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## Pensions and Gender Equality

### Policy paper for the Commission on a Gender-Equal Economy

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*Disclaimer: This paper was commissioned by the Women's Budget Group to inform the Commission on a Gender-Equal Economy. An input to the Commission, it has been written by an independent author and should not be taken to represent the views of the Commission on a Gender-Equal Economy or the Women's Budget Group.*

### Executive summary

Due to their much greater likelihood of taking on unpaid care responsibilities, women face disadvantages in the labour market compared to men. Not only does this result in a gender pay gap of around 17% in the UK during women's working lives but an even larger gender pension gap in retirement of 36%. While part of any long-term solution to this gender inequality would address the labour-market disadvantages, there is no inevitable association between a pay gap and a pension gap. The design of pension systems can offset, perpetuate or exacerbate the inequality.

The new UK state pension system is more gender equal than the pre-2016 state system and a major strength of both systems is the protection of carers' pension rights since 1978. However, transitional rules mean that it will be another 20 years before women receive the same state pensions as men. Moreover, while the government considers the new state pension to be enough to live on, it is around 40% lower than the level deemed adequate by independent sources.

The UK private pension system is highly unequal with the capacity to save and the associated tax reliefs heavily skewed towards men. As a result, the median pension wealth of women on the brink of retirement is just half that of men. The cost of pension tax reliefs in UK was £35.4 billion in 2017-18. This compared with public spending on state pensions of about £94 billion (Great Britain).

All pensions, however financed or calculated, are claims on future national income and so, to the extent that these claims are met, involve a transfer of national income from the working population to the retired population. **The most economically efficient way to ensure equal, adequate and reliable retirement incomes for women and men would be to replace the current patchy recognition of unpaid work and lottery of ability to save inherent in the current state and private pension systems with a state-funded universal basic income (UBI) for all retired people payable at a level of around £277 a week (£14,400 a year)<sup>1</sup>.** With an adequate retirement UBI, any additional provision for retirement would be a matter of personal choice with no need or justification for subsidies from taxpayers. Assuming the private pension tax relief saved was diverted to help fund UBI, as a percentage of GDP, the cost would be less than the current OECD average of public expenditure on pensions.

There is, in any case, a lack of evidence to suggest that pension tax reliefs are effective at incentivising saving for retirement and the UK system of reliefs is highly regressive. **In the absence of**

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<sup>1</sup> To cover adequate living costs; care needs – which vary greatly from one person to the next – would need to be funded separately. See the previous paper on social care presented to the Commission: <https://wbg.org.uk/wp-content/uploads/2019/11/Social-care-and-gender-equality.pdf>

**a retirement UBI, pension tax reliefs should still be scrapped and the amount used to finance state-funded carer credits to private pension schemes.**

## Background

There are two main aims of pension systems: poverty alleviation in older age; and smoothing consumption over the life course<sup>2</sup>. Broadly speaking, there are two bases for achieving this: defined benefit, where a set amount of pension is promised and calculated according to some formula, typically linked to number of years contributing to a scheme; and defined contribution, where each individual builds up their own pot of savings and the eventual pension that will support is unknown. Regardless of the basis, there are two ways of financing the provision: pay-as-you-go, where there is a direct transfer of resources from current workers to people who are currently retired; and funded schemes, where contributions are invested while people are working and the resulting investment fund is used to provide their pension when retired.

An ageing population, due to the 'baby boom' generation (born mid-1940s to mid-1960s) reaching retirement, and increased longevity at least to the mid-2010s, has put pressure on the UK pension system. As a result, there is a good deal of rhetoric about the affordability of defined-benefit schemes (which, in the UK, embraces the state pension scheme and some occupational schemes) and the pay-as-you-go model (which applies to the state scheme and most public-sector occupational schemes). However, all pension rights and savings, whatever their basis and however they are financed, are claims on future output<sup>3</sup> (for convenience this paper will refer to this as gross domestic product, GDP, but private pensions if invested abroad could be a claim on the national income of other countries, as could state schemes funded by overseas sales of public debt). This means that, unless one design is better than another at contributing to the growth of future GDP, affordability concerns apply equally to all types of pension provision (including defined contribution and funded schemes) and are essentially debates about how much of GDP a society is willing to transfer to its non-working population and who bears the inherent risks. Thus, how nations structure their pension systems is a matter of political choice.

The World Bank identifies multiple 'pillars' for the structure of pension provision and Table 1 describes how the UK system maps to these. The summary statistics in Table 1 highlight the unequal gender outcomes that the UK system produces. For example, although women make up 54%<sup>4</sup> of the UK population aged 65 and over, they account for 62% of people receiving Pension Credit, the main means-tested benefit for older households on a low income. Below state pension age, women are less likely than men to be contributing to a private pension, and only just over half of women are receiving a private pension in retirement compared with over three-quarters of men.

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<sup>2</sup> Holzmann, R. and Hinz, R. (2005) *Old age income support in the 21<sup>st</sup> century*  
[http://siteresources.worldbank.org/INTPENSIONS/Resources/Old\\_Age\\_Inc\\_Supp\\_Full\\_En.pdf](http://siteresources.worldbank.org/INTPENSIONS/Resources/Old_Age_Inc_Supp_Full_En.pdf).

<sup>3</sup> For a discussion of this point, see for example Barr, N. and Diamond, P. (2008) *Reforming pensions* Oxford, Oxford University Press.

<sup>4</sup> ONS (2019) *Overview of the UK population: August 2019*  
<https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/articles/overviewoftheukpopulation/august2019>.

**Table 1 Pension provision in the UK, 2019-2020**

World Bank pillar <sup>5</sup>	UK system	UK coverage (number of people)
0 – universal or means-tested state benefits	Pension Credit	Recipients <sup>6</sup> : women 1.0 million; men 0.6 million
1-mandatory state pensions	Post-April 2016: Flat-rate state pension Pre-April 2016: Basic pension and earnings-related pension	State pensions in payment <sup>7</sup> : women 6.9 million; men 5.8 million
2-mandatory private pensions	Post-April 2016: none Pre-April 2016: contracted-out <sup>8</sup> pensions	Not applicable
3-voluntary private pensions	Employer-related and personal pensions (collectively these are called ‘private pensions’)	Proportions in 2016-18 <sup>9</sup> – <ul style="list-style-type: none"> <li>• Age 16 to 64 actively contributing: women 53%; men 59%</li> <li>• Any age with preserved pension: women 19%; men 23%</li> <li>• 65 and over with pension in payment: women 53%; men 76%</li> </ul>
4-voluntary non-pension support	Eg housing wealth; unpaid care; continuing paid work	<ul style="list-style-type: none"> <li>• Unpaid carers, at least<sup>10</sup>: women 3.8 million; men 2.7 million</li> <li>• Age 65+ in work<sup>11</sup>: women 0.5 million; men 0.7 million</li> </ul>

Among those women who do manage to accumulate their own private pensions, the amounts are on average significantly lower than men’s. For example, by age 65 to 74, men have twice the private pension wealth of women (median value of £261,000 versus £131,000)<sup>12</sup>. Up to age 34, women’s private pension wealth is higher than men’s but lags sharply after that<sup>13</sup> as women take on caring roles. This results in time out of work, low-paid part-time working, reduced promotion prospects and, from the outset, a tendency towards gender-stereotypical careers that often pay less than the

<sup>5</sup> Holzman and Hinz. Op cit.

<sup>6</sup> Department for Work and Pensions (2019) *DWP benefits statistical summary*, August 2019 <https://www.gov.uk/government/publications/dwp-benefits-statistics-august-2019/dwp-benefits-statistical-summary-august-2019#pensions>.

<sup>7</sup> Department for Work and Pensions (2019) *State pension caseload statistics (5% sample) to March 2019* <https://www.gov.uk/government/statistics/dwp-benefits-statistics-november-2019>.

<sup>8</sup> Contracting out was an arrangement whereby the costs and risks of providing earnings-related pensions was shared between the state and employers, then later with personal pension providers too. The earnings-related state pension was reduced and, in return for a reduction or transfer of contributions that would have been paid to the state, the occupational or personal pension scheme would take over paying a replacement pension.

<sup>9</sup> ONS (2019) *Pension wealth: wealth in Great Britain*

<https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/pensionwealthwealthingreatbritain>.

<sup>10</sup> Carers UK (2019) *Facts about carers* [https://www.carersuk.org/images/Facts\\_about\\_Carers\\_2019.pdf](https://www.carersuk.org/images/Facts_about_Carers_2019.pdf) based on 2011 census data.

<sup>11</sup> ONS (2019) *Employment by detailed occupation and industry by sex and age for Great Britain, UK and constituent countries, 2018* <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/adhoc/009974employmentbydetailedoccupationandindustrybysexandageforgreatbritainukandconstituentcountries2018>.

<sup>12</sup> ONS (2019) *Pension wealth: wealth in Great Britain Dataset*

<https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/pensionwealthwealthingreatbritain>.

<sup>13</sup> Ibid.

work men do. Not only does this create a gender pay gap during working life (17.3% in 2018<sup>14</sup>) but persists and balloons into retirement as a gender pension gap, estimated to be 36% in the UK<sup>15</sup>.

While part of any long-term solution would be to address women’s disadvantages in the labour market<sup>16</sup>, evidence finds no systematic association<sup>16</sup> between a gender pay gap and a gender pension gap<sup>17</sup>. Labour market conditions make women vulnerable to lower income in retirement, but the design of pension systems can offset, perpetuate or exacerbate this vulnerability.

## Key problems the UK pension system poses for gender equality

Gendered data for single pensioner households<sup>18</sup> show that the dominant sources of income in retirement are state pensions (and other benefits) and private pensions (occupational and personal), but with women being more heavily dependent on the state pension than men – see Table 2. The table also shows that the gender pension gap is greater for older women (£111) than younger ones (£70 a week). The design of, and changes to, the state and private pension systems contribute to these differences. The data for current pensioners reflect current and past system design. The outcomes in retirement for women and men currently of working age will be different, reflecting known changes to the system that are still working through and any subsequent amendments.

**Table 2 Mean gross income of pensioner households, 2017-18\***

	Under age 75			Age 75 and over		
	Women	Men	Couples	Women	Men	Couples
Number (million)	1.3	0.7	2.8	1.8	0.7	1.4
Gross income £/week	£317	£377	£824	£295	£406	£611
<i>Of which (% of gross income)</i>						
Benefit income (state pension and other state benefits)	61%	50%	30%	68%	48%	48%
Occupational pension income	23%	27%	27%	24%	30%	34%
Personal pension income	2%	5%	4%	2%	5%	4%
Investment income	4%	5%	9%	4%	9%	7%
Earnings income	10%	12%	28%	1%	7%	7%
Other	1%	1%	1%	1%	1%	1%

Source: ONS (2019) *Pensioner income series*, Tables 1.2, 2.9 and 2.5.

\*Unequalised income at 2017-18 prices.

<sup>14</sup> ONS (2019) *Gender pay gap Data*

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2019/relateddata?uri=employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2019/relateddata&uri=employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2019/relateddata&page=3>.

<sup>15</sup> European Parliament (2019) *The gender gap in pensions in the EU*

[http://www.europarl.europa.eu/RegData/etudes/BRIE/2019/631033/IPOL\\_BRI\(2019\)631033\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRIE/2019/631033/IPOL_BRI(2019)631033_EN.pdf).

<sup>16</sup> See, for example, the papers presented to the Commission on paid and unpaid work: <https://wbg.org.uk/commission/inputs-to-the-commission/policy-papers-work-paid-and-unpaid/>

<sup>17</sup> Ibid.

<sup>18</sup> ONS (2019) *Pensioner income series: financial year 2017 to 2018* <https://www.gov.uk/government/statistics/pensioners-incomes-series-financial-year-2017-to-2018>.

## Gender and the design of the UK state pension system

Prior to 6 April 2016, despite piecemeal reforms, the UK state pension system still reflected the original 1948 design which embedded outdated norms that most women would marry and then be financially dependent on their husbands. While the new system introduced since 6 April 2016 – see Table 3 - is more gender equal (for example, by removing the previous earnings-related element), transitional rules mean that it will take until the early 2040s before women’s state pensions will be equal to men’s<sup>19</sup>. The legacy of successive changes is that different cohorts experience very different state pensions according to the dates on which they reached or will reach state pension age, as Table 3 shows, and current pensioners continue to endure the gender imbalances of the past.

**Table 3 State pension experience by cohort**

Status	When reach/ed state pension age	Type of pension	Contributions (paid or credited) requirement	Special rules affecting women
Current pensioners	Before 6 April 2010	Basic pension; and	90% of working life; reduced basic pension if less; 10% to get any basic pension	Protection/credits for carers since 1978
Current pensioners	6 April 2010 but before 6 April 2016	Earnings-related state pension part or all of which may be contracted out to private pension scheme instead	30 years during working life; reduced basic pension if less; 1 year to get any basic pension	Divorced/widowed can use partner’s contribution record to boost basic pension Widowed may inherit part of partner’s earnings-related pension
Some current pensioners; most future pensioners	6 April 2016 to around 2040	Single flat-rate pension; and Possible protected amount from pre-2016 scheme under transitional rules	35 years during working life; reduced flat-rate pension if less; 10 years to get any pension	No special rules
Future pensioners	Around 2040 onwards	Single flat-rate pension		

Under the pre-2016 system, the full basic state pension alone is below the level that the government deems is the minimum necessary income. The impact of caring roles on women’s earnings means

<sup>19</sup> DWP (2013) *The single-tier pension: a simple foundation for saving*  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/181229/single-tier-pension.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/181229/single-tier-pension.pdf).

their own earnings-related state pensions and/or contracted-out pensions are usually substantially lower than those of men.

Under the post-2016 system, the flat-rate has been set at a level that reflects the former basic pension and average amount of earnings-related state pension previously paid out; thus the new single pension is higher than the previous basic rate and is approximately at the government's deemed minimum subsistence level (at £168.60 a week in 2019-20<sup>20</sup>). It should be noted that non-government sources suggest that the minimum income a single pensioner needs for an adequate standard of living is a good deal higher at around £277 a week<sup>21</sup>.

In 2019, only 44 per cent of new state pension claimants were receiving the full amount<sup>22</sup> but care is needed in interpreting this figure. Although no gender breakdown is given, it is likely that the proportion is higher for women than men. This is because, under the transitional rules, the potential full new state pension is reduced by the amount of any contracted-out private pensions built up before April 2016. Women are less likely than men to have contracted-out pensions (largely due to more working in the public sector where occupational pensions were not contracted out). This means women's new state pension is more likely to already be at or close to the full amount. However, women will generally end up with substantially less pension overall, taking account of combined state and contracted-out pensions.

A significant gender-positive strength of the state system, since 1978, is the protection (now in the form of contribution credits) for individuals – mostly women – whose earnings are nil or too low to generate paid contributions to the state scheme because they are caring for a child/children or an adult with a disability.

A major change in the state scheme has been the equalisation of women's state pension age with that of men over the period 2010 to 2018 and raising of the state pension age for both since then (66 by October 2020 with further rises to 68 planned). Prior to 2010, women's state pension age was 60, five years younger than that of men. Coupled with women on average living longer than men, this could be considered as a gender inequality against men. While working longer can result in higher annual retirement incomes<sup>23</sup> (by increasing the time available to accumulate pension and decreasing the length of retirement), the raising of women's state pension age has been particularly detrimental to some groups, particularly those doing unpaid work, in low-paid work because of past or current caring responsibilities or with health issues, who struggle financially to survive the delay until their state pension becomes payable. Government data show that over the period 2013 to 2019, the number of women aged 60 and over claiming out-of-work benefits increased by 27,500 and incapacity benefits by 132,000<sup>24</sup>.

## Gender and the UK private pension system

Table 4, which shows the income distribution of pensioner couples and single pensioners (no gender breakdown available), demonstrates the importance of private pensions (including contracted-out pensions) in lifting retirement income above a purely subsistence level. Private pensions comprise

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<sup>20</sup> Gov.uk (2018) *Benefit and pension rates 2019/2020*

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/792946/Benefit\\_and\\_pension\\_rates\\_2019.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/792946/Benefit_and_pension_rates_2019.pdf).

<sup>21</sup> See, for example, <https://www.minimumincome.org.uk/>.

<sup>22</sup> DWP (2019). Op cit.

<sup>23</sup> Pensions Policy Institute (2016) *How do female lifecourses affect retirement?*

<https://www.pensionspolicyinstitute.org.uk/research/research-reports/2016/briefing-note-84-how-do-female-lifecourses-affect-retirement/>.

<sup>24</sup> Thurley, D. and McInnes, R. (2019) *State pension age increases for women born in the 1950s*  
<https://researchbriefings.files.parliament.uk/documents/CBP-7405/CBP-7405.pdf>.

occupational pension schemes established by employers and personal pensions which are contracts between individuals and pension providers (such as insurance companies) that can however be arranged on a group basis through a workplace.

**Table 4 Income distribution of pensioner households, 2017-18\***

	Net income quintiles				
	Bottom	Next	Middle	Next	Top
<b><i>Pensioner couples</i></b>					
Gross income £/week	£292	£430	£557	£759	£1,676
% of total from private pensions	14%	23%	33%	42%	38%
% of total from earnings	5%	8%	12%	17%	32%
% of total from investments	2%	3%	3%	5%	15%
<b><i>Single pensioners</i></b>					
Gross income £/week	£150	£231	£287	£365	£670
% of total from private pensions	8%	16%	20%	29%	43%
% of total from earnings	1%	2%	2%	4%	14%
% of total from investments	2%	2%	2%	3%	9%

Source: ONS (2019) *Pensioner income series*, Table 4.3.

\*Non-equivalised income after tax but before adjusting for housing costs.

Occupational pension schemes in the public sector are mostly defined-benefit schemes. Historically, these have also been common in the private sector and will continue to be an important part of retirement incomes for many years to come. However, over half of private-sector defined-benefit occupational schemes are now closed<sup>25</sup>, being replaced instead with defined-contribution schemes, where each member builds up their own personal pot of savings. In a defined benefit scheme, the member is promised a specified level of pension and the inherent risks (investment, inflation and longevity) are borne by the employer sponsoring the scheme. In defined contribution schemes the risks are all borne by the individual. It is not just this distribution of risk that makes defined-benefit schemes superior for the recipient. In addition, contributions (from employers and employees) to defined-benefit schemes are substantially higher, for example, with 56 per cent of employers alone contributing 15% or more of earnings and employees commonly paying 5-7%, while the combined employer-employee amount contributed to defined-contribution schemes is typically 8% or less<sup>26</sup>. The shift to defined-contribution provision and the lower level of contributions inevitably means more risky and lower private-sector pensions for future pensioners. Defined-contribution schemes also offer less protection for dependants (typically female partners) since survivor benefits in

<sup>25</sup> ONS (2019) Occupational pension schemes in the UK

<https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/pensionssavingsandinvestments/datasets/occupationalpensionschemesurvey>, Table 4.

<sup>26</sup> ONS (2019) Annual Survey of Hours and Earnings

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/workplacepensions/datasets/summaryofpensionresultsannualsurveyofhoursandearnings> Pension Tables 11 and 12.



retirement are typically an automatic part of defined-benefit schemes but a matter of member choice in defined-contribution schemes.

While the level of pension provision may be falling, the *number* of people who will have at least some private pension is increasing. Between 2012 and 2018, a system of auto-enrolment was rolled out across the UK under which employers must enrol all eligible employees in a workplace pension scheme (which can be an occupational or personal scheme), contributing at least a minimum amount to the scheme on behalf of each employee who is typically required to contribute as well. Employees may opt out if they wish. Automatic-enrolment was introduced because of low participation in private pensions in the private sector under the previous opt-in system; behavioural science suggests that individuals tend to go with the default and that changing to a system where individuals had to make an active decision to opt out rather than opt in would boost scheme membership.

Auto-enrolment has proved effective with an overall increase in private-sector workplace pension participation of eligible employees from 42% in 2012 to 85% by 2018<sup>27</sup>. From a gender perspective, the term ‘eligible employees’ is important. To be covered by auto-enrolment, an employee must be earning at least £10,000 a year (in 2019-20) in that particular employment. Table 5 shows that pension participation rates are particularly low for private-sector part-time workers and that many more women than men work part-time. Part-time work is often low-paid and, even if a woman’s total earnings reach £10,000 or more, this may come from multiple jobs, leaving her ineligible for auto-enrolment in any one of them.

**Table 5: Proportion of employees with workplace pensions**

	Male	Female
<b>Public sector</b>		
Full-time	93.1%	93.2%
Part-time	72.7%	84.2%
<b>Private sector</b>		
Full-time	82.1%	82.1%
Part-time	38.5%	47.3%
<b>Number of jobs (millions)</b>		
Full-time	11.4	7.6
Part-time	1.9	5.6

Source: ONS (2019) *Annual Survey of Hours and Earnings*, Pensions Table 4 and Paid hours worked Table 1.9a.

Public-sector pension participation has traditionally been high, even among part-time workers. With women making up 68% of the public sector workforce and 88% of its part-time workforce<sup>28</sup>, this high participation rate and the fact that all public sector schemes are defined-benefit currently benefits women. However, this type of well-pensioned employment is at risk as local councils outsource

<sup>27</sup> ONS (2019) *Workplace pension participation and savings trends of eligible employees. Official statistics: 2008 to 2018*  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/806513/workplace-pension-participation-and-saving-trends-2008-2018.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/806513/workplace-pension-participation-and-saving-trends-2008-2018.pdf).

<sup>28</sup> ONS (2015) *Public sector workforce by gender*  
<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/publicsectorpersonnel/adhocs/004849publicsectoremploymentbygender>.

services and cut their own workforces<sup>29</sup>. While the pension rights of employees transferred from the public to private sector are protected, this does not apply to the newly employed in outsourcing companies.

It should also be noted that self-employment is increasing, with ‘a notable change in the mix of employment among women towards self-employment’<sup>30</sup>, but these workers are outside the scope of automatic enrolment.

Whether private pensions are provided on a defined-benefit or defined-contribution basis, the vast majority link benefits or contributions to earnings. Thus, the UK private pension system favours individuals – most often men – who earn the most and earn consistently without career breaks. Even a good defined-benefit pension scheme cannot produce a generous pension if the earnings on which it is based are low – for example, the 2011 ‘Hutton review’ found that the median pension from public-sector schemes was only £5,600 a year<sup>31</sup>, reflecting the predominance of low-paid and part-time jobs in that sector which are largely undertaken by women workers. Additionally, unlike the state system, private pension schemes do not normally credit members with pension rights or contributions during periods when they are not earning or their earnings are low because of caring responsibilities.

## Gender and pension tax relief

The UK tax system includes a variety of tax reliefs (a mix of deferring tax until retirement and complete tax exemption) aimed at encouraging pension saving that are also linked to earnings (through the level of contributions made or level of pension wealth accumulating). In 2017-18, the value of these reliefs totalled £53.7 billion, reducing to a net figure of £35.4 billion if income tax collected on private pensions in payment is deducted<sup>32</sup>. Additionally, unused pension wealth can be passed on at death free of inheritance tax and often other taxes too. The way the UK system of pension tax reliefs works is highly regressive with over two-thirds of the gross reliefs going to higher-rate and additional-rate taxpayers in 2015-16<sup>33</sup>. The 40% of taxpayers earning less than £20,000 a year accounted for just 7% of the contributions receiving pension tax relief<sup>34</sup>, with 47% of female taxpayers falling into this group compared with 32% of male taxpayers<sup>35</sup>. Restrictions on relief for the highest earners since April 2016 mean that the extent to which additional-rate taxpayers benefit will have fallen somewhat.

Many more women (8 million) than men (3 million) of working age earn too little to pay tax<sup>36</sup> and often miss out on tax reliefs on contributions if they are in occupational schemes. This is because

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<sup>29</sup> See for example Paul Blantern, CEO, Northamptonshire County Council in BBC *The Bottom Line* 18 July 2015

<https://www.bbc.co.uk/sounds/play/b05zyyhx>.

<sup>30</sup> ONS (2018) *Trends in self-employment*

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/trendsinselfemploymentintheuk/2018-02-07>.

<sup>31</sup> Independent Public Service Pensions Commission (2011) Final report

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/207720/hutton\\_final\\_100311.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/207720/hutton_final_100311.pdf).

<sup>32</sup> HMRC (2019) *Cost of pension tax and NIC relief*

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/833859/Table\\_6\\_Cost\\_of\\_Pension\\_Tax\\_and\\_NICs\\_Relief\\_2012-13\\_to\\_2017-18.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/833859/Table_6_Cost_of_Pension_Tax_and_NICs_Relief_2012-13_to_2017-18.pdf).

<sup>33</sup> HM Treasury (2015) *Strengthening the incentive to save: consultation on pensions tax relief*

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/442159/Strengthening\\_the\\_incentive\\_to\\_save\\_consultation\\_print.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/442159/Strengthening_the_incentive_to_save_consultation_print.pdf).

<sup>34</sup> Thurley, D. (2019) *Restricting pension tax relief* <https://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN05901#fullreport>.

<sup>35</sup> HMRC (2019) *Table 3.3: Distribution of mean and median income and tax by age range and gender, 2016-17*

<https://www.gov.uk/government/statistics/distribution-of-mean-and-median-income-and-tax-by-age-range-and-gender-2010-to-2011>.

<sup>36</sup> ONS (2019) *Principal projection – UK population in age groups*

<https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/datasets/tablea21principalprojectionukpopulationinagegroups> and HMRC (2019) *Table 2.1: Number of individual taxpayers* <https://www.gov.uk/government/statistics/number-of-individual-income-taxpayers-by-marginal-rate-gender-and-age>.

many occupational schemes operate a 'net pay' system where pension contributions are deducted from pay before income tax on the pay is worked out, meaning there is no relief if the individual is not a taxpayer. By contrast, most other private pension schemes operate 'tax relief at source' where even non-taxpayers have relief at the basic rate added to their savings. The net pay system is used by public sector schemes and so particularly disadvantages women given that they make up a high proportion of public sector employees.

While the stated purpose of the tax reliefs is to incentivise saving for retirement<sup>37</sup>, since 2015 a policy of 'freedom and choice' has meant that individuals who have reached at least age 55 no longer need to use their defined-contribution pension savings to provide retirement income and can instead, subject to tax charges on three-quarters of the savings, withdraw and use their savings for any purpose. While making a mockery of the whole rationale of the tax reliefs, this policy is also likely to reduce the security of women who, having taken on the bulk of unpaid caring responsibilities, understood that they would share the retirement income being built up by their partner but have no control if their partner decides to use the funds in other ways.

## Recommendations for a more gender-equal approach to pensions

The UK state pension system since 2016 is more gender-equal than in the past and a great strength is its incorporation of protection for carers since 1978. However, the UK government typically takes a gender-blind approach to private pension provision, incorrectly assuming that if rules are the same for men and women, that is sufficient for equality. A genuinely gender-equal approach (often called gender mainstreaming) must take account of the different circumstances of women that limit their capacity and opportunities to build retirement savings.

In an ideal world, the underlying cause of those circumstances would be addressed, recognising the value of the estimated £1.2 trillion a year of unpaid household services performed in the UK<sup>38</sup>, in large measure by women.<sup>39</sup> However, this goal will take a long time to be addressed. In the meantime, there are a variety of ways in which the design of the state and private pension systems can be altered to offset women's labour-market disadvantages and directly reduce the gender pensions gap.

## A universal basic income for the retired

Once it is grasped that all pension systems are a claim on future GDP, the obfuscating arguments about the affordability of state provision fall away and the true question becomes: what proportion of GDP is society willing to transfer to its retired population?

The most economically efficient and equitable way to ensure an adequate retirement income for women and men would be to directly transfer a non-earnings-related pension for all at a level that genuinely supports a decent standard of living via the state system. There is no justification for a system that provides less to people who do unpaid as opposed to paid work, so this retirement income should be provided to citizens on a non-contributory basis. In other words, **there should be a universal basic income (UBI) for all retired people**. Such a system has many advantages:

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<sup>37</sup> HM Treasury (2015). Op cit.

<sup>38</sup> ONS (2018) *Household satellite accounts 2015 and 2016* <https://www.ons.gov.uk/releases/householdsatelliteaccounts2015and2016>.

<sup>39</sup> For more, see the papers presented to the Commission on paid and unpaid work: <https://wbg.org.uk/commission/inputs-to-the-commission/policy-papers-work-paid-and-unpaid/>

- it avoids the leakage of financing for pensions to intermediaries, such as fund managers and financial advisers (estimated to cost about 0.38-0.54% depending on scheme type<sup>40</sup>);
- it removes the lottery inherent in defined-contribution savings schemes whereby the inherent risks mean some individuals end up with more income than they need while others go short. Investment risk in particular is likely to increase due to climate change;
- it provides an adequate income to all regardless of their past earnings;
- it does not penalise individuals whose paid labour market participation has been reduced by caring responsibilities or other factors; and
- it does not leave women dependent on pension decisions made by their partners.

If the legacy of transitional rules could be swept away and retirement UBI had in 2018-19 been set at the £277 a week<sup>41</sup> quoted above, this would imply an increase in government spending on state pensions that year from 4.6% of GDP per year<sup>42</sup> to 8.8%, reducing to roughly 7% if savings from net tax relief on private pensions were used to help finance the UBI. To put this in perspective, data for 2015 (the most recent year available), public expenditure on old-age and survivor benefits across the OECD was 8.0% of GDP on average, with 22 out of 36 countries spending 7% or more of GDP<sup>43</sup>. **The main barrier to a retirement UBI is not cost but political will.**

### Repurpose pension tax reliefs: private pension carer credits

Even if the UBI proposal above is not adopted, there is no justification for continuing with pensions tax relief in its current form. There is no evidence that the gross £53.7 billion of tax reliefs work, or are the best way, to encourage pension saving. While not specifically discussing pension tax reliefs, the National Audit Office has previously stated that: ‘HM Treasury and HMRC do not keep track of tax reliefs intended to change behaviour, or adequately report to Parliament on whether tax reliefs work as expected’<sup>44</sup>. In responses to a government consultation, the rather sophisticated (largely corporate) respondents suggested that the reliefs offer ‘a strong incentive for them to save into a pension rather than put their money elsewhere,’<sup>45</sup> which suggests the reliefs do not increase the level of retirement saving overall only the channel adopted. In fact, the decision to introduce auto-enrolment suggests that the previous reliance on tax incentives alone was not particularly effective at stimulating mass-market pension saving; and the success of auto-enrolment in increasing the numbers of people now saving for retirement may mean that the attempt to incentivise through tax reliefs is now redundant.

In addition, the pension tax relief system is regressive and impossible to justify on equity grounds. The higher-rate and additional-rate taxpayers who predominantly benefit have both the capacity and most likely the motivation to save for their retirement without expensive subsidies from taxpayers. While some attempt has been made to rein in the benefit flowing to additional-rate taxpayers, the result has been huge complexity and detrimental spill-over effects, such as NHS

<sup>40</sup> House of Commons Work and Pensions Committee (2019) *Pension costs and transparency* <https://publications.parliament.uk/pa/cm201719/cmselect/cmworpen/1476/1476.pdf>.

<sup>41</sup> <https://www.minimumincome.org.uk/>. Op cit.

<sup>42</sup> Office for Budget responsibility (2018) *Welfare spending: state pension* <https://obr.uk/forecasts-in-depth/tax-by-tax-spend-by-spend/welfare-spending-state-pension/>. 2018-19 expected state pension spending of 4.4% of GDP was equivalent to 12.7 million people receiving an average of £7,610 a year each; an increase to £14,500 a year each for 12.7 million people would be equivalent to 8.8% of GDP.

<sup>43</sup> OECD (2019) *Pensions at a glance 2019* [https://www.oecd-ilibrary.org/finance-and-investment/oecd-pensions-at-a-glance\\_19991363](https://www.oecd-ilibrary.org/finance-and-investment/oecd-pensions-at-a-glance_19991363), Table 8.3.

<sup>44</sup> National Audit Office (2014) *The effective management of tax reliefs* <https://www.nao.org.uk/report/the-effective-management-of-tax-reliefs/>.

<sup>45</sup> HM Treasury (2016) *Strengthening the incentive to save: summary of responses to the consultation on pensions tax relief* [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/508184/summary\\_of\\_responses\\_to\\_pensions\\_tax\\_relief\\_consultation\\_final.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/508184/summary_of_responses_to_pensions_tax_relief_consultation_final.pdf), para 2.3.

doctors withdrawing their labour to avoid pension-saving-related tax bills<sup>46</sup>. The government needs to go back to the drawing board and rethink how this public money can be best used and for what purpose.

If there is no switch to an adequate UBI, people will still need to save privately for retirement, but the pension tax relief system should then be simplified and targeted at those who most need help building private pensions. In particular, the money would be better directed at financing state-funded carer credits automatically paid into the carer's private pension on a similar basis to the carer credits that protect state pension accumulation. The aim would be to ensure that the combined state and private pension would offer a good chance to achieve the minimum adequate retirement income (currently estimated at £277 a week<sup>47</sup>).

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<sup>46</sup> See, for example, West, J. (2019) *Hospital doctors and the pensions trap* <https://www.hcsa.com/hcsa-journal/hospital-consultant-specialist-spring-2019/2019/05/hospital-doctors-and-the-pensions-trap.aspx>.

<sup>47</sup> <https://www.minimumincome.org.uk/>. Op cit.