Bridging the **Gender Pension Gap**

ROYAL LONDON

Foreword

It's been a decade since eligible workers in the UK were first automatically enrolled into workplace pension schemes. Ten years on, the positive impact of Automatic Enrolment (AE) on savings behaviour and outcomes overall is indisputable.

However, AE hasn't been able to, nor was it designed to, compensate for the structural inequalities in the workplace, and beyond, that ultimately limit women's ability to save for their retirement. And while the UK boasts greater gender equality in society than ever before, the gender pension gap remains stark.

Advisers who work with employers and individuals have a key role to play in helping women and men plan for their retirement. They can help employers highlight the useful financial tools to employees that will help them plan for retirement and improve their understanding of how much they will need in order to have the retirement they want. Otherwise, unless the individual has independent wealth, personalised financial advice will often only come into play when they have built up their assets and are nearing retirement.

Advisers should guide their clients towards the financial tools that make the most of their wealth. This may be income from their workplace pension scheme, savings, investments or property wealth. Whilst men and women may have similar concerns when it comes to retirement, women need advice that takes the gender pension gap into account, particularly with the potential loss of income that may come from divorce or being widowed.

It will take time and collaboration from the industry and the Government to close the gender pension gap. Until then, advisers have a key role to play in helping their female clients to boost their income and quality of life in retirement, as well as in helping their employer clients to help their employees.

Part 1:
The state of pensions inequality in the UK

As the old adage goes, a rising tide lifts all boats. Over the last 10 years, the introduction of AE in the UK has overhauled the pension savings landscape. Women now outperform men when it comes to participation rates among full-time eligible employees.

In 2021 participation rates for workplace pensions in the UK stood at **91%** for eligible female employees and **89%** for male employees (more than double when compared with 2011).[2] Among part-time eligible employees the gap is bigger: **86%** of eligible female part-time employees are participating compared to only **74%** of their male counterparts.[3]

However, despite the efforts to improve gender equality when it comes to both career opportunities and pension savings, you only have to scratch below the surface to reveal that the gender pension gap is still present.

While the impact AE has had on UK pension savings can't be overstated, it's not been able to compensate for the structural differences in the workplace that ultimately limit the ability and means for women to save for their retirement.

Significantly fewer women than men are likely to meet the qualifying criteria for AE. Of employed women in the UK, 38% are working in part-time roles. Given the average earnings for part-time work is £6,922, women are less likely to meet the £10,000 eligibility criteria to be automatically enrolled into their workplace pension.[4]

According to 2019 analysis by the Pensions Policy Institute, the median pension wealth for a female in her 60s is £51,100, whilst male pension wealth is near £156,500.[5] This staggering difference means women are left with less freedom, choice and room for manoeuvre when they approach and enter retirement.

This trend isn't unique to the UK; among the Organisation for Economic Co-operation and Development (OECD) countries, the gender pension gap averages **26%**. This inequality arises from interconnected factors across society such as employment, caregiving responsibilities and education.[6]

As a result, women will often earn less over their working lives. Office for National Statistics (ONS) data from 2018 found that men earn an average of £643,000 across their lifetime, while women earn an average of £380,000.[7] This gender imbalance in earnings has led to a gender imbalance in pension savings. Ultimately pension outcomes today mirror inequalities in the workplace that have been present over many decades.

[2] ONS, Workplace pension participation and savings trends of eligible employees: 2009 to 2021, 2009 to 2021, June 2022
[3] ONS, Workplace pension participation and savings trends of eligible employees: 2009 to 2021, 2009 to 2021, June 2022
[4] Pensions Expert, Women need to work an extra 18 years to match male pension pots, June 2022
[5] Pensions Policy Institute, Understanding the Gender Pensions Gap, July 2019
[6] OECD, Governments need to address the gender gap in retirement savings arrangements, March 2021
[7] ONS, Human capital estimates in the UK: 2004 to 2018, October 2019

The state of pensions inequality in the UK continued

While pension saving arrangements can't correct all the factors that contribute to gender disparities in the workplace, the OECD notes:

> "their design should at least avoid increasing inequalities, and at best reduce the impact that existing inequalities can have on the retirement benefits that woman will receive."[8]

Further to this, steps can also be taken by individuals and employers alike to improve retirement savings outcomes for women.

This report is fuelled by the findings of a survey of more than 3,042 UK households, conducted in May 2022. By conducting primary research, we sought to gain further insight into the attitudes, behaviours, concerns and motivations of both women and men when it comes to managing their finances, and most importantly their long-term retirement savings.

Our survey findings, alongside our analysis of secondary data, lead us to a clear set of recommendations set out at the end of this report.

At the time of writing, we're faced with increasing economic uncertainty, with short-term pressures expected to become more acute over the next 12-18 months.

For this reason, it's important we highlight the challenges facing women and their finances. Ultimately, action must be taken to avoid exacerbating inequalities between men and women when it comes to retirement savings and outcomes to achieve financial security both for today and tomorrow.

[8] OECD, Governments need to address the gender gap in retirement savings arrangements, March 2021

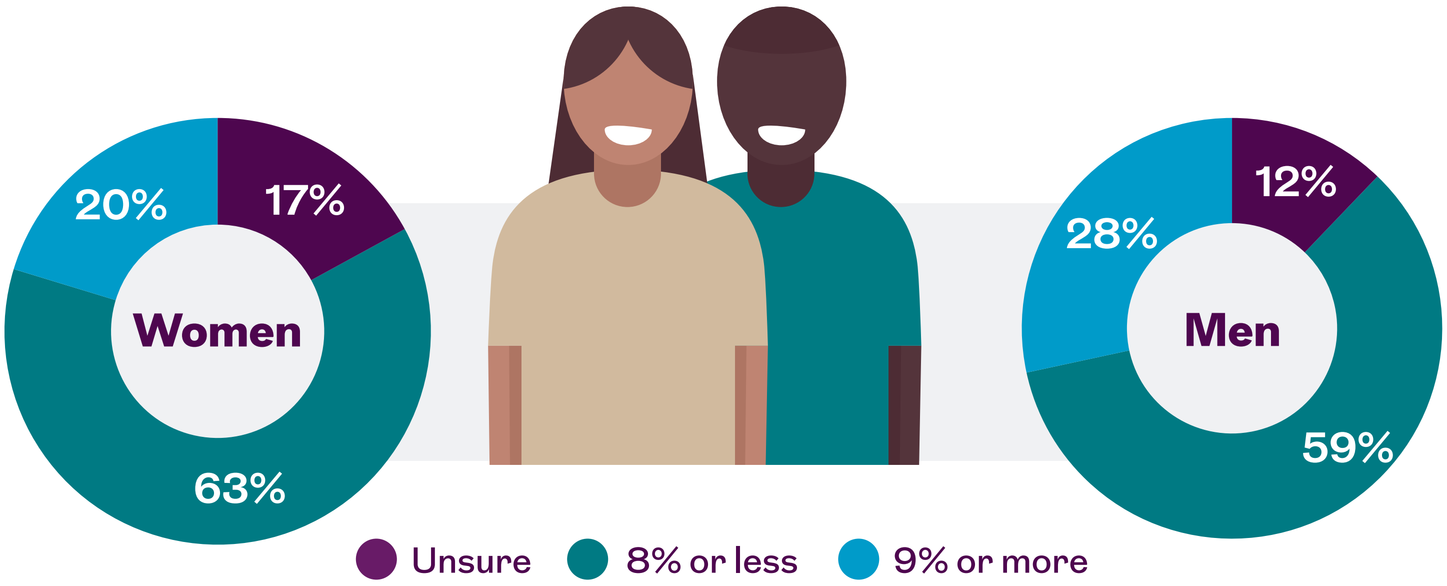
Part 2:
A confidence gap

Our research indicates a number of significant disparities between women and men in areas relating to confidence, their approach to, and their outlook for retirement.

> **Men are more likely than women to contribute more than the statutory minimum of 8% of their salary, to their workplace pension. Just 20% of eligible women contribute 9% or more, compared to 28% of men.[9]**

Earnings are a key barrier to greater savings, and more women than men are likely to view their earnings as a barrier to saving more. When asked what's preventing them from saving, or saving more for retirement, **our research found that 50% of women surveyed said they don't earn enough money, compared with just 30% of men.**

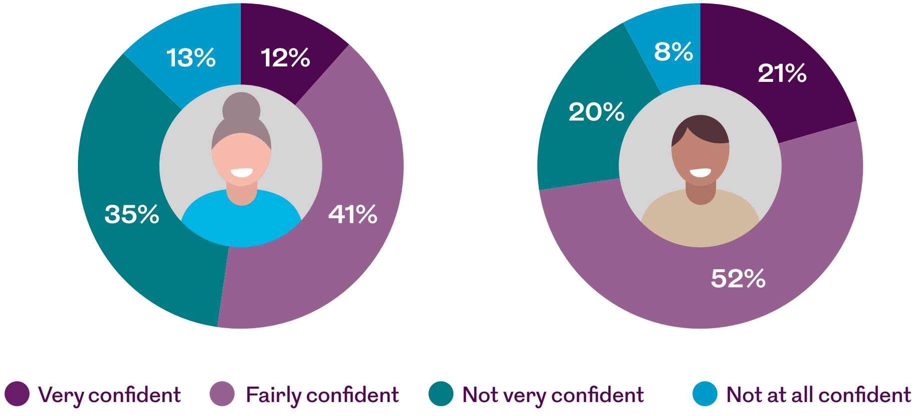
As a result, there are significant differences between men and women in relation to how confident they are that their current pension contributions will be enough to provide them with a consistent income for the duration of their retirement.



Q. What proportion of your salary do you currently pay into your workplace pension? (i.e., the sum of your own employee contribution and your employer's contribution)

[9] Employee and employer contribution

Women are far less likely to feel confident their current savings behaviour will provide them with an income for the duration of their retirement.



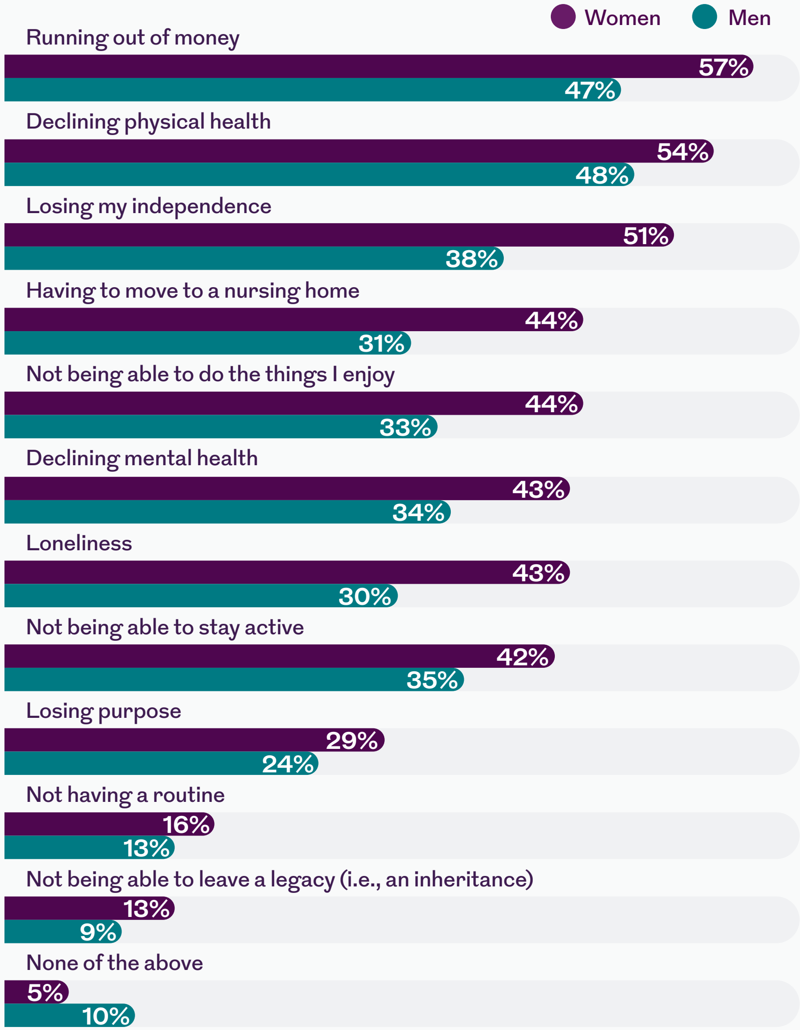
Q. How confident are you that this proportion is sufficient to provide you with a secure income for the duration of your retirement?

Just **12% of women** are "very confident" compared with **21% of men.**

Just **41% of women** are "fairly confident", compared with **52% of men**.

Overall, **48% of women** said they weren't confident, compared with only **28% of men**.

Overall, lower confidence levels can lead to women having much wider and deepfelt concerns about what retirement may have in store for them.



Q. Which, if any, of the following are great causes of concern for you in retirement?

Women are far more likely to be concerned about running out of money, declining physical health, and losing their independence.

Some of the largest gaps highlighted between women and men include:

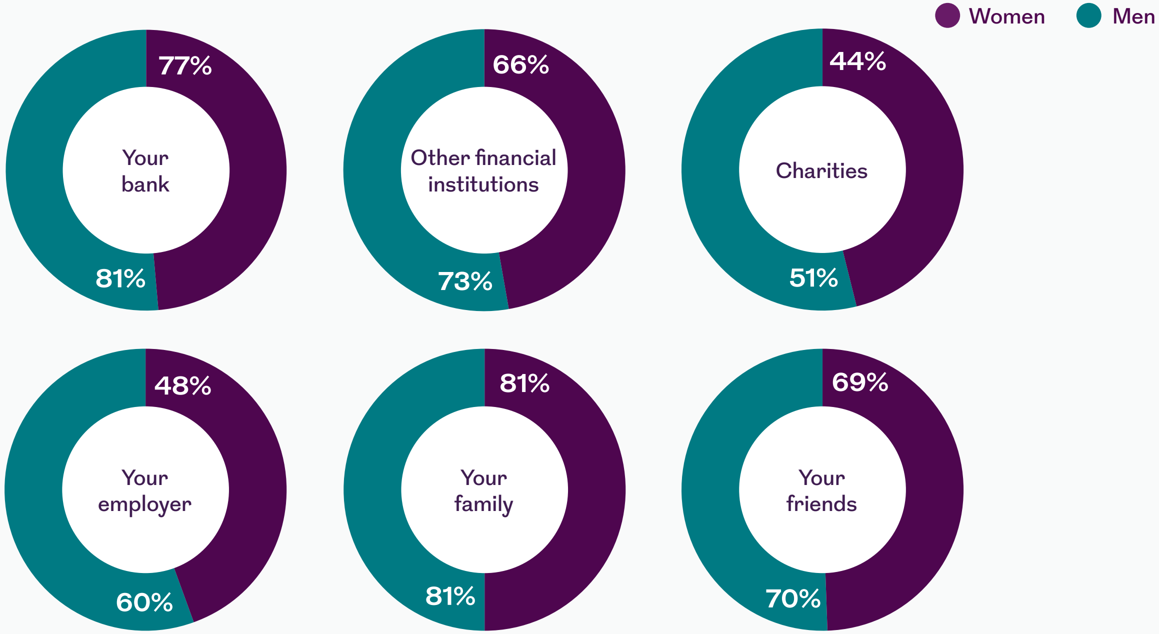
57% of women are concerned about running out of money in retirement, compared with **47% of men.**

51% of women are worried about losing their independence in retirement, compared with **38% of men.**

44% of women are concerned about not being able to do the things they enjoy in their retirement, compared with **33% of men.**

This has left many women feeling underprepared for retirement. But this too can impact on the appetite for and confidence in addressing the scale of the challenge. More broadly, our research finds that women are less likely to feel comfortable discussing money matters with a range of different audiences than their male counterparts.

Across a range of audiences, there's a clear difference between women and men in terms of their willingness to discuss money matters with third parties.



Q. How comfortable are you having a conversation about money related matters (e.g., debt, bills, pensions) with each of the following?

Significantly, women are far less comfortable than men when discussing financial matters with their employer. Given the central role employers play in AE, there's opportunity for them to probe deeper into why this gap exists and work to overcome it.

Addressing these concerns, lower confidence levels and willingness to speak about financial matters is vital. In order to inform how we can better address specific gender-related challenges, the next section explores the differences in the working lives of women and men in greater detail.

Considerations for advisers:

Employers and advisers must make a concerted effort to remove complexity wherever possible and ensure they use easy-to-understand language when discussing pensions.

Advisers should work with employers to target employee education at opportune moments in their career. For instance, engaging all employees when they first enter the workforce to encourage good saving behaviour, or give women information that highlights the impact of pausing, or making changes to their pension contributions before they take maternity leave.

Part 3:
Supporting women throughout their working lives

For women to thrive in retirement, we must first address the issues that arise from the reality of the different working lives of women and men.

As we've outlined previously, women are more likely than men to work part-time or take breaks during their career to balance various pressures. This next section explores in more detail some distinctive groups of women: **caregivers** (either to parents, children, or another family member), **part-time workers** and **divorcees**. Not all women will find they fall into any of these three groups, and they are by no means exclusive groups. But we should recognise that women who fall into one or more face challenges that contribute to the gender pension gap.

Finally, we look at the impact **menopause** can have on the ability for women to continue working as they have done until that point in their career, and what that means for their capacity to save. Unlike the other groups of women we consider, the menopause is something that almost all women will encounter as they grow older. While different women will experience symptoms to varying degrees, and as awareness and education on the impact this can have on women grows, policymakers and employers alike, must act accordingly to ensure women have the support they need to remain economically active during their peak earning years.

Caregivers

A key driving force of gender-based inequalities in the workplace is the division of unpaid care. Unpaid care is often associated with childcare, however as the UK population ages, a greater proportion of the workforce is providing care for elderly family members, particularly towards the end of their own working lives.[10]

Research conducted by the Centre for Progressive Policy (CPP) shows women in the UK are providing more than twice as much unpaid childcare per year than men (23.2bn hours vs. 9.7bn hours), while also spending more time caring for other adults, than men do.[11] The time women spend providing unpaid care frequently comes with costs to their pay, career opportunities and development. In particular:

1 in 5 (20%) women providing unpaid care for an adult reduced their working hours.

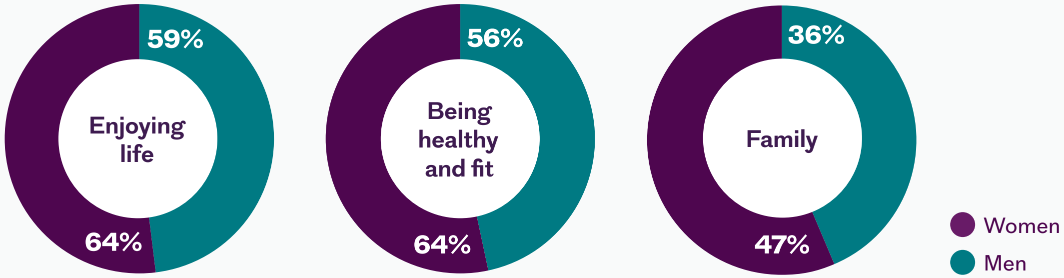
1 in 4 (26%) women providing unpaid care to a child reduced their working hours.

1 in 5 (20%) women providing childcare are prevented from working more hours, despite wanting to.

Our own research finds that family is a far greater motivator for women than men. Almost half (**47%**) of women considered their family to be a top life priority versus just **36%** of men. Similarly, work/life balance and flexible working arrangements are more valued by women. When applying for a new job, women are more likely than men to say that work/life balance is important to them (**85%** vs **78%**). This trend is also seen when it comes to flexible working arrangements (**69%** among women vs **57%** among men).

[10] ONS, Living longer: Caring in later working life, March 2019
[11] CPP, What Women Want: Tackling gender inequalities in unpaid care and the workplace, March 2022

Enjoying life and being fit and healthy are top life priorities for both men and women. However, women are significantly more likely to view family as a top priority than men.



Q. Which of the following are currently your top life priorities? (Showing top 3)

While men are more concerned with their salary, work/life balance is the most important factor to women when applying for a new job. Significantly, women and men are equally likely to say a workplace pension is important.

Q. When applying for a new job how important would the following be in your decision making? (Showing top 5)

Evidence of the limitations that caregiving places on women and their earnings potential is highlighted by 'the commuter gap', a phrase coined by the ONS which finds that women often favour the flexibility offered by a shorter commute over higher pay. Conversely, men will tolerate a longer journey to work if it means a higher wage.[12] 'The commuter gap' puts into context the benefits that flexible working can offer women, particularly those who are also committed to providing unpaid care.

CPP's research found **45%** of unpaid female carers said they'd be able to take on more hours at work if they could work more flexibly, and 1 in 5 (**20%**) said flexible working would enable them to start a new job.[13]

The working landscape has transformed post-pandemic. Flexible and hybrid working arrangements have become commonplace, and presents hope for increased opportunities and potential earnings. This would allow women to make greater contributions to their pension pots and ultimately improve their retirement outcomes.

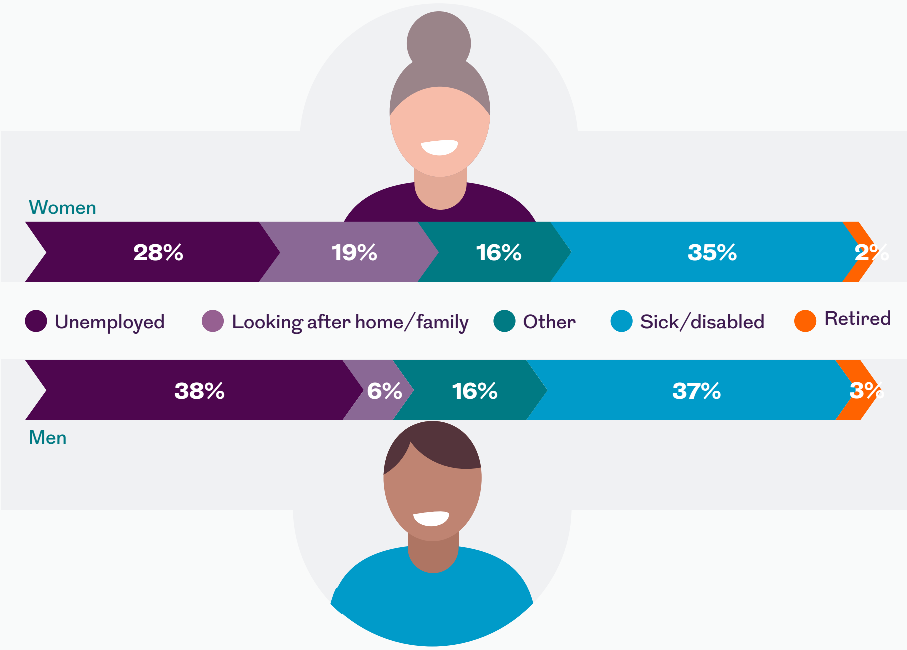
[12] ONS, The commuting gap: women are more likely than men to leave their job over a long commute, September 2022
[13] CPP, What Women Want: Tackling gender inequalities in unpaid care and the workplace, March 2022

Ageing population: The impact on pensions readiness

As the workforce gets closer to retirement age, saving increases. In the UK, the greatest amount of saving takes place among those aged 55 and over.[14] This period of saving is essential to achieving a healthy retirement income.

However, an ageing population means that workers towards the end of their careers and in the prime age bracket for saving are increasingly having to reduce their working hours or stop work altogether to take on more caring responsibilities – particularly for elderly parents and/or grandchildren. This burden is felt much more significantly by women than men.

Reasons those aged 50 to 64 years are out of work, despite wanting to work.[15]



ONS data suggests that:

1 in 4 (24%) female workers provide care, compared with just over **1 in 8 (13%) male workers**.

1 in 5 (19%) women aged 50-64 aren't working, despite wanting to, because they need to look after their family or home compared to just **6% of men** of the same age.

Considerations for advisers:

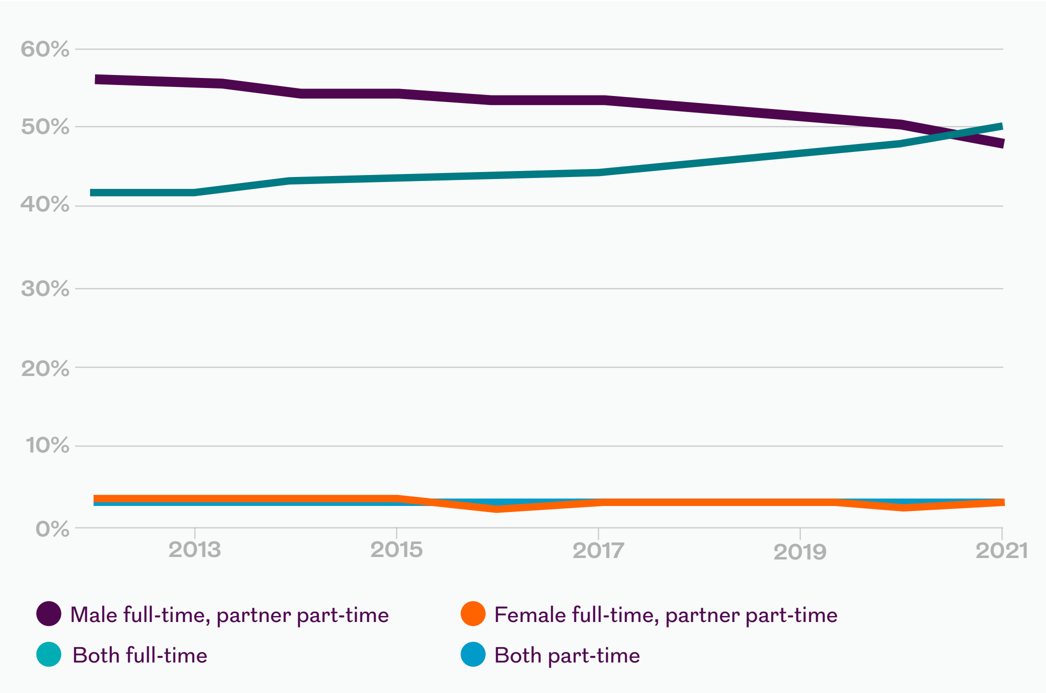
If someone takes a career break and their partner's still earning, they could consider contributing into their partner's pension, so their pot continues to build.

[14] ONS, Saving for retirement in Great Britain: April 2018 to March 2020, June 2022
[15] ONS, Living longer: Caring in later working life, March 2019

Part-time workers

In the UK, women make up the majority of part-time workers. **38%** of women in employment were working part-time at the end of 2021, compared to just **13%** of men.[16] As seen in the chart below, women are far more likely to be in part-time work than their male partner when they have children.

Among couples with children, the most common working arrangement is for both parents to work full-time, where one partner works part-time it is significantly more likely that they will be female.[17]



44% of families have a father working full-time and a mother working part-time. While just **3%** had a mother working full-time and a father working part-time.

Although this represents a slight drop from previous years (in 2012, **53% of families** had a full-time working father and a part-time working mother), it does nevertheless indicate that this trend has persisted for some time.[18]

Those working part-time are significantly more likely to have annual salaries below the AE threshold of £10,000 (from each job), and so miss out on being automatically enrolled in to their workplace pension. One in five women in the UK earn under £10,000 and do not qualify for AE.[19]

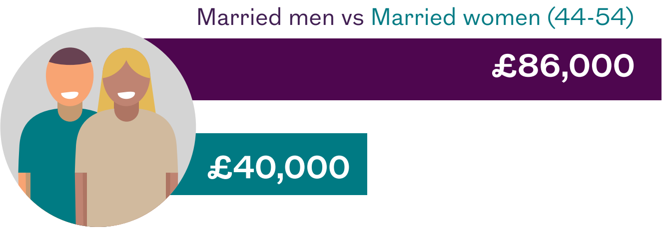
While there are other routes to get tax relief on pension contributions, in many cases, those who miss out on being automatically enrolled don't benefit from tax relief elsewhere, or from the additional support gained from employer contributions. Few realise they can ask their employer to enrol them in to their workplace pension even if they earn below the £10,000 threshold. This large portion of women in part-time employment is a significant contributor to the gender gap in pensions.

[16] House of Commons Library, Women and the UK economy: Research Briefing Number 6838, March 2022
[17] ONS, Families and the labour market: UK 2021, July 2022
[18] ONS, Families and the labour market: UK 2021, July 2022
[19] ONS, Families and the labour market, UK: 2021, July 2022

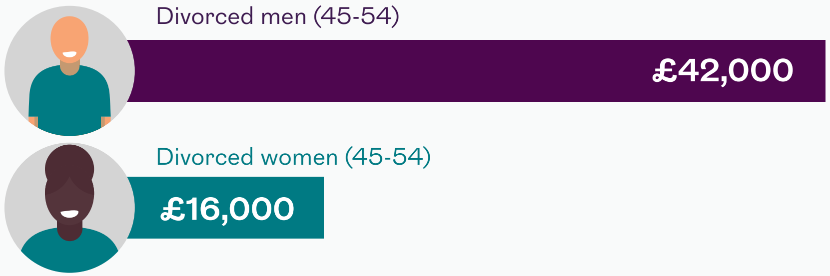
The pension gap in divorce

In April this year, changes to the legislation on divorce and dissolution of civil partnerships in England and Wales came into force. One of the changes removed the need for divorcing couples to assign blame for the ending of their marriage. While many of the changes are intended to ease stress on children and families, it's possible that as a no-fault divorce can take just six months, it could result in fewer divorcing couples taking legal advice and financial settlement being ignored. This may have an inadvertent impact on the treatment of pension provision for a divorced couple.[20]

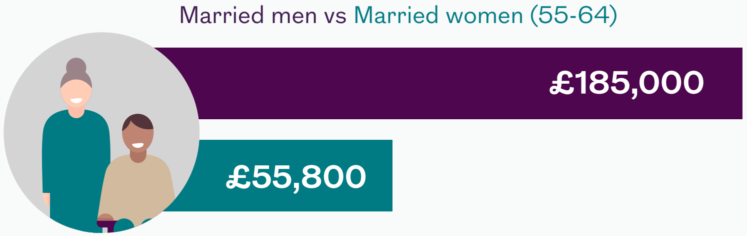
> **Women typically walk away from divorce substantially worse off than their male counterparts, particularly where pensions are concerned. Research conducted by the Manchester Institute for Collaborative Research on Ageing (MICRA) highlights the realities of gendered pension inequality in divorce, finding:**

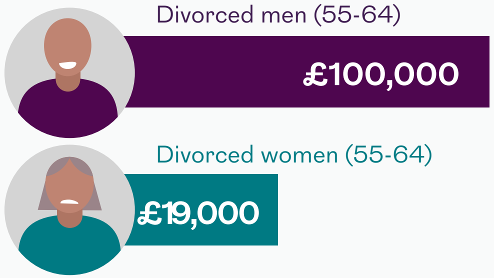


Married men have the greatest pension wealth. Married men aged 45 to 54 have a median pension wealth of approximately £86,000 compared with £40,000 for married women.



Divorced men are still better off than married women, with a median pension wealth of £42,000. But divorced women are worst off with a median of only £16,000 in pension wealth.





These realities only get worse with age. At 55-64, the disparity between married men and women increases to £185,000 compared with £55,800. For divorced men, the disparity is £100,000 compared with £19,000 for divorced women.[21]

[20] LCP, "You've got mail" – the new divorce law and its potential impact on the sharing of pensions in England and Wales, March 2022
[21] MICRA, Pensions and Divorce: Exploratory Analysis of Quantitative Data, September 2021

In many cases, women don't see their husband's pension as a joint asset, and even where the pension is included in the settlement, women often elect to keep the family home, especially if they have younger children. Family Law Court data suggests only **15%** of divorces result in the division of pension rights.[22] Ultimately, this is down to a lack of understanding around the value of pensions.

Given the often complex and sensitive situations surrounding divorce, seeking financial advice is a valuable step to take. Though in the short-term it may add expense to a divorce, having clarity and clear guidance about pensions entitlement could mean women are left better off in the long-term. Advisers should clearly articulate this to clients and highlight the need for open conversations about pensions with clients going through divorce.

A note on cohabiting couples: the fastest growing family group in England and Wales

In 2021 there were **3.6 million cohabiting couples in the UK,** more than double the number there were in 1996.[23] Cohabiting couples don't receive the same legal rights upon divorce or death of a partner as those who are married or in a civil partnership. Instead, they will often rely on complex property laws and trust principles if a relationship breaks down. Equally, on death, cohabitants don't automatically inherit from their partner. This shortfall in legal protections means that many women can be left with relationship generated disadvantage.

Considerations for advisers:

- To help couples identify the risks, advisers should clearly articulate the need for open conversations about pensions with clients going through divorce.
- Equally, for cohabiting couples, advisers should explain the shortfall in legal protections that can leave women disadvantaged if their relationship breaks down.
- Advisers should develop relationships with solicitors by providing engaging educational content that highlights the benefits to their clients of working with an adviser sooner rather than later. Often solicitors only get an adviser involved during a divorce if there's a pension sharing order. In many cases, advisers could add value earlier in the proceedings.

[22] FT Adviser, What's best on divorce: the pension or the property?, October 2022
[23] House of Commons Women and Equalities Committee, The rights of cohabiting partners, July 2022

Balancing symptoms of the menopause and a career

There's been a concerted effort among high profile public figures to break the silence on menstrual health and the menopause in recent years, but there's still much work to be done.

The menopause brings with it a range of symptoms, which last for an average of four years and can severely impact women's everyday lives and work. Notably, **77% of women experience one or more symptoms they describe as 'very difficult'**. 69% say they experience difficulties with anxiety or depression due to menopause.[24]

As an employer, Royal London have implemented policies and guidance designed to support employees going through the menopause, including full training for all managers on periods and menopause.

> **In 2017, the Government published a report exploring the impact of the menopause on women's economic participation. It noted more women will experience the menopause while still working than ever before[25]. Despite this, amongst women aged 30-65:**

- **65%** feel unsupported in the workplace.
- Nearly **2 in 3** (60%) think about leaving their job and have taken sick leave (62%).
- **69%** don't talk about menopause to colleagues
- Just **3%** disclose their symptoms to their manager.[26]

In response, the Women and Equalities Committee have called for Government to enact section 14 of the Equality Act, which protects against multiple discrimination (i.e. discrimination related to a combination of two or more protected characteristics) and the addition of a new protected characteristic under the Equality Act, giving specific protection related to menopause. The Government has recently sought views to help inform the development of a Women's Health Strategy.[27]

With almost one million women having left the workplace due to menopausal symptoms,[28] employers and Government must address this issue. Otherwise, women may not be able to play an active role in the workforce at a time when their earnings, and potential retirement savings, are at a peak.

> "To leave the workplace in your fifties – when we know that you're far less likely than someone younger to return to work – has a huge impact on your retirement income."[29]
>
> **Andy Briggs, Government's Business Champion for Older Workers**

[24] The Fawcett Society, Menopause and the workplace, 2022
[25] Government Equalities Office, Menopause transition: effects on women's economic participation, July 2017
[26] Over the Bloody Moon, Menopause: It's time for change, May 2022
[27] Women and Equalities Committee, Menopause and the workplace, Sept 2021
[28] CIPD, A Guide to Managing Menopause at Work, May 2021
[29] People Management, Menopause is forcing women to retire early, government adviser warns, December 2021

Part 4: Recommendations

Based on the current state of pensions inequality in the UK, we set out the following recommendations for Government and employers to consider when striving to deliver more equal retirement outcomes between men and women:

Improving confidence, awareness and financial literacy:

Normalise conversations about money among all employees when starting in the workplace. Women should be encouraged to take charge of their own financial future and feel confident taking on life's financial challenges. To establish understanding early, conversations about money should also take place among both girls and boys at school level.

There should also be a concentrated effort to provide women with guidance and information at key moments during their working life, for instance, before going on maternity leave, to educate about the future cost of reducing or pausing pension contributions. These conversations could be led by both employers and advisers of workplace schemes.

Expand AE coverage to capture contributions from the start of career earnings:

It's key to the success of pensions saving to set good habits early. The Government should set out a clear plan to lower the age for AE to 18 years from 22 to encourage both women and men into savings behaviour earlier.

3

Reconsider the £10,000 earnings threshold:

The Government should look at ways to address the £10,000 per job AE threshold, which disadvantages those (mainly women) who have more than one part-time job that pays less than £10,000. The Government, and pension providers, should also look to ensure employees and employers are aware of the rules - that those earning less than £10,000, but more than the lower earnings limit, currently £123 pounds per week, are entitled to be enrolled in their workplace pension and benefit from employer contributions, if they request this.

4

Recognise the current gender differences in working lives and make adjustments frictionless:

Planning for retirement should look different for women and men given their different experience of working life. For example, a non-working parent who applies for Child Benefit will get National Insurance credits until their youngest child is 12. However, not all women who could get NI credits in this way, actually do.

5

Supporting the caregiving capacity of both women and men:

A key solution towards gender parity is better flexible working and greater shared parental leave so mothers and fathers (whether in mixed or same-sex couples) can take up caregiving responsibilities equally. Addressing the point is two-fold. Firstly, employers must facilitate an environment where shared parental leave policies are available and participation in them is encouraged. Secondly, there needs to be broader support for childcare costs. The cost of childcare can often be the reason why people stop work. This support could come from employers via a subsidy, coordination of a workplace childcare scheme or come centrally from Government.

6

Focus on irradicating the gender pay gap:

The first 10 years of AE have been a success, but it's not able to compensate for structural inequalities baked into the workplace. Fundamentally, our pension outcomes will mirror the inequalities that exist in the workplace throughout our working life. To address the gender pension gap, firms must: be transparent over pay; reassess promotions, bonuses and benefits with a targeted focus on gender equality; offer help with caregiving; encourage flexible working; challenge stereotypes and norms associated with paternity leave.

7

Support women through the menopause:

Nearly all women go through the menopause but too many leave the world of work or reduce their hours because of the symptoms. This is at a time when pension contributions are vital for a comfortable retirement.

Employers should normalise conversations in the workplace, start menopause support groups and give training to everyone. They need to understand the modifications that might help women continue to play an active role in the workplace. Advisers should be aware of the symptoms and the implications those symptoms can have on women in the workplace.

Advisers could help employers by explaining the impact reducing contributions or stopping contributions could have on retirement. If advisers have one-to-one conversations with employees, then it's important to remember to treat them as vulnerable until proven otherwise. This could be particularly important for those women who are uncomfortable discussing menopause related issues.

Royal London
Waverley Gate, 2-4 Waterloo Place, Edinburgh EH1 3EG

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