Institute and Faculty of Actuaries

NOW: Pensions

think

Tackling the gender pensions gap - the road to financial equality in retirement

By **NOW: Pensions**

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Independent thinking from the IFoA

Part of the IFoA's purpose is to promote debate within and beyond the profession, and to position our members as leading voices on the biggest public policy challenges of our time. We aim to showcase the diverse range of expertise and critical thinking both within and outside the profession.

Our 'think' series seeks to promote debate on topics across the spectrum of actuarial work, providing a platform for members and stakeholders alike and sharing views that may differ from the IFoA's house view. In doing this, we hope to challenge the status quo, question the orthodoxy, and shine a light on complex or under-examined issues, thereby stimulating discussion and dialogue to help tackle issues in a different way.

NOW: Pensions

NOW: Pensions is an award-winning UK workplace pension provider. We look after the pension savings of millions of members on behalf of tens of thousands of employers from a wide range of industries. We have a clear mission - to help everyone save for a more financially secure future. This means achieving the best financial outcomes for our own members, while fighting for a fair pension system to enable all pension savers to enjoy the retirement they deserve. We do this by highlighting pension inequalities and campaigning for change.

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Introduction

When picturing retirement, it's tempting to call on cliché. Perhaps it's relocating to a sun-drenched island in the Mediterranean or taking a once in a lifetime holiday. For some, it might be turning a passion into a business; for others it might involve buying a bolthole in a rural idyll. Maybe it's a house full of grandchildren or enjoying the time to learn something new. Either way, after a lifetime of work, it's understandable to think of retirement as a time of happiness and security.

The reality, for many is very different. As the post-war 'baby boomers' enter retirement, they, and the generations behind them, are facing an uncertain future. Financial insecurity built up over the course of a lifetime is preventing many from enjoying the retirement they deserve.

Research shows this issue impacts women more acutely – but the gender pensions gap doesn't begin at retirement age. Nor does it start with the first wage packet. Financial and employment disparities, starting at an early age and worsening over the course of a working life, are leading to a growing gender pensions gap between men and women. The result is smaller pension savings, reduced retirement income and greater poverty among women in older age.

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In February, we published our **2024 gender pensions gap report**, which takes a holistic look at the causes and consequences of the gender pensions gap. We will discuss these in more detail later in this article, but the headlines from our report are stark: for women to retire with the same amount of money in their pension pot as a man, they would need to work an extra 19 years on average. With eligibility for auto enrolment currently beginning at 22, this means that by age three, girls are already falling behind boys in their provision for later life. Owing to societal factors relating to pay, working patterns and childcare, the effects are interconnected and multiplied throughout the course of a working life. Today, 67% of pensioners in poverty are women and 50% of pensioners in poverty are single women. Put simply, the gender pensions gap is a whole-life issue.

At NOW: Pensions, we actively campaign to help everyone save for a more financially secure future. We've been raising awareness of the gender pensions gap since 2017, when companies of more than 250 employees began publishing their figures on gender pay. As you might expect, these gender pay figures, a significant contributor to the gender pensions gap, tell a familiar story when published. Across almost every industry, women continue to earn less than men, with some industries and sectors performing worse than others. The financial services industry, which has one of the highest gender imbalances in terms of representation, often fare among the most unequal.

Defining the problem – what is the gender pensions gap?

Unlike the gender pay gap, there is no clear consensus in terms of definition, magnitude or potential solutions. While the gender pensions gap is widely acknowledged to exist, different organisations record and report on it in a variety of ways. This makes it harder to conceptualise and to work towards a solution.

For our report, we wanted to present the best available data differently and in a way that would make it easy to understand. Working with the Pensions Policy Institute (PPI), we looked to define the gap through a wide range of sources, rather than looking at it through the lens of a single measurement. As such, we drew in data from reports produced by the ONS, DWP and the Labour Force Survey among others.

To give the clearest indication of the inequalities that exist for men and women when they reach retirement, we looked at these figures and the implications in the context of the current auto enrolment framework.

This demonstrated that, based on the 'eligible jobholder' age requirement to qualify for auto enrolment which currently stands at 22, women would need to work an additional 19 years in full-time employment to save the same amount of money into their pension as a man. This means to retire with the same amount as a man, they'd have to start earning by the age of three.

> Existing auto enrolment thresholds are disproportionately impacting young women.

Clearly this is something that nobody is calling for, or thinks remotely feasible, but it spells out in stark terms the uphill battle that many women face when trying to save for their retirement.

It's always good practice to begin saving for retirement as soon as possible, but because of existing auto enrolment age (22) and earnings thresholds (to be enrolled into a workplace pension scheme, an employee must earn a minimum of £10,000 per year from a single employer), many young women are not being automatically enrolled in the pensions system as soon as they start working. Our research found that if existing auto enrolment thresholds were removed, nearly 885,000 young female workers (aged 16-21) would become eligible for a workplace pension, 100,000 more than young male workers in the same situation.

Existing auto enrolment thresholds are disproportionately impacting young women. Currently, 17% of employed women of all ages do not meet the qualifying criteria, compared to 8% of men. Overall, women make up 79% of workers who do not meet the minimum earnings threshold. The effects of this increase over the course of a working life.

Our research found that because of the cumulative and longitudinal nature of the gender pensions gap, on average women will retire with pension savings of just £69,000 compared to men's average pension savings of £205,000.

Funding retirement will continue to be one of the greatest societal problems for years to come. For women, because of the gender pensions gap, it's even harder.

Why is the gender pensions gap important?

Private pension saving is increasingly important for providing financial security for people in retirement. People are living longer, women are living longer than men, and the State Pension age is going up as pension costs to the state continue to rise. This is why government introduced auto enrolment - to increase workplace pension saving to share the burden of pension provision between employers, individuals and the state.

According to ONS data, a baby girl born in 2020 can expect to live, on average, until she's about 90 years old. By 2045, this is expected to rise to 92.6 years. For boys, life expectancy, which stood at 83.7 at the start of the decade, will rise to 90.1 in the same timeframe. For girls, having to fund a longer period of expected retirement with fewer assets, future planning is becoming increasingly important.

The UK State Pension age of 66 is set to rise to 67 between May 2026 and March 2028. From 2044, it's expected to move to 68, and The International Longevity Centre's February 2024 report, State Pension Age and Demographic Change, suggests State Pension age may have to rise even further to 71 to maintain the current number of workers per retiree. Of course, many people won't be physically able to work until 71 in the same capacity, if at all, and it will more than likely fall on the individual to plug gaps with private pension provision. As we've seen, women are retiring on less and living longer, which means the gender pensions gap is becoming an increasingly pressing issue.

Even today, pensioner poverty is a widespread problem. The perception of the 'baby boomer' generation retiring with generous final salary pensions and as homeowners is somewhat misguided. Again, for women, the reality is even harsher. Our research found that two thirds of pensioners in poverty are women. Half, meanwhile, are single women. In years to come, with the phasing out of Defined Benefit (DB) pension schemes and with fewer people owning their own houses or other assets, the effects of the gender pensions gap will become sharper.

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Root causes

The root causes of the gender pensions gap are complex and require deep analysis. They extend into areas such as government policy, employer practices, educational outcomes, individual choices and stubborn and historic gender roles which remain prevalent within society.

As the causes are wide-ranging, it can be helpful to group them into two broad areas. The first is the difference between men's and women's pay and earnings. The second is employment patterns over the course of a working life, including the impact of caring responsibilities.

Pay and earnings

Despite gender pay reporting for companies with more than 250 employees coming into effect in 2017, movement towards equal pay has been slow. In 2023, women's average pay was equivalent to 75% of men's, giving a gender pay gap of 25%. Women's average annual incomes stood at around £24,800, compared to £33,000 for men.

Educational outcomes

Over the past 25 years we've seen the pay gap fall by around 13%, much of which (around 10%) can be attributed to fairer outcomes in education. Today, women are 5% more likely to have graduated from university than men and are entering the workforce with higher average salaries than a generation before. If current trends continue, the gender pay gap should reduce further as more young women go on to higher education. And, because more women are going to university at the beginning of their careers, the gender pay gap between men and women is relatively low for employees in their 20s.

Industry and sector differences

The pay gap can also be sector or industry dependent. Industries with a higher proportion of women tend to have a smaller gap, compared to industries that are more male dominated. There are also differences between private and public sector pay gaps. Women might be overrepresented in sectors like healthcare and education, while men might be overrepresented in sectors like finance and technology. Traditionally male dominated fields tend to have higher incomes which may be due to the perception of being breadwinner roles.

The IFoA itself reports that 35% of its members and just 30% of its fellows are women. The imbalance becomes greater at the most senior levels when earnings are higher, in roles that typically pay more than the national average. Research from Prospect suggests that a senior analyst earns in the region of £70,000, though this can be as high as £110,000. Prospect adds, *'there is a range of salaries for experienced actuaries, but high financial rewards and excellent benefits packages are common. Salaries in excess of £200,000 are typical for chiefs, partners or principles.'*

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This is an important point to consider. Even for sectors where the gender pay gap is smaller, such as education and healthcare, overall pay tends to be lower, and where Defined Contribution (DC) schemes are in operation, without the offer of additional benefits such as bonuses and enhanced employer contributions.

What starts as a small earnings gap at the beginning of a career rapidly expands as women enter their 30s, 40s and 50s

Private vs public sector

There are also differences between private and public sector pay and pension gaps. In fact, in some public sector organisations where DB or final salary schemes remain popular, pension provision is actually higher among women. In Northern Ireland, where the public sector employs a higher proportion of the population than other regions, a 'negative' pay gap exists, with women earning more than men.

Earnings and pension contributions

The gender pay gap is having a knock-on effect on total annual pension contributions. In 2021, the total annual contribution gap (the gap between people eligible to pay into a workplace pension and people who actually pay into a workplace pension) stood at 17%, with men putting aside £62.6 billion for their retirement, compared to £52 billion for women. Yet our research found that given the same earnings and eligibility criteria, women and men contribute to their pensions evenly, with 77% of both men and women now saving into a workplace pension. In some cases, participation among women is even higher. Typically, we see higher participation rates among employed women in their 30s and early 40s compared to men, resulting in a very slight increase of around 1% in women's pension wealth.

Working patterns and caring responsibilities

The second contributor to the gender pensions gap is the difference in working patterns over the course of men's and women's careers. Women are more likely to work in part-time roles compared to men, and are more likely to take time out of their careers to raise children or take on other caring responsibilities. Even if the gender pay gap was eradicated, if similar working patterns remained, a woman, on average, would acquire just 66% of the pension wealth of a man.

Women in employment

Time spent out of work naturally has a huge impact on earnings and later pension provision. Women are more likely to have different working patterns over the course of their working lives, which is reflected in varying employment rates. In 2023, 74% of women were in employment, compared with 83% of men. This represents a 4% drop from 2022, where 78% of women were in employment.

The proportion of full-time employees who are women has increased, from 36% in 1997 to 41% in 2023. The proportion of part-time employees who are men has also increased, from 16% to 26%. Whilst this has led to a reduction in the overall gender pay gap, the employment participation gap - that is the gap in labour market participation between men and women, adjusted by hours worked - is 46% for women and 74% for men, for both full and part-time workers.

As the data shows, a major cause of earnings disparity between men and women over the course of a working life is that far fewer women will remain in full-time employment. This is largely because the burden of caring responsibilities – either for children, or other relatives or friends – often falls on women.

Childcare and other caring responsibilities

What starts as a small earnings gap at the beginning of a career rapidly expands as women enter their 30s, 40s and 50s, and the impacts of caring responsibilities start to take hold.

The 2024 gender pensions gap report reveals that women are 60% more likely to carry out unpaid primary carer roles – for children, or other relatives or friends - than men. Women, on average, will take 10 years out from their careers to raise a child, costing around £39,000 in lost pension savings.

While every family is different, the impact of having children on lifetime earnings is disproportionately borne by women, who are still far more likely to take on childcaring responsibilities. In 2021, for example, just 2% of men with dependent children were stay-at-home fathers, compared to 15% of women. This has huge implications for male and female employment rates. The participation gap is lowest for single people (8%) and highest for couples with children (45%).

It's worth mentioning too, that even though women are having children later than previous generations (at an average age of 30.9 in 2021), there are just eight years where the average man and average woman will enjoy equal conditions as eligible jobholders.

Parenting pay

Average weekly pay stands at around £635 for men and £476 for women. For a couple with no children, it's £600 for men and £481 for women. For a couple with children, it's £750 for men and £462 for women – a gap of £288. So not only do married fathers earn more than childless men and women, the gap between their earnings and their partners is much larger. The pay gap between mothers and fathers increases by around a fifth between the birth of the first child and their child's 20th birthday.

Cost of childcare

The average cost of full-time nursery for a child under age two was £14,800 a year in 2023, and can be higher depending where you live. Parents in London, for example, face average annual nursery fees of £20,000 or more per child.

The alternatives many women take after having children are part-time work, freelancing or taking on multiple jobs. However, most of these are unlikely to meet the single £10,000 auto enrolment threshold.

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For many families, the cost of childcare is the most important factor when choosing to go back to work or not. Nursery fees can make it more cost-effective for a parent to stay at home.

Other caring responsibilities

As with childcare, women are more likely to take on greater responsibility when it comes to caring for elderly or sick family members. This has a similar effect on employment rates, earnings and pension provision. Women are 60% more likely to carry out unpaid work and take on primary carer roles than men – taking on 26 hours a week on average, compared to men's 16 hours. In nearly a third of all UK households, the father contributes no time at all towards primary care.

Marriage

While married women, on average, tend to earn less than single women owing to childcare responsibilities, marriage can actually benefit men. Married fathers take home 18% more than the average figure for all working men in the UK. In contrast, married mothers earn 38% less than married men in the same situation.

The gender pensions gap is caused by a number of interconnected issues, relating to gender pay, working patterns and caring responsibilities. All of these contribute significantly to reduce women's lifetime earnings and subsequent pension accumulation. Addressing the root causes of the gender pensions gap requires comprehensive policy reforms, and for industries and employers to look at their working practices to make sure they're working for everyone.

What can be done?

The gender pensions gap can't be solved overnight. As our research shows, the causes are far more complex than the gender pay gap alone and require input from the government, policymakers, industry bodies and the organisations within them - and from individuals themselves. For industries such as financial services where gender imbalances in employment and pay are rooted in culture and history, employers have an even stronger role to play. The actuarial industry is no different.

The gender pensions gap can't be solved overnight.

Few would disagree that women shouldn't have to struggle in retirement because of the inequalities they face throughout their working life and the sacrifices they make for their families. As a society we've taken some important steps to narrow the gender pay gap, which in turn will help narrow the gender pensions gap. With forward-thinking and dedicated policies, along with greater levels of financial education and workplace support, we can and we must work towards a fairer pensions landscape for today's retirees and generations in the future.

Policy measures

NOW: Pensions is just one of many organisations working towards a fairer pensions system for all. The 2024 gender pensions gap report forms part of our campaigning work to raise awareness of current pension inequalities. As active participants in the pensions debate, we are also engaged with proposing solutions to tackling the problems we've identified.

Since 2019, we've been active in campaigning for the reduction of the auto enrolment age threshold to 18, as well as the removal of the lower earnings limit for auto enrolment. We're expecting a Department for Work and Pensions (DWP) consultation in 2024 on the regulations under the Extension of Automatic Enrolment Act, which would implement these measures. As we've seen, the gender pensions gap starts early, so the enactment of these measures needs to happen as soon as possible.

Many women who fall below the earnings trigger may do so not because they're earning less than £10,000 each year, but because they are multiple job holders. In future reviews of auto enrolment, the government should look to introduce measures that address the issue of multiple jobholders. The removal of the £10,000 trigger would allow many more women to become automatically eligible to enrol into a workplace pension plan immediately.

There's no doubt that auto enrolment has been a great success, but more could be done to support lower-earning women's outcomes. A future roadmap for the next stage of auto enrolment needs to be a priority for this and future governments. One key question to be considered is whether current contribution levels are enough.

As our research reveals, career interruptions have a major impact on pension wealth. A family carer's top-up would see those taking time out of work for caring paid the equivalent of an employer's contribution, at the same level as the National Living Wage, into their pensions. Additionally, the cost of childcare prevents many women from returning to work. Making childcare more affordable and accessible will allow those who want to return to work to do so.

Another factor which policymakers should consider is the impact of divorce. Research suggests more than 100,000 marriages end each year (and this figure is increasing among those aged 65 and above). In many cases, pension savings are often the second most valuable asset after a home, yet more than 70% of couples don't share their pension savings in their settlement. If pension wealth is not shared, many women won't benefit from the sacrifices to their careers and earnings they make for their families.

What's more, research from the University of Bristol and the Nuffield Foundation found more than a third of divorcees don't know how much their pension savings, or their partner's pension savings, are worth. So women not only need to understand the value of their and their partner's pension savings, they also need to know how to get their fair share as part of any divorce settlement. As our findings reveal, half of all pensioners in poverty are single women

Learning from the pensions industry – some takeaways for actuaries

It's often been said that men and women gravitate towards different professions and different sectors and while organisations can't vouch for personal preference, industries like financial services still have an historical reputation for being male dominated and certainly sectors and firms can always do more.

In 2022 The Pensions Regulator called for the industry to improve diversity, equality and inclusion (DEI) and many UK pension funds are examining their own practices. It's worth pointing out that the pensions industry is still at the start of a journey but research from Mallowstreet and Cardano found that within the industry there is a willingness to embrace DEI and a confident belief that improving DEI is beneficial not just for trustees, but also important for delivering better outcomes for pension savers.

With an aging society, the issue of equitable pension provision is fast becoming a problem that will affect us all.

The research found most pension trustee boards continue to lack diversity both on gender and ethnicity grounds and that DEI is not a high priority for trustee agendas. To tackle this, the report recommended the pensions industry and trustees examine their DEI policies and encourage learning and discussion within their organisations to examine where improvements can be made.

Tackling gender balance at source is a critical challenge across financial services as a whole. Encouraging more girls and young women at school and university to consider careers in the finance industry, through careers events, industry outreach, work placements and apprenticeships can help broaden the talent entering the industry.

Like most industries, there's always more to do to support women working within it. Enacting flexible working policies and childcare support, along with equitable parental leave policies can make it easier for mothers to return to work if they choose to do so. Shared learning within the industry from those organisations who are doing well in this area should become commonplace. And indeed, learning from those outside of the industry who are trailblazers with regards to offering flexible working, mentorship and networking opportunities in this area can allow senior executives and business leaders to examine their own working practices.

Solving the gender pensions gap is a collective effort. With an aging society, the issue of equitable pension provision is fast becoming a problem that will affect us all. The actuarial industry has its own role to play in making sure its employees can save for the retirement they hope for by being given equal opportunities to pursue fulfilling and rewarding careers.

Sources

The research for the 2024 gender pensions gap report was carried out in partnership with the Pensions Policy Institute (PPI) in October 2023. Collected and curated from a range of official published sources in the UK, the data presented aims to offer unique insights into the issues that contribute to the gender pensions gap.

The following sources were used for our report:

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- Mallowstreet & Cardano DEI Report 2022
- Pensions Policy Institute (PPI) The Underpensioned: Defining the Gender Pensions Gap

For more information, please visit:

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DISCLAIMER:

This report was created using the PPI gender pensions gap index in January 2024.

Information correct as at January 2024.

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