

**Women's Budget Group Response to the
Department for Work and Pensions White Paper -
*Security in retirement: towards a new pensions system***

September 2006

The Women's Budget Group (WBG) is an independent UK organisation bringing together individuals from academia, non-governmental organisations, and trades unions to form a network of experts to promote gender equality through appropriate economic policy. In assessing policy proposals and implementation we ask the question 'where do the resources go, and what is their impact on gender equality?'

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INTRODUCTION

The Women's Budget Group welcomes the opportunity to respond to the Department for Work and Pensions proposals for pension reforms contained in the White Paper *Security in retirement: towards a new pensions system*. We welcome the commitment to ensuring that women and carers are entitled to the full basic State Pension in their own right. We are concerned, however, that the proposals as a whole, while very welcome as they are likely to improve the pension position of many, will still leave many others without an adequate pension to live out their retirement free from poverty. Moreover, the reform proposals will do little to support the 1 in 5 single women pensioners currently living in poverty¹. In our response to the White Paper, we consider the reforms tier by tier: the Basic State Pension; the State Second Pension, and Occupational Pensions.

The WBG urges Government not to view women in relation to pensions as a homogenous group. Research into the policy design and monitoring of pension provision should give consideration to their diversity. There are a wide variety of women pensioners that require tailored pensions to support them in their old age, whether they are lone parents, older carers, women from Black and Ethnic Minority groups, and so on. It is also essential to value the care they provide at different stages of their lives. This will become even more important when the retirement age is raised to 65 for women and will require more than changes to the benefit system.

For example, the government needs to review the system of support for children, which is currently biased against larger families. Women caring for more children are likely to have lower economic activity rates, and Pakistani and Bangladeshi women are disproportionately represented amongst this group. Any scheme should ensure that those with different career paths are not disadvantaged, and that the design does not discriminate against specific groups.

1) BASIC STATE PENSION

The WBG welcomes the changes to the Basic State Pension (BSP) including the re-introduction of the earnings link; reducing the number of qualifying years; abolishing the 25% rule; and creating a weekly carers credit. These are reforms that the WBG has been urging Government to adopt for some time. However, despite the government's laudable aim of ensuring more provision for women and carers, the way the reforms have been formulated in the White Paper will mean that a significant number of women will still miss out on entitlement to the full BSP.

¹ Defined as having income below 60% of median income, measured on a before housing costs basis. DWP, (2006) *Households Below Average Income* London:HMSO

A. Reforms

Earnings linked from 2012

The Women's Budget Group welcomes the re-introduction of an earnings-linked Basic State Pension (BSP). However, the value of extending BSP entitlement to include more women will be reduced if the value of the pension is allowed to continue to decline relative to average earnings between now and 2012. Had the earnings link not been broken in 1980, the full BSP would now be close to the value of the single pensioner's Pension Credit. By waiting until 2012 the value of the BSP will fall a further £10 a week assuming current rates of inflation.

The decline in BSP relative to wages from 2006-2012 is all the more serious given the above-inflation rises in Council Tax and fuel costs. These will hit pensioners very hard over the 6 years, especially lone women.

- ***The WBG urges Government to increase the value of the basic state pension and introduce the earnings link as soon as possible.***

Reducing the number of qualifying years from 39 to 30

The WBG welcomes the reduction in the number of qualifying years from 39 to 30 years to be entitled to the BSP. This will be particularly helpful for women who have gaps in the careers due to caring commitments. However, the WBG sees no reason why this reform should be introduced from 2010. We urge the government to introduce this reform retrospectively, so as to lift current pensioners out of the need to claim Guarantee credit.

- ***The WBG recommends Government introduce the 30 year qualifying years change as soon as possible, and apply it retrospectively so that another generation of pensioners does not lose out.***

Transforming HRP into a weekly positive credit

The WBG welcomes the introduction of a weekly positive credit. This will provide more adequately for women's unpaid care, which often has to be flexible, and fluctuates according to a family's changing needs. However, we are disappointed that the credits have been reduced to be provided only to those with children up to the age of 12 years old instead of the previous 16 years. There is very little childcare infrastructure for teenagers of this age, and many will still require parental supervision. Many mothers will find it impossible to combine work with the needs of their younger teenagers, and should not lose out on state pensions as a result. For government to ensure truly joined-up thinking then the parenting agenda and caring credits need to be considered jointly.

- ***The WBG urges government to provide the positive caring credit to those looking after children up to the age of 16 years.***

Carers credits and caring in the future

We are concerned with the narrow provision afforded to carers in the reforms. As they are proposed, the carer's credits will be provided for those who care for a severely disabled person for at least 20 hours a week. This will in theory bring in more than those who currently have to satisfy the 35 hour rule. Without knowing how 20 hours is going to be confirmed (we suggest self definition with corroboration from the GP or social worker of the disabled person concerned if disputed) and how tightly it will be tied to receipt of disability benefits (current proposals are to tie it only to those who are assessed as quite severely disabled), we are concerned that this proposal will not do enough to widen the net of carers eligible for the credit. The White Paper is silent about grandparents (mainly grandmothers) who provide child care - without which their daughters or daughters-in-law could not take paid work. Half of all grandmothers are currently aged between 50 and 65. Nearly two and a half million grandmothers are providing some child care (Dfes latest child care survey 2006). At least those providing 20 hours should receive carer's credits to the state pensions.

The likelihood of both women *and* men providing care is likely to increase in an ageing society. At the same time, the pressure on formal social care services in the community is increasing because of the policies to reduce time spent in hospital and residential care. The current financial constraints on these services make it unlikely that formal domiciliary services will substantially replace the need for family care. In any case formal care services do not substitute for family care in a straightforward way, and the same is true for childcare services. It is vital the state pension system is designed in such a way as to ensure an adequate income in retirement for people meeting these care needs.

- ***The WBG urges for an enhancement of the caring credits reforms to cast a wider net, thus bringing in a greater number of carers.***

B. Why the reforms do not add up

While the above reforms bring more women into the scope of the BSP, there are problems in the design, in addition to those already discussed, that will leave many women without an adequate pension.

First, there has been no attempt to increase the level of income on BSP. The current BSP is well below the minimum guaranteed by the Pension Credit and to allow this to fall further through depreciation before it is earnings linked will mean more women are left to live in poverty in their old age, even with entitlement to the BSP.

Second, the reforms do little for current pensioners, especially those living in poverty and those just above. Many women do not currently have an adequate income to keep them out of poverty, and analysis of poverty at the household level hides the poverty of women who are dependent on men. Non take-up of complicated means tested assistance is also a barrier to relieving the poverty of

women pensioners. The White Paper also identifies women aged 45 years and over as belonging to a cohort which are particularly disadvantaged - they need the reforms to be introduced as soon as possible to protect them from poverty in old age. There is a real and urgent need to support women *today*.

Third, it is assumed in the White Paper that means testing will continue with a projected one third of pensioners needing support through means testing as far into the future as 2050. This expected inadequacy of the BSP despite its wider coverage is worrying for two reasons. First the BSP needs to be a firm and *adequate* foundation on which to build a second pension. It will be the only part of the pension which is guaranteed to be linked to movements in average earnings. Second, the second state pension is going to become flat rate by 2030 and Personal Accounts will provide a pension the value of which will be dependent not only on the size of the sum saved but also on interest rates and the state of the stock market at the time of retirement. The extent to which risks are pooled and the state supports a pension system which redistributes resources towards those with lower lifetime earnings has diminished in the move from defined benefit schemes such as SERPS to defined contribution schemes. That the shift towards defined contribution schemes is also occurring in the occupational pension sector is all the more reason to be concerned that state pension provision is moving in the same direction. At the very least, the BSP should be sufficient to live on without means- tested additions – linking the BSP to average full time earnings would go some way to ensuring pensioners a share in rising national prosperity

Fourthly, regardless of how the Personal Accounts system is designed, it will make no allowance for people taking time out to care. Reducing state pensions on the assumption that increased private provision will fill the gap will continue to disadvantage women and those with broken employment records. It is vital that the basic and second state pensions provide women with an adequate income to compensate for the difficulties many women face in building up a private pension, and that these pensions keep pace with average earnings once in payment. Since on average women are on lower incomes, they are less well equipped to deal with the risk and uncertainty inherent in private pension provision – it is vital that the state pension provides an adequate income to offset this risk.

C. Recommendations to ensure more women gain from the reforms:

In order to counteract the flaws of the proposals the WBG recommends the four following reforms:

- ***Reduce the Lower Earnings Limit for which people's NI contributions will contribute to their pension entitlement. This is particularly important for women who predominate in the low-paid and part-time employment sectors².***

² Equal Opportunities Commission (2005) *Part-time is no crime – so why the penalty?* Available online at:
http://www.eoc.org.uk/cseng/policyandcampaigns/flexible_working_interim_report.pdf

- ***Raise the Upper Earnings Limit to ensure that higher earners contribute significantly more than those with lower earnings to the cost of the BSP pension. The UEL was at one and a half male average earnings when the index link to earnings was broken. It is now well below average male earnings. This means higher earners (mainly men) are contributing proportionately less than lower earners (mainly women) to the state pension scheme.***
- ***Introduce retrospective measures, so that those who are currently pensioners, or will become pensioners before 2010, benefit from the proposed White Paper reforms.***
- ***An immediate introduction of a universal BSP for all pensioners aged 75+ as proposed by the Turner Commission.***

2) STATE SECOND PENSION

The WBG welcomes the reforms to the State Second Pension (S2P), including the introduction of carers credit available to those providing care for 20 hours/week, reduced from the previous 35 hours a week; and the abolition of contracting out for defined contribution schemes. These reforms are necessary, especially since S2P will continue to be a significant component of retirement income in the future.

However, that S2P once in payment is only linked to prices and not earnings means that those who are heavily dependent on state pensions, mostly women, will see the value of their state pensions eroded over time. They will get poorer in relative terms as they age, and are more likely to end up in poverty in late old age – a time of potentially great vulnerability. The WBG urges the government to link all state pensions to earnings once they are in payment.

The WBG believes that the S2P should act as a redistributive mechanism, and in doing so ensure that it is able to support those most in need of its income – that is those on low-incomes (earning below LEL; unemployed), and carers (including those with children between 12 and 16 years), the majority of whom are women.

- ***The WBG urges the government to link all state pensions to earnings once they are in payment.***

3) OCCUPATIONAL PENSIONS

A. Contracting Out

The Turner Report has argued that it is too difficult to abolish contracting out for defined contribution schemes. We do not agree. Notional transfer values for defined benefit schemes are calculated in pension transfer cases and on divorce. Indeed, there are grounds for requiring defined benefit pension funds to provide contributors with an annual account of their pension's transfer value (as defined contribution funds already do).

- ***The WBG urges government to abolish contracting out for all occupational pension schemes.***

B. Personal Accounts

The WBG welcomes the proposed Personal Accounts (PAs) system, particularly its characteristics such as: automatic enrolment and 3% employer contribution.

- ***We believe that the governance of the scheme should be entrusted to the most cost efficient provider, and should not exceed those put forward by the Pensions Commission.***

It is vital, however, that the PAs is designed in such a way as to allow women to build up adequate entitlement. The proposed exclusion of employees earning less than £5,000 is a cause for concern, these women should have the option of joining and getting employer contributions. Women are likely to be disproportionately represented amongst this group, and therefore disproportionately excluded. Maintaining this £5000 limit also gives employers a financial incentive to keep part time wages low, and to restrict hours to ensure that earnings are kept below this level. Thus women are likely to lose out as a result if they see their wages fall, but do not feel the benefits the PAs because they are excluded or because their disposable incomes are so low that they feel compelled to opt out.

We also urge Government and the Personal Accounts providers to conduct regular reviews and monitoring of opt-outs disaggregated by gender and ethnicity. While the stated target groups of the White Paper's Personal Accounts system include women, the low-paid and part-time workers (p. 45), there is no discussion of how it will ensure that those they are targeting to be part of the scheme will be encouraged to stay within it. It is within these target groups, including low-paid women, that it will make the least financial sense to join the scheme, if means-testing continues, as they often have more pressing current costs to cover, than a future pension. The cost to them in opting out will be high in respect of a lower pension. Research has demonstrated that women are more likely to bear the cost of providing for their children and paying for substitute care while they work, than men³, and with many earning less than men as a result of the gender pay gap, it will be no surprise if those meant to benefit most from the introduction of Personal Accounts end up being those most marginalised from its intended effects.

- ***The WBG urge an on-going monitoring system be created to track the impact of the new PAs system on women's earnings, and take-up of the scheme.***

³ WBG Women's and children's poverty: making the links (2005)

In addition to considering in more depth how it will encourage the low-paid and women to remain in the Personal Accounts scheme, the WBG believes that the proposed reforms be adjusted in the following ways, to meet the needs of women:

- ***Ensure that the consultation does not remove the requirement on all employers, however small, to provide the 3% contribution, especially given women's high representation in small businesses in the sector⁴***
- ***That lifetime limits are set, rather than yearly limits. This would ensure that loss of contributions through gaps in employment could be overcome by either contributing more in a certain year, or having other people contribute on your behalf.***

C. Annuities

The WBG believes that annuity rates should be equal for women and men. Gender should not be a basis for discrimination, although individual factors such as health status may be taken into account. The establishment of PAs, and the shift to defined contribution schemes means that an increasing proportion of women will be subject to sex discrimination in the annuity market, regardless of their personal circumstances. When Personal Accounts are introduced it will mean that more individuals would become dependent on annuities in retirement. Currently, a sex-equal annuity is provided for the protected rights in a contracted out money purchase pension but when contracting out of S2P ceases, the full effect of women's lower annuity rates will become evident, with detriment to many women. Moreover, as long as women have inadequate pension entitlements of their own, they will rely on inheriting their husband's pension as widows. Therefore, once protected rights cease to apply, it is important that husbands should not be able to choose a single life annuity from a money purchase scheme without their wife's agreement, indicated by a signed waiver, as in certain schemes in the USA. Moreover, we believe that annuities should be monitored, including appropriate use of sex based statistics, take up of single vs. joint life annuities etc.), and that this should become part of the work of the proposed PA scheme body.

- ***The WBG urges for reforms to restrict partner/spouse's ability to choose a single life annuity without a waiver from their partner/spouse. Moreover, we urge for ongoing monitoring of the take up of single vs. joint life annuities, etc.***

D. Deregulation of Occupational Schemes

One of the government's proposals is the re-examination of the requirement for mandatory indexation of tax approved DB occupational pensions. These have

⁴ General Household Survey (2004)

already been reduced from RPI to 2.5%. Although these issues are complex (because it is sometimes difficult to estimate for an individual the point in retirement at which they would have been better off with an indexed pension that started from a lower base, as compared with a higher starting pension that is not indexed), removal of mandatory indexation is likely to impact more on women than men because of their greater average longevity. Pensions that are not indexed at least to inflation lose real value over time. If pensions are not indexed then long lived pensioners (mostly women) will become poorer in real terms as they reach older ages.

- ***The WBG urge government to conduct a gender impact assessment in its re-examination of the requirement for mandatory indexation of tax approved DB occupational pensions.***

E. Tax Relief

Since 1997 the Government has eliminated most of the inequities inherent in Britain's historical system of tax relief. However, tax relief on pension contributions and the "lump sum" remain exceptions to this. Billions of pounds of tax relief each year are channelled to the highest earners in the country – the majority of whom are men. These financial incentives are directed towards those who need them the least, and the cost they represent could be more efficiently used by encouraging saving amongst those who are less likely to plan for retirement. By restricting individuals' tax relief to the standard rate (and perhaps even to income below the UEL), government would free up money that could be paid into the PAs of low earners and carers - triggering employers contributions too for the former.

- ***The WBG urges government to restrict individuals' tax relief to at least the standard rate, and channel the resulting resources towards the low-paid and carers, most of whom are women.***

4. STATE PENSION AGE (SPA)

An increase in the SPA as proposed by the White Paper will affect women disproportionately because with far lower private pension accrual than men they will not have the options to retire before SPA that some men have; women approaching SPA may be caring for a spouse, parents or in-laws, or grandchildren which affects their opportunities for paid work⁵. Although a fifth of men and over a quarter of women in their fifties are carers, far fewer men than women either give up employment or work part-time as a result. Moreover, women may suffer particular gendered ageism in the workforce. This makes it difficult for older women to return to or increase their hours of employment when their caring responsibilities cease.

⁵ Evandrou, M and Glaser, K, 2003, "Combining work and family life: the pension penalty of caring", *Ageing and Society*, 23, pp583-601.

Even without the difficulties caused by caring commitments, men and women may face difficulties finding work after age 60. Labour market policies to tackle age discrimination and any gendered ageism in the labour market will be increasingly important to ensure that both men and women are able to participate up to the increased state pension age.

- ***The WBG recommends that the gender dimension of increasing the SPA be considered carefully, and that any negative impacts on women be accounted for in the future development of pensions policy.***

5. INFORMATION REQUIREMENTS

The proposals contained in the White Paper will retain a high level of complexity in the pensions system, yet the White Paper does not appear to consider the advice and information requirements associated with navigating this complex system. A high level of economic literacy will be needed to make the best choices regarding pension provision. Women who are not participating in the labour market, or who are working for small to medium sized enterprises are likely to be excluded from information provision if this is delivered solely through the workplace.

- ***The WBG urges government to develop an accessible information provision service for women and men to navigate the complex pensions system.***