



# Getting to grips with the pension ethnicity gap

➤ **Pension engagement among non-white savers is still lagging, posing challenging questions for the industry to answer. As part of *Pensions Age's* year-long focus on diversity, equity and inclusion (DEI), Jon Yarker finds out more**

Racial inequality continues to be a societal concern for modern-day Britain, and this is particularly noticeable in the ethnicity gap of people's pensions. Using auto-enrolment data, the Institute for Fiscal Studies recently found that

while only 10 per cent of eligible white employees are not participating in a pension plan; this is higher for ethnic minorities and rises to 16 per cent and 24 per cent for Pakistani and Bangladeshi employees respectively. Disparity has also been found in the amounts that savers from different ethnicities are able to put away for retirement. In 2020, the People's Partnership found that the average pensioner from an ethnic minority is £3,350 a year worse off than their white counterparts – representing a 24.4 per cent gap in retirement income.

## Understanding the ethnicity gap's origins

Although this poses a considerable issue for the pensions industry, the ethnicity gap is reflection of the wider financial reality facing ethnic minorities in the UK. Employees from non-white ethnic backgrounds are more likely to be lower paid, which directly impacts their retirement contributions as a result.

"The ethnicity pensions gap exists for multiple, structural reasons," says L&G head of DC member proposition, Olasumbo Biobaku-Mason. "People from ethnic minority backgrounds are often in lower paid jobs. This means there's a lack of disposable income amongst ethnic minority groups, and paying into a pension may not be their highest

## ➤ Summary

- The ethnicity gap in pensions is a result of wider societal inequalities, in particular the salary disparity many non-white employees suffer from.
- Many of the levers to fix the pensions ethnicity gap lie outside the sector, but there are things that can be done around language and potentially lowering the auto-enrolment threshold.
- Longer-term, better trust in pensions (and financial services in general) must be instilled to help bridge this gap, as well as tackle the industry's own diversity shortcomings.

financial priority. There's also the risk that many people will not even qualify for the £10,000 auto-enrolment threshold."

This puts ethnic minority employees at an early disadvantage, seeing them at greater risk of missing out on auto-enrolment and with less income to put away for retirement. The cost-of-living crisis has exacerbated this, putting greater focus on immediate expenses with something like retirement easily becoming less of a priority.

Here, labour market characteristics cannot be overlooked, according to People's Partnership head of policy, Tim Gosling, who frames pensions in this context as "deferred pay".

"Data shows us that while employment patterns vary a lot within and between ethnic groups in the UK, workers from Black, Asian and minority ethnic backgrounds commonly earn less than equivalent White British peers," says Gosling. "This inequality manifests as lower overall pension savings."

## Closing the gap

Given the ethnicity gap in pensions is being caused by systemic factors, and the disadvantages many non-white employees find themselves facing in the working world, tackling this is not a simple task. Biobaku-Mason argues that

pensions need to be framed differently towards ethnic minorities, and that they suffer from not being viewed as a priority.

“Our research showed that people from ethnic minority groups are at times investing in other ways – such as in property,” says Biobaku-Mason. “I think a reason for this is that it feels like more of a tangible asset – something you can see now.

“We need to think about how we make pensions feel more tangible today. We need to really emphasise the point about getting free money from your employer and how the money individuals invest is making an impact today, such as being used to develop infrastructure within the UK.”

This will depend on effective messaging, and Hymans Robertson head of DC provider relations, Shabna Islam, sees a greater need for education around pensions as well as finances in general for those in ethnic minority communities.

“More education on pensions and finance can be introduced early on in schools, either through a mandatory curriculum or school campaigns,” says Islam. “Campaigns could be targeted on schools that have a higher proportion of children from minority ethnic groups. This would help improve knowledge of pensions and the importance of saving for retirement, from a young age.”

Islam adds this could extend to changing the language used around pensions to be more inclusive, with efforts required to make the industry more trustworthy to newcomers.

“Community leaders could be key to encouraging more people to save into pensions,” says Islam. “For instance, mosque leaders could help build trust within the Muslim communities, by explaining the benefits of investing in a pension and highlighting the availability of Shariah-compliant funds in pensions.”

In agreement is Biobaku-Mason, who sees trust as “absolutely critical”. Financial services as a whole suffer from a poor image among the wider population, and

she says better trust is needed for ethnic minority savers to be more willing to engage with pensions.

A problem can be the lack of diversity in the pensions industry itself, which remains predominantly white. In 2024, The Pensions Regulator carried out its first trustee diversity and inclusion survey, with 2,197 trustees taking part. It found that the ‘typical’ trustee is a white man over the age of 45, with only 5 per cent of trustees from an ethnic minority. This points to the lack of diversity in the industry, with the regulator, as an employer itself, even revealing a mean ethnicity pay gap of 14.4 per cent in 2024.

“We need to build trust with communities – part of that is about reaching them where they are rather than expecting them to come us,” says Biobaku-Mason. “Creating a better presence on social media, working with community leaders and utilising inclusion networks at work are all great ways to raise the profile of pensions.”

### Understanding what can be done

Given that the ethnicity gap reflects societal inequalities, this is placing a significant challenge at the door of the pensions industry. As Gosling explains: “Most of the levers for fixing this, as with the gender pensions gap, lie in labour market and education policy. It’s important that the pensions sector is honest about the nature of the problem and plays its part in raising awareness of it and contributing to a wide-ranging debate about solutions.”

There are some other levers within reach of the pensions industry, however. A need for Shariah-compliant investments among Muslim savers is an issue, given the lack of these vehicles in the UK.

“However, there is progress in this area, as more providers are making a wider range of Shariah-compliant funds available, including multi-asset and lifestyle strategies,” says Islam. “We are pleased with these developments and look

forward to more providers offering these funds, to increase their competitiveness and offer a wider range of choices in the Muslim pensions market.”

Another lever that could be pulled by the industry is the way in which auto-enrolment is structured. The government recently confirmed the threshold for this would remain at £10,000 for 2025/26, with participation expected to swell to 17.5 million as earnings grow, but there is an argument for lowering this in regard to improving ethnic minority representation.

In terms of going further, Islam adds: “The government could also introduce mandatory ethnicity pay gap reporting for companies, to increase transparency and encourage employers to address pay disparities. In time, by addressing the ethnicity pay gap, more workers from minority ethnic groups would be enrolled in a pension scheme and would be able to save more.”

These are changes that can be implemented in the medium term but there are also longer-term, gradual things that can be done to help close the ethnicity gap. A concerted effort to change the narrative around pensions, and how they are marketed to ethnic minorities, could help people in these communities engage more with their savings as a result. However, for such messaging to ring true and have greater resonance with the targeted demographics, Biobaku-Mason points to the need for the pensions industry to get its own house in order first.

“Greater diversity within the industry would also lead to better pension design,” she says, “as more diverse groups will bring different lived experience which will help us consider whether the solutions we create within this industry support people from different minority backgrounds.”

 Written by Jon Yarker, a freelance journalist