

# national assembly of women

## pensions briefing 8

### *Towards a new radical pensions settlement*

#### **The scandal that is women's pensions**

We are living in interesting times; the previous Secretary of State for Work and Pensions, **Alan Johnson** said that women's pensions were "a national scandal" and indeed they are:

- a State Pension System structured in such a way that only 14% of women qualify in their own right compared with over 90% of men

- the system clings to the Beveridge philosophy that labour market participation earns pension entitlement and gives inadequate recognition to women's caring roles

- women pensioners receive only 53 per cent of the income of male pensioners

- only a third of women receive any private pension income

- two thirds of people forced to apply for the means tested Pension Credit are women

#### **The government's policy responses**

The government has been all over the place in the last eight years as the problems with British pensions have multiplied. Occupational schemes have folded or reduced benefits, people have lost confidence in insurance companies and other commercial providers and stopped saving for retirement and the falling value of the state pension means that by 2050 around 70 per cent of all pensioners will be eligible for means tested pension credit.

It's easy to lose count of the number of reviews the government has set up in its efforts to find acceptable solutions to this and ownership is now firmly with the **Pensions**

**Commission**, headed by Adair Turner. Their first report setting out a number of questions for debate didn't focus clearly enough on women. It took a lot of criticism for still being based on male working patterns and life expectancy assumptions. **If you work on the basis of meeting the needs of a full-time worker over 40 years who takes no breaks and is a member of a final salary pension scheme, then you will never meet the needs of women.** You are also failing to take account of the huge changes in society since the last major review of pensions by Beveridge 60 years ago.

We have to get it right this time. We have to ensure that the radical new pensions settlement people are looking for really does deliver pensions justice for women. The "tough choices" and "difficult decisions" **Brendan Barber** talks about must not mean sidelining women.

#### **Getting it right**

**1** Planning on the basis that women's lives will become more like men's would be a scary triumph of hope over experience. 30 years after the Equal Pay Act, the gender pay gap is still 18 per cent for full-time and 40 per cent for part-time workers. On average women's pay drops by six per cent after a year out of employment. Men are still not taking on their fair share of domestic and caring work. A third of women reduce their working hours to care for others and 48 per cent of mothers of under-fives stay at home to look after them compared with nine per cent of fathers. The pace of change is painfully slow. The only answer is to redesign the pensions system to meet carers' needs.

**2** After years of campaigning by women's groups and trade unions, the new Equality Act will place a positive duty on government departments to ensure that their policies

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promote equality for women; this will come into force in December 2006. The state pension system will not stand up to this challenge. The Department for Work and Pensions will have to set out *how* it proposes to equality proof the state system and *when*. **Ed Balls** said earlier in the year that the government would not touch pensions for another five years, he probably forgot that the gender duty was coming in 2006 and women's issues would get a major boost.

**3** The central principle of a new pensions settlement must be that individuals accrue pension entitlement in their own right. There is no way of fudging this; we have to wave goodbye to the Beveridge system of treating married couples as one unit in the belief that married women should depend on their husbands' entitlements to benefits and pensions. We see this as a fundamental human right and it will be a great day when the government formally endorses it.

**4** Citizens Pension? Reform of the state pension could be either based on residency/citizenship qualification or NI benefit with improved contribution conditions; the debate around this is still swirling around but it must not distract us from building a system which meets women's needs. There needs to be a universal pension set at a level which provides dignity in retirement and a decent minimum income for all. Providing a solid and secure foundation would also encourage people to save for their retirement safe in the knowledge that they would not be penalised by means testing. The arguments for setting this universal pension at the level of the current Pension Credit of £109 are compelling and we think the EOC has got it wrong in accepting that it could remain at its current level.

**5** The EOC is right in campaigning for a State Second Pension to credit carers for time out of the labour market caring for children and other family members. The initial beneficiaries would be women, although over time it might even nudge more men into taking a more equal share of caring roles. This would be a very important signal of the government's commitment to equality and to equalising

retirement incomes of men and women. People in full-time career jobs can increase retirement income through occupational and private pensions, but only the state can redistribute wealth to recognise the importance of caring responsibilities.

**6** The government has to give up its attachment to means testing. It is inherently sexist and unjust. It subjects many more women than men (two thirds of recipients are women) to a complicated, intrusive and stigmatised claiming process. It is clearly a disincentive to women to save since they are aware that modest savings can disqualify them. It is a bureaucratic farce costing 10 times more per case to deliver means tested benefits than the state pension.

### **Paying for it**

**1** The government is going to have to face reality here and **recognise that a greater percentage of GDP needs to be spent on state pension provision**. Its aim was to reduce the percentage of GDP public pension transfers from 4.4 per cent to 3.4 per cent by 2050 and so it embarked on barmy plans to try get low paid people to buy into stakeholder pensions and the like. It isn't working. People have voted with their feet and refused to take the risk. Pensions were pushed below the radar at the general election in May, but the government knows from all the polls that people expect the state to provide a decent income for its citizens in retirement.

**2** What is also needed is a much fairer system of tax relief by abolishing higher rate tax relief and more positive help for low earners or abolition of the tax relief completely. **The current system is the most regressive that could be devised and given the inequality in incomes, amounts to a direct subsidy of high earning men.**

**3** There is an estimated £26 billion per annum of pension tax relief to individuals and firms and half of this goes to the highest earners of £50,000. These people are the least in need of tax relief. **The new tax regime is likely to make this even worse** as people close to retirement paying tax at 40 per cent higher rate will be encouraged to put more savings into their pensions. Strange

to think this is a Labour government policy.

**4** At the other end of the scale, the average earner on £25,000 paying six per cent into a pension scheme has tax relief of just £330, compared with the £1,200 relief given to the person on £50,000 and the £1,800 to someone on £75,000. Where's the social justice in this? Answers on a postcard to Gordon Brown and David Blunkett please. **In 2003/04 tax relief on pension contributions was around £11.4 billion, money which could all go towards a fairer state pension;** now that would be a radical new pension settlement.

### **Ending the scandal that is women's pensions**

The government is looking for a radical new pensions settlement which can secure consensus across political parties, so that confidence in the future shape of state pension provision is rebuilt. This is important, provided that consensus is not built by sidelining women's needs. **Women have had a bad deal through a pension system designed by men for men** for the last 60 years. Putting that right now will build a system which meets the needs of all those who take some breaks from work, sometimes work part-time and see themselves as carers as well as workers. Put another way, a pensions system designed to meet women's needs will be one that is fair and capable of meeting everyone's needs.

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