

**Women's Budget Group Response to the
first report of the Pensions Commission
*Pensions: Challenges and Choices***

January 2005

The Women's Budget Group (WBG) is an independent UK organisation bringing together academics and people from non-governmental organisations and trades unions to form a network of experts to promote gender equality through appropriate economic policy.

If you would like more information or to follow up this response please contact:

Erin Leigh
Project Officer
WBG
c/o The Fawcett Society
1-3 Berry Street
London, EC1V 0AA

Tel: 020 7253 2598
erin@fawcettsociety.org.uk

Introduction

The WBG welcomes the focus given to women in Chapter 8 of the Commission's report, and the recognition that both current and future generations of women pensioners are severely disadvantaged by our present system of both public and, to an even greater extent, private pensions. However, we are disappointed by the overall lack of gender analysis in the rest of the report. Women are still the *majority* of pensioners and their employment records are more heterogeneous than men's. However, the 'standard' pensioner built into most economic models of pensions systems too often continue to assume an employment record of full-time, continuous employment.

The current British pension system, including state and private pensions, is grossly inadequate for most women. The changes made in the 1975 Pension Act to recognize carers in their own right were diluted in the 1980s so the British system remained based too closely on a post-war male breadwinner and female housewife model (ie women's claims to benefits were based on marital status not on the fact of caring). As a result it neither meets women's needs nor takes account of their different life experiences. We argue therefore that the British pension system is due for a radical overhaul. As long as pension acquisition depends on full-time, continuous, well paid work, it cannot meet the needs of women.

While male carers are more likely to remain in full-time employment, women are likely to work part-time or not at all. Economic activity rates among older women have been steadily increasing over the past thirty years in contrast to older men. If the government succeeds in increasing these rates still further then more older women will face the disadvantages of either part-time and interrupted employment or early retirement unless policies are put in place to mitigate both the high opportunity costs of caring and the consequences for their pensions. This means investing more in domiciliary and social services as well as family friendly employment policies to enable carers to combine caring with employment.

Pensioners in the UK are at a higher risk of poverty than many of their EU counterparts,¹ and the majority of poor pensioners are women. This arises from the interaction of women's employment patterns with the policy choices of recent British governments. It is not the inevitable result of uncontrollable factors such as demographic change. The 15th Households Below Average Income report indicates that just over one fifth of single female pensioners currently live in poverty². Older married women today also face an extremely

¹ Mejer & Linden (2000), 'Persistent income poverty and social exclusion in the European Union', *Statistics in Focus: Population and Social Conditions*, European Communities

² *Households Below Average Income 1994/5 - 2002/3*, Department for Work and Pensions, 2004

wide pensions gap: for every pound of income received by men in a pensioner couple, women receive less than 40 pence.³

In light of this situation, the WBG is making policy recommendations which the Commission can consider and propose to Government. These proposals, if adopted, would contribute towards a more gender equitable pensions system and would prevent poverty for both today's and tomorrow's women pensioners.

1. Extend the contributory system to properly account for care

The existing NI pension contribution system is based on an employment model of the male breadwinner, where women's contributions to the economy through unpaid care were not recognised in pensions legislations until 1975. Women's contributions to the economy through unpaid care are largely unrecognized except as a dependent wife. Carers are vital for the maintenance of the economy and society because they raise future generations of workers and citizens, and by caring for their disabled or frail elderly relatives reduce the need for paid care provide by the state or the private market. Using figures from the new Household Satellite Accounts it is estimated that over a quarter ie. £281 billion, of the value of household production in Britain is accounted for by childcare and adult care. This is far greater than the cost of formal childcare, domiciliary and residential care. Women in their 50s and early 60s are very likely to be involved in the care of a disabled person or their frail elderly parents. One in five (2.8 million) men and women in their 50s are providing informal care and a quarter of these are providing over 50 hours/week. They may also be involved in the care of their grandchildren for a third of grandmothers are under 60. Over a third of employed mothers depend on informal childcare, mainly from grandmothers. The emphasis on pension entitlements based on paid employment in the formal economy and the failure to adequately value this essential care, including the fact that many of today's pensioners did not benefit from the Home Responsibilities Protection (HRP) introduced in 1978, while many who were married were wrongly advised to continue paying the small stamp, has contributed to the situation in which one in five women pensioners are living in poverty⁴. In order to accrue any pension provision, it is mandatory to have worked at least a certain amount of time in paid employment, even to receive caring credits, i.e. HRP.

To simplify and improve the state pension entitlements of carers, care should be recognised as a contribution to the economy, and valued accordingly, with credits awarded for all periods of caring, regardless of carers' employment records, including the existing requirement of a minimum of 20 years paid employment.

³ *Individual Income of Men and Women 1996/7 to 2000/1*, Women and Equality Unit, 2002

⁴ *Households Below Average Income 1994/5 - 2002/3*, Department for Work and Pensions, 2004

Despite recent proposals for a basic pension for all citizens with sufficiently long residence, we believe there are advantages in extending the NI pension schemes to take full account of caring, rather than moving to a citizens pension. First, extending the contributory system to account properly for care is appealing because it links pension entitlement to *both* paid and unpaid contributions to society. People are attached to the current contributory system because it provides them with a sense of ownership and a responsibility to acquire a pension. The link between their contributions and their pension provision can be clearly seen. This is true whether their contribution to the economy takes the form of paid employment or care. Even if the details of NI pensions are complex, the principle of contributory-based schemes is well established in Britain. There is broad public support for better crediting of care for both children and sick or frail elderly relatives⁵. A radical switch to entitlement based on residence would not explicitly value women's unpaid contributions to the economy and breaking the link between contributions and pensions might weaken public support. This would increase the risk of cuts by future Chancellors looking for savings. The basic state pension is already inadequate and it should not be exposed to an increased risk of further depletion.

Second, a system based on contributions paid for out of earnings has an income which automatically rises as earnings increase making it affordable to index pensions to changes in average earnings. This effect has been reduced by the existence of the UEL for employees, the value of which has been reduced as the value of the basic pension relative to earnings has fallen. In 1980 the UEL was one and a half times average male earnings. Today it is less than average male earnings so women are contributing disproportionately more than men to the state scheme. Restoring the value of the basic pension to what it was in the early 80s would automatically raise the UEL. We would like to see the UEL abolished in time.

Individual Entitlement

In answer to the Commission's question on individual entitlement, we accept the principle of aiming for a system in which all individuals, men and women, accrue pensions in their own right. Individual entitlement is crucial to eradicating poverty for both current and future generations of women pensioners. Given the high incidence of partnership breakdown and prevalence of cohabitation, it is essential for women to have a pension in their own right. A significant minority of women can now anticipate lone parenthood at some point in their life-course. Currently 11.4% of women over 16 are lone parents.⁶ Women are significantly financially less well off after divorce, and few are able to make a substantial additional pension provision because of poverty and childcare issues. Those who are divorced

⁵ 92% of people support for better credits for those taking care of a sick relative, and 78% support better credits for those caring for their children. *One in Four*, Fawcett Society and Age Concern, 2003, p. 16.

⁶ *Key Indicators of Women's Position in Britain*, Women and Equality Unit, November 2002

after the age of 50 can still use their husband's contribution record to qualify for the basic state pension and this provision needs to be continued but divorcees do not qualify for survivors benefits in private pensions if their former spouse dies. Pension sharing after divorce is used very little. Pension sharing on divorce, whilst a very important facility, benefits very few people. It is a little used power. The last published data (April 2003)⁷ showed that orders were only being made in half a percent of divorce cases. The most recent communication from the Department for Work and Pensions suggests that this may have risen at best to between 1 per cent and 2.5 per cent of cases⁸.

There is no mechanism for ensuring a fair financial settlement after the breakdown of co-habiting partnerships, (either homosexual or heterosexual) and co-habitees whose partners die have no survivors pensions within the state system, while coverage in occupational pensions depends on the Trustees.

Greater recognition of carers' unpaid economic and social contributions to society moves closer to a system which is based on individual entitlement. This is a key feature of gender equitable pension provision. A citizen's pension could reduce individual entitlement if it were not provided in full to each member of a couple.

Asylum seekers and immigrants are difficult to accommodate fully in either a contributory or a citizens pension scheme. Whilst access to both state and private pension provision remains so explicitly linked to time spent in the UK labour market, those people who only enter that labour market part way through their working lives will find it difficult to work an adequate number of years to qualify for a full BSP. We see no alternative to means- tested pensions in their case.

Improving allowances for caring

The present means of crediting carers needs improvement. We recommend that a woman should be able to have the advantage of credits without being in paid employment for a total of twenty years. In order to provide adequately for women's unpaid care, which is often flexible, and fluctuates according to a family's changing dynamics, HRP and S2P credits should be calculated on a weekly basis. Allowances for caring should be in the form of a credit rather than reducing the number of years required for a full BSP. This would more clearly recognize the value of caring. Credits should be provided for a broader variety of carers, such as grandparents who leave work to care for their grandchildren. The number of hours required for care

⁷ 1 House of Commons Hansard Written Answers for 3 April 2003, Column 841W, Ms Rosie Winterton for the Secretary of State for Work and Pensions

⁸ Personal communication from the Department for Work and Pensions to D. Price, 28 January 2005

to be rewarded in the system should be reduced from 35 hours/week to 20 hours/week, as many carers have to reduce their hours of work or leave their job altogether in order to provide 20 hours of care. We recognise the difficulties for Government in validating claims concerning the number of hours of caring and propose a system of self-declaration that has to be verified by an individual from a predetermined list of signatories (as in the passport system). This list should include people who know the circumstances of both the carer and the person receiving care such as GPs or social workers.

We recommend that the caring credits system be available to those who have never been in paid employment. This would apply where a person had to care for a disabled spouse or for a child who continues to require care as an adult, preventing the carer taking up employment. Because many women pensioners had already provided unpaid care at the expense of their employment before HRP was introduced, we believe HRP should be applied retrospectively to their pension entitlement. While the ideal provision would be provided to all carers, we are aware of the difficulties in establishing that care for adults was provided but in the case of children, receipt of Child Benefit allows carers to be identified.

The WBG recommends that the current contributory state pension system be extended in the following ways:

- ***Replace HRP with positive carer credits as in S2P***
- ***Extend the childcare period eligible in S2P for credits, to match that for HRP***
- ***Allow credits for part years of caring and for a wider range of carers***
- ***Allow credits for those providing care for at least 20 hrs/week***
- ***Remove the requirement for at least 20 years of paid contributions***
- ***Apply HRP to those who received Child Benefit before 1978⁹.***

2. Increase the Basic State Pension, and index it to earnings

Currently only the state is able to remove the impact on pensions of unpaid caring. It is therefore essential, if poverty is to be prevented for both current and future generations of women, that the adequacy of the Basic State Pension (BSP) be improved.

The value of extending BSP entitlement to include the majority of women, as proposed above, will be lost if the pension is allowed to diminish relative to general living standards.

⁹ See Tony Lynes' proposal on retrospective HRP provision in *Do we need a Citizen's Pension?*, Discussion paper for the NPC, Tony Lynes 2004, p.5

The WBG recommends that the BSP should be increased immediately to at least the level of the Guarantee Credit and indexed to average earnings. The longer term aim should be a BSP which provides at least the minimum level such as the Low Cost but Acceptable Standard estimated by Family Budget Unit of between £111.92 and £164.33 for a single woman¹⁰.

3. The State Second Pension (S2P): Make it easier to acquire and a viable alternative to occupational and private pensions

The S2P is crucial for women, enabling those who cannot contribute to a private pension to acquire a second tier pension. S2P provides a reliable, defined benefit, alternative to private pensions, avoiding market risks, and its redistributive structure helps women on low pay.¹¹ This is particularly important for Black and minority ethnic women who face double discrimination in the UK labour market and as a result tend to be paid even less than white women, exacerbating the problems of adequate pension accrual. Some minority ethnic groups of women also have particularly poor access to pension schemes, for example just 3% of Pakistani and Bangladeshi women currently have an occupational pension. A supplementary pension from the state provides a fail-safe for those on low pay, and who are economically vulnerable¹². But to function as a second tier pension, it is essential that the S2P remains earnings related. The WBG urges the Commission to recommend that any moves towards creating a flat rate for the S2P be abandoned. The requirement for carer credits should match those of HRP in the BSP (as discussed above). Attention should be paid to the needs of the self-employed for an earnings related component in their pension, possibly by including them in S2P.

The WBG recommends that the S2P be earnings related, redistributive and matches the caring credits available in the BSP.

4. Compulsion

The question of increased compulsion is widely debated, focusing on the need to ensure employers contribute an adequate amount to pensions. While we have no disagreement with this, we believe it is necessary to increase compulsion in the state pension system, enabling improvement of BSP and S2P. This would allow an already popular NI system to be enhanced to meet the needs of women and men.

¹⁰ *Low Cost but Acceptable Budget for Pensioners*, April 2004, Family Budget Unit, available at: <http://www.york.ac.uk/res/fbu/documents/Pensionerswebpage.pdf>. The range of figures depends on the presence or absence of housing, motoring and alcohol costs. See also *Low Cost but Acceptable incomes for older people*, Hermione Parker (ed.), Age Concern and The Family Budget Unit, 2000.

¹¹ *Response to the Pensions Commission Report*, IPRG/NPRG, 2005

¹² *ibid*

The WBG recommends that increased compulsion on employees and the self-employed should operate through the existing NI schemes.

5. Occupational / Private Schemes

The WBG strongly urges the Commission to recommend a gender audit within the public sector pension schemes before any changes to pensionable age or to the pensions and benefits formula takes place. A guarantee should be in place that there will be no loss to the overall amount of pensions paid as a result of any changes. For private schemes, a minimum pension should be required, based on the S2P.

6. Tax and rebates

Tax relief on private pensions still represents an unacceptably large expense to public resources in terms of foregone revenue and one that is highly regressive. Of the top ten per cent of earners (who receive half the tax relief) we estimate that at least 80 per cent are men. This is due to women's generally lower earnings, their lack of access to good pension schemes, and the need of mothers to use such disposable income as they have to provide for the needs of their children.

Britain is the only country in which contracting out of a state pension into a private one is allowed. This practice, which involves rebates on NI contributions, greatly complicates pension administration for employers and also presents employees with difficult decisions. Contracting out has resulted in mis-selling of personal pensions and there is a high risk of mis-selling stakeholder pensions to women and the low paid, as recognized by providers. Employees who were in the past compelled to contract out into occupational schemes face the risk of losing much of the value of their pensions if their scheme becomes unviable, as some have done. Moreover, rebates for those contracting out of S2P represent a substantial cost to the NI Fund. For these reasons, we question whether it is sensible to continue to allow contracting out with rebates.

The WBG recommends that:

Tax relief on private pension contributions is phased out over a period of time and initially limited to the basic rate of 22%.

A full gender audit of tax reliefs and rebates for pension saving should be carried out and the results published

Contracting out of the S2P with rebates should be ended

8. Survivors rights, and women's independence

The WBG echoes the EOC Carers and Parents Coalition¹³ stance on survivor rights, and women's independence¹⁴.

¹³ A coalition of over 40 organisations, of which the WBG is a member.

¹⁴ *Response to the Pensions Commission*, EOC Parents and Carers Parents Coalition, 2005

Provision should continue for all surviving spouses and be introduced for cohabiting couples, regardless of sexual orientation. However, as successive cohorts begin to build up full individual entitlements, spouse and survivor rights should be phased out. Meanwhile, survivors' pension are often so small as to be insufficient to sustain the widow's standard of living. The collapse of the market return on personal pensions, the closure of many occupational schemes and the fact that SERPS/S2P widows pensions are now 50% (as in most occupational pensions) instead of 100% as in the past mean that without government action such pensions will reduce further.

The WBG recommends that as full individual entitlement is built spouse and survivor pensions should be phased out

9. Eliminate or revise the Lower Earnings Limit (LEL)

Restrictions placed on contributions to state pensions for those earning below the Lower Earnings Limit, most of whom are women, need to be urgently addressed if women are to be able to accumulate pensions of their own.

The WBG recommends either the removal or revision of the lower earnings limit.

The WBG urges the Commission and government to recognise the diversity of women's circumstances and to ensure their pensions will reflect the value of the contributions they make in caring as well as through employment.