

Pensions Bill 2007

**Gender Impact Assessment of
Pension Reform**

5 December 2007

Executive summary

This Gender Impact Assessment covers the pension reform provisions contained in the Pensions Bill 2007. These aim to encourage and enable more people to save for their retirement. They represent the second part of a package of radical reforms to the UK pensions system. These were initially set out in the May 2006 White Paper *Security in retirement: towards a new pensions system*. The first part, a fairer and more generous state pensions system, was taken forward by the Pensions Act 2007.

In summary, the reforms contained in the Pensions Bill 2007 are:

- a duty on employers to automatically enrol eligible jobholders into a qualifying workplace pension scheme and to offer a minimum pension contribution equal to 3 per cent of eligible earnings;
- introduction of personal accounts, a simple, low-cost pension saving scheme aimed at moderate to low earners who currently do not have access to a workplace pension scheme;
- to allow for a broadening of the Personal Accounts Delivery Authority's remit and powers to enable it to oversee the establishment of the personal accounts scheme;
- a proportionate compliance regime for the new employer duties, such as automatic enrolment, based upon a strategy of education, enablement and enforcement;
- strengthening existing workplace pension provision by simplifying the rules governing private pensions; and
- further simplification of the state pensions system to give people a better understanding of the State Pension they are accruing and to support people in planning their retirement.

The proposals for automatic enrolment, a minimum employer contribution and a system of personal accounts are substantively the same as those set out in the May White Paper, the subsequent White Paper *Personal accounts: a new way to save* published in December 2006 and the Government's responses to those consultations¹.

The analysis within this Gender Impact Assessment builds on that presented in the *Gender Impact of Pension Reform* that accompanied the Pensions Bill in November

¹ *Security in Retirement: towards a new pensions system – Summary of responses to the consultation*, Cm6960, published in October 2006; and *Personal accounts: a new way to save – Summary of the responses to the consultation Cm7121*, published in June 2007. There are a number of areas where, following consultation and further policy development, the Bill provides greater detail on the government's initial proposals.

2006². In particular, it contains new analysis of the impact these reforms are likely to have on the number of men and women saving for retirement in the UK and future private pension incomes.

The Pensions Act 2007 mainly focused on state pension reforms. The Act introduced a number of measures that are crucial from an equality perspective and in ensuring justice for pensioners, both male and female.

The state pension reforms will narrow the gender pension gap and remove discrimination for carers in the pension system, a majority of whom are women. The reforms are based on a modernised contributory principle: a life of unpaid caring responsibilities will be rewarded in retirement in the same way as a life of work.

As a result of greater entitlement, particularly for women, a more generous basic State Pension (BSP), which more women will be entitled to, together with extended coverage of entitlement to State Second Pension (S2P), these reforms will go a long way to closing the gender pension gap in State Pensions and help to deliver equality of outcomes in retirement for men and women.

The current Pensions Bill will provide employees with access to a workplace pension with employer and government contributions. These measures will ensure equality of access to a workplace scheme of a minimum standard, giving many millions of men and women the opportunity to build up a private pension.

Equality of opportunity is particularly relevant for women. Although in absolute numbers more men will be affected by the proposed policies, women are more likely to be lower earners and to work for small firms, two groups that are not currently served well by the pensions market. Women are more likely than men to have broken work histories, affecting the length of time spent in a job, and are more likely to be affected by the behavioural barriers associated with pension saving.

For these reasons, the features of automatic enrolment, minimum employer contributions and portability between employers offering personal accounts will be particularly attractive for women.

As a result of these policies, we expect an estimated 3.5 to 4 million women to be enrolled into a workplace pension, many of them gaining access for the first time. This way, women can take responsibility for their own income in retirement.

These reforms will, for the first time, ensure equality of access to a workplace pension for all employees. Alongside the improvements in women's labour market position relative to men, this will offer substantial opportunities to women to build up private pension savings in their own right. Automatic enrolment will be particularly useful in helping overcome inertia and lack of confidence in making financial decisions, which appear to be more significant barriers for women in

² [Gender Impact of Pension Reform November 2006](#)

saving in a pension. If women save earlier into their pension pots as a result of these reforms this will also help to substantially increase their pension pots at retirement.

A detailed Impact Assessment of the measures contained in this Bill is being published as a separate document³.

This document can be accessed online at

www.dwp.gov.uk/pensionsreform/

Enquiries: Sheeja Viswambaran 020 7712 2025

³ Pensions Bill Impact Assessment December 2007.

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Introduction

Objectives

1. This Gender Impact Assessment is published alongside the Impact Assessment for the Pensions Bill 2007. The proposals under analysis form part of a wider reform package designed to encourage and enable more people to save towards their retirement.
2. The May 2006 White Paper, *Security in retirement: towards a new pensions system* set out the Government's commitment to a comprehensive reform of the UK pension system. The reform package is designed to meet the five tests the Government has set; that pension reform must:
 - **promote personal responsibility:** individuals should be responsible for their own plans for retirement;
 - **be fair:** policies will protect the poorest and establish a new contributory principle with a system which rewards "something for something";
 - **be simple:** changes must make the pension system simpler and ensure the decision to save can be more straightforward;
 - **be affordable:** balance the financial needs of the future pensioner population with the financial capabilities of the taxpayer to fund those needs in a stable fiscal environment; and
 - **be sustainable:** the roles and responsibilities of individuals, employers and the state must be clear, and to build trust and confidence in the UK pensions system.
3. This document explains how the measures contained in the Bill will impact on the pension outcomes of men and women. This report builds on the analysis in *The Gender Impact of Pension Reform* (November 2006), taking account of the fact that private pension reform forms a part of the overall pension reform package.
4. We look in particular at the impact of automatic enrolment into an occupational pension scheme, minimum employer contributions and the introduction of personal accounts, the most significant areas of the Bill from a gender perspective. A more detailed description of the reforms is included in the overall Impact Assessment⁴.

⁴ Pensions Bill Impact Assessment December 2007.

Background

5. The May 2006 White Paper was followed by the introduction of the 2006 Pensions Bill (now the Pensions Act 2007) and the December White Paper, *Personal accounts: a new way to save*. Alongside the Pensions Bill 2006, *The Gender Impact of Pension Reform* (November 2006) was published. This presented a comprehensive study of the current retirement situation for men and women and estimated the potential benefits from pension reform as set out in the May 2006 White Paper.
6. The 2006 Gender Impact showed that a number of measures will particularly improve the situation for women, making pension outcomes fairer as set out in the Government's key tests.
7. Improvements in the coverage of the State Pension combined with the earnings uprating of the basic State Pension will increasingly allow women to receive a higher basic State Pension and to accrue more State Second Pension entitlement. Women will increasingly build up individual State Pension entitlement based on their own contributions, regardless of their marital or partnership status, with caring contributions valued equally with paid contributions. This will provide a solid basis for private pension saving in the future.

Rationale for reform

8. The second report of the Pensions Commission in November 2005 and the May and December 2006 White Papers describe the need for government intervention in the private pensions market. Without government intervention there would be insufficient action to address the long term challenges of demographic change, complexity and undersaving for retirement, and in particular the need to encourage and enable private pension saving by those on moderate to low incomes. Analysis by the Pensions Commission suggested that, without policy change, private pension membership and contributions will at best remain level as longevity increases, and may well continue to fall.
9. Reforms to state pensions (as set out in the Pensions Act 2007) will deliver a fairer system and improve people's outcomes in retirement, in addition to providing a sound basis on which to make further private provision. It also redresses gender-based inequalities in the current state pensions system. However, many individuals will still need to make their own provision over and above what is provided by the state in order to enjoy the income they may want and expect in retirement.
10. Forty-four per cent of working-age employees (and 51 per cent of low to moderate earners⁵) are not currently contributing to a private pension and female employees are less likely than male employees to be contributing. Forty-two per

⁵ Employees earning £5,000-£25,000 per year.

cent of male and 46 per cent of female employees are not contributing to a private pension⁶.

11. The May and December White Papers described why Government intervention is required to increase the number of people saving in a private pension. Individuals, in particular low to moderate earners, face four principal difficulties in saving appropriately for their retirement:

- not all employees currently have access to occupational pension provision and even if they do they do not always benefit from employer contributions;
- pension providers frequently fail to recover their costs on selling pension products to moderate to low earners or those who work for small employers and hence do not actively target these groups. This leads to a lack of provision in the market and higher charges;
- many people have a poor understanding of pensions and their need for retirement saving; and
- inertia often prevents people from starting to save even when they are aware of the need to do so.

12. The Government believes that action is necessary to tackle these barriers and increase saving in the UK. Taking no action would mean future generations being poorer in retirement than they want or expect to be.

Consultation

13. Since the publication of the two White Papers in May and December 2006, the Department for Work and Pensions has continued to engage extensively with stakeholders, other Government departments, and the public. A summary of responses to the formal consultation prompted by the December 2006 White Paper⁷ was published in June 2007. The Government also published its response to the Fifth Report of the Work and Pensions Select Committee, Session 2006 -07 on the same day.

⁶ Family Resources Survey 2005/06.

⁷ *Personal accounts: a new way to save*, DWP, December 2006.

Chapter 1: The current pension position for women

1.1 The *Gender Impact of Pension Reform*⁸ highlighted the legacy of inequality in pension outcomes between men and women. Whilst the gap has narrowed as a result of changing labour market participation and previous pension reforms, significant inequalities in pension incomes still remain.

Pensioner Income

1.2 As Figure 1.1 highlights, these inequalities exist in both private pension and state pension income. The difference in private pension income however accounts for a substantially larger share of the overall disparity. Single male pensioners receive on average £80 per week in private pension income (occupational and personal pensions) and £242 in overall income. Single female pensioners on the other hand receive on average £53 per week from private pension income and £211 in overall income⁹. Women who are part of a pensioner couple receive an income on average of £146 per week compared to £334 per week for a man in a pensioner couple¹⁰.

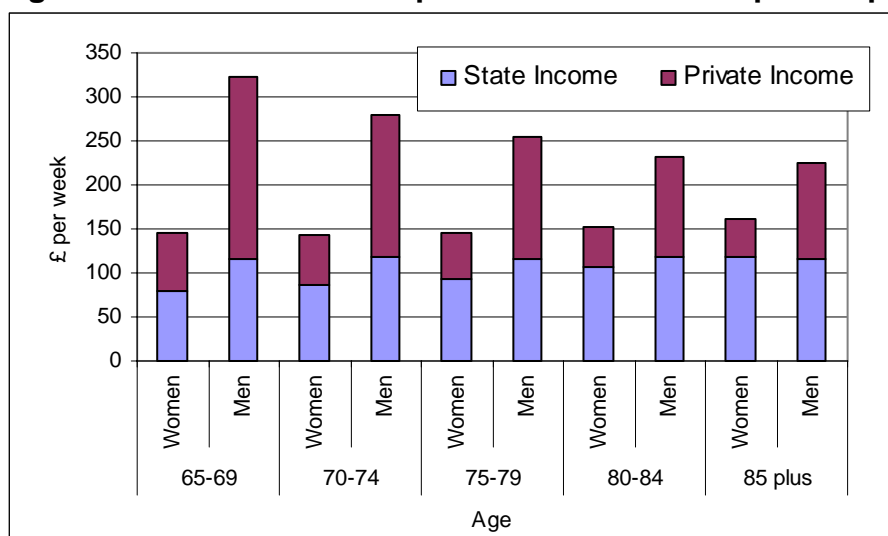
1.3 Both state and private pension income is lower for women than for men for all age groups. For older pensioners the state pensions gap closes completely, principally driven by the inheritance of State Pension rights. It should be noted that the majority of current female pensioners in receipt of an occupational pension are those receiving pensions as the widow of a former employee¹¹. In general, these pensions are 50 per cent or less of the pension the employee received in retirement. Changes in female working patterns mean that in future more women will have entitlement to private pensions in their own right which will increase the average value of private pension they receive.

⁸ *The Gender Impact of Pension Reform*, DWP, November 2006.

⁹ Individual Income Series, Family Resources Survey, 2005/06. Overall income includes non-pension income as well as income from state and private pensions.

¹⁰ Resources may be shared across the household, so the resources women have access to in their own right may not be a full reflection of their economic well-being.

¹¹ Family Resources Survey 2005/06.

Figure 1.1 Male and female pensioners' state and private pension income

Source: Individual Income Series, Family Resources Survey 2003/04, 2004/05, 2005/06.

Notes: Includes couples and singles. Data based on the average of three years of results from 2003/04, 2004/05 and 2005/06 updated to 2005/06 prices.

Factors affecting differences in pension outcomes

- 1.4 There are a number of factors that have historically caused the inequalities in both private and state pension income. Labour market patterns affect women's likelihood of joining a pension scheme as well as the level of their private pension contributions. These patterns have also had an adverse impact on women's accrued State Pension rights.
- 1.5 Furthermore, there are a number of behavioural and informational barriers to making private provision for retirement which also appear to disproportionately affect women. These factors are considered in turn.

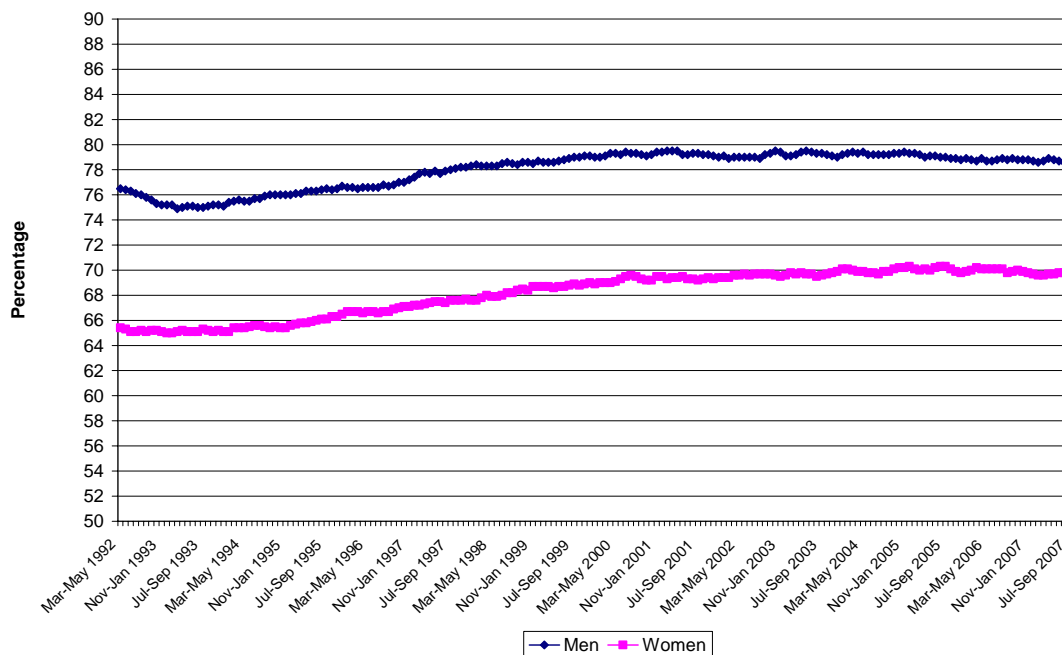
Labour market factors

- 1.6 Overall women have had and still have lower employment rates than men. While the employment rate gap has narrowed it still exists - women's employment rate is currently 70 per cent compared to 79 per cent for men¹².

¹² Labour Force Survey July-September 2007, seasonally adjusted.

Employment

Figure 1.2 Employment rates, working-age men and women



Source: Labour Force Survey 1992-2007, seasonally adjusted.

- 1.7 The principal reason for women’s lower employment rates is economic inactivity, as opposed to unemployment¹³, with an inactivity rate for women of around 26 per cent compared to around 17 per cent for men¹⁴. Women are most likely to be inactive due to looking after the family or home, which represents 45 per cent of inactive women compared to just 6 per cent of inactive men¹⁵.
- 1.8 Lower employment rates have had impacted on the pension outcomes of women through lower accrual of State Pension rights. Currently around 35 per cent of women reaching State Pension age are entitled to a full basic State Pension compared with around 85 per cent of men¹⁶.
- 1.9 The likelihood of being in work affects the likelihood of participating in a private pension scheme. Only around 39 per cent of women of working-age contribute to a private pension, compared to around 54 per cent of female employees¹⁷. The proportion of working-age men contributing to a private pension is around 45 per cent, compared to around 58 per cent of male employees.
- 1.10 Patterns of pension scheme membership, for women compared to men, vary by age. Figure 1.3 shows that private pension membership is most similar for

¹³ Unemployed individuals are available for and actively seeking work whereas inactive individuals are not.

¹⁴ Labour Force Survey July-September 2007, seasonally adjusted.

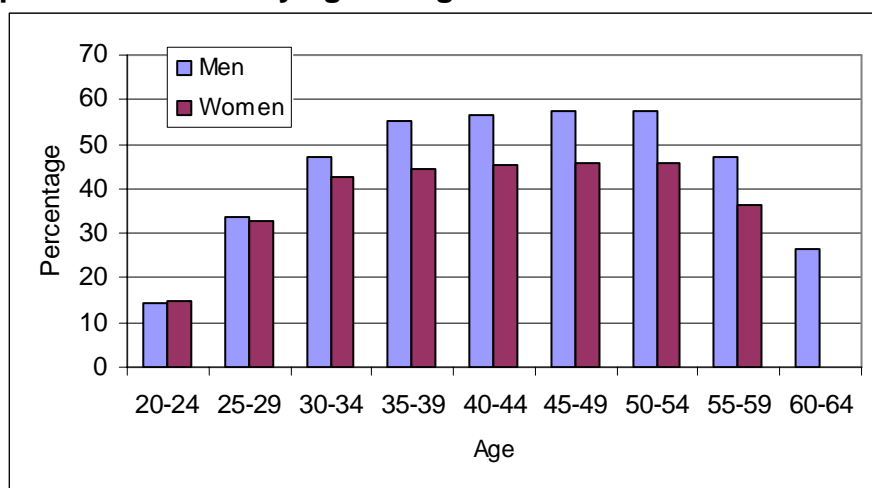
¹⁵ Labour Force Survey April-June 2007.

¹⁶ DWP modelling. See Annex C for details.

¹⁷ Family Resources Survey 2005/06. Working-age defined here as 20-64 for men, 20-59 for women.

younger men and women, whose labour market experiences are more comparable, than older men and women¹⁸. However, employment in itself is not the only factor driving the differences between men and women in private pension membership.

Figure 1.3 Proportion of working-age population contributing to a private pension scheme by age and gender



Source: Family Resources Survey, 2005/06.

Notes: Private pension is employer sponsored or personal pension. Working-age defined here as 20-64 for men, 20-59 for women.

In-work factors affecting private pension participation

Part-time work

1.11 Women are also more likely than men to be working part-time and have interrupted career histories as a result of caring responsibilities. Although, as demonstrated in Figure 1.4, part-time working is declining for both women with and without dependent children, around 40 per cent of women in employment still work part time compared with around ten per cent of men¹⁹. Until the mid-1990s many pension schemes did not allow part-time employees to become a member²⁰. Furthermore, part-time employees are less likely than full-time employees to be working for an employer who offers a pension scheme²¹. In addition, part-time employees generally earn less than full-time employees, which may restrict their ability to save.

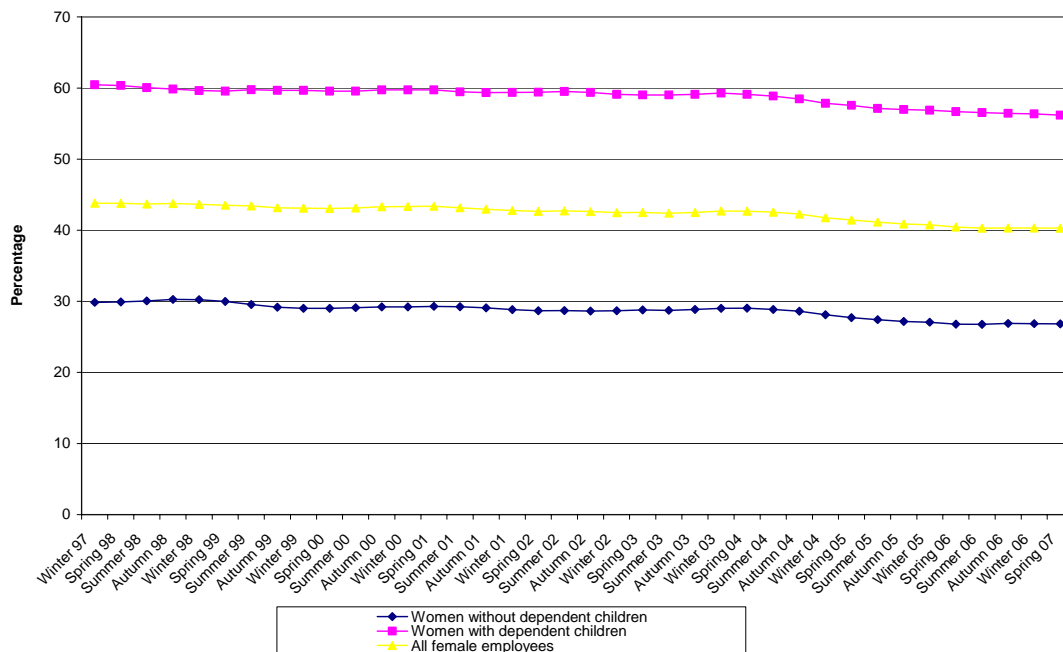
¹⁸ Labour Force Survey, April-June 2007.

¹⁹ Labour Force Survey, April-June 2007.

²⁰ The Pensions Act 1995 inserted an equal treatment rule into all occupational pension schemes.

²¹ General Household Survey 2005.

Figure 1.4 Proportion of female employees in part-time work for women with and without dependent children



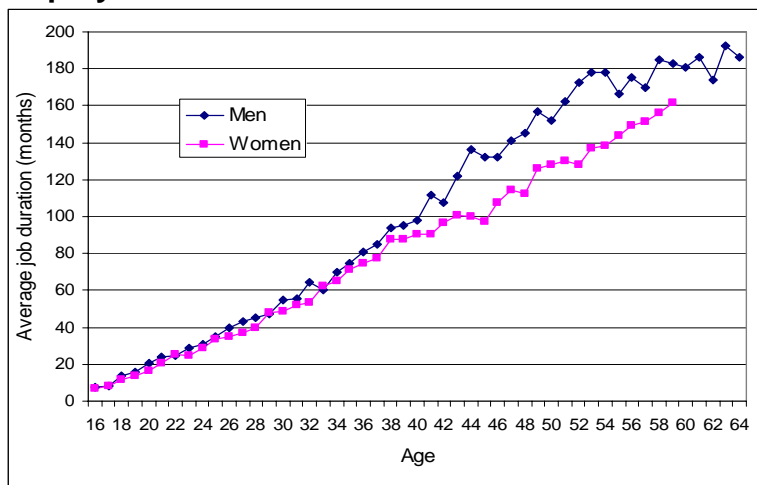
Source: Labour Force Survey 1997-2007. All working-age women in employment, 4 quarter averages.

Duration of employment

1.12 Women tend to have shorter average job durations than men due to interrupted work histories. This can adversely affect their opportunities to build up private pension provision since they are less likely to extract the benefits from long membership of a scheme. On moving employer, people may be less likely to join another pension scheme, or if they do, may accrue large numbers of small pension pots, making it difficult to assess their overall private pension provision, and potentially incurring more and more pension scheme set up costs.

1.13 Figure 1.5 illustrates the difference between men and women’s job tenure. It becomes most pronounced from the mid to late thirties onwards, which is when many women will be returning to the labour market after taking time out to care for children.

Figure 1.5 Average job duration (months) for all women and men in employment

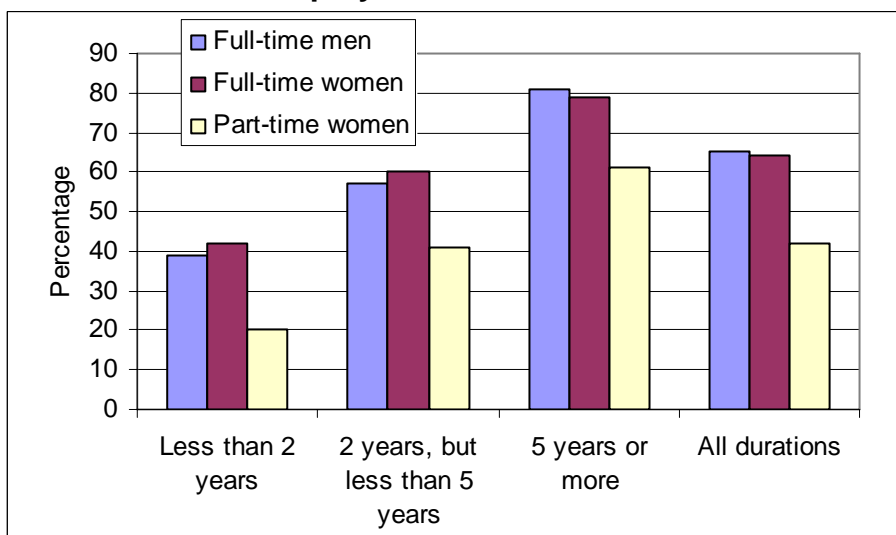


Source: Labour Force Survey, April-June 2007.

Notes: average number of months in continuous employment with current employer, applies to all respondents in employment in the UK. Students have been excluded.

1.14 Figure 1.6 illustrates that duration of employment and working part-time are separate and important factors in private pension scheme participation.

Figure 1.6 Pension Scheme membership, employees by gender and length of time with current employer



Source: General Household Survey 2005. Personal and Occupational pensions

Earnings

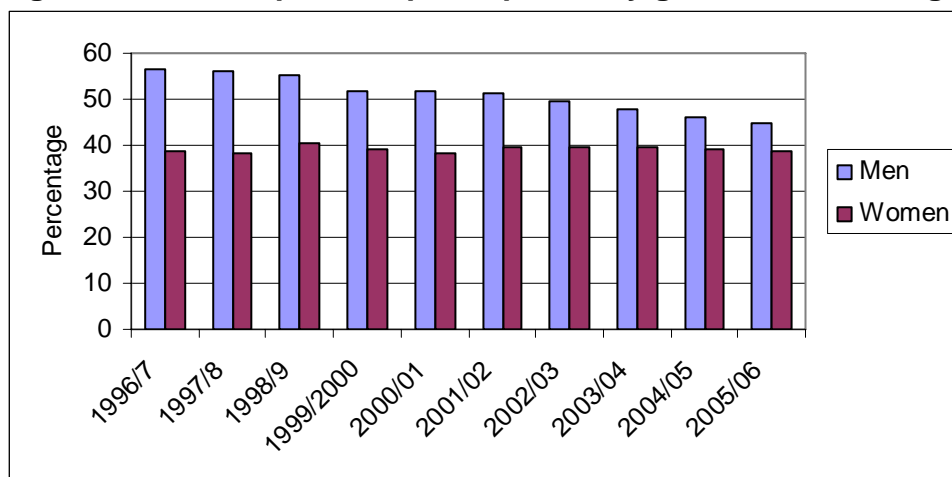
1.15 While the pay gap is gradually narrowing, women still have lower earnings on average than men. Median weekly earnings for women overall are around 62 per cent of male median earnings.²² In addition, their earnings are more

²² Annual Survey of Hours and Earnings 2007. Gross weekly pay for all employee jobs.

concentrated in the lower end of the earnings distribution with around 80 per cent of female employees earning less than £25,000 per year compared to around 55 per cent of men.²³

- 1.16 Part-time work explains these differences to some extent. Average hourly earnings, which take into account different working hours, are also lower for women than for men - the average hourly pay for women working full-time is around 87 per cent of that for men.²⁴ Periods out of the labour market as well as differences in the kinds of occupations women are in also contribute to this disparity.²⁵
- 1.17 This affects both pension scheme participation levels and pension contributions. Individuals are more likely to participate in a private pension scheme the higher their earnings are and the level of individual contributions, and consequently the value of their pension pots, is greater for higher earners²⁶.
- 1.18 The reduction in the differences in women's labour market experiences relative to men's – as a result of women's increasing employment, a reduction in part-time working and a reduction in the pay gap - can help explain why the gap in pension participation between men and women has been narrowing over time. Women's private pension participation has stayed relatively steady while men's has been in decline in recent years.

Figure 1.7 Private pension participation by gender, all working-age



Source: FRS 2005/06. Working-age

²³ Annual Survey of Hours and Earnings 2006. Working-age defined here as 20-64 for men, 20-59 for women.

²⁴ Annual Survey of Hours and Earnings 2007. Hourly pay for full-time employee jobs.

²⁵ *Focus on Gender*, October 2006, ONS.

²⁶ Although at any given level of earnings, women are more likely to participate in a private pension scheme than men. General Household Survey 2005.

Concentration in small firms

- 1.19 Not only do women's working patterns tend to differ from men's, but they are also more likely to be concentrated in smaller firms²⁷. This can have implications for women's pension income.
- 1.20 Employees working in large firms are more likely to be in a pension scheme and to be receiving relatively generous employer contributions compared to those working for small and medium-sized firms. It is more difficult for pension providers to recover the high upfront costs involved in selling pension products to this segment of the market and so they tend not to actively target it. This is aggravated by the fact that ineffective demand means there is little incentive or competitive pressure to reduce charges or improve services. While a quarter of employers (26 per cent) with fewer than 50 employees offer and contribute to some form of pension for their employees, 93 per cent of employers with 500 or more employees do so²⁸.
- 1.21 All of these factors contribute to the fact that women are less likely to be members of a pension scheme even when they are working. 58 per cent of male employees are contributing to a private pension compared to 54 per cent of female employees²⁹.
- 1.22 However, this figure masks the fact that women are more likely to work in the public sector where workplace pension scheme membership is higher. 90 per cent of male and 85 per cent of female public sector employees contribute to a workplace pension³⁰. Participation amongst employees in the public sector with low to moderate earnings is the same for men and women at 86 per cent. This suggests that given the same opportunities, women are as likely as men to contribute to a workplace pension scheme.
- 1.23 If we look only at private sector employees, workplace pension participation is much lower and the difference is greater – 51 per cent of male and 43 per cent of female private sector employees contribute to a workplace pension scheme. The proportion of private sector employees earning more than £5,000 per year contributing to a workplace pension is 55 per cent for men and 50 per cent for women.
- 1.24 Not all employees currently receive employer contributions on their pension saving. Of private sector employees earning more than £5,000 per year up to 43 per cent of men and up to 39 per cent of women are contributing to a workplace pension with an employer contribution of 3 per cent or over³¹.

²⁷ Labour Force Survey, April-June 2007.

²⁸ McKay, S. (2006) *Employers' Pension Provision Survey 2005*, DWP Research Report No. 329.

²⁹ Family Resources Survey 2005/06. Includes workplace and personal pensions.

³⁰ Annual Survey of Hours and Earnings 2006. Only includes workplace pensions.

³¹ These are upper estimates of the proportions of men and women contributing to a good workplace pension, since the Annual Survey of Hours and Earnings tends to overestimate slightly.

Behavioural factors, financial attitudes, knowledge and management

- 1.25 These general trends in women's working patterns help explain why pension scheme membership differs between men and women. But there are other factors which also play a role in explaining differences in pension participation between men and women.
- 1.26 There is a wealth of evidence³² suggesting that many of the barriers to saving are behavioural, such as a high level of inertia and myopia; factors that can be exacerbated by the complexity of private pensions. Lack of understanding and confidence in financial matters appears to be a stronger factor for women than for men, which is likely to aggravate inertia.
- 1.27 The *Attitudes to pensions* survey (2006)³³ provides a comprehensive assessment of the differences in attitudes and understanding of pensions between men and women. The survey found that 29 per cent of women feel that they have a clear idea about making important financial decisions³⁴ compared to 39 per cent of men. In addition, 79 per cent of women, compared with 68 per cent of men agreed that 'sometimes pensions seem so complicated that I cannot really understand the best thing to do'. And only 18 per cent of women, compared with 27 per cent of men felt they knew enough to decide with confidence how to save for retirement.
- 1.28 Men were more confident about their knowledge of pensions than women. Forty-three per cent of men surveyed said their knowledge of pensions was 'good' or 'reasonable' compared with only 28 per cent for women. Women were also less likely to know how much they and their employers contribute to their occupational pension schemes and women have less understanding of annuity products.
- 1.29 The Financial Capability baseline survey³⁵ also showed that gender has a small but statistically significant impact on the extent to which people plan ahead for anticipated expenses (such as for retirement) and their ability to cope with an unexpected drop in income. Women score slightly lower than men in this domain of financial capability, even after taking account of possible explanatory factors such as income, work status and responsibility for money management.
- 1.30 Gender roles within households can also help explain the disparity in pension outcomes between men and women. There is evidence that it remains quite common for financial planning for retirement to be split along gender lines with men playing a more significant role in building retirement savings in couples. This type of arrangement is not infrequent even among younger couples³⁶.

³² See for example Munnell and Sunden (2004), *Coming up short: the challenge of 401(k) plans*, The Brookings Institute.

³³ Clery, E. et al (2007) *Attitudes to pensions: The 2006 survey* DWP Research Report No. 434. 1950 adults aged between 18 and 69 were interviewed.

³⁴ Respondents were given as an example "taking out a mortgage, loan or pension".

³⁵ Atkinson, McKay, Kempson & Collard (2006), *Levels of financial capability in the UK: results of a baseline survey*, Financial Services Authority Consumer Research 47.

³⁶ *Financial Planning for Retirement: Women's Perspectives*, DWP Research Report No. 247, 2005.

- 1.31 The fact that many couples value a ‘household planning’ approach to retirement finance means that if there is a relationship breakdown women are often left with inadequate retirement provision. Although it is widely recognised that relationships can break down it is not always easy to either broach the topic of individual provision or to take it up due to more immediate family pressures³⁷. Furthermore in divorce settlements pensions are often considered less important than other issues, such as deciding living arrangements for children or a decision on ownership of the marital home³⁸. Women who are part of a pensioner couple receive an income on average of £146 per week compared to £334 per week for a man in a pensioner couple³⁹.
- 1.32 The structure of households in the UK is changing and is expected to continue to change in the future, highlighting the need for women to build up their individual entitlement to state and private pension income in their own right.
- 1.33 The annual number of marriages has been falling since the 1970s, from around 500,000 to around 300,000 in 2003, and this downward trend is expected to continue. Over the same period annual numbers of divorces have increased from under 100,000 to over 150,000⁴⁰. Few retirees have yet experienced old age as divorcees, but this proportion is increasing.
- 1.34 In addition, an increasing number of couples are choosing to cohabit rather than marry. By 2025 it is projected that around 600,000 women approaching retirement will be cohabiting, two-thirds of whom will never have married⁴¹. These combined trends will make it even more crucial that women build up entitlements to state and private pensions independent of their partners.
- 1.35 This chapter has highlighted the disparity between men’s and women’s pension incomes and explored some of the underlying reasons. The next chapter will explain what the government has already done to address inequalities in state pensions outcomes, chapter 3 will outline the proposed reforms to the private pension system and chapters 4 and 5 assess the expected impact on pension outcomes of private pension reforms. Chapter 4 focuses on the elements of automatic enrolment, employer contributions and personal accounts, which are the main areas of reform from a gender perspective and chapter 5 outlines the gender impact of changes to existing private pension provision.

³⁷ *Women and pensions: The evidence*, DWP, 2005.

³⁸ Arthur, S. and Lewis, J. (2000) *Pensions and divorce – exploring financial settlements*. DSS research report No. 118.

³⁹ Resources may be shared across the household, so the resources women have access to in their own right may not be a full reflection of their economic well-being. However, this does highlight how many women may be reliant on their partner’s income in retirement.

⁴⁰ Office for National Statistics; General Register Office for Scotland; Northern Ireland Statistics and Research Agency.

⁴¹ Government Actuary’s Department projections, England and Wales, 2003/04 base.

Chapter 2: State pension reform and its impact

2.1 This chapter explains the changes to the state pensions system that have already been initiated to improve retirement incomes, particularly for female pensioners. These changes should not be seen in isolation from the reforms to private provision. In fact, the new rules for the State Pension will ensure that more people, and in particular more women, will have a solid underpin to their private saving. Specifically, they will;

- reduce the number of qualifying years needed to accrue full basic State Pension rights;
- make crediting arrangements more flexible for the accrual of State Second Pension and basic State Pension entitlement;
- increase the generosity of the basic State Pension, uprating it in line with earnings rather than prices⁴²; and
- change the State Second Pension so that it will become simpler and eventually flat-rate.

Reform will improve the coverage of State Pensions

2.2 New rules for basic State Pension accrual will make it easier for future pensioners to build up a full basic State Pension. For those reaching State Pension age on or after 6 April 2010 the number of qualifying years needed for a full basic State Pension will be reduced to 30 (from 44 years for men and 39 years for women currently). This change will particularly benefit women.

2.3 Currently around 35 per cent of women reaching State Pension age in Great Britain are entitled to a full basic State Pension compared with around 85 per cent of men. Around 50 per cent of women reaching State Pension age in 2010 would have been entitled to a full basic State Pension without reform.

2.4 Women's State Pension coverage will improve significantly as a result of reform. Women will increasingly build up individual State Pension entitlement based on their own contributions regardless of their marital or partnership status, with caring contributions valued equally with paid contributions. Under reform an estimated three-quarters of women reaching State Pension age in 2010 will be entitled to a full basic State Pension. By 2025, this will rise to around 90 per cent, the same proportion as men, and as a result of reform half a million extra women pensioners over State Pension age will be entitled to a full basic State Pension.

⁴² Subject to affordability and the fiscal position this will start in 2012 but, in any case, by the end of the next Parliament at the latest.

- 2.5 In addition there will be more flexible crediting arrangements which will increase the number of low earners, carers and long-term disabled people with basic State Pension and State Second Pension entitlement. Home Responsibilities Protection (which currently reduces the number of years needed for a full basic State Pension) will be replaced with weekly National Insurance credits for people getting Child Benefit for a child aged up to 12, approved foster carers and people caring at least 20 hours a week for someone or people who are severely disabled. These credits will count for both basic State Pension and State Second Pension.
- 2.6 People will also be able to combine National Insurance contributions from earnings in part of the tax year with credits for other parts of the same year in order to build up a qualifying year for State Second Pension.
- 2.7 Currently around 2.1 million carers (over 90 per cent of them women) and about 6.1 million low earners (almost 60 per cent of them women) are accruing entitlement to State Second Pension. As a result of reform around an extra 1 million people will accrue State Second Pension and approximately 90 per cent of them will be women.

Reform will improve the generosity of state pensions and continue to tackle pensioner poverty

- 2.8 The basic State Pension will also become more generous. It will be uprated in line with earnings rather than prices from 2012⁴³. In addition, the State Second Pension will become simpler and eventually flat-rate. These measures are important in helping to provide a simpler and more generous State Pension, together with increased State Pension coverage for women, which will help to ensure equality in state pension income between men and women.
- 2.9 Women will increasingly benefit from the earnings uprating of the basic State Pension as coverage of the basic State Pension improves. Under earnings uprating, in 2050 the basic State Pension will be more than twice what it would have been had price uprating continued.
- 2.10 The Pensions Act also commits the Government to uprating the standard minimum guarantee in Pension Credit by earnings in the long term. This will ensure that the poorest pensioners, many of them women, continue to be protected.

⁴³ Subject to affordability and the fiscal position this will start in 2012 but, in any case, by the end of the next Parliament at the latest.

The combination of increased coverage and generosity will provide a firm basis for private saving

- 2.11 The increased generosity of the basic State Pension and the flat-rating of the State Second Pension, along with increased coverage of both, will mean that low to moderate earners and people who contribute through caring will receive a greater proportion of their state income through contributory rather than income related benefits.
- 2.12 Under reform anyone with a good working or caring life (of around 43 years) will be entitled to a State Pension of around £145 per week. This figure is well above the standard minimum guarantee in Pension Credit of £119.05 a week. Someone working or caring for around 30 years will still build entitlement to a State Pension around the level of the standard minimum guarantee.
- 2.13 The state reforms will help to reduce the gender gap in state pension outcomes. Women reaching State Pension age currently receive, on average, less than 80 per cent of the State Pension that men receive. By 2050, women reaching State Pension age are on average projected to be entitled to nearly 95 per cent of men's average State Pension.
- 2.14 In order to provide a solid platform for saving, Pension Credit will be focused on those on the lowest incomes. Without reform around three-quarters of pensioners would have become eligible to Pension Credit by 2050, compared with fewer than 30 per cent of pensioners under reform. However, the standard minimum guarantee in Pension Credit will continue to increase in line with earnings for the long term and provide a safety net for the poorest pensioners unable to build up pension provision.
- 2.15 Around two-thirds of those eligible for Pension Credit by 2050 are estimated to be single women. However the majority of both women and men reaching State Pension age by this time will be entitled to a State Pension higher than the level of the standard minimum guarantee.
- 2.16 This set of reforms to the state pensions system will make a significant contribution to making future pensioners, and in particular women, better off. The State Pension can however only provide some part of the pension income many people aspire to receive and additional private provision will therefore continue to be vital for most. By providing a solid foundation for private saving, a more generous and inclusive state pensions system is a significant factor in providing the right context for private pension reform and the right basis for more saving.
- 2.17 The following chapters cover reforms to private pensions which will improve the opportunities to save for retirement.

Chapter 3: Private pension reform

3.1 The proposals in this second Pensions Bill build on those set out in the May White Paper, and are largely as set out in the December White Paper and the Government's response to the subsequent consultation. In summary the proposals in the Pensions Bill 2007 are:

- a duty on employers to automatically enrol eligible jobholders into a qualifying workplace pension scheme and to offer a minimum pension contribution equal to 3 per cent of eligible earnings;
- the introduction of personal accounts, a simple, low-cost pension saving scheme aimed at moderate to low earners who currently do not have access to a workplace pension scheme;
- to allow for a broadening of the Personal Accounts Delivery Authority's remit and powers to enable it to oversee the establishment of the personal accounts scheme;
- a proportionate compliance regime for the new employer duties, such as automatic enrolment, based upon a strategy of education, enablement and enforcement;
- to strengthen existing workplace pension provision by simplifying the rules governing private pensions; and
- further simplification of the state pensions system to give people a better understanding of the state pension they are accruing and to support people in planning their retirement.

3.2 The following chapter analyses the impact of the main sections of the Bill from a gender perspective. These are automatic enrolment into a qualifying workplace scheme, minimum employer contributions and the introduction of personal accounts. Chapter 5 considers the remaining measures in the Bill with a potential a gender impact.

The employer duty to automatically enrol

3.3 In order to overcome inertia, the reforms will place a responsibility on employers to automatically enrol eligible workers into qualifying workplace pension arrangements, of which personal accounts will be one option. However, the decision on whether to save or not will remain with the individual, who will be free to opt-out should they wish.

3.4 Workers will be eligible for automatic enrolment if they are aged between 22 and State Pension age, earning above £5,035 and currently not saving into an employer pension scheme with employer contributions of 3 per cent or over.

- 3.5 Those outside of this age range will not be automatically enrolled. However, workers between the ages of 16 and 22 and between State Pension age and 75 will be able to opt-in to their employer's pension scheme and receive an employer contribution on eligible earnings.
- 3.6 The earnings threshold above which workers will be eligible for automatic enrolment will be around £5,035 (in 2006/07 terms, uprated annually by average earnings growth). This will avoid automatically enrolling people on very low incomes for whom income replacement rates from state pensions are likely to be relatively high, especially if they have consistently experienced lower earnings during their working lives. Again, the Government will enable those earning below this level to opt-in to their employer's pension scheme if they wish, however employers will not be mandated to provide an employer contribution.
- 3.7 In addition to workers who are ineligible for automatic enrolment, there are other groups whom the Government believes it would be desirable to provide with voluntary access to a workplace pension. They are: those who opted out either at the point of enrolment or later; self-employed people; and members of the personal accounts scheme who wish to continue to save during periods out of paid work e.g. women taking career breaks due to caring responsibilities. The Government will introduce arrangements to provide these groups with access through regulations.

Minimum employer contributions

- 3.8 There will be an overall minimum contribution of 8 per cent of eligible earnings on a band of earnings between £5,035 and £33,540 (in 2006/07 earnings terms). At least 3 per cent of this must be funded by the employer. The default five per cent worker contribution includes a contribution from Government in the form of normal tax relief on pension savings.
- 3.9 Employer contributions are payable when earnings from a single job fall within this earnings band. Analysis suggests that a relatively small number of individuals have more than one job and earn less than the lower limit of this band in their separate jobs but when combined earn more than the lower limit. This group will not be eligible for employer contributions and represents a little under 40,000 people aged 22-64⁴⁴. Of this group over 80 per cent are women. These individuals may choose to enrol in a qualifying scheme and, although not obliged to do so, those employers may choose to make an employer contribution.
- 3.10 Around 310,000 people aged 22-64 earn less than the lower limit in at least one job and more than the lower limit in another. Women make up around 60% of this group. These individuals will be auto-enrolled for each job in which they earn more than the lower limit and will receive the employer contribution on eligible

⁴⁴ FRS 2005/06. The figures vary slightly from 2004/05 published figures due to small sample sizes. Figures are for employees who are not currently contributing to a private pension. This applies also to those people with multiple jobs who are currently enrolled in a pension scheme but do not receive employer contributions of 3 per cent or more - it is not possible to estimate the size of this group, however it is likely to be very small.

earnings. They may also choose to enrol in a workplace pension arrangement for the job(s) that pay less than around £5,000 a year and their employer(s) may choose, although is not obliged, to pay an employer contribution.

Personal accounts

3.11 In order to ensure that all workers have access to a low cost pension scheme, particularly our target group of moderate-to-low earners, the Government will set up a new scheme of personal accounts based on the approach outlined by the Pensions Commission. Personal accounts will be a Defined Contribution occupational pension scheme.

3.12 Although parts of the pensions market work very well, the market is not working for most people on low to moderate incomes or working for small employers. It is difficult for these groups to find the right kind of pension product for their circumstances and pension providers cannot profitably supply what is needed. Personal accounts will target these groups, ensuring everyone has access to a workplace pension and can enjoy the low charges seen in larger occupational pension schemes.

3.13 There are five key principles that underpin development of the personal accounts scheme:

- simplicity: personal accounts must simplify the decisions people are asked to make and provide an easy way to save;
- independence: personal accounts will be delivered using private sector expertise, independent of political pressures;
- working for members: building a personal accounts scheme which commands the confidence of its members and is designed with their needs at its heart;
- minimising the burden on employers: ensuring that the impact on employers is considered at each stage of development of the personal accounts scheme and that pension reform does not place undue burdens on employers; and
- supporting good existing provision: focusing personal accounts on those without access to workplace schemes and thereby helping to ensure that the current pensions market continues to thrive.

3.14 Overall this next stage of pension reform will provide the opportunity and the incentive for many more people – both men and women – to save for their retirement, building on the more widely available and more generous State Pension. The next chapter looks specifically at how women will gain from these reforms.

Chapter 4: The impact of private pension reform - making it easier and more attractive to save and extending access to low cost saving

- 4.1 The barriers to saving in a private pension for some men and women have had an adverse impact on their participation rates and pension incomes in retirement. As described in chapter 1, at present women have lower rates of participation in private pension schemes than men, even when in work. 54 per cent of female employees contribute to a private pension compared to 58 per cent of male employees⁴⁵. This difference is even greater for private sector employees where 51 per cent of male and 43 per cent of female employees contribute to a workplace pension⁴⁶.
- 4.2 These differences are reflected in pensioner income. On average, single male pensioners currently receive a private pension income of around £80 per week compared to around £53 per week for single female pensioners, and much of the latter is attributed to pension receipt of widows of former employees. This, coupled with changing household composition, highlights the need for women to build up private pension entitlement in their own right.
- 4.3 Chapter 1 outlined a number of factors affecting private pension saving for individuals, particularly different labour market experiences. While it is not possible to tackle all of these barriers through pension reform, we can help to overcome some of the obstacles. The combination of automatic enrolment, a minimum employer contribution of 3 per cent, existing tax-relief and the operation of personal accounts, a new low-cost occupational pension scheme, will make saving more accessible and more attractive than ever before for millions of low to moderate earners. The reforms will form an important step in improving the pension outcomes of men and women, by creating equality of access to workplace pension provision of a minimum standard, creating a presumption to save and making it easier to do so.

Increasing savings: automatic enrolment

- 4.4 Chapter 1 discussed a number of behavioural barriers to saving. There is evidence to suggest that women in particular lack confidence and knowledge regarding pensions. This is likely to lead to inertia and contribute to the low participation rates in private pensions for women.

⁴⁵ Family Resources Survey 2005/06.

⁴⁶ Annual Survey of Hours and Earnings 2006.

- 4.5 Automatic enrolment is one of the most effective joining techniques for combating people's tendency not to act when faced with difficult financial decisions. It creates a presumption to save and will make it easier for workers to do so, while retaining the opportunity for them to opt out if it does not suit their circumstances.
- 4.6 Automatic enrolment into a qualifying workplace pension scheme will help tackle this problem of inertia and improve participation rates in pension schemes. The *Employers' Pension Provision Survey 2005*⁴⁷ findings show a link between automatic enrolment and increased levels of pension scheme membership. Evidence also suggests that automatic enrolment has the greatest impact among groups where participation rates are low. Research on the 401(k) experience in the United States showed that automatic enrolment had the largest effect among people on low incomes, people from minority ethnic groups and women⁴⁸.

Increasing savings: minimum employer contributions

- 4.7 Minimum employer contributions into a qualifying pension scheme, on top of the employee contribution and tax relief, will provide a strong incentive for employees to participate in a pension scheme. Employer contributions will boost pension saving, increasing the private pension income of those who are currently not saving and choose to participate as well as increasing the private pension income of those who are currently receiving employer contributions of less than the 3% minimum⁴⁹.

Extending provision: personal accounts

- 4.8 The current pensions market is failing many of those on low to moderate earnings or who work for small firms. Women are over-represented in both of these groups. The introduction of the personal accounts scheme will provide these individuals with access to a simple low-cost workplace pension. This, in combination with a minimum employer contribution and tax relief, will improve incentives to save.
- 4.9 Shorter job durations and broken work histories have prevented many women from building up good private pension provision. People who move frequently between jobs tend to fare less well than longer serving members in pension schemes because they do not benefit from long term accrual of pension rights. More generally, pension membership typically rises as job tenure increases⁵⁰.
- 4.10 A multi-employer scheme, such as personal accounts, will help mitigate the problem of short job tenures affecting pension participation. There will be a general prohibition on the transfer of pension funds between personal accounts

⁴⁷ Mckay, S. (2006) *Employers' Pension Provision Survey 2005*, DWP Research Report No. 329.

⁴⁸ Madrian and Shea, 2002, in Munnell and Sunden, 2004, *Coming up short: The challenge of 401(k) plans*, The Brookings Institute.

⁴⁹ Income in retirement will be subject to factors such as investment performance and annuity rates.

⁵⁰ General Household Survey 2005.

and alternative pension products⁵¹. However, we expect a large number of firms to automatically enrol their staff into personal accounts, the vast majority of which will be micro firms.

Figure 4.1 Estimated no. of firms participating in personal accounts

| | |
|--------------|---------|
| Large firms | 2,400 |
| Medium firms | 13,000 |
| Small firms | 271,000 |
| Micro firms | 680,000 |
| Total | 966,000 |

Source: DWP analysis using SME statistics 2006, BERR and Emerging findings from the forthcoming DWP survey on *Employers Attitudes and Likely Reaction to Personal Accounts*.

Outcomes: increased pension scheme participation and higher pensioner income

Automatically enrolled individuals

4.11 The Government's latest working assumptions suggest that 9-11 million people will be eligible for automatic enrolment into a qualifying pension scheme of which we expect 3.5-4 million to be women⁵². There are more men than women in the eligible group for automatic enrolment. This is because women are more likely to be economically inactive, to work in the public sector (which has very high participation rates) and to earn less than £5,035 per year.

4.12 These working assumptions represent around two-thirds of private sector employees aged over 22 and earning more than around £5,000 for both men and women. Many of these individuals will be gaining access to a workplace scheme for the first time.

Participation

4.13 Based on recent DWP research⁵³, we expect higher rates of participation from automatically enrolled women than men⁵⁴. In this study, 65 per cent of men and 73 per cent of women said they would probably or definitely stay in the scheme. Taking this into account we expect around an extra 2-3 million women and 2.5-4.5 million men to participate in a workplace scheme into which they are

⁵¹ This is a further measure to ensure that the personal accounts scheme is focused on serving the needs of its target market of low to moderate earners.

⁵² DWP modelling based on EPP 2005 and ASHE 2005.

⁵³ Research by Ipsos MORI for DWP (Smith P, Webb C, Pye J, Robey R, and Jeans D, forthcoming in 2008, *Individuals' attitudes and likely reactions to the personal account reforms 2007: Report of a quantitative survey*). This is a nationally representative survey of individuals eligible for automatic enrolment, involving 754 face-to-face interviews with individuals in GB. This survey asked people whether they thought they would stay in or opt out of personal accounts.

⁵⁴ US research into 401(k) schemes also suggests that automatic enrolment has the greatest impact on those workers among whom participation rates are otherwise low, including people on low incomes and women. Madrian and Shea, 2002, in Mundell and Sunden, 2004, *Coming up short: The challenge of 401(k) plans*, The Brookings Institute.

automatically enrolled. In addition, around half a million women who are already saving will benefit from a higher employer contribution.

4.14 The introduction of personal accounts and the employer duty to automatically enrol will result in employer choice about where workers will be automatically enrolled⁵⁵. In total, DWP estimates show that 4-7 million individuals will participate in personal accounts, and that 1-3 million of them will be women. Higher levels of personal accounts participation are expected in subsequent years.

Pension income

4.15 The following analysis examines various hypothetical individuals by making assumptions about their working and caring patterns. It considers those who have a full working history as well as those who have periods out of the labour market, for example, to undertake caring responsibilities. This gives a picture of the impact of the reforms on pension incomes given particular work and life patterns.

4.16 Men and women can have many different combinations of work, caring and other activities during their working-age life. The Lifetime Labour Market Database (LLMDB) records show how individuals build up basic State Pension through Home Responsibilities Protection, National Insurance contributions or qualifying credits. These records reflect people's labour market experiences since the introduction of SERPS in 1978⁵⁶.

4.17 Analysis of this National Insurance database has informed the choice of hypothetical individuals covered in this section.

Gains from automatic enrolment and early saving

4.18 This section analyses the effect of saving early for two illustrative individuals with different career histories under two different saving scenarios.

- The first individual is a woman who works full-time from age 22 to 67 apart from a 7-year career break from age 27 to 33.
- The second individual is a woman who works full-time from age 22 to 67. The two individuals have identical earnings when in work.

4.19 These individuals are aged 22 in 2012. The projected gross weekly incomes on retirement in 2058 are compared for each individual for two saving scenarios. In the first saving scenario, both individuals start saving at age 22 and save in every year they work. In the second saving scenario, saving is delayed until age 27 for

⁵⁵ The estimation of employer choice is explained in detail in Annex F of the Impact Assessment.

⁵⁶ The Lifetime Labour Market Database (LLMDB2) is created using a 1 per cent sample taken from the new National Insurance Recording System (NIRS2).

the woman with the full work history. The woman with a broken work history delays her saving until after her career break in the second saving scenario⁵⁷.

4.20 Figure 4.2 shows the projected income on retirement for the two individuals under the two different saving scenarios.

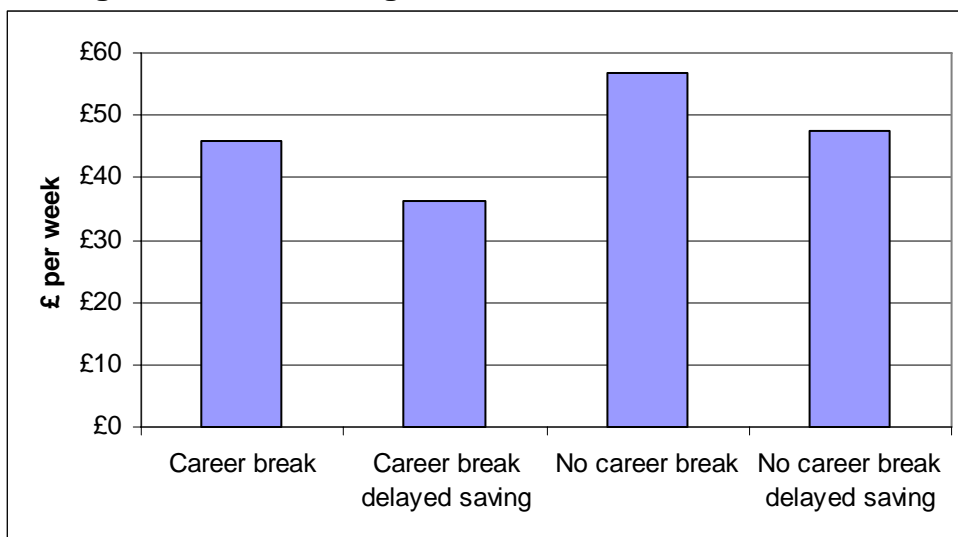
4.21 Both women save for only 5 years longer in the first saving scenario than the second. This represents an increase in the number of years of saving from 41 to 46 for the woman without a career break and an increase from 34 to 39 years for the woman with a career break.

4.22 Both individuals are better off saving early, benefiting not only from the extra number of years of contributions but also from long-term investment of their savings⁵⁸. Private pension income increases by around £9 per week for the woman with a career break and £10 per week for the woman without a career break under the early saving scenario. This represents an increase in private pension income of around 20 per cent for the women without a career break and around 27 per cent for the woman with the career break. For younger individuals, automatic enrolment will make the early saving scenario much more likely.

⁵⁷ Under the saving scenarios the individual receives an employer contribution of 3% and 1% tax relief and the pension charge is assumed to be equivalent to a reduction in yield of 0.5%. For full assumptions see Annex A.

⁵⁸ The contributions made in early years have longer to benefit from investment growth.

Figure 4.2 Weekly private pension income on retirement in 2058, 2007/08 earnings terms, women aged 22 in 2012



Source: DWP modelling. See Annex A for assumptions.

Gains from employer contributions and lower charges

4.23 The following examples show projected pension incomes on retirement in 2055 for a number of illustrative individuals under 3 different scenarios.

- **State reform and no saving** – State pension reform, but no private pension reform and the individual does not save into a private pension scheme.
- **State reform with saving** – State pension reform, but no private pension reform. The individual saves into a pension scheme with no employer contribution.
- **State reform and private reform with saving** – State and private pension reform and the individual saves into a workplace pension scheme with a 3% employer contribution and lower charges than the previous scenario⁵⁹.

4.24 Under the two saving scenarios, each individual saves 5 per cent (including 1 per cent tax relief) of earnings between £5,000 and £33,500 in a private pension. In the post-state and private reform scenario there is an additional 3 per cent employer contribution on the same earnings band.

4.25 In each case gross weekly retirement income⁶⁰ is shown in 2007/08 earnings' terms. The first five examples show pension incomes for men and women with

⁵⁹ State reform with saving scenario - the pension charge is assumed to be equivalent to a reduction in yield of 1.5% for the first 10 years and then 1% afterwards.

State reform and private reform with saving scenario - the pension charge is assumed to be equivalent to a reduction in yield of 0.5%.

⁶⁰ Income on retirement is based on assumed investment returns. For full assumptions see Annexes A and B.

uninterrupted work histories and differing earnings profiles. The subsequent three examples show women with broken work histories. In all of these examples the individuals are aged 25 in 2012⁶¹. The potential gains from reform for people who are older in 2012 are covered later in the chapter.

Individuals with full work histories

4.26 Figure 4.3 shows projected income on retirement in 2055 for a low earning woman with a full work history. Under the reform scenario, the employer contribution and lower charges increase her private pension income from £13 to £23, an increase in her private pension income of 83 per cent.

Figure 4.3 Weekly income on retirement in 2055, 2007/08 earnings terms. Low earning woman, full work history

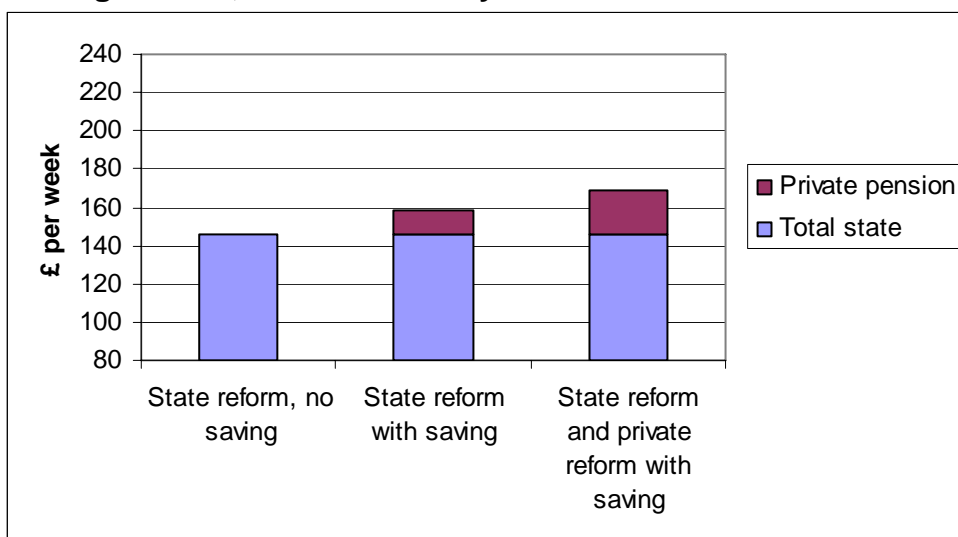


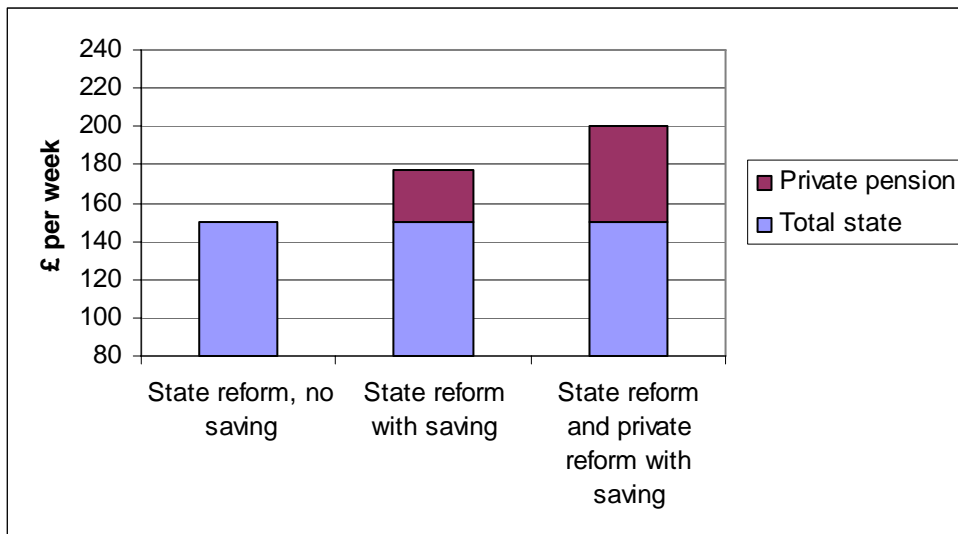
Figure 1

Source: DWP modelling. See Annex A for assumptions.

4.27 The following individual is a median earning woman with a full work history. Under the private pension reform scenario, this individual is £51 a week better off from saving, compared to the pre-reform saving scenario where she is £28 a week better off, which represents an increase in her private pension income of 83 per cent.

⁶¹ In order to replicate the steady state position, phasing of contributions has not been assumed in this analysis. If phasing were to be included it would have a marginal downward effect on private pension income.

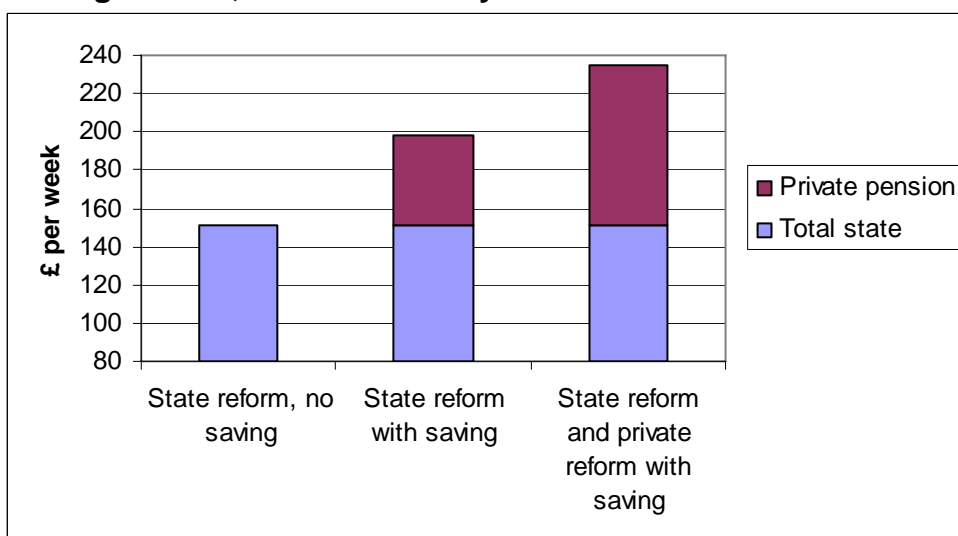
Figure 4.4 Weekly income on retirement in 2055, 2007/08 earnings terms. Median earning woman, full work history



Source: DWP modelling. See Annex A for assumptions.

4.28 Figure 4.5 shows the results for a high earning woman with a full work history. Under reform, this individual is £86 a week better off from saving compared to the £47 she would have received from saving without private pension reform. In our examples, this individual gains the most in private pension income in absolute terms because she is a higher earner and contributes more in absolute terms to her pension. However, the proportional increase in her private pension income is 83 per cent, the same as all of the individuals with a full work history. This reflects the impact of the employer contribution and low charges, which have a similar proportional benefit for different levels of private saving.

Figure 4.5 Weekly income on retirement in 2055, 2007/08 earnings terms. High earning woman, full work history

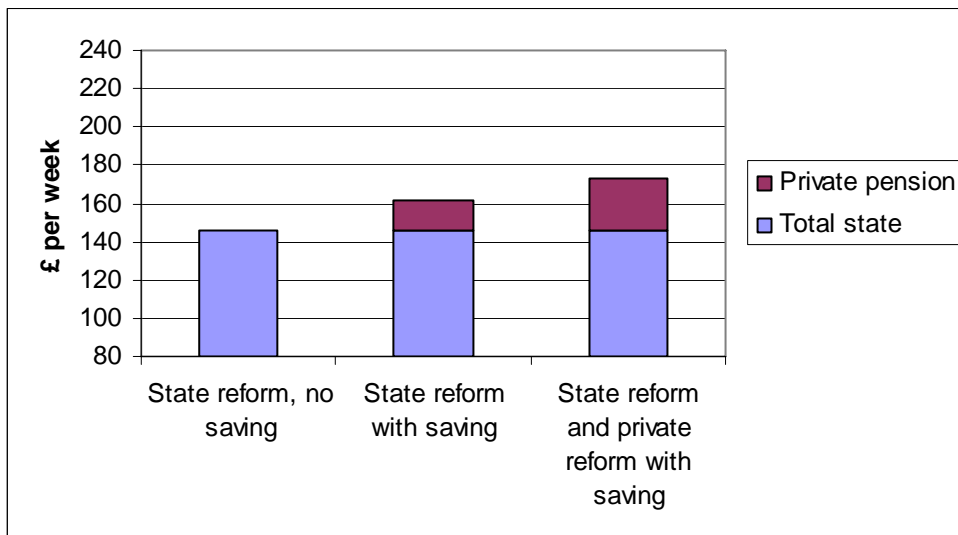


Source: DWP modelling. See Annex A for assumptions.

4.29 The low earning man with a full work history does equally well under reform. This individual is £27 a week better off from saving compared to the pre-reform

saving scenario where he is £15 a week better off, representing an increase in his private pension income of 83 per cent.

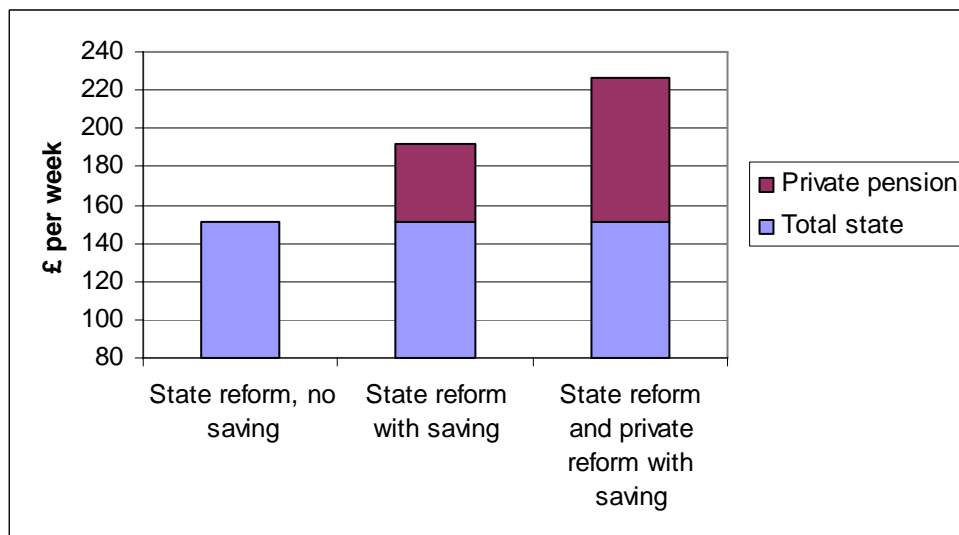
Figure 4.6 Weekly income on retirement in 2055, 2007/08 earnings terms. Low earning male, full work history



Source: DWP modelling. See Annex A for assumptions.

4.30 The following chart shows income on retirement for a median earning man with a full work history. This individual is £75 a week better off from saving. In the pre-reform saving scenario he is £41 a week better off. The reforms deliver an increase in his private pension income of 83 per cent⁶².

Figure 4.7 Weekly income on retirement in 2055, 2007/08 earnings terms. Median earning male, full work history



Source: DWP modelling. See Annex A for assumptions.

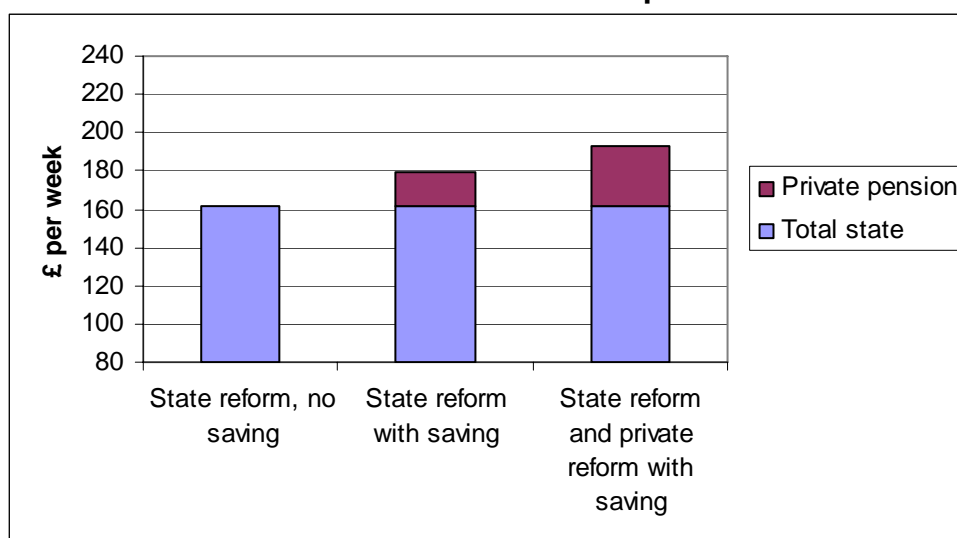
⁶² His income is higher than the median earning woman because he has higher earnings and a higher annuity reflecting slightly lower life expectancy.

Women with broken work histories

4.31 The following three charts show income on retirement for women with broken work histories.

4.32 The first example is for a woman with a short career break. The results show that this individual is £31 a week better off from saving post-private pension reform. Under the pre-reform saving scenario she is only £17 a week better off. The reforms increase her private pension income by 80 per cent. This is slightly lower than the proportional gain for the earlier examples because some of her saving takes place before the reforms in 2012 as she is assumed to start work at a younger age⁶³.

**Figure 4.8 Weekly income on retirement in 2055, 2007/08 earnings terms.
Woman with short career break and some part-time work**

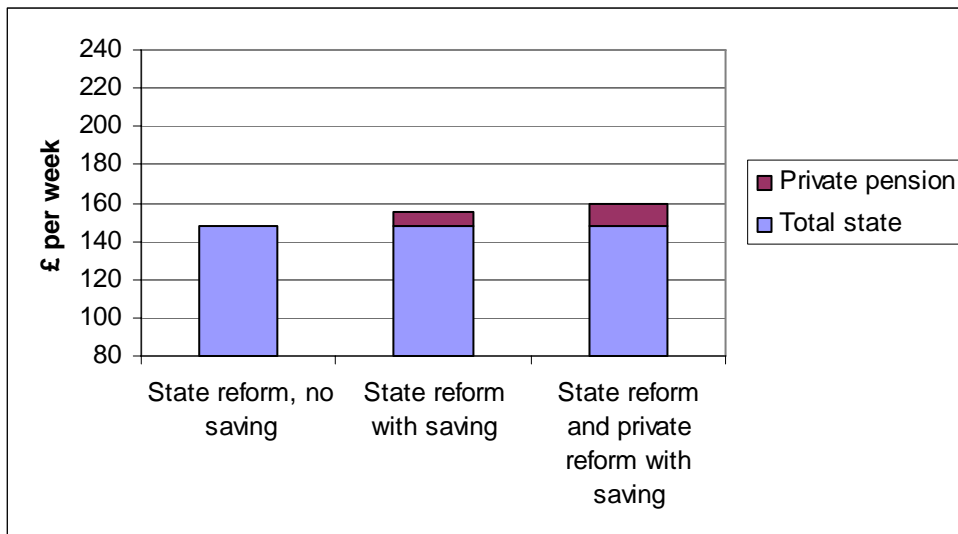


Source: DWP modelling. See Annex A for assumptions.

4.33 The following example is for a woman with a long career break. The results show that this individual is £12 a week better off from saving post-private pension reform. In the pre-reform saving scenario she is only £7 a week better off. The reforms deliver an increase in her private pension income of 67 per cent. As with the previous example, this is lower than the proportional gain for some of the earlier examples because some of her saving takes place before the reforms in 2012 as she starts work at a younger age.

⁶³ This individual has the longest total time spent in work, despite her short break. For this reason her state pension income is higher than for other individuals (through higher State Second Pension). See Annex A for assumptions on work histories.

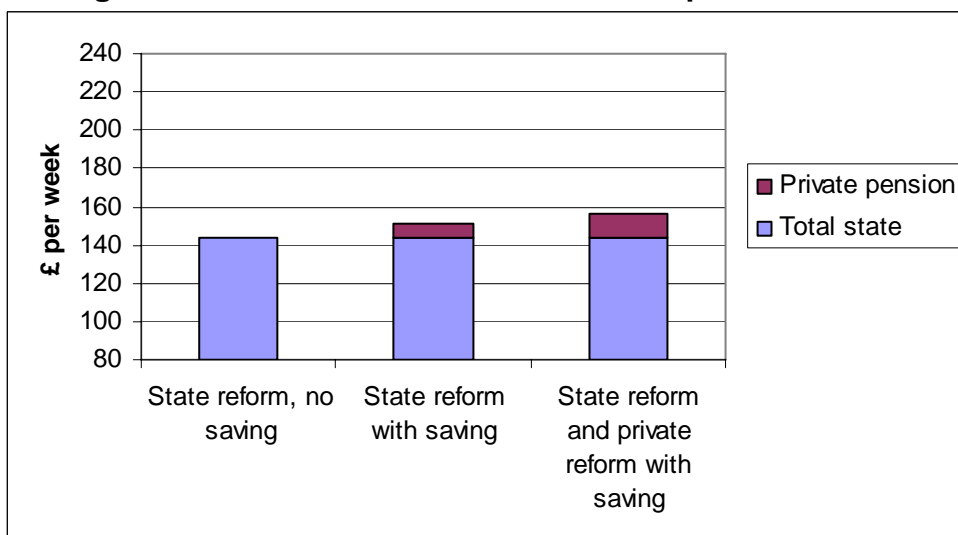
Figure 4.9 Weekly income on retirement in 2055, 2007/08 earnings terms. Low earning woman with long career break



Source: DWP modelling. See Annex A for assumptions.

4.34 The final example in this section is of a low earning woman with short career breaks and part-time work. This individual is £13 a week better off from saving post-private pension reform. In the pre-reform scenario she is only £7 a week better off. The reforms increase her private pension income by 76 per cent. As with the previous two examples, this is lower than some of the earlier examples because some of her saving takes place before the reforms in 2012 as she starts work at a younger age⁶⁴.

Figure 4.10 Weekly income on retirement in 2055, 2007/08 earnings terms. Low earning woman with short career breaks and part-time work



Source: DWP modelling. See Annex A for assumptions.

⁶⁴ See Annex A for assumptions on work histories.

4.35 A table of results for the above individuals can be seen in Annex B. Results include the interaction with Pension Credit⁶⁵ – all of the individuals who are aged 25 in 2012 are lifted entirely out of Pension Credit by their State Pension alone on retirement in 2055.

Gains from saving into a scheme with lower charges and employer contributions

4.36 Under these assumptions, the employer contribution and lower management charges under reform increase private pension income compared to saving pre-reform. Although in absolute terms higher earners benefit more from workplace pension saving, in relative terms low and higher earners with full work histories do equally well with an increase in private pension income of around 83 per cent⁶⁶.

Gains from saving for previous non-savers

4.37 The state reforms will improve incomes, but for most people the improved State Pension is unlikely to provide them with a desired level of retirement income. Automatic enrolment, employer contributions and extending access to low cost saving will help individuals to meet their retirement aspirations by saving more for retirement.

4.38 As well as showing post-reform improvements for individuals who are currently saving, the analysis also assesses the impact on individuals who do not save pre-private pension reform.

4.39 The examples show that all of these individuals can expect to be better off under reform, even those with long periods out of the workforce. This increase in income is likely to be significantly greater than the real cost of the individuals' contributions.

4.40 In many cases there will be additional benefits derived from consumption smoothing. This means shifting spending from the period in which people make contributions to the period in which they receive the income from their pension⁶⁷.

4.41 The tax and benefit system will affect the value of pension contributions and pension income to an individual. Pension contributions are taken into account in some tax credit and benefit calculations. Those who are eligible for some income-

⁶⁵ This analysis does not take account of any housing-related benefit entitlement. If Council Tax Benefit were to be included there would be a positive impact on incomes and a similar proportional increase in pension income as a result of reform for low and median earning individuals. Phasing of contributions has not been assumed in this analysis. If phasing were to be included, this would have a marginal downward effect on private pension income (for example for low earners this would be around £1 per week).

⁶⁶ Examples are illustrative. Income in retirement will be subject to factors such as investment performance and annuity rates.

⁶⁷ Because people generally value a given amount of money more highly in times when their income is relatively low, such as in retirement, consumption smoothing through pension saving is likely to be beneficial, even if financial returns are low.

related benefits, such as Working Tax Credits or Housing Benefit, in working life may get an increase in these benefits to partially offset their net contribution. In retirement, any savings or income will also be taken into account when calculating any benefit entitlement⁶⁸, so those with higher private income may have lower benefit entitlement.

4.42 Under the assumptions used in the above analysis, all of the individuals will have a state pension income that carries them over the standard minimum guarantee in Pension Credit on reaching State Pension age and throughout retirement.

4.43 Due to improvements in state pensions, the large majority of men and women can expect to benefit from saving into a workplace pension, with good incentives to save at the point they are automatically enrolled. This is true for those who expect to work or care for most of their working life, irrespective of their income level. Individuals can expect to gain both in financial terms and in the security offered by building up their own pension assets.

Couples

4.44 The analysis in this section has focused on single men and women. However, although trends are changing, the majority of pensioners currently reach retirement as part of a couple – 70 per cent of people aged 65-69 are married⁶⁹. Those retiring as part of a couple are likely to see greater gains from their private pension saving because, in addition to employer contributions and investment growth, they are less likely to be reliant on state benefits in retirement.

4.45 Currently a pensioner couple is about 3 times less likely to be getting Pension Credit as a single pensioner. By 2050 over 90 per cent of pensioners eligible for Pension Credit will be single pensioners.

4.46 Under reform (in 2050) a couple who were retiring where each person had 30 years of contributions from employment or caring would have enough State Pension to be lifted off Pension Credit at retirement entirely. So even if each of them had done nothing recognised by the state system for 15 years of their working life they would still be clear of Pension Credit.

4.47 A female median earner (£19,240 in 2007) saving from 2012 until State Pension age who is part of a couple will be lifted clear of benefits over her retirement, due to her partner's pension and her own state entitlement⁷⁰.

⁶⁸ Though up to £6,000 of capital is disregarded in Pension Credit, Housing Benefit and Council Tax Benefit calculations and pension savers may benefit from this through the ability to take a lump sum or trivially commute.

⁶⁹ Mid-2005 population estimates for England and Wales, Office for National Statistics.

⁷⁰ *Financial Incentives to Save for Retirement*, DWP Research Report No. 403.

Older workers

- 4.48 We have also considered the possible effect of reform for older workers. Using our hypothetical examples, if we adjust the assumption of being age 25 in 2012 to age 50 in 2012, these individuals still benefit from reform.
- 4.49 In this scenario, the individuals only save from 2012 onwards (at age 50) and we compare pre-reform and post-reform results. All of the individuals gain a proportional increase in private pension income of between 64 per cent and 84 per cent⁷¹, dependent on work history, when comparing a scheme without employer contributions to a scheme with employer contributions and lower charges. These results take into account the interaction with Pension Credit that takes place for some individuals. The majority of older workers can expect to gain from saving⁷².
- 4.50 Older workers are likely to be relatively well placed to make a decision on whether or not it would be beneficial to opt-out of a pension scheme, as they have the benefit of knowing their work history and lifetime savings. Older men and women also tend to have better awareness and understanding of pensions than their younger counterparts⁷³. Given this, the Government has concluded that it would not be right to deny such groups the full opportunities offered by the reforms by excluding them from auto-enrolment.
- 4.51 A small minority of individuals may require more help from the state in retirement than others through income related benefits which may be affected by private saving. The state benefits system provides a safety net, guaranteeing a minimum level of income but anyone who chooses to rely on income-related benefits is making assumptions on what the benefit system might look like 20, 30, or 40 years from now. But under the Pension Act 2007 reforms, those with a good record of working or caring - including low earners - will be taken out of entitlement to the standard minimum guarantee in Pension Credit entitlement at retirement by their State Pension alone. In addition, the savings reward in Pension Credit and the lump sum and trivial commutation rules⁷⁴ mean that many of those who do end up with large amounts of income-related benefit entitlement may still see a benefit from saving and an increase in income from saving that exceeds the value of their contributions⁷⁵.
- 4.52 If individuals decide not to save for retirement they will lose out on years of employer contributions and investment returns and are highly likely to be poorer in retirement than if they had saved. However, the Government recognises that individuals will need good information and explanation and will ensure appropriate information is available based on sound research with individuals and stakeholders.

⁷¹ See Annexes A and B for full assumptions and table of results.

⁷² *Financial Incentives to Save for Retirement*, DWP Research Report No. 403.

⁷³ *Attitudes to Pensions: The 2006 survey*. However, there is evidence from the English Longitudinal Study of Ageing that there are still misperceptions about pension value.

⁷⁴ The limit is 1 per cent of the lifetime limit, currently £1.6m. The lifetime limit is set to rise to £1.8m by 2010/11 with the option for further review, which will mean the new trivial commutation limit will be £18,000

⁷⁵ *Financial Incentives to Save for Retirement*, DWP Research Report No. 403.

4.53 The combination of state reforms, providing a solid foundation for saving, and private reforms, through improved access to workplace schemes and employer contributions, works to ensure more women, including those with lengthy career breaks, will have both state and private pension provision in their own right. This means that they will be less likely to have to risk relying on a partner's income, which will not necessarily be available to them if the relationship breaks down, or on a state safety net that may not meet their aspirations.

4.54 This chapter has reviewed the expected impacts for men and women of automatic enrolment, employer contributions and personal accounts. The following chapter considers the other areas of the Bill with potential gender impacts.

Chapter 5: Strengthening existing private pension provision

5.1 The introduction of automatic enrolment, the 3% employer contribution and low cost personal accounts, which form the basis of the analysis of Chapter 4, are expected to have major positive impacts on retirement incomes for many individuals, both men and women. Other measures in the Bill may also have gender impacts. These are described in more detail in the Impact Assessment, and summarised in this chapter along with an assessment of their gender impacts.

5.2 In particular, the Bill includes two proposals first outlined in the Government response to the deregulatory review delivered by Chris Lewin and Ed Sweeney⁷⁶.

5.3 The aim of these proposals is to reduce the regulatory burdens on employers running good defined benefit schemes and encourage them to continue to provide them for their employees. The Government also recognises that there needs to be a balance between reducing legislative complexity and making legislation simpler and protecting members' interests.

Deregulatory Proposals

Reduction in the cap applying to revaluation of deferred pensions

5.4 The Government proposes to reduce the cap applying to revaluation of deferred defined benefit pensions from 5% to 2.5% for future accrued rights.

5.5 This change will affect future accrued rights in early leavers' deferred pensions. They will still be guarded against inflation as the amount of pension payable from normal pension age will be increased by the minimum of the increase in the Retail Price Index (RPI) or 2.5%.

Safeguarded rights

5.6 When pensions are shared on divorce or dissolution of a civil partnership, pension rights of the second party are discharged into a pension arrangement as a pension credit⁷⁷.

5.7 Any contracted out rights that form part of that settlement are currently known as 'safeguarded rights', and these rights are subject to a separate regulatory regime.

⁷⁶ Further details of the proposals are included in Chapter 5 of the Impact Assessment.

⁷⁷ This refers to rights that arise from pension sharing, not State Pension Credit.

There have been complaints that this causes unnecessary complexity since safeguarded rights are treated differently from other accrued rights.

5.8 The Government will repeal the requirements relating to safeguarded rights, thereby removing an unnecessary layer of extra complexity for scheme administrators.

Gender Impacts

5.9 Defined benefit pension schemes were traditionally established in male dominated industries at a time when female participation in the labour force was far lower than it is today. Consequently any change to the regulatory framework for defined benefit schemes is likely to impact more on men than women.

5.10 The proposed change to the revaluation cap, however, may have a particular impact on female scheme members because some women are more likely to earn pension benefits early in their careers and then leave the work force for periods of time to undertake caring responsibilities. There is no concrete data on the amount of deferred pensions held by men and women but the impact on any individual member is likely to be small on average. By 2050, the reduction in the average private defined benefit pension income due to the changes is estimated to be 1.6%⁷⁸. The proposed change will have no effect on pension rights that have already been deferred or on those rights already built up by scheme members.

5.11 The proposals for a reduction in the cap on revaluation are designed to encourage continued provision of defined benefit schemes, which will be of benefit to both men and women in the future.

5.12 It is very difficult to estimate the size of this benefit but one approach would be to consider the scenario whereby the employer chooses to channel the savings from these reforms back into pension provision. Assuming all the savings from the change were spent by employers on expanding the coverage of their defined benefit schemes, we estimate an upper bound of 165,000-265,000 additional defined benefit members per year in the medium to long term.

5.13 Removal of the requirements applying to safeguarded rights would have minimal impact on individuals but it will provide them with more scope should they wish to transfer their pension rights. Anecdotal evidence suggests that more pension sharing orders on divorce are made on behalf of women than men so the benefits for individuals are likely to have a greater impact on women.

⁷⁸ DWP Modelling – See Chapter 5 of the Impact Assessment for more details.

Changes to the Pension Protection Fund

Pension Protection Fund compensation sharing on divorce

5.14 Currently, on divorce or dissolution of a civil partnership, any pension assets are valued and may be shared or transferred as part of the divorce settlement. The Pension Protection Fund is not a pension scheme, and therefore these provisions do not apply. It is therefore intended that provision be made for valuing compensation, issuing court orders sharing it, and the implementation of those orders by the Pension Protection Fund.

Gender Impacts

5.15 Men are more likely to have significant levels of Pension Protection Fund compensation than women. This means that men are more likely to have reduced compensation following a divorce. However, this would only be the result of a fair settlement, with an equivalent increase going to their ex-spouse. This measure is therefore likely to lead to enhanced opportunities for women and carers who are less likely to have entitlements to Pension Protection Fund compensation in their own right.

Conclusions

- 1 At the start of the current pension reform process, the Government set out its five principles of reform: they should promote personal responsibility, be simple, affordable and sustainable and they should be fair. The fairness principle is one that is particularly applicable to women given the current inequalities in pension outcomes between men and women.
- 2 The Pensions Act 2007 mainly focused on state pension reforms. The Act introduced a number of measures that are crucial from an equality perspective and in ensuring justice for pensioners, both male and female.
- 3 The state pension reforms will narrow the gender pension gap and remove discrimination for carers in the pension system, a majority of whom are women. The reforms are based on a modernised contributory principle: a life of unpaid caring responsibilities will be rewarded in retirement in the same way as a life of work.
- 4 A more generous basic State Pension, which more individuals, women in particular, will increasingly be entitled to, together with extended coverage of entitlement to State Second Pension (S2P), mean that these reforms will go a long way to closing the gender pension gap in state pensions and help to deliver equality of outcomes in retirement for men and women.
- 5 The current Pensions Bill will provide employees with access to a workplace pension with employer and government contributions. These measures will ensure equality of access to a workplace scheme of a minimum standard, giving many millions of men and women the opportunity to build up a private pension.
- 6 Equality of opportunity is particularly relevant for women. Although in absolute numbers more men will be affected by the proposed policies, women are more likely to be lower earners and to work for small firms, two groups that are not currently served well by the pensions market. Women are more likely than men to have broken work histories, affecting the length of time spent in a job and more likely to be affected by the behavioural barriers associated with pension saving.
- 7 For these reasons, the features of automatic enrolment, minimum employer contributions and portability between employers offering personal accounts will be particularly attractive for women.
- 8 As a result of these policies, we expect an estimated 3.5 to 4 million women to be enrolled into a workplace pension, many of them gaining access for the first time. This way, women can take responsibility for their own income in retirement.

- 9 These reforms will, for the first time, ensure equality of access to a workplace pension for all employees. Alongside the improvements in women's labour market position relative to men, this will offer substantial opportunities to women to build up private pension savings in their own right. Automatic enrolment will be particularly useful in helping overcome inertia and lack of confidence in making financial decisions, which appear to be more significant barriers for women in saving in a pension. If women save earlier into their pension pots as a result of these reforms this will also help to substantially increase their pension pots at retirement.

Annex A: Modelling Assumptions for Illustrative Individuals

Gains from automatic enrolment and early saving

These individuals save 8 per cent of their income into a workplace pension scheme (including 1 per cent in tax relief and 3 per cent in employer contributions). The results are illustrative, and depend on assumptions about investment returns.

Woman with career break

Age 22-26 works full time on median female earnings (approximately £370 per week), saving into a workplace pension scheme.

Age 27-33 Career break, cares for a child and receives caring credits but suspends her private pension contributions.

Age 34-67 works full time on median female earnings (approximately £370 per week), saving into a workplace pension scheme.

Woman with career break, delayed saving

Age 22-26 works full time on median female earnings (approximately £370 per week), without saving.

Age 27-33 Career break, cares for a child and receives caring credits.

Age 34-67 works full time on median female earnings (approximately £370 per week), saving into a workplace pension scheme.

Woman without career break

Age 22-67 works full time on median female earnings (approximately £370 per week), saving into a workplace pension scheme.

Woman without career break, delayed saving

Age 22-26 works full time on median female earnings (approximately £370 per week), without saving.

Age 27-67 works full time on median female earnings (approximately £370 per week), saving into a workplace pension scheme.

Gains from employer contributions and lower charges

- **State reform and no saving** – State pension reform, but no private pension reform and the individual does not save into a private pension scheme.
- **State reform with saving** – State pension reform, but no private pension reform. The individual saves into a pension scheme with no employer contribution.
- **State reform and private reform with saving** – State and private pension reform and the individual saves into a workplace pension scheme with a 3% employer contribution and lower charges than the previous scenario⁷⁹.

It is assumed that individuals only save when in work. Pre-private reform, all individuals save 5 per cent of earnings (including 1 per cent in tax relief) between the Lower Earnings Limit and the Upper Earnings Limit into a pension scheme. With private reform, individuals save 8 per cent of their income into a workplace pension scheme (including 1 per cent in tax relief and 3 per cent in employer contributions). The results are illustrative, and depend on assumptions about investment returns.

All individuals are assumed to be aged 25 in 2012 unless otherwise stated.

Low-earning woman, full work history

Age 25-SPA she works full time on approximately 60% of female median earnings (approximately £220 per week).

Median-earning woman, full work history

Age 25 -SPA she works **full** time on median female earnings (approximately £370 per week).

High-earning woman, full work history

Age 25-SPA she works full time earning around 150% of median female earnings (approximately £555 per week).

⁷⁹ State reform with saving scenario - the pension charge is assumed to be equivalent to a reduction in yield of 1.5% for the first 10 years and then 1% afterwards.

State reform and private reform with saving scenario - the pension charge is assumed to be equivalent to a reduction in yield of 0.5%. It is assumed the fund is lifestyled and that the individual takes and annuitises the tax-free lump sum.

Low earning man, full work history

Age 25-SPA he works full-time earning around 50% of median male earnings (approximately £235 per week).

Median earning man, full work history

Age 25-SPA he works full-time earning median male earnings (approximately £470 per week).

Woman with short career break and some part-time work

Age 16-30 she works full time at median female earnings (£370 per week).

Age 31-36 she cares for children and receives credits.

Age 37-41 she starts part time work at 50% of median earnings (£185 per week).

Age 42-SPA she returns to full-time work at 80% of median earnings (£295 per week).

Low earning woman with long career break

Age 16-25 she works, earning around 60% of median earnings (£220 per week);

Age 26-50 she takes a career break - raising 3 children (She is entitled to full basic State Pension and State Second Pension credit but since her youngest child reaches age 12 after 18 years, she has 7 years without credits).

Age 51-SPA she returns to work until State Pension age earning around 60% of median female earnings (£220 per week), rising to median female earnings (£370 per week).

Low earning woman with some short breaks and part-time work

Age 21-28 she works full-time – earning around 60% of median female earnings (£220 per week).

Age 29-34 she then has a career break to care for a child for six years.

Age 35-39 she returns to part-time work at around 35% of median earnings for five years (£130 per week).

Age 40-49 she then works full time again at 60% of median earnings (£220 per week).

Age 50-54 she then returns to part-time work for five years (30% median earnings - £110 per week).

Age 55-59 she takes another career break for 5 years in her 50s to care for an elderly relative, for which she receives no carer benefits or credits.

Age 60-SPA she returns to full-time work again, until reaching State Pension age (earning approximately 60% of median earnings - £220 per week).

Older workers

These individuals are aged 50 in 2012 and do not save at all until 2012. The state reform with saving and state and private reform with saving scenarios are compared.

Older low-earning woman, full work history

Age 25-SPA she works full time on approximately 60% of female median earnings (approximately £220 per week).

Older median-earning woman, full work history

Age 25 -SPA she works full time on median female earnings (approximately £370 per week).

Older high-earning woman, full work history

Age 25-SPA she works full time earning around 150% of median female earnings (approximately £555 per week).

Older low earning man, full work history

Age 25-SPA he works full-time earning around 50% of median male earnings (approximately £235 per week).

Older median earning man, full work history

Age 25-SPA he works full-time earning median male earnings (approximately £470 per week).

Older woman with short career break and some part-time work

Age 16-30 she works full time at median female earnings (£370 per week);
Age 31-36 she cares for children.
Age 37-41 she starts part time work at 50% of median earnings (£185 per week).
Age 42-SPA she returns to full-time work at 80% of median earnings (£295 per week).

Older low earning woman with long career break

Age 16-25 she works, earning around 60% of median earnings (£220 per week).
Age 26-50 she takes a career break - raising 3 children.
Age 51-SPA she returns to work until State Pension age earning around 60% of female earnings (£220 per week), rising to median female earnings (£370 per week).

Older low earning woman with some short breaks and part-time work

Age 21-28 she works full-time – earning around 60% of median female earnings (£220 per week).
Age 29-34 she then has a career break to care for a child for six years.
Age 35-39 she returns to part-time work at around 35% of median earnings for five years (£130 per week).

Age 40-49 she then works full time again at 60% of median earnings (£220 per week).

Age 50-54 she then returns to part-time work for five years (30% median earnings - £110 per week).

Age 55-59 she takes another career break for 5 years in her 50s to care for an elderly relative, for which she receives no carer benefits or credits.

Age 60-SPA she returns to full-time work again, until reaching State Pension age (earning approximately 60% of median earnings - £220 per week).

Note on modelling updates:

Since the Gender Impact Assessment and wider Regulatory Impact Assessments for the 2007 Pensions Act the DWP has updated its modelling of hypothetical individuals, which we use to estimate income in retirement, and rates of return. This will mean that the charts in this document will not be directly comparable with similar charts published in the November 2006 Gender Impact of Pension Reform.

Updates to the modelling included in this publication include:

- The above individuals are aged 25 in 2012, reaching State Pension age and retiring in 2055.
- Incorporating policy changes announced in the Budget and Pre-Budget Report, in particular changes to National Insurance thresholds.
- Improving private pension modelling.
- Incorporating new projections of life expectancy.

Annex B: Results tables for illustrative individuals

Individuals aged 25 in 2012

Weekly private pension income on retirement in 2055, 2007/08 earnings terms

| | State reform only, with saving. Increase in weekly income compared to not saving | State and private reform. Increase in weekly income compared to not saving | Proportional increase in private pension income as a result of private reform |
|---|--|--|---|
| Low-earning woman, full work history | £13 | £23 | 83% |
| Median-earning woman, full work history | £28 | £51 | 83% |
| High-earning woman, full work history | £47 | £86 | 83% |
| Low-earning man, full work history | £15 | £27 | 83% |
| Median-earning man, full work history | £41 | £75 | 83% |
| | | | |
| Median-earning woman with short career break | £17 | £31 | 80% |
| Low earning woman with long career break | £7 | £12 | 67% |
| Low earning woman with some short breaks and part-time work | £7 | £13 | 76% |

Source: DWP modelling

Notes: State reform with saving scenario - the pension charge is assumed to be equivalent to a reduction in yield of 1.5% for the first 10 years and then 1% afterwards.

State reform and private reform with saving scenario - the pension charge is assumed to be equivalent to a reduction in yield of 0.5%.

It is assumed the fund is lifestyled and that the individual takes and annuitises the tax-free lump sum.

Housing Benefit and Council Tax Benefit have been excluded from this analysis.

To represent a steady state, no phasing of employee or employer contributions has been assumed.

The outcomes of different individuals should not be directly compared to each other since they have different lengths of time in work and different earnings levels. For details on work and caring histories see Annex A.

Individuals aged 50 in 2012

New saver post-reform: Saving from age 50 onwards

Weekly private pension (non-state⁸⁰) income on retirement in 2055, 2007/08 earnings terms

| | State reform only, with saving. Increase in weekly income compared to not saving | State and private reform. Increase in weekly income compared to not saving | Proportional increase in non-state income as a result of private reform |
|---|--|--|---|
| Low-earning woman, full work history | £2 | £4 | 70% |
| Median-earning woman, full work history | £5 | £10 | 84% |
| High-earning woman, full work history | £15 | £25 | 70% |
| Low-earning man, full work history | £3 | £5 | 70% |
| Median-earning man, full work history | £12 | £21 | 78% |
| | | | |
| Median-earning woman with short career break | £4 | £6 | 70% |
| Low earning woman with long career break | £3 | £6 | 68% |
| Low earning woman with some short breaks and part-time work | £1 | £2 | 64% |

Source: DWP modelling

Notes: State reform with saving scenario - the pension charge is assumed to be equivalent to a reduction in yield of 1.5% for the first 10 years and then 1% afterwards.

State reform and private reform with saving scenario - the pension charge is assumed to be equivalent to a reduction in yield of 0.5%.

It is assumed the fund is lifestyled and that the individual takes and annuitises the tax-free lump sum. Housing Benefit and Council Tax Benefit have been excluded from this analysis.

To represent a steady state, no phasing of employee or employer contributions has been assumed. The outcomes of different individuals should not be directly compared to each other since they have different lengths of time in work and different earnings levels. For details on work and caring histories see Annex A.

⁸⁰ This takes into account the interaction with Pension Credit that takes place for some of the individuals

Annex C: Projections of entitlement to basic State Pension

Projections of entitlement to basic State Pension shown in this document – for example, the proportion of people projected to be entitled to a full basic State Pension – are from the basic State Pension model originally developed by the Government Actuary's Department. This follows the approach used in the White Paper.

The basic State Pension model is an aggregate model – it projects expenditure and outcomes in respect of groups of pensioners (categorised, for example, by age, birth cohort and gender).

The basic State Pension model uses administrative data on the entitlements of current pensioners together with assumptions to project expenditure into the future. The key assumptions include:

population;
marital status; and
average entitlement.

Population estimates are based on GAD's 2004-based principal population projection, with proportions by marital status from GAD's 2003-based marital status projections.

Assumptions about average entitlement are based on administrative data, with forward projections based on trends derived from the analysis of data from the National Insurance Recording System 2 (NIRS2). This showed that the introduction of Home Responsibilities Protection in 1978 has had a considerable impact on increasing women's National Insurance contribution records and hence their entitlement to the basic State Pension. Men and women up to the age of 45 now have virtually identical entitlements. This is assumed to feed through into older age groups as these cohorts age.