national assembly of women
pensions briefing

pensions

government policy = poverty for women

Retired women in the UK get a very poor deal and vast numbers are left to cope on tiny incomes for the last period of their lives. Present policies and pensions debates fail to address the fundamental causes and are based on myths and inaccuracies which limit the proposals presented to Parliament. Even the most recent in-depth Parliamentary study, *Pensioner Poverty*, by the Social Security Select Committee published in August 2000, failed to examine the fundamental causes of women's low incomes in retirement. The women of this country deserve better and this pamphlet seeks to explain how and why MPs should take a more urgent interest in the plight of older women.

current problems

The Beveridge system treated married couples as one unit and married women were expected to depend upon their husbands' entitlement to benefits and pensions. Parts of that philosophy remain in today's system and do not fit with current family circumstances. For example, the divorce rate means that spouses can no longer expect lifelong sharing of income.

More and more women are now in paid employment but this is often part-time, erratic and very low paid. One thing that has not changed since Beveridge is that women take the main responsibility for the care of families and this inhibits their earnings and their pension prospects.

why women are the **poorest** pensioners

Just over 10 million pensioners live in the UK and 64% of these are women; because women, on average, live longer than men they form an even larger proportion of pensioners aged 75 and over where low incomes are concentrated. Even at the beginning of retirement women get a raw deal compared with men. Figures published by the DSS last year for recently retired people (men aged 65 and women aged 60) showed average male State pensions of £86.36 per week compared with female pensions of £49.20 per week. Much more needs to be done to produce a fairer pensions system. To tackle this properly the causes of older women's poverty need to be appreciated.

Women earn less than men – equal pay legislation has not yet brought parity – and this difference in income becomes even greater in old age. For example, even when women workers have access to occupational pension schemes, their lower wages will produce lower pension entitlement. At any time there may be as many as two million women in regular employment who do not earn enough to pay National Insurance contributions towards their State pension entitlement. Indeed, the State provides an incentive to employers to keep wages low: if the employee earns too little to pay National Insurance contributions, the employer is not liable to make contributions either. This is in sharp contrast to the treatment of higher paid employees (mainly men) where employers (not employees) must make contributions on total pay.

Much is made now of the range of options for people to take out their own pensions – politicians continually give out the message of independent provision for our old age. Apart from the reality of women's lives which consists of making very little money go a long way, even if they manage to put aside some money for pensions they may get a poorer deal than men. In some cases they will get less for their money based on the single statistic that on average women live longer than men. Women would need to be financial magicians to produce decent pensions in these conditions.

The most important factor determining women's poor financial prospects in old age is the juggling of employment and family responsibilities which results in broken employment records. Despite the fact that women are now half the workforce, they are still regarded as 'odd' in the pensions system. If you are unemployed or sick you will have your pension rights protected by contributions credits and rightly so; if you are caring for children or frail elderly relatives you do not get automatic credits and must take a chance on what the caring will cost you ultimately in pension rights. A DSS leaflet is a good example of this pensions roulette for women "as a woman your work patterns may be different from a man's so you will need to make sure any pension you choose allows for this". The choices available are incompatible with the pattern of women's lives.

Because pensions are built up throughout our working lives, pension changes take a long time to make a real difference in retirement incomes. We therefore need to start to change the system now if today's young women are to achieve genuine pensions equality. The primary argument against improving women's pension prospects is cost. But this country can afford better pensions for women. The government's own figures show that in the first quarter of the 21st century State pensions expenditure will fall dramatically even though the number of pensioners is expected to increase from 11 to 16 million.

We must not allow politicians to make a virtue out of saving taxpayers' money at the expense of decent pensions for women. The answer is not to introduce more targeting which amounts to more means testing: we have the evidence that means testing has much higher administrative costs and that pensioners will not apply for benefits which breach their privacy. Women must get behind the complexities of the pensions system which disguise the price that many have (and will) pay for the time spent caring for their families. For too many, that price is to live the last quarter of their lives without financial security and unable to afford even the small things which make life comfortable.

understanding the **myths** about pensions

When new pensions arrangements are debated, the emphasis in recent times has been on the potential costs to the State of continuing with adequate State benefits. These cost calculations are based on predictions of the population up to 50 or 60 years ahead and on stereotypes of retired people as chronically sick and in need of intense care services for prolonged periods. Much of this attempt to push the costs of pensions onto the individual is based on questionable data and completely ignores the inability of those with low lifetime earnings to fund an adequate retirement income.

myth no.1

Over the next few decades, the number of pensioners will rise dramatically

reality

It is probably true that the number of pensioners will rise in the period up to 2040. This rise in numbers is due to the baby boom in the 1960s. The 'baby boomers' form a big 'bulge' in the spread of the population over different ages. The bulge is accentuated by the fact that since then, fertility rates have been low. This bulge will move up through the ages and in the 2020-2060s will constitute the retired. This is a temporary phenomenon which will fade as the baby boomers disappear from the population. But the more important statistic for society is the support ratio – the number of working people available to support each pensioner. This simply cannot be forecast as a large part of what will make up the working population in say 2040 have not yet been born. The dire predictions currently being made are based on the assumption that current low fertility rates will be maintained. Of course, this may turn out to be the correct assumption. But past forecasts have always been wrong precisely because they could not predict what would happen to the birth rate.

myth no.2

Private sector provision is better than public sector provision

reality

For two decades, governments in the UK have pressed the case that investing in stocks and shares was both more profitable and reliable than the National Insurance scheme. They used the figures showing that shares were producing average returns of 15% in real terms over this period to persuade people into the risky area of personal pensions. The mis-selling scandals of the early 90s and the current slashing of pension funds by Equitable Life illustrate just how insecure investing in stocks and shares is. The chance that the company you invest in for your future pension might be another Equitable Life is unavoidable; commission rates are sky-high and the risks of stock market underperformance and dwindling annuity rates are impossible to guard against. In these circumstances, would you trust your level of income for the last third of your life to an insurance company? This is what the government wants us all to do; it plans to reduce the public share of pension provision from 60 to 40% by 2050 in favour of private provision. A study of pensions provided across the OECD nations just about to be published exposes the government's policy, pointing out that it will result "in a greater share of provision in the inherently riskier private system". Faith in the financial services industry was at rock bottom following the pensions mis-selling rip-off and sales of personal pensions have been declining ever since; is Equitable Life the last example or will there be more before the government sees the light?

myth no.3

The State can no longer afford to

be the principal pensions provider

reality

The State is the best option in terms of achieving equality between women and men and helping those whose working lives are characterised by low earnings, employment gaps and caring responsibilities. Because the State system is pay-as-you-go, the concern is that this becomes too expensive when the retired population is large in comparison with the working population. The reverse side of this coin is that a population with a relatively high number of older people will have fewer young families with subsequent savings on healthcare and education to balance the spending on pensions.

myth no.4

The demographic timebomb means that we have to move to individual pensions

reality

The main perceived problem with State pensions is that they operate on a pay-as-you-go principle. So today's workers pay the pensions of today's retired. The assumption is that this cannot work if the retired population is large in comparison with the working population. This assumption in itself is questionable. A relatively old society will by definition have few young families and the State's savings on healthcare and education can outweigh the extra pensions spending. But the proposed solution to the perceived problem is even more problematic. The critics argue that the solution is funded pension schemes – with today's workers reserving enough capital to fund their own retirement so removing their dependence on future generations. This misses the point that the key factor influencing the retirement income of future generations will be the productivity of society in their retirement. A pot of capital will not fund a pensioner's needs if inflation erodes the capital or if stock market returns are so low that the capital becomes insignificant. Whether their pension income comes in the form of a promise from the State or a pot of capital, is a purely technical debate. It should however be noted that universal State benefits are substantially cheaper to administer then privately funded ones.

Individual pension funds will have very variable returns, so investing in a pension will be a real lottery for many.

myth no.5

Means testing is the best way to help combat poverty

reality

There is evidence that means testing has much higher administrative costs; it costs the State six times as much to administer income support benefits as it does to administer the State pension. Additionally, the government spends millions of pounds on publicity to try and solve the problem of low take-up of means tested benefits and continues to throw money at a problem which touches people's feelings of value and dignity in complicated ways. The government's own research shows that despite take-up campaigns starring Thora Hird, pensioners will live in poverty rather than claim benefits for a host of reasons. Pilot programmes in 1999 only managed to increase take up from a pathetic 2 per cent to a measly 5 per cent. By the end of January 2001, out of an estimated 500,000 pensioners entitled to the Minimum Income Guarantee (MIG) but not claiming, only 82,000 had been traced and persuaded to claim. And yet the government's plans for the MIG to become a pension credit in 2003 will double the number of pensioners undergoing a means test to 5½ million – half of all pensioner households.

challenging these myths

People have thus been persuaded that moving from state pensions to private provision is an economic imperative rather than a political choice. It is a political choice however, and Britain has chosen a route which will lead to further reductions in state pension provision in the form of personal (Stakeholder) pensions. The inevitable consequence of this will be to knowingly increase stigmatised means testing for the few and poverty for the many.

So we do have a political choice and – wouldn't it be interesting to see this one in a referendum? – the choice is to stop pouring millions into the finance sector, to challenge the myths about what we can afford, to reverse the trends against collective social insurance and demand universal pensions without means testing. This is the only political choice for those concerned for gender and class equality. We know that the state pension is the best foundation for adequate income in retirement for women.

The Equitable Life crash may ultimately prove to be a turning point in pensions policy and in public perception of the role of their government in providing for their financial security in retirement. For if faith in the financial services industry's ability to deliver disappears, where do people turn? The government is committed to reducing the percentage of GDP spent on public pension transfers from 4.4 per cent to 3.4 per cent by 2050, but how will it do this if people refuse to take the risk? If low paid people, particularly women, refuse to put their wage into a stakeholder pension which offers too much risk and too little reward and instead spend their money on their family's present day needs? If we demand that our government spreads the risk on our behalf and guarantees a decent state pension as a basic right?

Only the state can effect redistribution to those with low life-time's earnings. Only the state can recognise and compensate women for years of unpaid caring work. Only the state can intervene to balance the institutionalised discrimination against women. Only the state can compensate for the inadequacy of occupational pension schemes as on present trends the pay gap will not close until 2036 and so women will continue to retire on lower incomes for the next century. The state pension is, therefore, an important signal of the value society places on women and we must make it one of our central demands from a second Labour term in government. The government must accept the justice of the case for the restoration of the earnings link and accept it as part of its equality programme for women.

It could pay for this by increasing the upper earnings level on National Insurance Contributions as a start; so that the cap on contributions at £500 a week is lifted. Higher earners, who are mostly men, would then start to pay their fair share towards pensions instead of allowing the brunt of the cost to be paid by lower earning women.

It could also pay for it by abolishing the tax breaks on personal and occupational pensions, which disproportionately benefit the higher paid.

a pensions system which met **women's needs** would:

- Be based on residence not years of employment, eliminating the discrimination against women's caring responsibilities.
- Offer a decent income to allow a good quality of life without reliance on means tested benefits.
- Be based on a reformed NI system covering all earnings with the additional income from higher earners used to increase the basic pension.
- Offer additions for special needs including extra costs for pensioners with disabilities and older pensioners.
- Offer free travel to allow access to leisure and independent living.
- Accept that the government's role was to guarantee a reliable income based on average earnings in society to recognise the work paid and unpaid by women over their working lives.
- Reduce the tax breaks on personal and occupational pensions and redirect the revenue saved to improve the basic state pension.
- Enforce unisex actuarial factors in all pension provision.

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priorities for action

- An increase in the Basic State Pension to the level of the Minimum Income Guarantee.
- Pensioners sharing in the increasing living standards of the population, by restoring the earnings link.
- The abolition of the lower and upper earnings limits, so that all earnings attract NI contributions, and credits.
- An end to means testing.
- Women being credited for state pension entitlement, if they are carers or on a very low income.
- Moving to residency based pension entitlement, and a tax based state pension.
- Unisex actuarial factors in all pension provision.
- Provision of better and clearer information.
- Reversal of the policy to encourage private provision.

pension facts: did you know?

- You will spend up to a quarter of your life in retirement.
- 50 per cent of pensioners rely on the state pension as their main source of income.
- 1999 figures show state pensions were £86.36 pw for men and £49.20 pw for women.
- 1 million women pensioners are dependent on means tested benefits; another ½ million qualify but do not claim.
- Government administration costs for state pensions are five-sixths lower than administration costs for means tested benefits.
- The National Insurance fund had a surplus of £10.5bn in 2000-01, enough to increase the basic pension by **£8 A WEEK.**
- The NI fund has a projected surplus of £12.3bn in 2001-02.
- Half of occupational pension schemes pay less than £53 pw.
- Women only won the right to join occupational pension schemes in 1978.
- The UK government is the only European government to plan a reduction in public pension provision as its population ages; the rest are planning increases.
- The UK uses 2.8 per cent of GDP through the foregone tax revenue to subsidise private pensions.
- The UK pensions policy has been criticised by the OECD as rating low on measures of equity, adequacy, and replacement rates.
- In New Zealand the citizen's pension is fixed at 34 per cent of average net earnings for each married person and 44 per cent for lone pensioners; in Ireland, 27 per cent of average earnings and in the UK 15 per cent of average earnings.

action points

- Write to your MP and ask them to support our campaign to review government policy on women's pensions following the Equitable Life disaster; ask if s/he will write to the Work and Pensions Committee and Ian McCartney calling for an urgent review. Send her/him a copy of this briefing.
- Write to the Minister for Work and Pensions, Ian McCartney, Ministry for Work and Pensions, Department for Work and Pensions, Adelphi, 1-11 John Adam Street, London WC2N 6HT and ask him to ask the Work and Pensions Committee to review UK policy on women's pensions and prospects for poverty in retirement.
- Write to the Work and Pensions Committee, 7 Millbank, London SW1A 3JP asking them to conduct an urgent review of policy on women's pensions and prospects for poverty in retirement.
- Write to Tony Blair and Gordon Brown to demand action on these priorities.
- Ask your trade union to support these demands.
- Make contact with any journalists who might be looking for a new angle on pensions.
- Write letters to your local paper.
- Locally and nationally, form alliances between groups concerned about the quality of life and the prospects for future generations.
- Get more copies of this briefing (and circulate it wherever you can)

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NAW FEB 2002