

Tackling ethnic pension inequality

With the ethnicity gender gap continuing to be an issue in the UK, Gill Wadsworth investigates what is being done and what steps can be taken to help close the gap



Summary

- Research shows ethnic minorities continue to lag behind their white counterparts on pension saving.
- Key stakeholders join forces to investigate causes of inequality and find solutions.
- The government plans to consider reforming auto-enrolment legislation to level the playing field.

May saw the launch of the Pensions Equity Group (PEG), a coalition of over 20 pension companies and organisations “working together to tackle pension inequalities in the UK”.

PEG chair, Kim Brown, says: “Tackling pensions inequality requires us to come together as an industry, bringing our shared expertise to bear on the systemic barriers that disproportionately impact many across our society. Everyone deserves the opportunity to secure a better retirement, irrespective of their gender or background.”

PEG says it will start by focusing on the gender pensions gap ahead of

investigating other pension inequalities before it then starts the tricky business of achieving pension parity.

And such work cannot come too soon according to Legal & General Investment Management (LGIM) head of defined

contribution, Rita Butler-Jones, who says the myriad of factors creating retirement saving inequality must be “urgently addressed” by the industry.

Research from the Social Market Foundation (SMF), published in February, reveals just 25 per cent of people from ethnic minorities have a workplace pension; well below the national rate of 38 per cent.

And even where ethnic minorities are able to participate in retirement saving, they are more likely to have to call on their pot far earlier than white counterparts.

A survey from LGIM, published this June, finds 43 per cent of minority ethnicities believe they may have to access their pension early to support themselves, compared with 34 per cent of white British people.

Income inequality

The key factor behind retirement inequality is lower incomes among ethnic minorities. The most recent ONS data shows that over half of households from the Bangladeshi, Asian Other, Black and Other ethnic groups were in the two

lowest income quintiles.

And as the cost-of-living crisis continues, this situation will only worsen.

In March, the Office for Budget Responsibility (OBR) forecast real household disposable income per person, which is a measure of living standards, to fall by a cumulative 5.7 per cent over 2022/23 and 2023/24, marking the largest two-year fall since records began in 1956/57.

Butler-Jones says: “A lack of spare income, which has been exacerbated by feelings of insecurity around Covid-19 and the cost-of-living crisis [contributes to the ethnicity pensions gap]. Over half of the minority ethnicity respondents we surveyed said the pandemic impacted their finances, for example, versus 37 per cent of white British respondents.”

Disparities in the labour market also impact on ethnic minorities ability to save into workplace pensions.

Some ethnic groups are more likely to be self-employed or engaged in informal work, which typically precludes them from the auto-enrolment requirements.

According to ONS figures published in May 2022, in 2019 15.3 per cent of the total UK working population was self-employed, but 23.2 per cent of workers in the combined Pakistani and Bangladeshi ethnic group were self-employed.

Hymans Robertson partner, Kathryn Fleming, says: “The evidence is pointing towards the ethnicity pensions gap being a result of differences in the labour market and of unintended consequences of pension policy. The statistics show that, typically, minority ethnic groups have lower than average earnings, lower employment rates and higher rates of self-employment.”

Compounding factors

There is also evidence of higher levels of

scepticism among ethnic minorities of the benefits of pension saving.

The SMF's survey finds 13 per cent of ethnic minorities without a pension say they are not interested in having one, compared to 9 per cent of the general population. Some respondents express concerns over the value of pension schemes, because they "had doubts over whether they ever actually would retire and because they were uncertain over whether a pension is the best way to save for retirement".

Meanwhile LGIM's survey found nearly four times as many people from a minority ethnic background say they don't want to take a risk with their money by saving into a pension.

Butler-Jones says: "For some of the minority ethnicities LGIM surveyed, pensions were perceived as riskier than alternatives such as cash and property."

LGIM's research also shows that caring responsibilities may compound the ethnicity pension gap since carers are often out of the workforce.

"Nearly half (47 per cent) of our minority ethnic respondents had taken time out of work to fulfil caring responsibilities, including maternity leave, versus 41 per cent of white British respondents. Yet, during this time, employer and employee ceased to contribute to a pension in over a third of cases (35 per cent), versus 30 per cent of white British people," she says.

Joint effort

PEG makes it clear that if there is any hope of achieving pensions equality, the industry, policymakers and employers will have to work together.

For its part, the government is considering reforming auto-enrolment to make it easier for people to save.

Minister for Pensions, Laura Trott, says: "This government has transformed pension saving with automatic enrolment, especially for low earners, young people, and women. Now we must build on this progress by expanding

automatic enrolment to help even more people prepare for their future and start saving earlier."

This March, the government said it would look at abolishing the lower earnings limit for contributions and reducing the age for being automatically enrolled to 18 years old; two steps that would, according to People's Partnership director of policy and external affairs, Phil Brown, "make a huge difference" in achieving pensions parity.

However he adds: "There is talk about removing the [*£10,000 earnings*] trigger but that involves a variety of different challenges. We've got to be careful that we're not affecting things like state benefits and end up making people worse off."

Brown also welcomes the government's commitment to increasing free childcare provision, which would allow more people to work and therefore save for retirement. But he notes that providing relief should extend beyond childcare.

"We need to think about care in terms of the entire family unit and ensure we make provision across the board," Brown says.

Coinciding with policy change, employers need to up their diversity and inclusion efforts.

Fleming says trustees and employers are "going through their own education journeys, supported by informative data being made available from their pension providers", which she says is helping to identify and quantify scheme specific ethnicity pension gaps.

"Education will keep pushing forward action and change," she says.

Fleming points to the Options Workplace Pension Trust which offers a Halal section within its master trust through a partnership with Wahed Invest.

"This is clearly visible on their website and not hidden away as a Shariah fund self-select option, a great example of inclusion," she says.

Improving communications

The LGIM research finds one of the biggest barriers to pension saving among ethnic minorities is poor communication, with 71 per cent of respondents wanting to understand more about how their pension is invested.

While the industry must respond with improved and accessible communication, Butler-Jones says it is important to acknowledge that 48 per cent of ethnic minorities seek support with pensions from family and friends.

She says: "Almost as important as what is said, is who is saying it. We would advocate for 'peer-to-peer' hubs for areas on financial goods and services more broadly but to include pensions. People often feel most comfortable taking advice from friends and family, and peer to peer support hubs can help facilitate this."

Meanwhile SMF researcher, Niamh O'Regan, says that if ethnic minorities are to engage with long-term saving, there needs to be a focus on alternatives to pensions since as the foundation's survey shows "not everyone is interested in a private pension".

"Government should concurrently run a campaign that focuses on alternative retirement funding. This should address the risks that come with this but also give information on where advice and guidance can be sought, for those who are more interested in these alternative means," O'Regan says.

If the industry is to achieve pension parity, there needs to be more understanding about the causes of inequality and then concerned and coordinated efforts to address them. There are encouraging signs that employers, government and providers are doing just that, but this must still translate into positive change.

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