



# The Northern Ireland Economy: **Women on the Edge?**

A Comprehensive Analysis of the Impacts of the Financial Crisis

## Section 9: Pensions



# Pensions

## Occupational pensions

Gender poverty in retirement is intrinsically linked to pensions. In the UK women have lower rates of participation in private pension schemes than men. Thirty-nine per cent of women of working age contribute to a private pension, compared to 46% of men of working age.<sup>1</sup> Women who have the benefit of a final salary scheme pension are mainly to be found in the public sector. Around three-quarters of low-income pensioners have no occupational/personal pensions, and pensioners living in households not in receipt of such pensions have a much greater risk of low income.<sup>2</sup>

Hillyard et al point out that many with an occupational pension will have suffered depletion in asset values in their pension funds in the economic turbulence over recent years.<sup>3</sup> The increased uncertainty also saw a shift in financial risk from employers to employees, most visibly in the closure of final salary schemes. Women could ill-afford damage to their already low pensions, and some will likely face further pension shock in the downsizing of the public sector, which is the largest employer of – and therefore pension provider to – women.

Few women on low pay or single earners such as lone mothers can afford to contribute to an occupational or personal pension. Women's pension contributions are affected by the gender pay gap and high levels of participation in part-time work, which affect both women's ability to contribute and the employer's contribution which is normally set at a percentage of salary. Women's paid work, time out of work for child and dependent care responsibilities and changing patterns of partnership reduce their ability to build up an adequate private pension.

Women graduates with a pre-school child earn on average only 44% of the earnings of childless women graduates with consequences for their pensions. The biggest impact of motherhood on private pension prospects is on mid-skilled women educated to GCSE level who comprise

around one-third of working age women. Surrey University's Centre for Research on Ageing and Gender concluded that allowing state pensions to decline, while increasing reliance on occupational and private pension schemes, would perpetuate disadvantage for women in older age.<sup>4</sup>

Some 11% of people stop contributions to pension schemes when they have a family, rising to 17% for low income households. Women are twice as likely as men to make adjustments to their pension contribution levels when they have children; 24% of men maintain their contributions at the same level compared to just 12% of women.<sup>5</sup> This compounds the pension problem for women who are twice as likely as men not to be making pension contributions in the first place.<sup>6</sup>

Divorce also affects women's chances of having private pension coverage, with divorced women in the twenty to thirty-nine age group half as likely to have pension coverage than married women. On average, children are aged four to five years at the time of divorce, and can restrict women's employment opportunities and pension accumulation particularly where childcare is inaccessible or unaffordable. Although divorced women begin to catch up on lost employment, earnings and pension-building when their children are independent, they remain at high risk of poverty in later life. It is argued, therefore, that legislated pension-sharing on divorce in itself is unlikely to end disadvantage for these women. State pension at least provides a safety net.<sup>7</sup>

## State pension

A considerable majority of people in Northern Ireland think that the pension safety net is not good enough. In 2008, 87% thought that the state pension was a poor deal, backed up by 79% believing that financial provision by the state for pensioners generally was inadequate.<sup>8</sup> Since April 2011 the basic state pension is £102.15 per week, which is below the official poverty line, and calculated to be worth only 16% of national average earnings.<sup>9</sup>

Annual up-rating of pensions will in future be based on the Consumer Price Index rather than



the Retail Price Index. The CPI is consistently lower than the RPI meaning that pensioners will see a long-term decline in the real value of their pensions, estimated as a total loss of between 7%-15% of retirement income for every individual pensioner over a five year period.<sup>10</sup>

### Pension Credit

The means-tested Pension Credit top-up, which as of April 2011 is worth £137.35 per week, has been described as a 'gender friendly benefit', helping almost one and a half million single women pensioners, over 600,000 couples and more than half a million single male pensioners in 2007-08.<sup>11</sup> However, many pensioners fail to claim Pension Credit, including up to 34% of older people in Northern Ireland.<sup>12</sup> Advice NI estimates that the total amount of Pension Credit unclaimed annually is between £74m and £234m. The average number of pensioners entitled to but not claiming it is between 39,000 and 74,000.<sup>13</sup>

#### Age NI

*"Older people do not know what they are entitled to or how to access it. Older people are losing out; the economy is losing out. The additional income could afford older people a better quality of life, increase local spending and boost the Northern Ireland economy. An innovative approach to benefit uptake is urgently needed with the ultimate goal being automatic payment of Pension Credit, if this issue isn't addressed, pensioner poverty is only set to get worse."<sup>14</sup>*

Maximising the take-up of Pension Credit is critical to lifting older women out of poverty and providing them with a better quality of life. The automatic payment of Pension Credit – that is enabling older people who are entitled to the payment to receive it automatically without having to make a claim – would help to address pensioner poverty. As a step towards full implementation Age NI suggests trialling an automatic Pension Credit initiative targeted at female single pensioners over the age of seventy-five, who as a group have relatively low incomes and 30% of whom live in poverty. The most recent data from the discontinued Pensioner Income Series showed that single females had lower incomes than single males by more than

£90 per week and thus would benefit significantly.<sup>15</sup>

### More women qualify

A significant improvement was made in women's access to the state pension following pension reforms in 2007 by the Labour Government. The reforms reduced the number of years needed to qualify for a state pension to thirty, made it easier for parents and carers to build entitlements and changed contribution conditions so that both paid and credited contributions count.<sup>16</sup> Around 70% of women immediately qualified for a full state pension in their own right, almost two and a half times more women than had qualified before the change.<sup>17</sup> Some legacy issues remain, such as the married women's stamp, and it is anticipated that it will take until 2025 for more than 90% of both men and women equally to receive a full basic state pension.<sup>18</sup>

Further Labour legislation in 2008 sought to close an under-representation gap in occupational pension schemes by introducing automatic enrollment into qualifying workplace pension schemes. This will be phased in over the period 2012 to 2016 and should benefit women provided they are not encouraged to opt out. A recent round of reforms was announced by the Coalition Government in early April 2011, some of them controversial, and this will change the pension picture once again.

### Accelerating to sixty-six

Since April 2010, steps are underway to bring women's qualifying age for the state pension up to age sixty-five into line with men's, and then to raise both women's and men's pension age to sixty-six. Labour had proposed doing this in two long phases, the first stage for women to equal men by 2020. Then both pension ages would gradually have gone up by 2025. The Coalition Government decided to accelerate the original deadline of 2020 for completion of phase one by two years. It then proposes to accelerate the deadline for phase two by six years so that by 2020 women must be sixty-six to qualify for a state pension.



**Mark Durkan MP, SDLP**

*“... if those women do not hear the Minister say that he is revising these proposals because they represent an unintended anomaly, they can only conclude that they are being selected as the victims of an intentional injustice and that they are to suffer a drive-by hit on their pension rights ...”*<sup>19</sup>

Speeding up the timeframe for the equalisation of women’s retirement age with men’s and raising the state pension age to sixty-six has a disproportionate impact on women. Women will be hit by two accelerations, and men by one. More women than men will be affected overall, and a small cohort of some half a million women will be hit harder than anyone else.<sup>20</sup> Uniquely, this small group will have to wait more than a year, and some almost two years, to qualify. Making women the sacrifice will help Government to shave £10billion off the national debt.<sup>21</sup>

Time is needed to plan and make provision for a later pension age which is why the Turner Commission recommended a lead-in time of fifteen years. The Pensions Policy Institute expressed concern about the new timescale for pension changes which have left women with insufficient time to plan for a later retirement. For example, women tend to become part-time workers sooner than men of the same age and thus need time to factor in working longer or saving for the change.

Very many women are still unaware that they are going to have to work for longer than they had thought previously. Even if they knew that the state pension age was going to rise to age sixty-five for both men and women by 2020, most are ignorant of the fact that the Government’s recent plans mean that they actually have to be sixty-six to retire in 2020. Women are continuing to make future plans unaware of the change to their circumstances.

**Annette Brooke MP, Liberal Democrat**

*“Obviously, the proposals to speed up the increase of the pension age will deny large numbers of people the notice they need to plan effectively for a later retirement, and I am concerned that*

*the poorest and the unemployed could face real hardship as they struggle to manage without the state pension and benefits on which they were relying ... what do these women do?”*<sup>22</sup>

**Too late for some**

Some women will have taken early retirement on a reduced pension already, believing that they would receive their state pension by a certain, earlier date. Some may already have moved to part-time working, or planned to, so they can care for parents or grandchildren. They may have to revisit this decision in light of the changed economic circumstances and the later payment of their state pension to recalculate if they can afford it. However, if they find they need more money, it may not be easy to increase their hours or find another job to fill the two-year gap, especially in a contracting market.

Others may not be able to return to work and will have to wait it out until they qualify for the state pension. If they were in low-paid jobs, had interrupted careers or worked part-time at some point because of caring responsibilities they will have accumulated less workplace pension or other savings to assist them. During the parliamentary debate on women’s pension age it was noted that women have much lower private occupational pension savings.

The median pension saving for a 56 year old woman is £9,100, six times lower than a man’s which stands at £52,800. Pension savings of £9,100 work out at £564 a year and just £11 a week.<sup>23</sup> Moreover, many women affected will have worked part-time at a time when part-time workers were unable to take out an occupational pension and these women relied on getting their state pension on the date it was previously due. In response to a survey questionnaire by Hillyard et al a large proportion of respondents, who were more likely to be women, were solely in receipt of the state pension.<sup>24</sup>

**Rachel Reeves MP, Labour**

*“These women have earned far less during their lives than men of the same age. In 1980, the gender pay gap was 28.5%. When the women were in their 20s, they were earning on average almost 30% less than men of the same age. The*



*gender pay gap has been closing since 1980 and it is now about 16%, but the point is that these women have suffered inequality throughout their working lives. They now face a double whammy and are paying the price for getting us there too quickly.*"<sup>25</sup>

The cost to the women who must wait two years is estimated to be up to £10,000 in state pension and could be up to £15,000 if they were entitled to Pension Credit.<sup>26</sup> This does not take account of other passported benefits that come with a pension. Some experts put the sum higher with basic pension losses of £15,000. It will be much more for those with entitlements to SERPS or the second state pension.<sup>27</sup> While some older women will qualify for Job Seekers Allowance this provides much less income than the basic state pension, and if they have a small occupational pension or savings their access to JSA will be limited or non-existent. Some women may find themselves having to turn to family members for assistance.

### **Teresa Pearce MP, Labour**

*"In making any changes to legislation, the Government should ensure that no group is disproportionately impacted on, and none more so than the post-war generation of women, who have had to battle for rights all their lives—from the Equal Pay Act 1970 to the Sex Discrimination Act 1975 and the Employment Protection Act 1975. Women born in the 1950s have seen so much change that they did not expect to be battling still—battling against a rapid acceleration of the pension age, which falls purely on their shoulders."*<sup>28</sup>

### **New flat rate state pension**

The UK Government released a Green Paper on state pension reform: *A State Pension for the 21st Century*.<sup>29</sup> It proposes a single tier flat rate state pension of £140 per week for all future pensioners (and another two-tier option that appears less popular). Although no figures are available showing how many women and men will be affected by the change, a single-tier flat rate is likely to be better for women. On the positive side, the simple flat rate system is expected to be set at a higher level than the current pension and it is designed to offer the

opportunity to save without fear of means-testing. It must be said, however, that the latter is more of an incentive for middle to high income people. The evidence shows that vulnerable workers living on low incomes find it hard to save and there is no reason to believe that this pattern will change unless they are lifted out of poverty.

### **Stephen Webb, Minister of State for Work and Pensions, Liberal Democrat**

*"At the moment, women draw a state pension of £40 a week, on average, less than men, but under the single-tier pension proposal many women would be the main beneficiaries.*

*[U]nder the single-tier pension a year spent at home with children or a relative will be worth just as much to a state pension as a year spent running a FTSE 100 company.*

*[I]t stands to reason, for example, that paying a flat-rate state pension rather than an earnings related one will, on average, benefit women. It must, because women earn less on average."*<sup>30</sup>

### **Second-class women**

However, many older people will not benefit from the new flat rate state pension. Existing pensioners will not be included in the new system when it is introduced. The majority of these are women. Those who are worst affected by their exclusion are older women who do not currently qualify for a full state pension but could have benefited greatly from a universal pension scheme that was based on the reduced number of qualifying years (seven years) that has been proposed. It will also have a profoundly disproportionately negative impact on women who are about to qualify for a state pension shortly for two reasons: currently women still qualify earlier for their pensions and secondly their life expectancy is longer meaning that they will live all their pensionable years on a 'second-class' pension.

### **Stephen Webb, Minister of State for Work and Pensions**

*"I do not dispute for a second that that set of women [women born between 1953 and 1960] will be affected by the changes [to pension age],*



*but the pension that they will get under our proposals will be significantly better on average than that received, for example, by women who retired a few years earlier.”<sup>31</sup>*

The National Pensioners Convention drew attention to the fact that the new rate of £140 proposed for the single tier flat rate pension is below the official poverty line. In its work on a minimum income standard tested for specific groups in various locations throughout the UK, the Joseph Rowntree Foundation concluded that a single female pensioner required a minimum weekly income of £150 in Northern Ireland.<sup>32</sup> This was £20 per week higher than for a male single pensioner which amounts to an additional income requirement of more than £1,000 a year for women pensioners. At the same time, women have lower incomes than men in retirement. All in all, women suffer particularly badly when the pension rate is below the poverty line.

In April 2011 Government announced there would be an ongoing process of pension age rises that would tie state pension age to increasing longevity. This introduces uncertainty into the age at which a pension is received. This will have implications for women as sudden changes in qualifying status for a state pension create greater difficulties for women who have fewer or no private pension resources. Where they are unable to remain in employment and do not have a private pension they may have to rely on a partner's income or suffer a drop in living standards until they can claim their state pension. They will not be able to claim Pension Credit to supplement their income either as this is tied to qualifying for the state pension.

### Conclusions

The gender pay gap, part-time working, interrupted careers for child and dependent care responsibilities all interfere with women's pension contributions and depress their eventual pensions. For a great many women the passport into a pension scheme has been through joining a final salary scheme while working in the public sector. The substantial job losses in the public sector will impact on women's pension entitlements. Women will also be adversely affected by speeding up the timeframe to arrive

at the new state pension age of sixty-six years by 2020.

There are still too many women, and men, who are not aware of their entitlement to Pension Credit. Many are also ignorant of the passported benefits that come with the state pension. This calls for more investment in benefit take-up campaigns. Information and advice campaigns and assistance by independent advice centres can bring additional income to older people and more money into the Northern Ireland economy that would not otherwise come. Such steps will also help the Northern Ireland Executive to reduce poverty. In particular single female older people, too many of whom are on low incomes, would benefit greatly from a pilot on automated access to pension credit which is especially targeted to reach them.

Providing a state pension at a higher level is an important element in lifting older people out of poverty.<sup>33</sup> However, this good step is marred by the failure to extend the new provision to all pensioners. It is unjust that not all will benefit from this development, especially since the greatly reduced qualifying period could have assisted many older women to attain a better income level. It will also establish firmly that there are first and second class pensioners. Given their greater longevity women will live in this situation for a larger proportion of their lives than men. Those who will be retiring in the next few years and just miss the qualifying date will be the most disadvantaged.

It is important that young women are encouraged to join the occupational pension schemes.

### Recommendations

- The Department for Social Development should maintain support for benefit up-take programmes. In addition it should introduce an automatic payment initiative to increase the take-up of Pension Credit targeted at single older women as this group is at the greatest risk of poverty.
- The Department for Employment and Learning should monitor what is happening to older people in employment to ensure



that they are not being discriminated against and there is compliance with the new legal position abolishing the retirement age.

- The Northern Ireland Executive should urge the UK Government to apply the proposed single-tier flat rate pension to all pensioners, including all existing pensioners, to avoid large numbers of women pensioners continuing to live in poverty. The Executive should liaise and consolidate on the issue with other devolved administrations to press that all citizens across the UK have the same access to a fair state pension scheme.
- The UK Government should increase the state pension to give older people the resources to get out of fuel poverty and to cope with the rise in the cost of living now. When it is introduced the Government should apply the single-tier flat rate pension to all pensioners to avoid large numbers of women pensioners living in poverty.
- The UK Government should slow down the acceleration towards a state pension age of sixty-six years by 2020 so that a single cohort of women does not uniquely bear the brunt of public savings in the pension system.



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- 16 The change was included in the Pensions Act 2007. See Pension Reform Factsheet: Making the State Pension fairer and more widely available at <http://www.dwp.gov.uk/policy/pensions-reform/factsheets-and-supporting/>
- 17 Just 30% of women had qualified previously.
- 18 S Webb, 'A Citizen's Pension' in Hollis & Kemp, p23 quoting a written answer 12 May 2009 Hansard columns 683-4w.
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- 20 Those born between 6 October 1953 and 5 March 1955. See debate on State Pension Age (Women) in Westminster Hall, 11 May 2011.
- 21 During the debate on State Pension Age (Women) in Westminster Hall, 11 May 2011 the Minister of State for Work and Pensions, Stephen Webb, suggested that the pension changes will take £30b off the national debt with £10b of that being the sum for the contentious changes.
- 22 State Pension Age (Women) in Westminster Hall, 11 May 2011.
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- 33 It is not the only element as many older people suffer from fuel poverty due to the high energy prices in Northern Ireland.



**Women's Resource and Development Agency**

6 Mount Charles  
BELFAST  
BT7 1NZ  
N. Ireland

e-mail: [info@wrda.net](mailto:info@wrda.net)  
website: [www.wrda.net](http://www.wrda.net)