

Get to grips with the gap



✦ Maggie Williams explores the difference between men and women's pension pot size at retirement and the efforts the pensions industry can take to shrink the gap

Gender pay gap reporting is now business as usual for UK companies with more than 250 employees. It has created greater transparency about pay practices, raised awareness of differences in men's and women's earnings and forced employers to address disparities, even if it hasn't yet eliminated them.

As pension contributions are typically a percentage of pay, it follows that if there are gender pay gaps, there will also be gender pensions gaps. But while the average size of the gender pay gap is 7.9 per cent, the average pensions gap is far bigger.

According to recent research from Now Pensions and the Pensions Policy Institute, by the age of 65, women will have accumulated £69,000 in private pension wealth, compared to £205,800 for men. That's a 33.5 per cent difference. And recent research from L&G suggests that the gap at retirement could be wider still, at 55 per cent.

Comparing an average yearly gender pay gap with a disparity in pension pots accumulated over 40-plus years is not exactly like-for-like. However, the chasm between men's and women's retirement savings suggests that the difference

is more than a simple by-product of gender pay gaps.

"The pay gap does contribute to the gender pension gap but women face many other hurdles during their working lives when it comes to retirement planning," says Hargreaves Lansdown Senior pensions and retirement analyst, Helen Morrissey.

One of the most significant is working patterns. Government figures show that around 64 per cent of women who work do so full-time, but only 27 per cent of women will maintain full-time roles throughout their working life. Caring roles – predominantly childcare, but also adult family members – mean that women are more likely to have career breaks and/or return to the workforce on a part-time basis. "Our research has shown that the biggest cause of the gender pension savings gap is the career breaks that women have compared to men," says Now Pensions head of PR and campaigns, Samantha Gould.

"Women typically spend 10 years away from the workforce to start families and care for children and relatives," adds Gould. "That means fewer opportunities for career progression and increasing salaries."

✦ Summary

- Gender pensions gaps are the product of many different factors, including childcare and pay gaps.
- Schemes need to review their design and ask if it is fit for purpose for women.
- Decumulation needs a more gender-related focus.

Women also often typically work in lower-paid sectors, with health and social work, wholesale and retail, and education collectively accounting for almost half (46 per cent) of all female employment, according to the Office for National Statistics. Low base pay combined with part-time working patterns means that many women fall below the current £10,000 threshold for auto-enrolment contributions. It is estimated that scrapping the threshold would bring an additional three million women into pension savings.

Another reason for the gender pension gap is contribution rates. Scottish Widows managing director of retirement and longstanding, Emma Watkins, says that women tend to contribute at a lower rate than men: "On average men who save are putting 16 per cent of pay aside for retirement, while women save just 13.5 per cent of their salary." She adds that the combination of lower contributions and care-related working patterns means "the pension

pot of a woman in her twenties today will total £100,000 less at retirement than that of a man of the same age”.

The reasons behind that gap in contributions are not as simple as poor engagement with pensions. Present day priorities, such as surging childcare costs, may disproportionately affect women and prevent them from saving more for retirement. Research from the Institute for Fiscal Studies showed that families earning between £20,000 and £30,000 spend as much as 17 per cent of their pre-tax income on childcare every week – and in single-parent households that may be met by mothers on their own.

If one of the solutions to the gender pensions gap is to enable women to work longer hours in better paid employment, then the current rise in flexible working could offer some solutions. “Flexible working (including flexible hours as well as working from home) is vital in keeping women in the workforce by enabling them to juggle their caring responsibilities with work,” says Morrissey. “It also helps families manage caring responsibilities more evenly.”

However, many employers are still wavering over how, or if, they will offer permanent flexible working. Concerns about career progression prospects for remote workers and the practicality of flexible working in sectors where women’s roles dominate also need further research if they really are going to have influence on long-term pensions savings.

While the majority of gender pensions gap damage is done in women’s mid-careers, the menopause can add a further blow in later life. “Employers are increasingly recognising the impact of menopause and putting policies in place to support those affected, but more needs to be done,” says Morrissey. Its effect on women’s pensions isn’t easy to quantify, but research from Bupa and the CIPD in 2019 found that over 900,000 women had left the workforce early due to menopausal symptoms.

Is the pensions gap a pensions problem?

It would be tempting for providers and trustees to say that none of this is a pension scheme problem. If, over the course of a working lifetime, women work less hours, earn less and contribute less to their pensions than men, they will inevitably have a smaller pension at retirement.

But nearly three-quarters (72 per cent) of women over 16 in the UK are now in either full or part-time work – the highest figure in history. Perhaps it’s time to ask broader questions around whether current pension scheme design, including contributions, financial wellbeing and decumulation support, are fit for purpose for women.

“Women need to fund a longer retirement. A 25-year-old woman today can expect to live to the age of 89, three years longer than a man of the same age,” says Watkins. She adds that women can also expect to spend £35,000 more on care costs than men. “Closing the gender pensions gap in terms of pension contributions isn’t enough – women actually need to save more than men to fund the same standard of living in retirement.”

Reviewing scheme design to make sure that it works for women’s needs during both accumulation as and decumulation is important, says Barnett Waddingham associate and policy and strategy lead, Amanda Latham. “Historically, pension schemes may have been designed by or for people who are in well-paid, full-time roles. People who are in a different environment from that need different thinking, and to be asked different questions about their aspirations and retirement journey.”

Latham says that collaboration with employers can help to reduce the impact of caring breaks, for example by continuing to pay women’s pension contributions during maternity leave. “That would help to reduce the gender gap and would also show an increased value for carers in the workplace, leading to better outcomes more generally.” Other

workplace practices, such as encouraging greater take-up of shared parental leave and helping families with onerous childcare costs could also help women to increase their pension savings.

Legal & General commercial director of workplace savings, Katherine Photiou, adds that women’s confidence in making financial decisions is an area where employers and pension schemes as well as industry and government can help. “For example, too few know about the flexibility that couples have in being able to contribute to their partner’s pension while they are on parental leave. This can significantly reduce a women’s pension shortfall.”

Approaches to at-retirement and decumulation are other areas where schemes can think differently about ways to help women. Latham points out that schemes often default all members towards the same decumulation option which may not be appropriate for all women. “I think looking at decumulation through a gender lens can be a way to get a better designed retirement process – this has been neglected,” she says.

“You have to explore the most appropriate ways for members to use their savings, and that will ultimately depend on the size of their pot,” she adds. “The focus on drawdown might not be appropriate for women who have accumulated smaller pots. Looking at ways to help people use smaller or multiple pots together could be more helpful.”

“It’s time women stopped being penalised for things outside of their control, like the high cost of childcare, or being paid less than their male counterparts,” concludes Photiou. While many of the drivers of the gender pensions gap are beyond schemes’ direct control, willingness to analyse gaps, understand their causes and provide appropriate support to mitigate them should be on every scheme agenda.

Written by Maggie Williams, a freelance journalist