sn06838

[9] Pensions Policy Institute, *Understanding the gender pensions gap*, July 2019

[10] IFS, *The gender gap in pension saving*, March 2023 - https://ifs.org.uk/sites/default/files/2023-03/IFS-REPORT-R250-The-gender-gap-in-pension-saving.pdf

Policy proposals

Closing this gender pensions gap should be an urgent priority for government. The TUC has campaigned to raise awareness of the gender pensions gap, and to promote policies that would close it. Since 2022 we have marked Gender Pensions Gap Day – the point at which the average woman would start receiving their pension if it was paid at the same rate as for an average retired man.

This year's Gender Pension Gap Day is taking place on the 29th of May – just over 40 per cent of the way through the year.

Tackling this issue will require changes in three main areas:

- Better reporting to understand and highlight the problem
- Addressing the pay and employment gaps that are the root cause of pension disparities, by improving childcare and social care, extending shared parental leave, and strengthening rights to work flexibly
- Making the occupational pension system work better for people on low pay so that inequalities in working life are not replicated or magnified in retirement.

These proposals are addressed in more detail below.

Reporting

- Government should develop official metrics of the gender pensions gap. A statutory requirement should be introduced for government report to annually on the scale of the gap, and produce an action plan to reduce it.
- The TUC welcomes the announcement from the pensions minister Laura Trott that the DWP is working on an agreed definition and considering regular reporting.[11]

Addressing gender pay and employment gaps

- All workers must have the right to access shared parental leave (SPL) and spend time with their new born children, regardless of employment status
- Shared parental leave must be an individual day one right for both parents on a use it or lose it basis (e.g. it should not require the mother to give up maternity leave).
- Financial support for those accessing leave must be increased to at least equivalent of the real living wage
- Universal, flexible, high-quality childcare should be available to all from the point at which paid maternity or parental leave ends
- The social care crisis, which is placing a huge strain on women with caring responsibilities for family members, must also be addressed. The government must

[11] Letter from Laura Trott to the Work and Pensions Select Committee, February 2023 https://committees.parliament.uk/publications/33859/documents/185243/default/

work with unions and employers to tackle widespread insecure work and poverty pay in the sector which are driving high staff turnover rates.

- Companies must be required to publish action plans to explain what steps they'll take to close gender pay gaps, with fines for those that don't comply
- All workers must have the legal right to work flexibly from their first day in a job and there should be a legal requirement for jobs to be advertised with all the possible flexible options clearly stated.

Improving the occupational pension system

- The lower earnings limit that lets employers make no pension contributions on the first £6,240 of a worker's income should be removed.
- The £10,000 earnings threshold that excludes many low paid workers being automatically enrolled into a workplace pension scheme should be phased out.
- Where workers cannot afford to maintain their contributions to a pension, employers should be encouraged to continue contributing.
- Government should set out a timetable for increasing statutory minimum employer contribution levels from 3 per cent.