Bridging the divide

Achieving a fair pension system for all by closing the gender pension gap is a shared goal for the industry, government, and employers. But how much progress has truly been made, and what more can be done to bridge the divide? Paige Perrin investigates

Summary
- Women continue to face systemic barriers in retirement savings, with factors such as career breaks, divorce, and part-time work contributing to a significant gender pension gap.
- Government initiatives like auto-enrolment have made progress in narrowing this gap, but challenges remain, including the need for more comprehensive policies and increased employer contributions.
- Both the pension industry and employers play a crucial role in facilitating changes, such as offering flexible work arrangements and promoting financial education, to help women achieve equitable retirement outcomes.

Despite increased attention on the gender pension gap, women continue to face systemic barriers that leave them financially disadvantaged in retirement. They often have lower pension savings due to a multitude of factors, such as career breaks, divorce, and part-time work. These challenges often result in worse financial outcomes later in life compared to men.

A recent survey from Royal London found that women aged 55 have, on average, 43 per cent less in their pension pots than men, despite parity in pension participation rates.

The research also revealed that although pension contributions differ significantly by age, job type, and income, one consistent trend emerged: The gender pension gap impacts women at every stage of their career, ultimately leaving them financially disadvantaged in retirement.

Furthermore, Aviva data has shown that the gender pension gap "starts to widen significantly from around 35 years old", possibly reflecting a time of life when people make significant choices about career and childcare.

Progress made

So, how much progress has been made, and what further actions are needed?

The government's introduction of auto-enrolment (AE) in 2012 has been a key policy in narrowing the gender pension gap, with Scottish Widows head of policy, Pete Glancy, saying: "The main policy that has contributed to the closing of the gender pensions gap has been AE, which brought millions of women into pension savings for the first time."

Research by Scottish Widows shows that the gender pension gap for those aged between 50 and 64 has reduced from 52 per cent in 2008 to 33 per cent in 2020, highlighting the positive impact of AE on improving pension outcomes for women.

However, despite AE's success, the industry is keen to see more movement in this area with the new government, following a lack of progress on the AE Extension Act. Many hope the upcoming phase two of the Pension Review, which is expected to focus on adequacy, will provide answers to these concerns.

"We welcome the Pensions Review part two and would encourage the government to consider the scope and levels of AE as part of that review," Now Pensions director of public affairs and policy, Lizzy Holliday, says. "Implementing the measures in the AE Extension Act would help *[enrol more low-earning women]* and removing the £10,000 AE threshold is one further policy change that could be a game-changer."

AE thresholds are a common frustration in the industry, with Aviva wealth policy director, Emma Douglas,

arguing that "the current AE thresholds are exacerbating the pension gap for those on lower pay or working part-time".

Douglas notes that the previous government committed to removing the AE lower qualifying earnings threshold and urges the new government to "put a roadmap in place now for how and when it will implement changes", suggesting that "a clear roadmap will give employers and pension savers time to plan".

Another governmental policy that has been acknowledged for impacting the gender pension gap is the introduction of the new state pension in 2016. This policy change established the flat-rate pension system is now based on national insurance contributions, arguably offering better protection for those with low earnings and gaps in employment, which tend to be women.

The new system also offers national insurance credits for people caring for children or elderly family members, benefiting women who take career breaks.

However, Holliday argues: "While recent state pension reforms have improved retirement prospects for some women, the reality is that without intervention the gender pension gap will not be addressed."

Pensions for Purpose chief executive officer, Charlotte O'Leary, adds that reliance on the state pension makes women "more vulnerable" to any changes in state pension policy or age thresholds, highlighting the "importance of ensuring the state pension system remains accessible and adequate for women".

"The gender pension gap is an urgent issue that demands meaningful action from both industry and government"

Challenges ahead

Despite these governmental solutions, the gender pension gap remains a pressing issue, with substantial problems still needing to be addressed, including solutions for career breaks, increasing employer contributions, a lack of information about pensions in divorce settlements, and improving financial education.

Arguably, one of the biggest barriers to closing the gender pension gap is career breaks, with Fidelity International head of investor servicing, Jackie Boylan, suggesting that these breaks "can reduce overall earnings and impact pension contributions".

Research from Fidelity International found career breaks are often attributed to childcare responsibilities (23 per cent), health-related issues (22 per cent), spending time as a homemaker (17 per cent), and taking time out to look after older family members (9 per cent).

Holliday proposes addressing these issues through a "family carer's top-up and childcare provision", both provided by the government.

She emphasises: "Ensuring childcare is affordable and accessible will allow those who want to return to work to do so and will act as an important measure in helping to narrow the gender pension gap."

Royal London head of technical and marketing compliance, Clare Moffat, explains that "it's not about women making different decisions, because they might want to go part-time to care for children". Instead, she says it is about knowing the impact of those decisions and the proactive steps savers can take.

Increasing financial literacy is another stepping stone towards closing the gender pension gap, with Shepherds Friendly's research finding that only 46 per cent of women passed a financial literacy test, compared to 54 per cent of men.

O'Leary advocates for adding financial and pension literacy education to the school curriculum, emphasising the "importance of saving early and regularly, even in small amounts".

Boylan echoes this sentiment and adds: "Encouraging financial education can empower women to plan their careers with their retirement in mind, considering any career breaks they may have to take which could affect their long-term retirement savings".

Scottish Widows workplace savings specialist, Susan Hope, notes that personalised approaches are key, as "a one-size-fits-all approach will not work".

She suggests using social media to engage younger generations, especially Gen Z, as "this is the age where the habits for future saving are formed".

In particular, she states that

simplifying concepts and finding a way to "drive home" the benefits of starting early and compounding are "critical" in helping to close the gender pension gap.

However, Holliday cautions that "financial education can't solve the problem by itself", suggesting that "broader system changes are needed to make pensions fair for all".

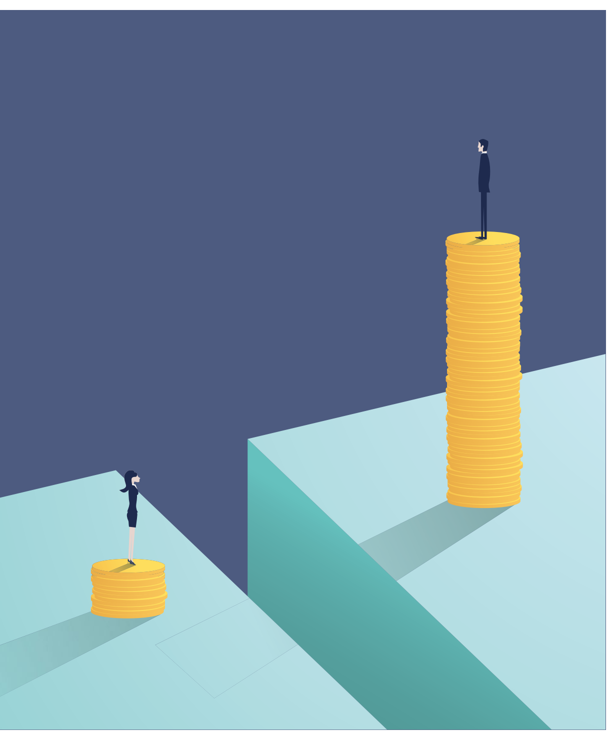
O'Leary also highlights the importance of legal policies, such as Pension Sharing Orders and Pension Offsetting, in ensuring "fair division" in divorce settlements.

"Despite pensions being one of the largest marital assets, many women overlook their entitlements, with only 20 per cent considering pensions in settlements and nearly 30 per cent waiving their rights," O'Leary notes.

She states: "Many women avoid seeking professional advice, resulting in unfair outcomes."

The role of industry and employers

While government policies have made progress in narrowing the gender pension gap, much responsibility also lies with the pension industry and employers to implement changes that support women throughout their careers and retirement.



At the industry level, actions to close the gender pension gap include the creation of the Pension Equity Group, comprised of 20 UK pension companies. Its goals include establishing a standard for measuring and reporting the gender pension gap, providing tools and education for retirement planning, collaborating with the government for pension equality, helping employers address inequalities, and innovating products to tackle issues linked to the gender pension gap.

O'Leary highlights: "Industry campaigns are promoting awareness of the gender pension gap and encouraging women to take an active role in managing their pensions."

Additionally, she notes that pension providers are also introducing more "flexible savings options", aimed at supporting women who may experience interrupted work patterns due to caregiving responsibilities.

However, she urges pension and savings providers to consider a "different way of communicating with women".

"Men's and women's behaviour around saving and spending differs, requiring targeted education, advice, and marketing communications. Ensuring women are represented in discussions on policy, education, and administration of pensions and savings is also essential for achieving more equitable outcomes," O'Leary says.

However, the onus is not only on the industry and the government; employers can also take systemic actions to support workers.

Holliday argues that employers can play a "crucial" role by working with the industry to encourage employees, especially those taking career breaks, to consider the impact on their pensions.

"The gender pension gap is an urgent issue that demands meaningful action from both industry and government," Holliday emphasises.

A "significant" solution, Boylan points out, is "creating more flexible, hybrid working arrangements to allow women to balance caregiving responsibilities with their careers without sacrificing pension contributions".

Hope suggests that employers could "provide greater paternity leave support and promote the use of more flexible working arrangements for fathers," encouraging and building a culture in which paternity leave is "normalised".

Hope also believes employers could extend maternity pension provision on return to work, such as continuing the pension contributions at the pre-leave level if hours are reduced.

Meanwhile, Moffat suggests: "The more information people have and the more conversations with employers they have to understand what reducing hours and taking maternity leave means, women will gain a better understanding and what they can do about it."

Furthermore, O'Leary argues that closing the gender pay gap and looking at "top female talent" when senior promotions and hires are "critical first steps" employers could take to address this issue.

In conclusion, while efforts from the government, industry, and employers have contributed to bridging the gap between men and women regarding pension savings, substantial challenges remain. Comprehensive policy reform, industry innovation, and employer support are necessary to achieving true pension equality. Without these efforts, women will continue to face financial insecurity in retirement, a disparity that must be urgently addressed.

Written by Paige Perrin