
The Gender Impact of Pension Reform

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Executive Summary

The Department for Work and Pensions report *Women and pensions: The evidence* published in November 2005 provided a clear assessment of women's pension situation and analysed the key influences on women's retirement incomes.

Reforms to the pension system over the last few decades, such as the introduction of Home Responsibilities Protection and Pension Credit have led to major improvements in women's retirement incomes. Even without further reform the State Second Pension (with its associated credits for caring) would continue to improve the pension position of women.

Those on low earnings during their working life or who take time out of the labour market to undertake caring responsibilities are benefiting from these reforms, particularly women who are far more likely than men to take up caring roles. However women within these groups still face barriers in building up state and private pension entitlement. Although there is a considerable diversity in individual pension outcomes, women's retirement incomes are, on average, still lower than men's.

A key objective of pension reform is to deliver fairer outcomes for women and carers. This has guided the development of reforms first set out in the White Paper *Security in retirement: towards a new pensions system* and which are now starting to be implemented through the Government's Pensions Bill. The reforms are intended to provide an equality of opportunity for women and men to accrue state pension entitlement and to help those who face barriers in building up state and private pension provision.

The reforms will improve State Pension coverage and provide a more generous and simpler State Pension within which working and caring are rewarded equally. They will also provide a solid state underpin for additional private saving and will introduce a new system of personal accounts which will make it easier for people to save more for their retirement.

It is intended that the reforms, especially those to widen pension coverage, will make progress towards narrowing the gender gap in pension outcomes. Both men and women are likely to see improved outcomes but even for women who have some time out of the labour market to undertake caring responsibilities, outcomes on retirement will be closer to that of an average man than currently.

A summary of key reforms

Improved State Pension coverage:

- a simplified single contribution condition for those reaching State Pension age from 2010 based on reducing the number of qualifying years needed for a full basic State Pension to 30 and where the current first contribution condition and 25 per cent de minimis rule¹ are abolished
- making it easier for parents and carers to build State Pension entitlement by replacing Home Responsibilities Protection with weekly credits
- more flexible crediting arrangements which will increase the number of low earners, carers and long-term disabled people with State Second Pension entitlement
- a new carer's credit for those caring for 20 hours or more a week for someone who is severely disabled.

Solid state pension underpin for private saving:

- earnings uprating of basic State Pension – providing more generous pensions for men and women increasingly as State Pension coverage improves
- a simpler, flat-rated State Second Pension

Continuing to tackle pensioner poverty:

- 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

Introduction of personal accounts:

- personal accounts will provide a low cost flexible pension savings scheme with an employer contribution. This is likely to benefit many women currently without private pension provision and who face barriers to save, for example those with fragmented working histories, in part-time work or on low pay who may not have access to a suitable occupational scheme.

¹ Under the de minimis rule someone must have at least a quarter of the number of qualifying years for a full basic State Pension to receive any basic State Pension at all. This is generally the equivalent of 10 years for women (11 for men)

Analysis of the effects of reform

Improved State Pension coverage

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.

Around 30 per cent of women reaching State Pension age currently 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 will be entitled to a full basic State Pension without reform. **Under reform around three quarters of women reaching State Pension age in 2010 will be entitled to a full basic State Pension, rising to over 90 per cent in 2025.**

In 2020, just over 300,000 extra women over State Pension age will be entitled to a full basic State Pension. Almost half a million extra women will be entitled to a full basic State Pension in 2025 as a result of reform.

Around 120,000 more people could gain a credit for the basic State Pension in 2010 through the new carer's credit, including around 85,000 women.

Around 180,000 more people could accrue entitlement to State Second Pension in 2010 through the new carer's credit, including around 110,000 women.

Extending credits for childcare in State Second Pension from age 6 to age 12 means that from 2010 around an extra 780,000 women and an extra 30,000 men will accrue entitlement to the State Second Pension.

Currently around 1.9 million carers (over 90 per cent of them women) and about 6.2 million low earners (around 60 per cent of them women) are accruing entitlement to State Second Pension entitlement. **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.**

Around 40,000 people in 2010 could benefit from the removal of the first contribution condition and the 25 per cent de minimis rule, rising to around three quarters of a million in 2025.

Solid state pension underpin

Women will increasingly benefit from the earnings uprating of the basic State Pension as coverage of the basic State Pension improves. By 2050 the amount of the basic State Pension will roughly double in value compared with current policies.

Under reform anyone with a good working or caring life (of around 43 years) will be entitled to a State Pension of around £135 per week. This figure is well

above the amount of the standard minimum guarantee in Pension Credit of £114 a week. Someone working and caring for 30 years will still build entitlement to a State Pension around the level of the standard minimum guarantee.

The reforms will help to reduce the gender pension 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. In 2050, women reaching State Pension age are on average projected to be entitled to nearly 95 per cent of men's average State Pension. For a median earning woman with a full work history, State Pension outcomes will be virtually identical to that of a median earning man.

The reforms also contribute towards a narrowing of the gender gap in overall pension outcomes (state and private). At present a median full-time female employee earns around 80 per cent of a median full-time male employee. And this continues into retirement at present – they can expect a similar gap in their total pension income on reaching State Pension age.

Post-reform, both male and female median earners would receive more in pension income than they do currently. Moreover, the inequality in outcome is reduced – a woman could then expect to receive nearly 90 per cent of the total pension of their male counterpart. The gap also narrows considerably when women with different working histories are compared to a median male earner.

This narrowing is mainly driven by the effect of the state pension reforms. In 2050, state pension outcomes for comparable men and women will be very similar. Both men and women benefit from the effects of personal accounts and the employer contribution.

Continuing to tackle pensioner poverty

Pension Credit will continue to provide a safety net for the poorest pensioners. Without reform around 70 per cent of pensioners would be entitled to Pension Credit by 2050 compared with around a third of pensioners under reform.

By 2020 around 12 per cent of pensioner households will be entitled to the guarantee credit only, reducing to around 9 per cent of households in 2030 and around 6 per cent in 2050. Approaching half of those eligible for Pension Credit in 2050 will be entitled to higher rates than the standard minimum guarantee because they have additional needs, for example due to severe disability or caring responsibilities. Around two thirds of those eligible for Pension Credit by 2050 will be single women. However the majority of women and men reaching State Pension age by this time will be entitled to state pensions in excess of the standard minimum guarantee, with women gaining State Pension entitlement from both paid work and caring contributions.

Introduction of personal accounts

Personal accounts provide an opportunity to save on top of the state pension underpin, particularly for women who are at risk of having insufficient pension income in retirement. These women will be a key part of the target group of moderate to low earners that personal accounts are intended to help. Women employees are disproportionately found in the group earning between £5,000 and £15,000 and without pension provision.

Somewhere between 2.2 and 3.4 million women are estimated to be likely to participate in personal accounts.

The combination of the solid state pension underpin and the personal accounts system (or automatic enrolment into an equivalent 'good' employers scheme) means that savings incentives will be significantly higher under reform than under the current system. This may be particularly important for women on low levels of income closer to the levels of means-tested benefits for whom savings decisions are more difficult.

Overall pension outcomes for different individuals

Analysis shows that individuals with different working and caring patterns will receive more in retirement income under the reformed system than they would have done had the existing system remained in place. This includes low earners in the examples who are predicted to receive state pensions well above the level of the standard minimum guarantee. Those with significant periods out of the labour market can also obtain improved outcomes. In our examples a woman retiring in 2053 and taking 25 years out to care for 3 children receives more in retirement income than a similar woman would receive under the current system.

There is a narrowing of the gap between men and women's overall state pension outcomes.

The examples show that those with non-standard careers such as women taking long periods out of the labour market due to caring responsibilities, can expect a good payback under the reformed system, and a significantly higher payback than before reform.

November 2006

Chapter 1: Introduction

1. In May 2006 the Government published a White Paper *Security in retirement: towards a new pensions system* which set out proposals for a comprehensive reform of the UK pension system.
2. In his statement to the House of Commons on 25th May 2006, the Secretary of State committed to undertake a detailed gender analysis of the measures in the 2006 Pensions Reform Bill, in advance of the statutory Gender Duty due to come into force in 2007. This report meets that commitment and builds on the analysis of pension outcomes set out in the Regulatory Impact Assessment which accompanied that White Paper.² It consolidates several pieces of Department for Work and Pensions analysis regarding the impacts of pension reform on women and presents new analysis on the impacts of reforms on particular types of individual.
3. The Government set out five key tests against which pension reform outcomes should be measured:

Personal responsibility: individuals should be responsible for their own plans for retirement.

Fairness: policies will protect the poorest and establish a new contributory principle with a system which rewards “something for something”.

Simplicity: changes must make the pension system simpler and ensure the decision to save can be more straightforward.

Affordability: 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.

Sustainability: the roles and responsibilities of individuals, employers and the state must be clear; reforms need to give trust and confidence in a sustainable deal for the long term.

4. The fairness objective, in particular, aimed to improve the situation of groups that have been less well provided for in retirement. Although their situation has been improving, women are generally still poorer in retirement than men, and women of working age are overall less likely to be contributing to a private pension.
5. There are a number of underlying reasons for the existing differences in pension outcomes but many of them relate to inequalities arising in the labour market. For example breaks in employment or time out of the labour market to care for children can reduce overall lifetime earnings and affect the ability of women to build up state and private pension provision. The pension system alone cannot solve all of this. However,

² *Security in retirement: towards a new pensions system*, Regulatory impact assessments and technical appendices, Department for Work and Pensions, May 2006

the reform measures are designed to ensure that women have equality of opportunity to build up State Pension provision whether they are working or undertaking caring responsibilities and to save for a private pension. The reform measures will help to mitigate some of the pension effects that arise from women's and men's different labour market experiences and redress some of the inequality in overall pension outcomes which result from this. The gender assessment conducted in this report analyses the effect of reform in this context.

6. The format of this report is as follows:

Chapter 2 briefly sets out the current situation of women in terms of their pension income and savings, highlighting any differences between genders and why they might exist. This draws on the report *Women and pensions: The evidence* which was published by the Government in November 2005.

Chapter 3 provides an overview of the key reforms proposed in the White Paper *Security in retirement: towards a new pensions system* and in the current Pensions Bill

Chapter 4 examines the expected impacts of these reforms on women's pension outcomes. It looks both at overall outcomes resulting from the key reforms and the particular effects on individual women with different life histories in terms of working and caring.

Chapter 2: The current pension position for women and men

7. There is a 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, inequalities remain in terms of pensioner incomes, private pension provision and the accrual of and entitlement to state pensions.
8. The reform measures are designed to help address these gaps for future generations of female pensioners.

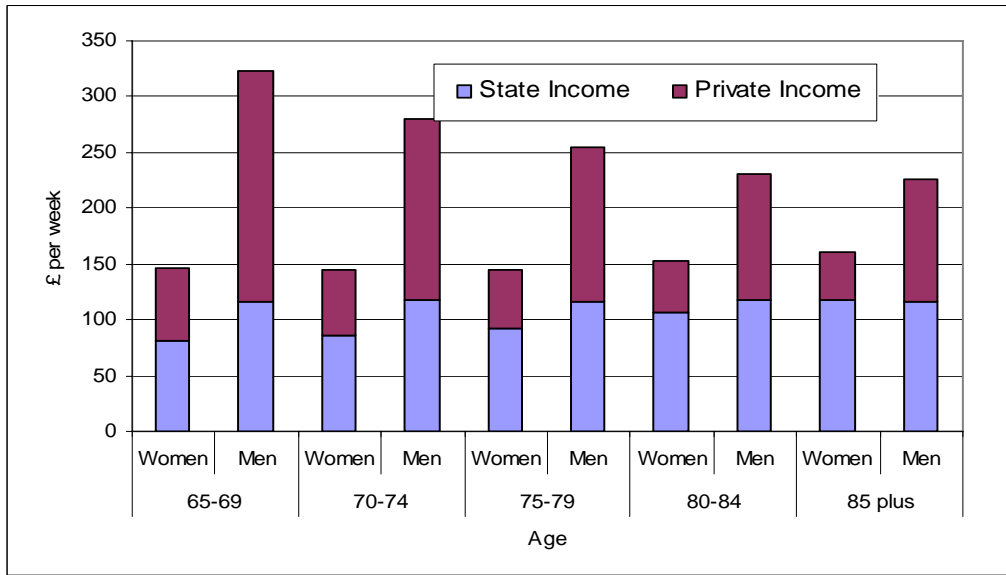
2.1 Current pension position: today's pensioners

Pensioner Income

9. Pensioner income has been increasing in real terms. However, differences remain with women persistently having lower incomes than men. Single women on average receive £196 per week in income compared to £244 for a single man though this does vary according to their particular circumstances.³ Women who have never married, for example, have incomes quite similar to men who have never married, whereas there are considerable differences for women who are divorced or widowed. Overall, women who are part of a pensioner couple receive on average £138 per week compared to £327 per week for a man in a pensioner couple.
10. Both state and private pension outcomes are lower for women than for men. This is illustrated in figure 2.i below. For pensioners over 80 the gap in state pension outcomes is narrower, principally driven by the inheritance of state pension rights.

³ Data from Family Resources Survey, 2004/05. A pensioner couple is one where one partner is above the State Pension age. Single in this context includes widowed, divorced and never married.

Figure 2.i: Pensioner Income by Age and Gender



Source: Family Resources Survey 2002/03, 2003/04, 2004/05

Notes: Data based on the average of three years of results from 2002/03, 2003/04 and 2004/05 uprated to 2004/05 prices.

Figure 2.ii: Pensioner income by family type and gender



Source: Data from Family Resources Survey, 2004/05.

Notes: This shows mean total individual income by source of income in pounds per week in 2004/2005 prices

- As figures 2.i and 2.ii show, women, and single women in particular, are also more reliant on benefit income (including state pensions) to make up their income. Benefit income accounts for on average 62 per cent of a single woman's income compared to 49 per cent for single men. For individuals who are part of a pensioner couple, although benefit income represents a smaller proportion of their income, the gender difference is

slightly more marked than for singles at 44 per cent for women and 30 per cent for men.⁴

12. These figures illustrate that the principal driver behind the overall differences in male and female income is private pension income. Single male pensioners receive on average £85 per week in private pension income (occupational and personal pensions) compared to £48 per week for single female pensioners.⁵

State Pension accrual and entitlement

13. Women's entitlement to basic State Pension provision has improved in recent years – largely as a result of improvements in women's work records and the effects of Home Responsibilities Protection.⁶
14. There are, however, still differences between genders. On average women reaching State Pension age in 2005/06 were entitled to around 70 per cent of the value of a full basic State Pension whereas men reaching State Pension age have around 95 per cent.⁷ Around 30 per cent of recently retired women are entitled to a full basic State Pension (compared to around 85 per cent of men).⁸
15. Coupled with the fact that women also tend to have less private pension income, this means that women tend to be more reliant on Pension Credit. This is a key way in which the government targets help for the lower retirement incomes that some pensioners face. The introduction of the Minimum Income Guarantee in 1999 and Pension Credit in 2003 have particularly helped women. Nearly two thirds of all those in receipt are women whilst 58 per cent are single women.⁹

⁴ Data from Family Resources Survey 2004/05

⁵ Data from Family Resources Survey 2004/05

⁶ See e.g. Figure 5.1 (page 70), *Women and pensions: The evidence*, Department for Work and Pensions 2005. Home Responsibilities Protection was introduced in 1978 and reduces the number of qualifying years needed to earn a full basic State Pension for women and men who care for a youngest child under the age of 16; or care for a sick or disabled person (and do not receive Carer's Allowance for the same period); or are a registered foster carer.

⁷ Projections from DWP Forecasting Division using the Government Actuary's Department Retirement Pension model, Great Britain

⁸ Projections from DWP Forecasting Division using the Government Actuary's Department Retirement Pension model, Great Britain

⁹ Source: Department for Work and Pensions Administrative data. For Pension Credit purposes "single" is defined as not being one of a married/unmarried/civil partnered/as if civil partnered couple. In addition people who are married but living apart from their spouse (e.g. because one of them is now in a care home, but the other still in the family home) would also be viewed as "single"

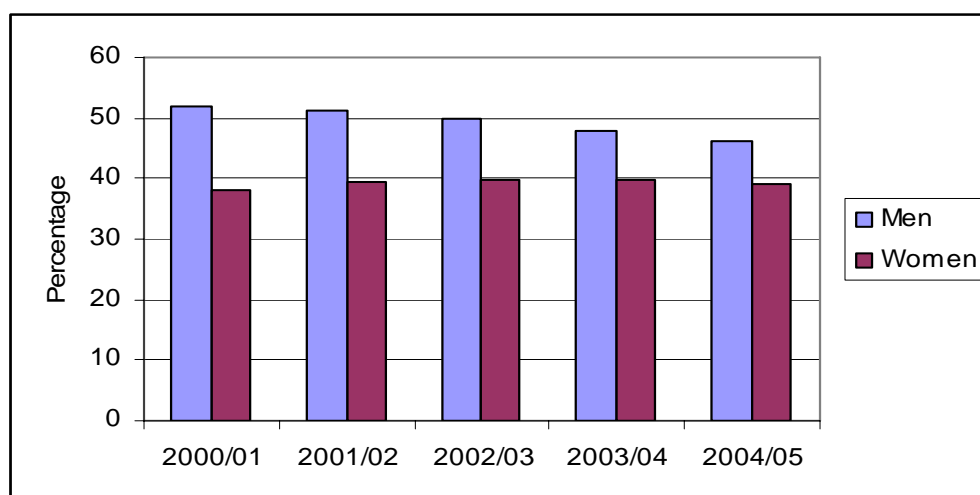
2.2 Current pension position: future pensioners

16. The replacement of the State Earnings-Related Pension Scheme (SERPS) with State Second Pension has already benefited women by introducing credits for those caring for children up to the age of six, for those with certain other caring responsibilities and for people with a long-term disability. State Second Pension also has a flat rate amount for those on the lowest incomes whereby those earning below the Lower Earnings Threshold (currently £12,500) but above the Lower Earnings Limit (currently £4,368) are treated as if they are earning the higher amount.
17. As a result of this change around 1.9 million carers (over 90 per cent of them women) and about 6.2 million lower earners (around 60 per cent of them women) are accruing State Second Pension.¹⁰

Women's private pension provision and labour market experiences

18. Thirty nine per cent of women of working age contribute to a private pension, compared to 46 per cent of men of working age (see figure 2.iv).¹¹ The proportion of women saving has remained stable in recent years (whilst declining for men).

Figure 2.iv: Percentage of Women and Men of working age contributing to a private pension



Source: Family Resources Survey 2004/05

Notes: Working age defined as 20-State Pension age

19. This figure varies considerably, however, between different age cohorts and different employment patterns. The table below shows that the younger and older age groups of women in full-time employment are in

¹⁰ Source: Second Tier Pension Provision Publication, Table 7.1b, January 2006, Department for Work and Pensions

¹¹ Source: Family Resources Survey 2004/05

fact as likely, or more likely, than men to be participating in a private pension. However, participation rates for all women fall below those of men during their 30s and 40s as they take more time out of the labour market, for example to undertake caring responsibilities. Furthermore, it is for these age groups that the proportion of women working part-time also tends to increase.

Figure 2.v: Contributing to a private pension by age and employment

	18-29	30-39	40-49	50-SPA
All men	22%	53%	60%	44%
All women	22%	42%	46%	40%
All adults	22%	47%	53%	43%
All male employees	28%	62%	72%	67%
All female employees	33%	59%	60%	61%
All employees	31%	61%	66%	64%
All full-time male employees	32%	63%	74%	70%
All full-time female employees	40%	67%	69%	70%
All full-time employees	35%	65%	72%	70%

Source: Family Resources Survey 2004/05

20. Women's different labour market experiences compared to men help to explain many of the differences in pension outcomes. Women are more likely to have interrupted careers and generally have lower pay during their working life. This may in the past have prevented them building up entitlement to state pensions but can also affect the level and frequency of their private pension contributions.
21. Although employment rates are high, a gap between male and female employment rates persists. The female employment rate is now at 70 per cent whilst male employment rates are around 78 per cent.¹² This gap is in part explained by the fact that women are more likely to be undertaking caring and childcare responsibilities. Women in the 25 to 49 age group, critical years for pension accrual, are more likely to be economically inactive than men. The principal reason for economic inactivity for this age group is looking after family or the home.¹³
22. Further to this gap in overall employment rates, women are also much more likely to work part-time than men – over 40 per cent of female workers are working part-time compared to less than 10 per cent of male workers. This applies across all ages but the gap between men's and women's part-time work rates widens in the mid-twenties, peaking

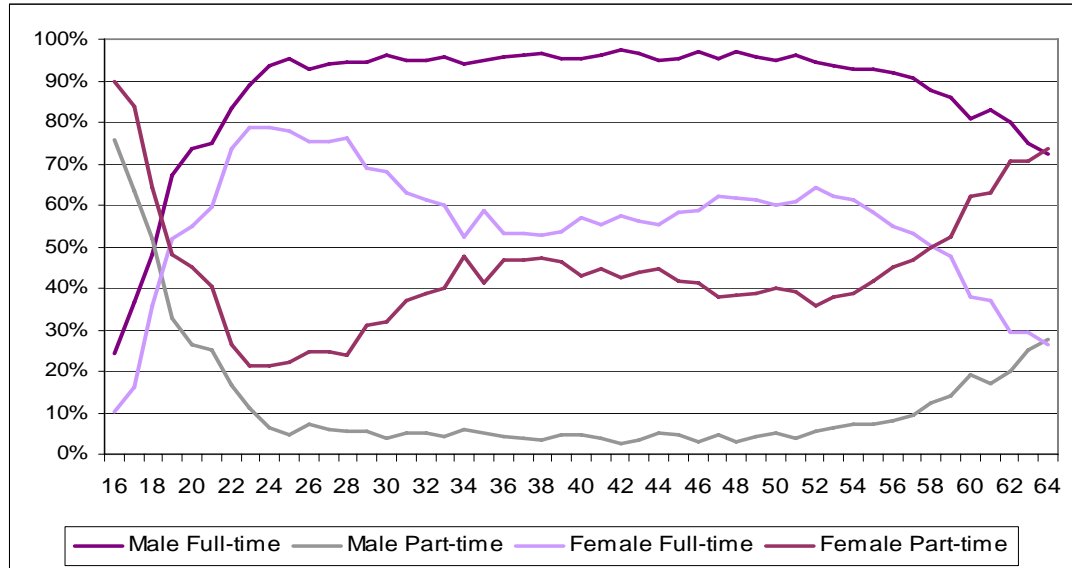
¹² Labour Force Survey Spring 2006

¹³ Labour Force Survey Spring 2006

in the late-thirties and early-forties (see figure 2.vi).¹⁴ Part-time workers are significantly less likely to be contributing to a private pension.¹⁵

23. Time out of the labour market and part-time work are often related – women who temporarily leave the labour market to bring up children often return into part-time work for some period of time.¹⁶

Figure 2.vi: Proportion of employed men and women in full v part-time work



Source: Labour Force Survey, Spring 2006

Notes: Shows proportion of full and part-time workers of those currently in employment

24. Women also tend to have shorter average job durations than men.¹⁷ 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.
25. The sector in which people work can also be relevant to overall pension provision. Many women for example work in certain parts of the service sector where occupational pension membership is low. Conversely, a high proportion of public sector workers are women (over 60% overall¹⁸) where pension provision is widespread.¹⁹

¹⁴ Labour Force Survey Spring 2006

¹⁵ This can be seen from the differences in the proportion contributing between full-time and all employees in figure 2.v above

¹⁶ See *Examining the Potential for Women Returners to Work in Areas of High Occupational Gender Segregation*; DTI Research Report 05/1790, October 2005

¹⁷ Labour Force Survey. Spring 2006 This is partly related to their interrupted work patterns.

¹⁸ Labour Force Survey, Spring 2006

¹⁹ Annual Survey of Hours and Earnings 2005

26. Lower participation rates may also be a reflection of whether or not women have access to a private pension scheme. Women, especially those working part-time, may be less likely to have access to a workplace pension scheme than men. Ten per cent of female part-time workers report that they are not eligible to join their employer's scheme compared to 6 per cent of female full-time and 5 per cent of male full-time workers. This will have a particular effect on women given their higher part-time employment rates.²⁰
27. When in work, women often have lower earnings than men. Median weekly earnings for women overall are around 60 per cent of male median earnings.²¹ Part-time work explains this to some extent. The median weekly figure for full-time female workers is approximately 80 per cent of that for full-time male workers. However 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 87 per cent of that for men.²² Periods out of the labour market as well as differences in the kinds of occupations women are in also contribute to this disparity.²³
28. These factors mean that women are also likely to be contributing less to a private pension when they are a member. This in turn will make their pension pots lower on retirement.
29. Attitudes towards pensions and gender roles within households can also help explain women's individual pension outcomes. Whilst there is wide variation in how households divide roles and responsibilities 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 couples.²⁴

²⁰ General Household Survey 2004, Table 6.8

²¹ ASHE 2006, ONS, Gross weekly pay for all employee jobs

²² ASHE 2006, ONS, Hourly pay for full-time employee jobs

²³ ONS *Focus on Gender October 2006, summary*

²⁴ See: *Financial Planning for Retirement: Women's Perspectives*, DWP Research Report No 247, 2005

Chapter 3: The reforms

3.1 Impetus for reform

30. Originally, state pensions were a replacement for earnings – a reward for a lifetime spent in the labour market. The pension reforms of the 1970s made pensions more inclusive with the introduction of Home Responsibilities Protection and the abolition of the reduced rate married woman's National Insurance contributions. Women could no longer opt-out of National Insurance and in return the state pension system rewarded a greater mix of lifetime work, caring and parenting patterns.
31. The introduction of the State Second Pension in 2002 and Pension Credit in 2003 significantly improve the pension position of future and current women pensioners respectively.
32. However, inequalities remain. The existing system if left to evolve without reform would lead to women aged about 45 or over today continuing to have lower levels of state pension entitlement than men of the same age. This is despite most having made valuable contributions to society through provision of care. Without reform about half of women reaching State Pension age in 2010 will not be entitled to a full basic State Pension.
33. National Insurance pensions are contributory benefits, but some contribution conditions do not leave any flexibility to reward social contributions on a par with paid employment. Despite the significant improvements in women's pension position driven by Home Responsibilities Protection and increasing labour market participation, the existing pension system can still produce unequal outcomes for women and carers.
34. In the Government's five tests for reform, the 'fairness' test is particularly important for carers (who are often women). The reforms ensure that in retirement they are fully rewarded for their caring responsibilities within a modernised contributory principle. At the same time, the reform package must also be affordable to ensure that the proposals do not compromise underlying economic stability and strike a balance between the role of individuals, employers and the state. This challenge is particularly relevant in the context of the demographic changes whereby the imminent retirement of the baby-boom generation and increasing longevity mean a significant shift in the ratio of people of working age to pensioners.
35. The First Report of the Pensions Commission noted that women's pension outcomes were driven by a combination of their labour market experiences and specific features of the state pension system.²⁵ The Commission went on to highlight the need to treat people with

²⁵ *Pensions: Challenges and Choices, The First Report of the Pensions Commission, 2004*

interrupted work careers or caring responsibilities, in particular women, more fairly.

36. Reform of the pension system alone cannot fully address inequalities in retirement income and wider labour market factors. However, there is more that can be done to ensure that women have fairer pension outcomes and that the inequalities of opportunity in the past and current pension system are rectified.
37. Changes in society and family structures can affect pension outcomes. Women in the future are less likely to be married (or widowed) than previous cohorts and more likely to enter retirement without a partner.²⁶ Divorces and separation are more common and situations where one partner (particularly a husband) brings in all the income are less frequent.²⁷ The pension system has not kept up with all of these changes. Some private and state pension rights are derived on the basis of marriage. A modernised pension system needs to enable everyone to build up a pension entitlement in their own right.

3.2 The reform measures: overview

38. This impact assessment covers both the state and private pension systems. The reforms need to be considered in their entirety – they are intended to be coherent and mutually reinforcing to facilitate private saving from a reformed state platform.
39. The analysis of the personal accounts system is inevitably at an earlier stage given that the details of the personal accounts system will be further set out and refined in the forthcoming Personal Accounts White Paper and Bill.
40. State pension reforms:
 - will extend basic State Pension coverage from 2010, especially to women and carers with fragmented working lives.
 - then having extended the scope of the basic State Pension, earnings uprating²⁸ will raise the level of the pension.
 - to ensure that the changes are sustainable and affordable in the long term, State Pension age will rise to age 68 by 2046.

²⁶ See page 55-56, *Women and pensions: The evidence*, Department for Work and Pensions, 2005.

²⁷ Source: Labour Force Survey, Spring 1996 to Spring 2006

²⁸ The Government's objective is to do this in 2012 or at the latest by the end of the next Parliament, subject to affordability and the fiscal position.

State Pension Reforms – Increased Coverage

Category A and B retirement pensions: single contribution condition

41. Currently, two contribution conditions need to be satisfied for entitlement to a Category A and Category B²⁹ basic State Pension.
42. The first contribution condition is that a person must have actually paid Class 1 contributions on earnings of at least 52 times the weekly lower earnings limit for one tax year (or paid 50 flat-rate National Insurance contributions at any time before 6 April 1975).³⁰ An equivalent number of Class 2 or Class 3 contributions (paid by self-employed earners and voluntary contributors respectively) will also count.
43. The second contribution condition is that a person normally needs 44 qualifying years (a women needs 39 years) for a full rate Category A or Category B basic State Pension. To get the minimum basic State Pension a person will normally need 11 years (10 for a woman) - that is at least 25 per cent of the number of qualifying years required for a basic State Pension (the 25 per cent *de minimis* rule).
44. For people reaching State Pension age from 6 April 2010, the two contribution conditions will be replaced by a new, single contribution condition. The core proposal is that, for those reaching State Pension age from 6 April 2010, the number of years needed to qualify for a full Category A or B basic State Pension, is to be reduced from 44 years for a man and 39 years for a woman to 30 qualifying years for men and women alike. A person who has fewer than 30 qualifying years would be entitled to a pro-rated proportion of the full basic State Pension for each qualifying year they have built up.
45. This reform increases the number of people reaching pension age on or after 6 April 2010 with a full basic State Pension whilst still retaining a contributory system. A person will no longer need at least one year of paid contributions: a record may be composed solely of credited contributions, for example from the new parent's and carer's credit. This means that someone with a lifetime of care would be treated equally to someone who has a lifetime of work.

²⁹ See the Regulatory Impact Assessment published alongside the Pensions Bill 2006 for a full glossary of terms.

³⁰ Since 2000/ 01 employees who earn between the lower earnings limit and the employee's primary threshold no longer pay NI contributions, but are treated as if they have paid them. This means they will build up entitlement to contributory benefits, although they are not paying NI contributions.

Parent's and carer's credit

46. Under these reforms, Home Responsibilities Protection (which reduces the number of years needed to qualify for a full basic State Pension) will be transformed into a system of positive weekly credits for:
 - parents who are awarded Child Benefit for children up to the age of 12
 - approved foster parents ; and
 - carers who provide 20 or more hours care a week for one or more persons receiving Attendance Allowance, Constant Attendance Allowance, or the middle or highest rates of the care component of Disability Living Allowance.
47. Home Responsibilities Protection is awarded for full tax years only and therefore cannot be combined with credits or earnings.
48. The new parent's and carer's credit will help build entitlement to the basic State Pension and certain bereavement benefits (Widowed Parent's Allowance and bereavement allowance). For those people reaching pensionable age or dying on or after 6 April 2010, each complete year of Home Responsibilities Protection awarded under the existing rules of the scheme will be converted into a qualifying year for basic State Pension and relevant bereavement benefits.
49. Under the current rules, Home Responsibilities Protection is available to a parent for a youngest child aged up to age 16. Under the new proposals this will be replaced by a streamlined system of weekly credits for parents awarded Child Benefit for children up to the age of 12. The reduction in qualifying years outweighs this reduction in eligibility and the system of weekly credits makes the system simpler and easier.
50. The measures also provide for new qualifying conditions and more generous access for the new State Second Pension. Parents will also be credited into the State Second Pension until their youngest child reaches age 12 as opposed to age 6 under current rules. For the first time foster parents will be able to accrue State Second Pension. People benefiting from the new parent's and carer's credit will also be credited into State Second Pension.
51. A new carer's credit targets people caring for 20 hours or more a week for one or more severely disabled persons (including children aged 12 and over) receiving specified disability benefits. Precisely because of their caring commitments, these are people who seem to face more difficulties accessing paid work outside the home than carers who are committed for fewer than 20 hours every week. We have no evidence that other self-reported carers with less substantial caring commitments have difficulty accessing the labour market and for that reason the

reforms have been tailored to meet the needs of people with the heavier commitment.

State Pension Reforms – more generous and simpler

Re-link the uprating of the basic State Pension to average earnings

52. The Government's objective, subject to affordability and the fiscal position is to uprate the basic State Pension in line with earnings growth from 2012, but in any event by the end of the next parliament at the latest. The standard minimum guarantee in Pension Credit will continue to increase in line with earnings in the longer term and provide a safety net for the poorest pensioners unable to build up pension provision. Earnings up-rating is broadly gender neutral but as basic State Pension coverage increases women will benefit disproportionately from higher basic State Pension rates.

State Second Pension

53. As recommended by the Pensions Commission, the State Second Pension will be reformed and simplified. The earnings related element of State Second Pension will be withdrawn by around 2030. The flat rate element of State Second Pension will provide someone employed with earnings above £4,368 (the Lower Earnings Limit), and those people credited into the system, with a weekly pension of £1.40 for each year of qualification. This amount will be uprated by earnings during a working life and prices in payment.
54. Just as the new parent's and carer's credit will protect entitlement to basic State Pension with modernised crediting arrangements similar reforms will modernise the qualifying year rules for State Second Pension. Currently contributions and credits can be mixed in a tax year for basic State Pension entitlement, but they cannot be mixed for a State Second Pension qualifying year. This has meant that a parent or carer who combines paid work with caring responsibilities can miss out on a complete year(s) entitlement for State Second Pension. This restriction will be removed.

Category B retirement pensions – removal of restriction on entitlement

55. The key thrust of the reforms is to provide equality of opportunity – to enable everyone to build up state pension entitlement in their own right. Women's basic State Pension entitlement is improving – around half of women reaching State Pension age in 2010 will achieve a full pension even without reform and this rises to around three quarters with reform. Nevertheless, a minority of women will still rely on their husband's National Insurance record for their own pension. Under the current provisions, a married woman (and in the future a married man or a civil partner) cannot become entitled to a Category B spouse's retirement pension on her husband's insurance until her husband actually claims

his own basic State Pension – the Category A pension. So if a married man either by accident or design defers claiming his pension his wife automatically has to defer drawing her Category B pension. This has produced unfair outcomes when spouses take decisions which in effect prevent their (often estranged wives) from drawing a pension.

56. The Government's policy intention is that entitlement to a Category B retirement pension based on a spouse's contribution record should cease to be conditional on the spouse having claimed his own pension. This measure would simplify the deferral arrangements to enable spouses to make independent decisions on when (and whether) to claim retirement pension and remove disadvantages resulting from a spouse's decision.

Abolition of adult dependency increases

57. Currently, adult dependency increases to a basic State Pension are available for spouses (but with restrictions in the case of women claiming in respect of their husbands) and persons having care of the beneficiary's child(ren). A spouse or child carer is generally deemed to be 'dependent' on the beneficiary if s/he has no earnings or earnings below a set limit. Where the 'dependent's' weekly earnings are above the limit, no increase is payable for that week. If the spouse has another benefit in their own right this can wipe out entitlement to an adult dependency increase. As an adult dependency increase in respect of a wife is payable at the same rate as Category B pension there is no financial advantage in a man continuing to claim an adult dependency increase in respect of his wife once she has attained State Pension age. Adult dependency increases will be abolished under the reform proposals. These increases are less necessary where both members of the couple are likely to be economically active and can also act as a disincentive for women to work up until the State Pension age.

Raise the State Pension age in line with life expectancy

58. For men, State Pension age is currently 65. For women this is 60 but, as a result of the Pensions Act 1995 which removed inequalities from the system, State Pension age for women will gradually increase to 65 by 2020, affecting all women born in the period between 6 April 1950 and 5 April 1955. For women born on or after 6 April 1955, State Pension age will be 65, the same as for men.
59. As part of the reform measures in the Pensions Bill 2006, the Government proposes raising the State Pension age in order to ensure the long-term sustainability of a reformed State Pension scheme in the context of a growing pensioner population resulting from increasing longevity and falling birth rates. The Bill provides for State Pension age to increase from 65 to 68 between 2024 and 2046, with each change phased in over two consecutive years in each decade. This will maintain the ratio between working age years and retirement years.

Private Pension Reforms

60. The key aim of the private pension reforms set out in the White Paper *Security in retirement: towards a new pensions system* is to make it easier for people to save for their retirement and encourage personal responsibility.
61. At least 7 million people are estimated not to be saving enough for their retirement and inertia and a lack of understanding can be important barriers to saving.
62. In the White Paper *Security in retirement: towards a new pensions system*, the Government proposed the introduction of a system of personal accounts in 2012. This policy aims to enable individuals not already in a pension scheme to make their own low cost retirement provision. Eligible employees will be automatically enrolled into the new scheme or an existing employer scheme, but have the right to opt out if they wish so.
63. Participants will make contributions along with their employers and the State.³¹ These contributions will be on a defined contribution basis, in which the fund at retirement will depend on the level of contributions and fund growth during the accumulation phase. Individuals will have appropriate levels of choice over how to invest their funds. The accounts will be portable between employers and between periods of employment and self-employment.

³¹ Employers will have the choice whether to automatically enrol employees into personal accounts or into a different employer-sponsored scheme that qualifies for exemption.

Chapter 4: Impact of reforms

4.1 Benefits for women: overview

64. The state pension reforms will narrow the gender pensions gap and remove discrimination for carers in the pension system. 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. Career breaks will no longer necessarily have a negative effect on pension entitlement.
65. In the past an incomplete recognition of caring responsibilities, especially when tied to the different labour market experiences of men and women, combined to make women's state pension outcomes worse than men's.
66. The reforms help to address the pension effects of labour market differences and the pension impact of childcare responsibilities. The 30 year qualifying rule will help women build a full basic State Pension despite a fragmented career history. The introduction of a positive parent's and carer's credit will benefit all women, but may in particular help ethnic minority women who have in the past had a higher proportion of their basic State Pension record protected by Home Responsibilities Protection and may not under current rules be able to convert this into actual pension entitlement.³²
67. The outcomes of the reforms help both men and women. Men will gain from the reduction in qualifying years - as well as the carer's credit. While men represent a small proportion of carers among today's working age population, they can equally well benefit from the reforms and this may be important should patterns of caring change.³³
68. A reformed Pension Credit with the standard minimum guarantee uprated by earnings will continue to provide a safety net for those who do not build-up sufficient state and private pension entitlement thus continuing to address pensioner poverty. However, the reforms will ensure many more people have incomes above the standard minimum guarantee, so we expect a smaller and smaller number to be on the Guarantee Credit.
69. The reforms to the private pension system - personal accounts, automatic enrolment and an employer contribution - also provide the potential for significant improvements to women's pension outcomes through better opportunities and, coupled with state pension reforms, better incentives to save. Women are less likely to be accruing a private pension because of fragmented work histories and lower lifetime

³² See page 119, *Women and pensions: The evidence*, Department for Work and Pensions, 2005

³³ 75 per cent of those in receipt of Carer's Allowance are women, Work and Pensions Longitudinal Study 2006

earnings. Personal accounts, by focusing in particular on moderate to low earners, and by providing a low-cost and portable vehicle for private savings will also provide a significant opportunity for women to build-up pension savings. Overall, the reformed pension system will provide women with equal opportunities to save for a decent income in retirement.

4.2 Impact of key elements of state pension reforms on women

4.2.1 Basic State Pension

Coverage

70. The reforms to State Pension coverage will have an effect on women's state pension entitlement in the relatively short-term. Projections from the Government Actuary's Department Retirement Pension Model show that around three quarters of women who reach State Pension age in 2010 will be entitled to a full basic State Pension compared to around 50 per cent in the absence of reform (and compared to the current figure of around 30 per cent). The reforms therefore build on the improvements in women's State Pension outcomes which are already coming into effect.
71. In 2020 just over 300,000 extra women over State Pension age are estimated to be entitled to a full basic State Pension as a result of the reforms, rising to nearly half a million in 2025.³⁴
72. Men's entitlement also improves post-reform although less steeply since men currently are more likely to have accrued a full basic State Pension. However, the reforms halt the decline in men's outcomes which is otherwise forecast to occur as a result of changing labour market participation for men

³⁴ Projections from DWP Forecasting Division using the Government Actuary's Department Retirement Pension model, Great Britain. This figure refers to the number of GB women over pension age in 2020 or 2025 who are estimated to have gained a full basic State Pension as a result of the coverage reforms. It is not the sum of women who are estimated to gain a full basic State Pension in each year between 2010 and 2020 or 2025, as it accounts for estimates of deaths, and for women who move onto inherited pensions in this period.

Figure 4.i: Proportions of those reaching State Pension age entitled to a full basic State Pension

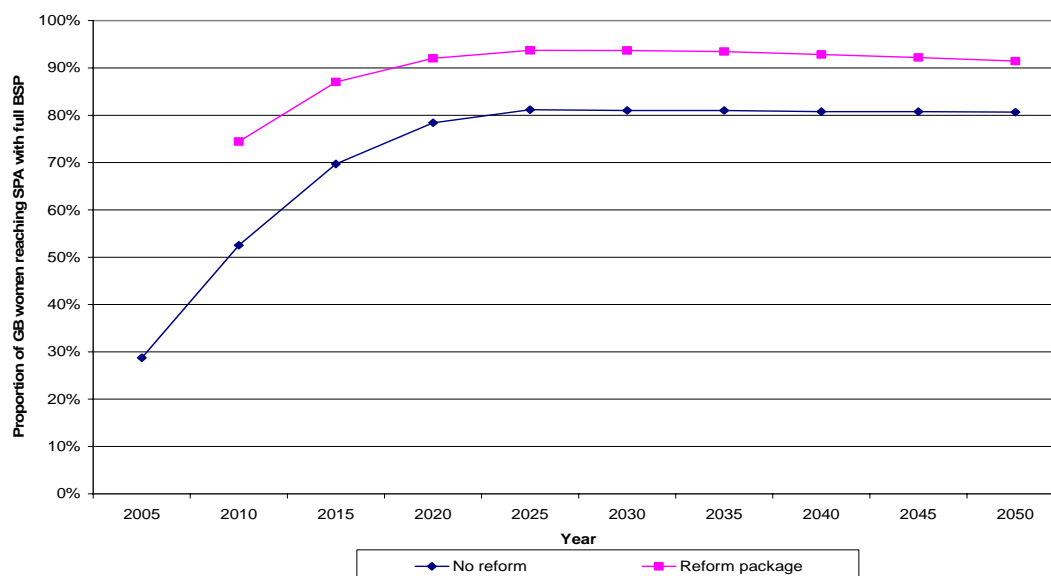
	2005	2010	2025	2050
People reaching State Pension age: current system				
Males	Around 85%	Around 90%	Around 75%	Around 75%
Females	Around 30%	Around half	Around 80%	Around 80%
People reaching State Pension age: reform				
Males	Not applicable	Over 95%	Over 90%	Over 90%
Females	Not applicable	Around three quarters	Over 90%	Over 90%

Source: Projections from DWP Forecasting Division using the Government Actuary's Department Retirement Pension model, Great Britain.

Notes: Women's entitlement is based on their own and their husband's contributions. For the assumptions underpinning this analysis see Annex A

73. From around 2025, over 90 per cent of women reaching State Pension age - the same figure as for men - will be entitled to a full basic State Pension compared to around 80 per cent without reform (see figure 4.ii below). Women with caring responsibilities will also benefit from the improved credits for parents and carers in State Second Pension.

Figure 4.ii: Proportion of women reaching State Pension age with full basic State Pension with and without reform



Source: Projections from DWP Forecasting Division using the Government Actuary's Department Retirement Pension model, Great Britain.

Notes: Women's entitlement is based on their own and their husband's contributions. For the assumptions underpinning this analysis see Annex A

74. In addition to the 30 year qualifying rule, the package of reforms to basic State Pension coverage also includes more generous credits for carers and parents, and the abolition of rules that currently prevent people from accruing any basic State Pension.
75. Around 40,000 people in 2010 could benefit from the removal of the first contribution condition and the 25 per cent de minimis rule rising to around 750,000 in 2025.³⁵
76. Furthermore, current estimates are that around 120,000 people could gain a credit for basic State Pension in 2010 as a result of the introduction of the carer's credit of whom around 85,000 (70 per cent) are women.³⁶

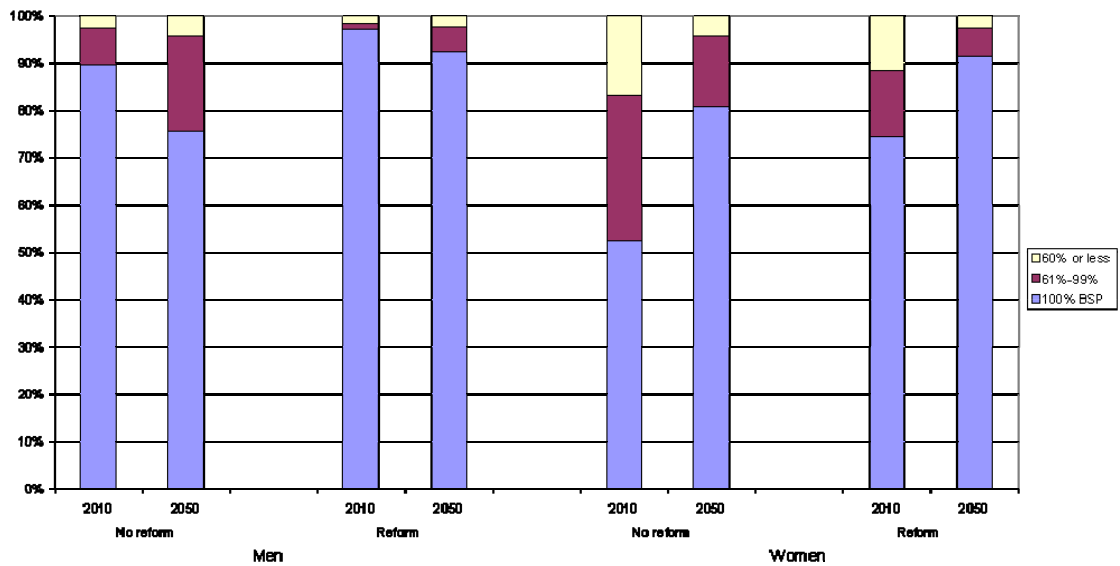
Level of Pension Entitlement

77. The reforms will increase the proportion of people entitled to a full basic State Pension – especially for women. Around 75 per cent of women will reach State Pension age with a full basic State Pension in 2010, compared to about half without reform. However, those women who do not qualify for the full basic State Pension are still likely to be entitled to a significant proportion of the full basic State Pension.
78. It is estimated that by 2050 less than 10 per cent of women reaching State Pension age will not be entitled to a full basic State Pension. The majority of this 10 per cent will be entitled to between 61 and 99 per cent of the full basic State Pension. A very small percentage of women (approximately the same percentage as for men) are expected to be entitled to less than 60 per cent of basic State Pension.
79. The Department is undertaking further analysis using administrative data, survey data and developing new primary research to examine in more detail the characteristics of individuals who may not receive a full basic State Pension after reform.

³⁵ Projections from DWP Forecasting Division using the GAD Retirement Pension model, including overseas cases. These are estimates of the average number of people over State Pension age in the given year who are projected to receive basic State Pension as a result of abolishing the 1st contribution condition and the 25 per cent de minimis

³⁶ This figure is based on estimates from the Family Resources Survey of the number of people who report themselves to be caring for 20 hours or more a week and who are not otherwise qualifying for basic State Pension. Adjustments have then been made to reflect a) estimates of the proportion of these carers who are caring for someone in receipt of a qualifying benefit b) the latest departmental Carer's Allowance caseload projections. Latest estimates reflect the most recent data on the number of people who report they are caring for at least 20 hours a week, improved assumptions about those likely to be caring for someone receiving a severe disability benefit and the Department's latest projections of Carer's Allowance caseload.

Figure 4.iii: Percentage of people reaching State Pension age with different proportions of the full rate of basic State Pension



Source: Projections from DWP Forecasting Division using the Government Actuary's Department Retirement Pension model, Great Britain.

Notes: Women's entitlement is based on their own and their husband's contributions. For the assumptions underpinning this analysis see Annex A

80. Improvements to entitlement can also be identified by looking at the full basic State Pension entitlement of all pensioners of all ages (i.e. not just those who are reaching State Pension age in a given year). By 2050, around 95 per cent of all women and men of pensionable age will be entitled to full basic State Pension compared to around 80-85 per cent in the absence of reform.³⁷ This is a slightly higher figure than for those reaching State Pension age with entitlement to a full basic State Pension because older pensioners can inherit pension entitlement.

³⁷ Projections from DWP Forecasting Division using the Government Actuary's Department Retirement Pension model, Great Britain

Figure 4.iv: People of pensionable age entitled to a full basic State Pension

	2005	2010	2025	2050
People of pensionable age: current system				
Males	Around 85%	Around 85%	Around 85%	Around 80%
Females	Around half	Around half	Around 70%	Around 85%
People of pensionable age: reform				
Males	Not applicable	Around 85%	Around 90%	Around 95%
Females	Not applicable	Around half	Around 75%	Around 95%

Source: Projections from DWP Forecasting Division using the Government Actuary's Department Retirement Pension model, Great Britain.

Notes: Women's entitlement is based on their own and their husband's contributions. For the assumptions underpinning this analysis see Annex A

Earnings Uprating of BSP

81. The table below shows the value of the basic State Pension if it continued to be uprated by prices until 2050 and the value of the basic State Pension with earnings uprating from 2012. Earnings uprating the basic State Pension ensures that it keeps its value in earnings terms and therefore continues to provide a solid base for people to save. Earnings uprating the basic State Pension would more than double its value in real price terms by 2050.

Figure 4.v: Weekly full basic State Pension entitlement, 2005/06 earnings and prices terms

	Earnings terms		Price terms	
	price uprated BSP	earnings uprated BSP	price uprated BSP	earnings uprated BSP
2012	£73	£73	£84	£84
2020	£62	£73	£84	£98
2030	£51	£73	£84	£120
2040	£42	£73	£84	£146
2050	£34	£73	£84	£178

Source: DWP calculations

Notes: Assumes receipt of full basic State Pension when reaching State Pension age - which is 66 in 2030, 67 in 2040 and 68 in 2050. Price and Earnings uprating starting from 2012.

82. For low-earning men and women this earnings uprated basic State Pension will provide a solid underpin to their retirement income. Women will benefit increasingly from this reform as basic State Pension

coverage improves because they tend to live longer and because state pensions make up a larger proportion of their income. The overall effect of this and the extended coverage to both basic and State Second Pension is that women will receive a more generous State Pension and will be less reliant on means-tested benefits.

4.2.2 State Second Pension

83. The reforms to the State Second Pension improve the situation for women. The credits for parents and carers widen coverage and the flexibility to combine contributions from earnings and credits gives more people the opportunity to accrue State Second Pension – this particularly benefits women because of their caring commitments.
84. The simplification of State Second Pension will provide employees with earnings above £4,368, and those people credited into the system, with a weekly pension of £1.40 for each year of qualification. This amount (which is in 2006/07 earnings terms) would be uprated by earnings in accrual and prices in payment. Low and moderate earners will in time accrue State Second Pension at the same rate as high earners.
85. The effect of these reforms is that around a further 1 million people will be accruing State Second Pension entitlement of whom approximately 90 per cent will be women (see figure 4.vi below). From 2010, over three quarters of a million extra women will accrue entitlement to State Second Pension as a result of extending credits for childcare from age 6 to age 12 as well as a further 30,000 men. Over 100,000 women could also accrue entitlement through the new carer’s credit.
86. These figures are over and above those women who have already been able to accrue entitlement as a result of the shift from SERPS into State Second Pension.

Figure 4.vi: Number of additional women accruing entitlement to State Second Pension

Reform	Number
Credits for care of children up to 12	780,000
Carer’s Credit for 20 hours or more	110,000

Source: Family Resources Survey 2003-2005

4.2.3 Pension Credit

87. Pension Credit is a key part of the Government’s strategy for tackling pensioner poverty. The Guarantee Credit element provides a safety net for those who have been unable to save for their retirement and the standard minimum guarantee ensures that no pensioner need live on less than £114.05 a week (£174.05 for pensioner couples). A higher guarantee level is available for those who provide care (currently an

additional £23.85 per week), are severely disabled (£46.75 per week) or have housing costs (for example, a mortgage) which are not met by Housing Benefit. For the disabled this can lead to an income of over £200 per week.

88. The Pension Credit standard minimum guarantee has been uprated in line with earnings since it was introduced. The White Paper *Security in retirement: towards a new pensions system* announced that this earnings link will continue beyond 2008. This is essential to ensure that the gains which have been made in addressing pensioner poverty will be secure into the future.
89. The Savings Credit provides a reward for those who have made modest provision for their retirement. Income above the Savings Credit threshold attracts a 60% reward up to a maximum and then tapers away at 40%. The current threshold is aligned to the basic State Pension and due to current uprating policies the maximum has been increasing by more than earnings, drawing more and more people into the scope of Pension Credit at higher income levels.
90. The changes proposed to the Savings Credit will help to make an early start at reducing the spread of Pension Credit to those with moderate or higher incomes i.e. those who do not need it. This will help to support the enhanced savings incentives that are an integral part of the reform package.
91. The state pension reform package will provide a more generous State Pension with broader coverage. This will mean that more and more pensioners are, in any case, lifted above the Pension Credit levels. We estimate that only around a third of pensioners will be entitled to some element of Pension Credit in 2050 (compared to around 70% without reform). These estimates do not take account of the impact of personal accounts, which, by increasing private pension saving, are likely to reduce the proportion of those eligible for Pension Credit even further.³⁸
92. Women are at present more likely than men to be eligible for Pension Credit and to be in receipt of the Guarantee Credit only. This is because current women pensioners are less likely than their male counterparts to have built up entitlement to a full basic State Pension or additional State Pension. Furthermore, on average, they have less private pension or investment income than men.³⁹
93. The reforms will mean that more women will have a full basic State Pension and State Second Pension bringing them above the level of the Pension Credit standard minimum guarantee. However, it is

³⁸ Further details of the projections that underpin the Pension Credit estimates and analysis which demonstrates the robustness of the estimates is set out in the DWP fact-sheet *Projections of Pension Credit entitlement*. On the DWP website at - www.dwp.gov.uk/pensionsreform/forum/docs/fs-pc-projection.pdf

³⁹ See figures 2.i and 2.ii above

important that Pension Credit remains as a safety net for the very poorest pensioners.

94. Estimates show that in 2020 around 12% of pensioner households will be entitled to Guarantee Credit only. By 2030 it is estimated that this will reduce to around 9% and by 2050 this reduces to around 6%. Nearly half of those eligible for Pension Credit in 2050 get higher rates of Pension Credit because they have additional needs, for example due to severe disability.
95. Around two thirds of those eligible for Pension Credit by 2050 are expected to be single women and just over half of all single female pensioners are projected to be eligible. Although the distribution is fairly even between the different types of single pensioner, the likelihood of receiving Pension Credit is greater for those single pensioners who have never married or are divorced than for those who are widowed.

4.2.4 State Pension age

96. Taking into account the increases in State Pension age women are still projected to spend more years in retirement and a greater proportion of their adult life in retirement than men. This means that they will particularly benefit from the earnings uprating of the basic State Pension as coverage increases.

4.3 Overall state pension outcomes

97. The improvements to coverage, the earnings uprating of the basic State Pension and the reforms to the State Second Pension mean a more generous state pension provision for more people.
98. Post reform, anyone who has built up rights to state pensions through working or has received credits for caring for most of their adult life (age 25-State Pension age) could receive around £135 a week in state pensions (basic and additional) in 2050. This figure is well above the £114 a week Pension Credit standard minimum guarantee level. Someone working or caring for 30 years would get close to £115 on retirement. The basic State Pension will be linked with earnings in the future. The objective subject to affordability and the fiscal position is to do this in 2012 but at the latest by the end of the next Parliament. As such the value of the basic State Pension in 2050 will be significantly more than its value under current uprating policies (see figure 4.v above).
99. These figures show the environment is set to improve for both genders, with the crediting arrangements for parents and carers giving women a substantial step-up. The inequality in outcomes between men and

women reduces, in particular, as the widening coverage and flat-rating of State Second Pension takes effect.⁴⁰

100. In 2005 women reaching State Pension age on average received £77 per week in basic and State Second Pension – just under 80 per cent of the average for men (£99 per week). Post-reform this gap in state pension outcomes is expected to narrow considerably. In 2050 the median woman reaching State Pension age is projected to be entitled to around £128 per week on average – nearly 95 per cent of men’s median projected state pension entitlement.⁴¹

4.4 Impact of Private Pension Reforms

4.4.1 Personal Accounts

101. The state reforms combine with those proposed to the private system – in particular personal accounts, automatic enrolment, an employer contribution and a State contribution in the form of tax relief– to improve the outcomes for all individuals, women and men.
102. The private pension reforms are essential steps towards tackling under-saving for retirement and increasing pension scheme membership. They will help to redress a lack of private pension provision for both men and women.
103. An analysis of the key market which personal accounts are designed to serve suggests that there could be important benefits for women. In particular there are significant numbers of women in the lower income groups who are not currently participating in an employer’s pension scheme. In addition, the portability of personal accounts across jobs will benefit women taking career breaks and working part-time.
104. With the solid foundation of the state reforms as a base, personal accounts provide a low-cost vehicle through which individuals would have the opportunity to build up private pension provision with the benefit of contributions from employers and the state through tax relief.

Eligibility for Personal Accounts

105. As set out in the White Paper *Security in retirement: towards a new pensions system*, personal accounts are targeted at moderate to low earning employees who do not currently have private pension provision.

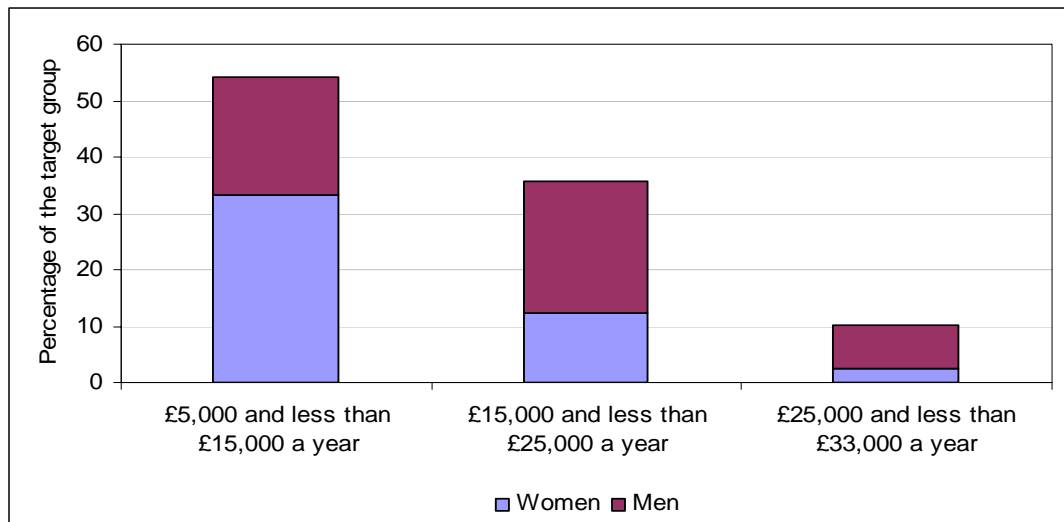
⁴⁰ Source: DWP modelling based on Pensim2. For further details see *Security in retirement: towards a new pensions system*, Regulatory impact assessments and technical appendices, Department for Work and Pensions, May 2006

⁴¹ Figures for 2005 are from DWP administrative data. Figures for 2050 are from DWP microsimulation modelling. Note – the figures for 2005 relate to state pension receipt and do not include any additional pension in respect of contracted out employment. The figures for 2050 are gross state pension entitlement including additional pension from contracted out employment.

The group to be automatically enrolled are those who are over 22 years of age, earning above around £5,000⁴² and who are not participating in a good work-based scheme. Focusing only on the key group who are earning between £5,000 and £33,000 per year, an estimated 48 per cent are women and over a third are women who are earning between £5,000 and £15,000 per year.⁴³

106. Figure 4.viii below shows that women falling into this income group are concentrated at the lower end of the wage band (particularly those earning between £5,000 and £15,000). Nearly half of these are in part-time work - a group currently characterised by lower participation in private pension schemes.

Figure 4.viii: Number of women and men within personal accounts key earnings bands



Source: Family Resources Survey 2004/05

Notes: For the analysis in this chart the target group is defined as employees aged 22 to State Pension age, earning between £5,000 and £33,000, and not in a private pension scheme.

107. The women in this lower earnings band represent a particularly high proportion of *all* female employees. Forty three per cent of all female employees earn between £5,000 and £15,000, compared to just over 20 per cent of male employees (see figure 4.ix).

⁴² Personal account contributions are, by default, only payable on a band of earnings starting at the Primary Threshold in the National Insurance system (£5,044 in 2006).

⁴³ Source: Family Resources Survey 2004/05

Figure 4.ix: Percentage of all men and women employees by earnings band



Source: Family Resources Survey 2004/05

108. Women at present have lower participation in private pension schemes but also in some cases may have less access to employers' schemes. This may particularly be the case for some part-time workers who report that they are not eligible to join their employer's pension scheme.⁴⁴ Personal accounts will provide access for all employees to a low cost pension scheme, with charges likely to be significantly lower than currently available in stakeholder pensions.

Age

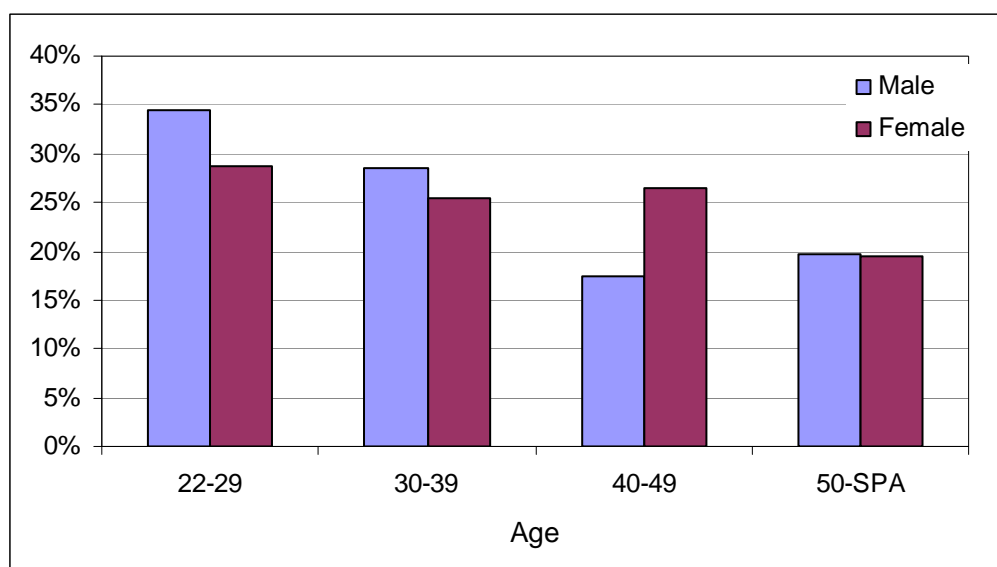
109. Figure 4.x shows the percentage of women and men, by age, within the key group for personal accounts of those earning between £5,000 and £33,000 and not in a private pension scheme. Women are fairly well distributed across the age spectrum, however there is a higher proportion of women in this group who are aged between 40 and 49. This reflects the fact that this part of the age range in particular is where women fall behind in their private pension provision – perhaps following a period out of the labour market to raise children.⁴⁵

110. Figure 4.x also illustrates the potential importance of personal accounts to other groups – for example younger men. Around a third of the men falling within this key group are in the 22-29 age band. Personal accounts provide an opportunity for these men to start saving earlier.

⁴⁴ Source: General Household Survey, 2005

⁴⁵ See figure 2.v above

Figure 4.x: Age distribution of men and women in personal accounts target group



Source: Family Resources Survey 2004/05

Notes: For the analysis in this chart the target group is defined as employees aged 22- State Pension age, earning between £5,000 and £33,000, and not in a private pension scheme.

Opt-Out Rates

111. Those who are automatically enrolled into personal accounts will be able to opt out should they wish. The White Paper *Security in retirement: towards a new pensions system* used a central estimate of around a third of those automatically enrolled who might opt-out. Higher and lower opt-out scenarios were also modelled to take account of the uncertainty around responses to personal accounts on the part of both individuals and employers.
112. There is no precedent for the personal accounts system and as such predicting the precise effects is difficult – in particular given the limited available data. The estimate on opt outs was based on a number of different evidence sources, looking at what drives participation rates in pension schemes, the evidence from existing schemes operating automatic enrolment and an assessment of the characteristics of those individuals likely to be eligible for automatic enrolment.
113. Some international evidence suggests that automatic enrolment could have a bigger effect for women.⁴⁶ Automatic enrolment has, for example, led to significant increases in participation in some pension schemes in the US. The groups where there was the largest effect included women. The Department for Work and Pensions is carrying out a programme of research on personal accounts, including among

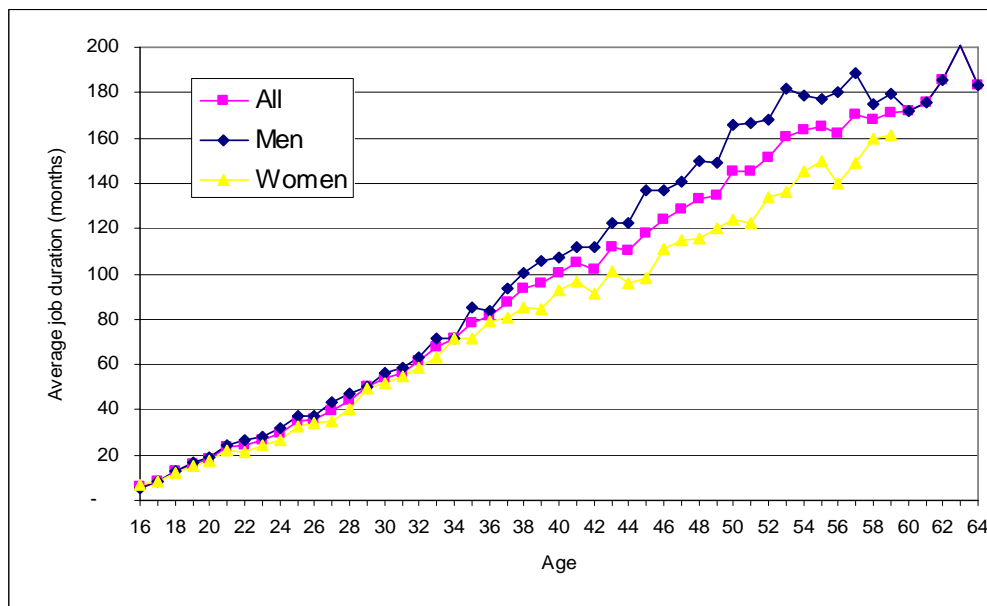
⁴⁶ See e.g. Madrian and O'Shea (2001), *The power of suggestion: inertia in 401(k) participant and savings behaviour*, Quarterly Journal of Economics.

other things a nationally representative survey of individuals' attitudes and likely responses to personal accounts. Related research to date has found no statistically significant difference between men and women's attitudes towards automatic enrolment.⁴⁷

Portability, Job Duration and Automatic Enrolment

114. A key barrier to women building up private pension provision in their own right is their tendency to have interrupted work histories – especially with childcare responsibilities. As a result women tend to be moving in and out of jobs and have shorter average job durations than men. This becomes particularly pronounced from around the mid-30s onwards which corresponds with the age at which women may be returning to work having had a break for childcare. It is also when women are more likely to work part-time and when women's participation rates in employers' pension schemes starts to fall behind those of men. Evidence also suggests that having children in itself tends to be correlated with a reduction in pension contributions – this will partly be as a result of disrupted work patterns, but also changing financial priorities.⁴⁸

Figure 4.xi: Average job duration women and men



Source: Labour Force Survey, Spring 2006

Notes: The chart shows the average (mean) number of months in continuous employment with current employer for each age, split by gender and applies to all respondents in employment in the UK (excluding college based schemes). Students have been excluded.

⁴⁷ *Public attitudes to pension reform*, Department for Work and Pensions, June 2006

⁴⁸ See: *Financial plans for retirement: women's perspectives*, Department for Work and Pensions Research Report No. 247, 2005.

115. These movements in and out of the labour market and between jobs can hinder the ability of women to build up decent private pension provision. Typical rules around pension fund accumulation mean that people moving jobs more frequently tend to fare less well than those who are longer serving members, especially in defined benefit schemes. For example, they could be affected by the existence of waiting periods.
116. Employment sectors make a difference to overall pension provision. Women have a high probability of working in some sectors of the economy, for example parts of the service sector, where occupational pension coverage is poor.⁴⁹ Conversely, they are more likely to work in the public sector where occupational pension provision is widespread.⁵⁰

Women's attitudes to pensions

117. There is some evidence that women in particular may lack confidence regarding pensions. This relates to their lower reported levels of understanding and knowledge of pensions, both of which may encourage inertia when it comes to saving for retirement. Automatic enrolment in particular will help to address any such inertia.
118. The Public Attitudes to Pensions Survey, for example, found that women's self-reported level of knowledge of pensions was lower than men's. There were nearly twice as many men as women in the category stating that they had a good knowledge of pensions whilst nearly twice as many women than men stated that they knew little or nothing about pensions. Women were also more likely to be in the category reporting that they did not know what their income in retirement would be.⁵¹
119. These findings link to roles within households – financial planning for retirement is often split along gender lines and essentially a male preserve. This can occur within younger couples as well as older ones.⁵²

Overall participation in personal accounts

120. Overall, we estimate that up to around 10 million employees could be eligible for automatic enrolment into personal accounts. This estimate is based on numbers of employees in the labour market but excluding those people who a) will be ineligible for automatic enrolment on the basis of their being under the age of 22 and/or earning less than £5,000 per annum; and b) will be exempt from personal accounts because they are

⁴⁹ Annual Survey of Hours and Earnings 2005

⁵⁰ Approximately 60% of all public sector workers are women (Labour Force Survey)

⁵¹ See *Pensions 2002: Public Attitudes to pensions and saving for retirement*, DWP Research Report No. 193, 2003

⁵² See *Financial Planning for Retirement: Women's Perspectives*, DWP Research Report No 247, 2005

already in (or it is assumed that they are automatically enrolled into) an exempt pension scheme with a 3 per cent or more employer contribution.⁵³

121. It is estimated that around 43 per cent of those in the target group for auto-enrolment into personal accounts will be women. Although there are some uncertainties surrounding the number of people who will choose to opt-out, it is estimated overall that between 2.2 and 3.4 million female employees might participate in personal accounts compared to between 2.8 and 4.6 million male employees.⁵⁴
122. The number of men estimated to be participating in personal accounts is slightly higher than the number of women. This is partly due to the fact that there are more male employees but also that proportionally more women work in the public sector and will already have access to a pension scheme. A higher percentage of female employees will also be ineligible from auto-enrolment as a result of having lower earnings.

4.4.2 Improved payback from saving

123. There are two main economic reasons to save for retirement: the desire to smooth income across a lifetime and the opportunity to benefit from expected increases in the value of contributions.
124. The reforms mean that people can generally expect a better payback from their private saving. The DWP *Financial incentives to save for retirement analysis* to be published shortly explores the reasons why people save in more detail, and gives further analysis of the impact of reform on those incentives. This shows that the large majority of people can expect to be better off from saving.
125. It also looks specifically at the payback which can be expected by individuals with broken work records, including a woman with periods of caring early and late in her career and part time work, a woman with a caring break not fully covered by State Second Pension credits, and a long career break of 25 years not all of which is covered by state pension credits.⁵⁵
126. The final payback for saving in a personal account is calculated by considering the cumulative effects of the build-up of the pension fund. First, every employee gets the immediate matching contribution from their employer and tax relief. Second, investment growth is added.

⁵³ Source: DWP modelling based on Employers Pension Provision Survey 2005, Annual Survey of Hours and Earnings 2005, Small and Medium-sized Enterprise (SME) Statistics 2005

⁵⁴ This is based on the Department's working assumption of the numbers likely to opt-out of personal accounts having been automatically enrolled.

⁵⁵ Full details of their working histories and assumptions underpinning the analysis are set out in Annex B

Once tax and benefit offsets have been taken account of, the final payback is generated. It is assumed that the pension fund is annuitised at retirement to produce an income stream for the individual for the duration of their retirement.

127. Payback will depend on a number of factors and assumptions, including investment performance and annuity rates, but under plausible assumptions each of these women could expect a payback of more than £2 plus inflation for each £1 they contribute to personal accounts under reform. Without reform, payback would be lower, and the women with the long career break and the missing State Second Pension credits might have a payback which is less than £1 plus inflation.⁵⁶

4.5 Overall impact of proposed reform measures

128. The Department for Work and Pensions has analysed expected pension outcomes for individuals with and without reform.
129. This analysis examines various hypothetical individuals and makes different 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. It also shows the effects of retiring in different years. This gives a picture of the overall impact of the reforms (state and private) given particular work/life patterns and by given different years of retirement.
130. 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) shows National Insurance contribution records since the introduction of SERPS in 1978 and thus reflects people's labour market experiences.⁵⁷ This produces a detailed picture of the way in which people build-up entitlement towards the basic State Pension. It is possible to use this data to undertake cohort analysis of working patterns and build-up entitlement to state benefits for different age groups.
131. Analysis of this National Insurance database has therefore informed the choice of hypothetical individuals covered in this section.

⁵⁶ In these cases they might still wish to save to smooth their income across their lifetime. In retirement their income will be lower overall than in working life and hence she is likely to value an extra £1 more in retirement

⁵⁷ The Lifetime Labour Market Database (LLMDB2) is created using a 1 per cent sample taken from the new National Insurance Recording System (NIRS2)

132. In this section we compare the outcome for those reaching State Pension age in 2050 or 2053⁵⁸ under three scenarios:

- The system as currently legislated with the standard minimum guarantee uprated by prices;
- The system as currently legislated with the standard minimum guarantee uprated by earnings⁵⁹
- The system after the reform measures are introduced

133. In each case the value for income is given in 2005/06 earnings' terms. Each individual is assumed to contribute 5 per cent of their wage (between the primary earnings threshold and the upper earnings limit) to private pensions and they have different earnings profiles and caring duties. Detailed profiles of the individuals' work and caring histories are set out in annex B. The examples include the effects of the entire reform package – including personal accounts.

People with full work histories

134. The first three examples below show the outcomes at retirement for hypothetical women with a long working life but with different earnings levels. They include women with low, median and high earnings.

135. The outcomes shown reflect the amount which women with similar labour market experiences to these could be expected to receive post-reform independently irrespective of their partnership status.

136. Around a third of all women from the Lifetime Labour Market Database analysis had work histories in which at least 15 years of the previous 20 were spent in work and in many cases all 20 years were spent in either employment or self-employment. Working for this sort of time period is a common example of a career history for women, although there are of course many women who have periods out of the labour market for whom this may not be a typical working life.

137. In all of these examples the individuals receive more in retirement income under the reformed system than they would have done had the existing system remained in place whatever their level of earnings. In all of the first three examples, there is a shift away from means-tested benefits and towards a higher state pension income and increased private savings when the current system with earnings uprated standard minimum guarantee and the reformed system are compared. Their overall income is well above the level of the standard minimum

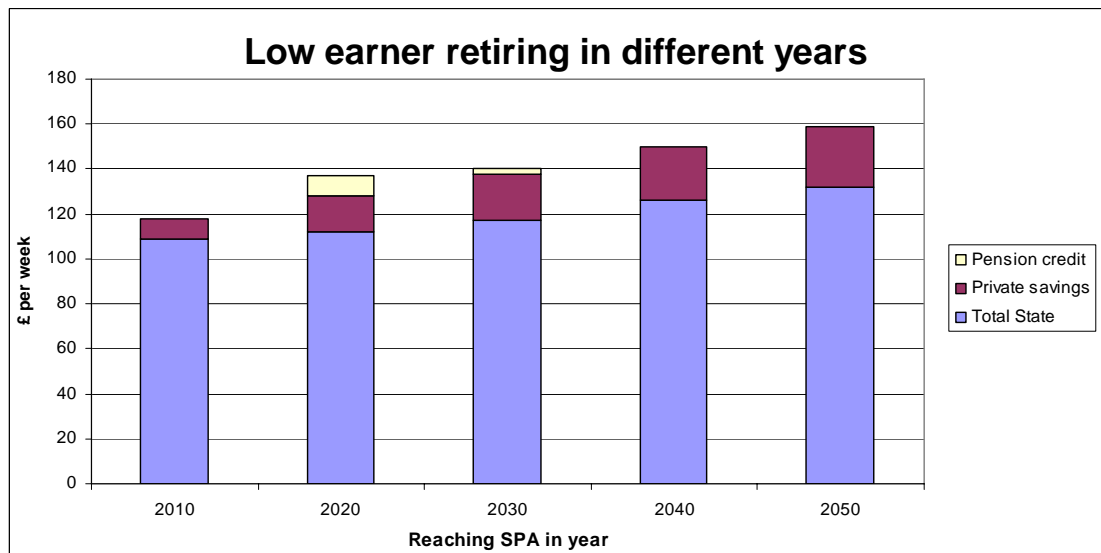
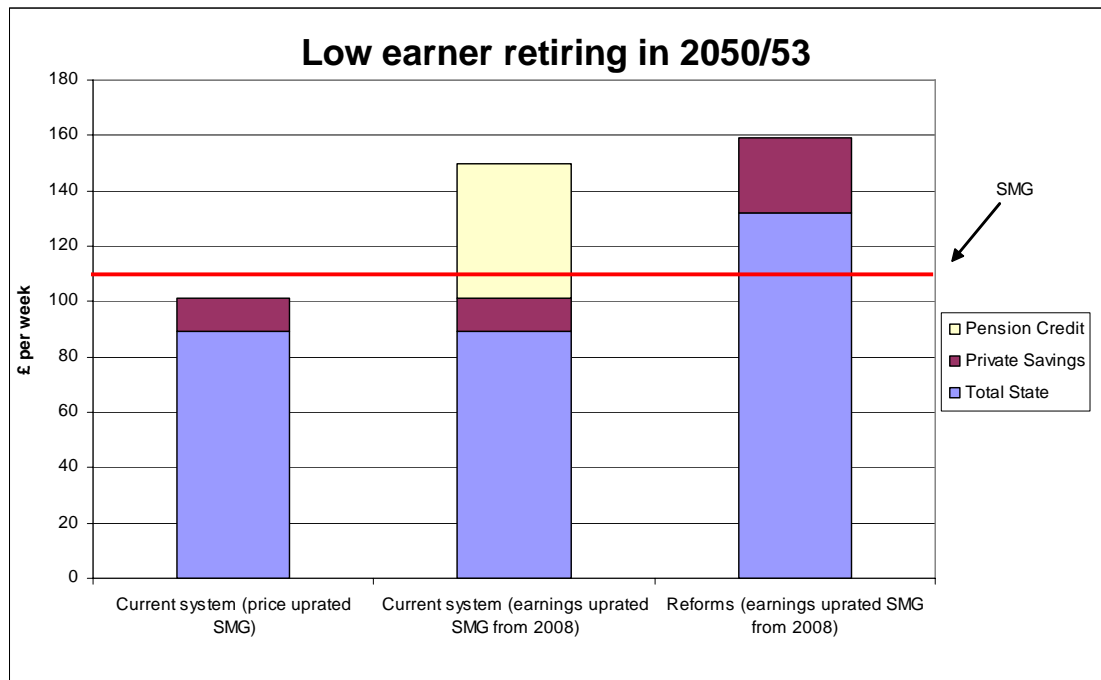
⁵⁸ The year of reaching State Pension age is different to account for the increase in State Pension age from 65 to 68 under the reform measures

⁵⁹ The Government has raised the standard minimum guarantee by earnings since its introduction and had previously given a commitment to do so until 2008.

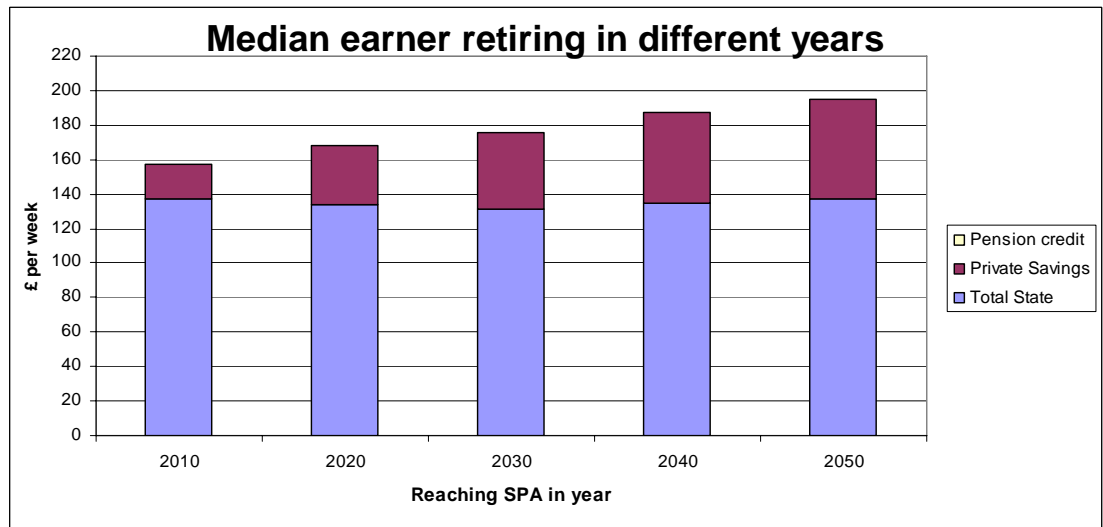
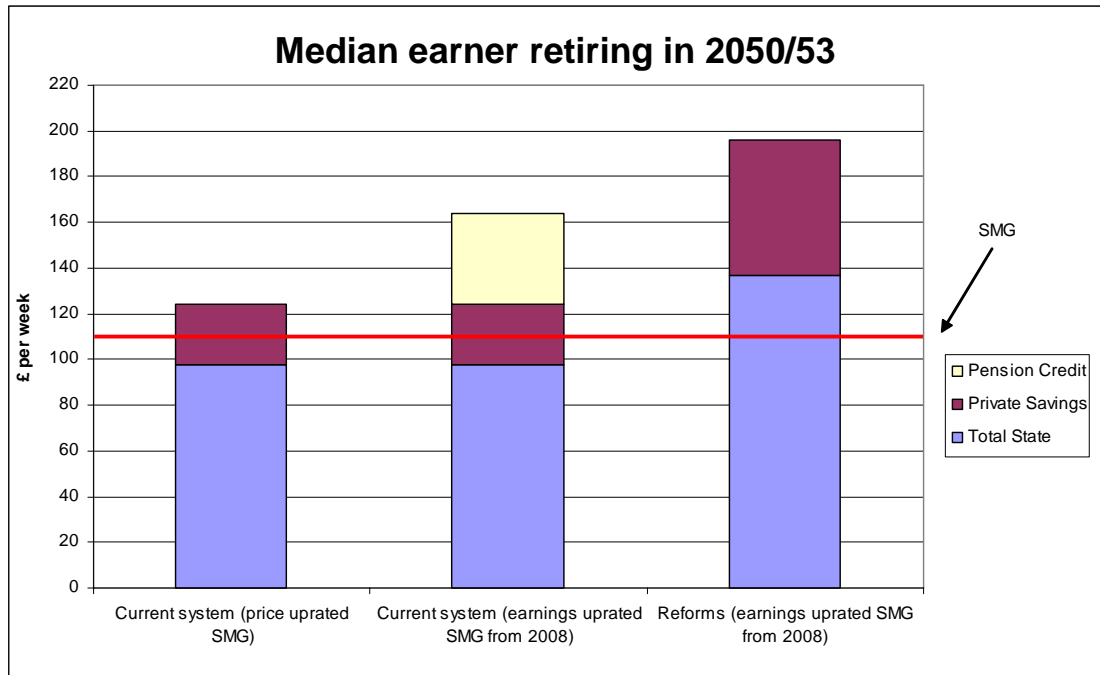
Guarantee Credit. The shift away from means-tested benefits can be clearly seen in the second chart for each individual which shows pension income for similar individuals reaching State Pension age over a number of decades.

138. For the low-earning individual, any Savings Credit they would have received under the system as currently legislated but with standard minimum guarantee uprated by earnings beyond 2008 is more than outweighed by the increase in state pension and the boost to their private savings provided by personal accounts (in particular the employer contribution).
139. Median and high earners receive more in state pension as well as enhanced opportunity to make private savings through personal accounts.
140. The chart showing outcomes under the reforms and alternative variations of the current system also show the level of the Pension Credit standard minimum guarantee (SMG).

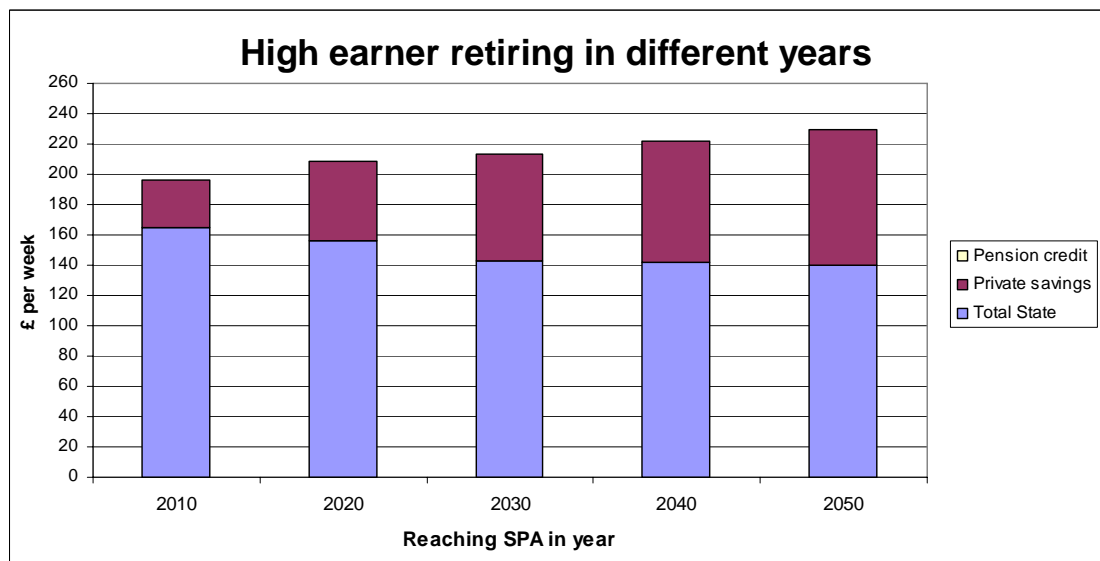
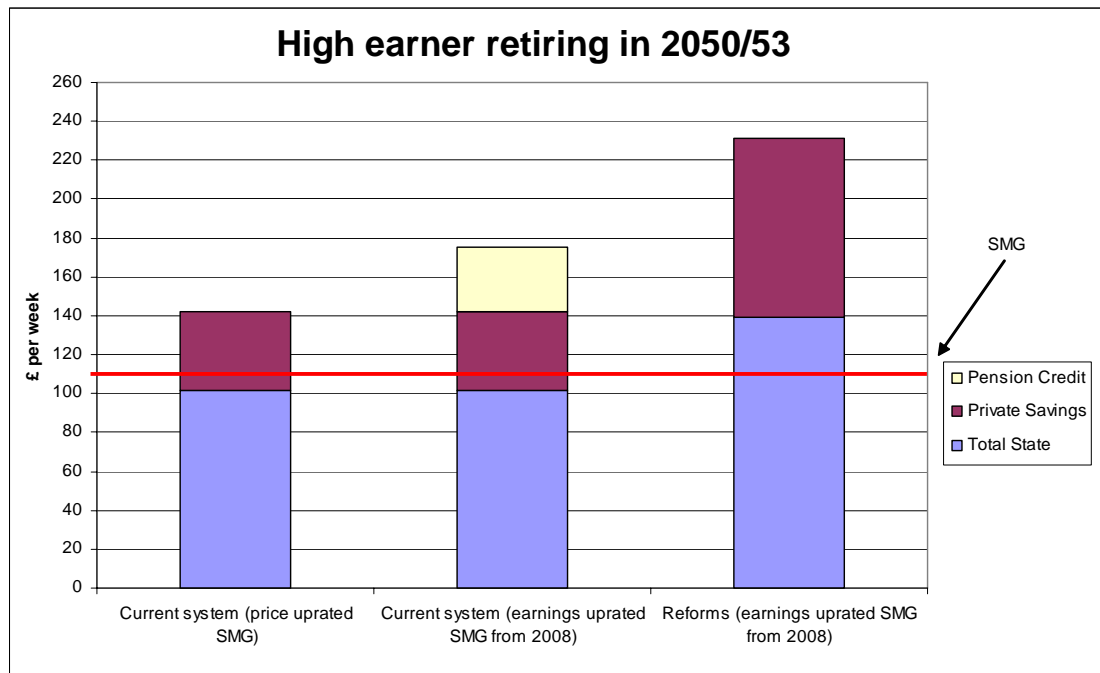
Low-earner, full work history



Median earner, full work history



High-earner, full work history



People with fragmented work histories

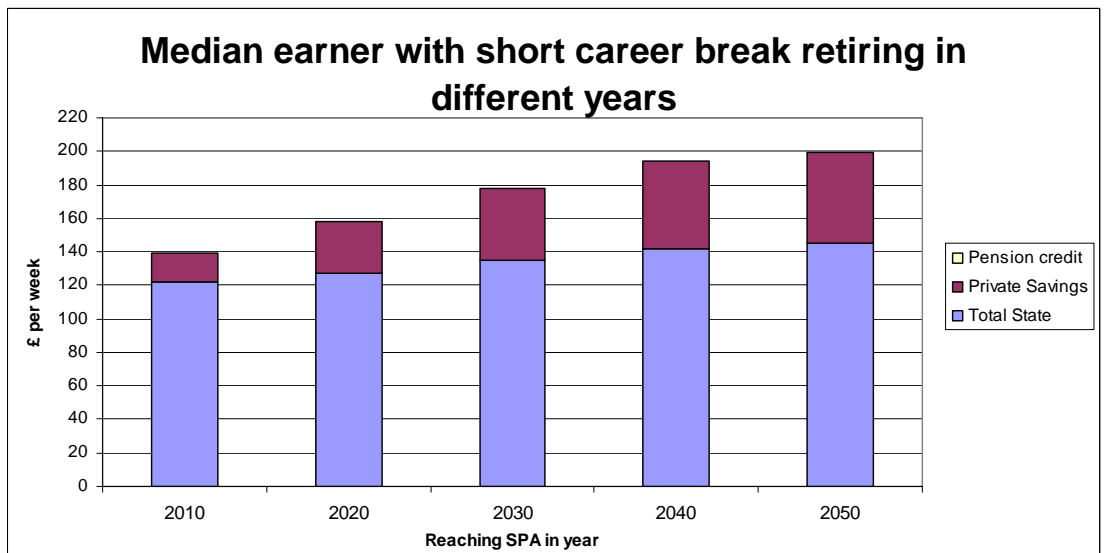
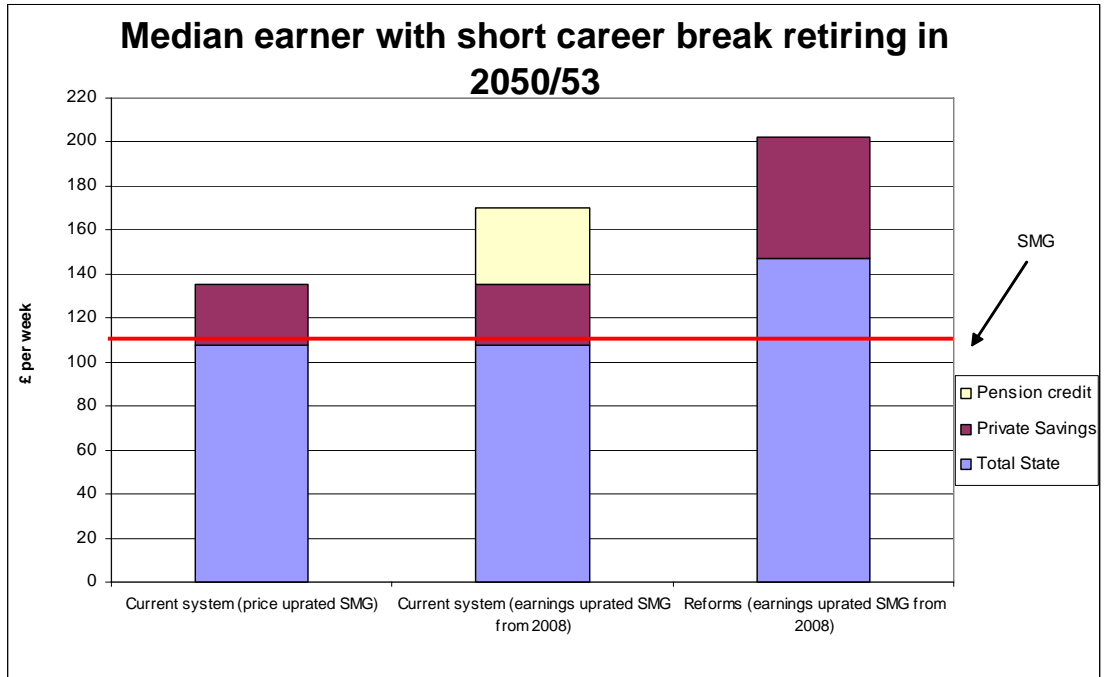
141. The next five examples consider hypothetical women who have more fragmented working histories. In all of these cases the individuals spend large periods of time out of the labour market (principally undertaking caring responsibilities) and are also generally relatively low-paid or in part-time employment when they are in work.⁶⁰
142. The examples show the pension income that women with these histories can expect to receive independently following reform. In all cases they are projected to receive significant increases in their state pension entitlement compared to their outcomes under the alternative variations of the current system going forward. Despite their low pay and time caring, all of these examples can expect to receive comfortably in excess of the Guarantee Credit level.
143. The second charts in each example show the expected outcomes for an individual with these characteristics retiring at various points between now and 2053. They show a steady increase in the income that can be expected as the reforms fully take effect.
144. The first two examples show women with around median female earnings (approximately £370 per week) whose time in work is interrupted by periods out of the labour market to undertake caring responsibilities. In the first example the woman concerned works for 15 years after leaving school and then, from the age of 30, has five years out of the labour market caring for children. She then returns to work part-time for a five years before returning to full-time work. In the second case the woman has her first child at the age of 27 and cares for five years before returning to part-time work. She then takes a further five years out of the labour market in her late 30s and early 40s caring (for example for children or an elderly relative) before she returns to full-time work.
145. Analysis of the Lifetime Labour Market Database indicates that between a third and a half of women have at least 5 years of the previous 20 made up of Home Responsibilities Protection: these examples are broadly consistent with actual life experiences.⁶¹
146. In both cases the women would receive independently, regardless of their partnership status, a higher income on reaching State Pension age under the proposed reforms than they would under the alternative versions of the current system.
147. Their state pension entitlement (basic State Pension and State Second Pension) is well above current levels - principally driven by the earnings

⁶⁰ Several of these examples were proposed by external stakeholders.

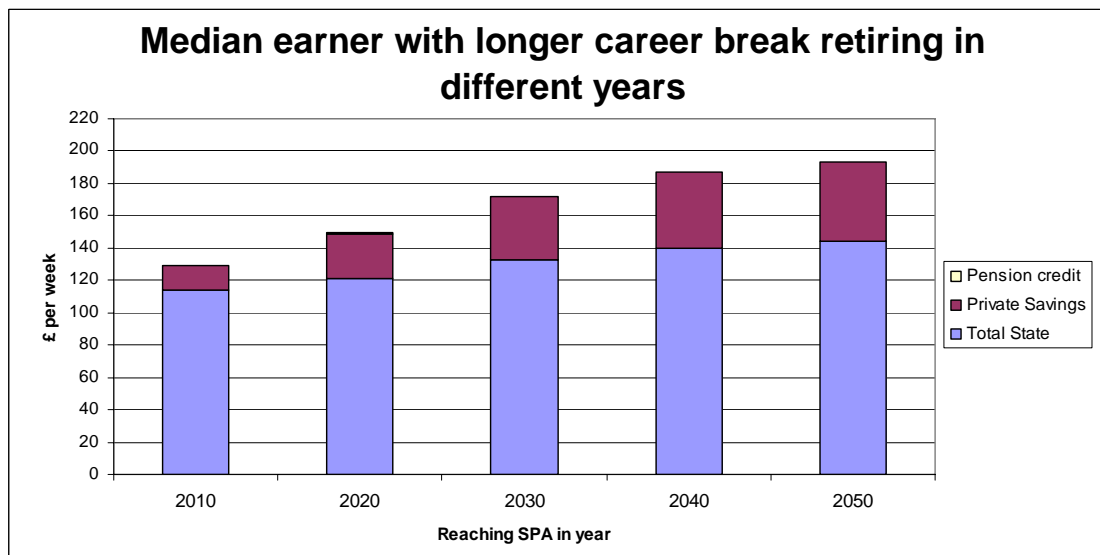
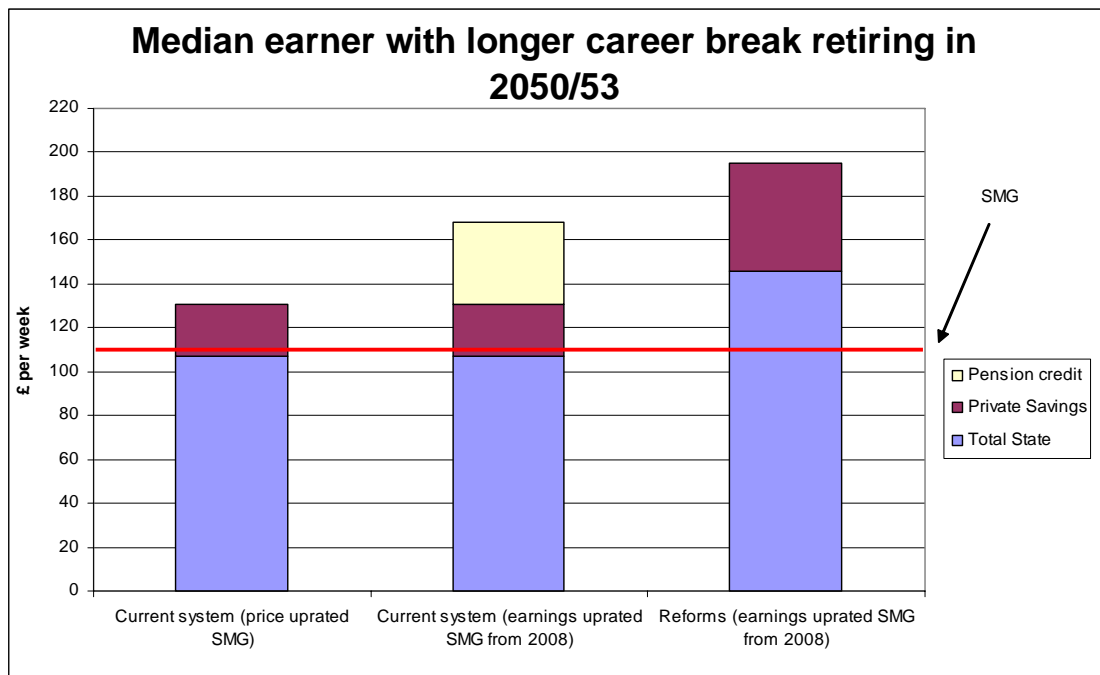
⁶¹ This covers the records for two age cohorts: women aged 40-44 (their records between the ages of 20 and 39) and women aged 50-54 (their records between the ages of 30 and 49).

uprating of the basic State Pension. In both cases there is some shift away from means-tested Pension Credit towards the combination of state pension income and enhanced opportunities for private saving through personal accounts.

Median earner with short career break



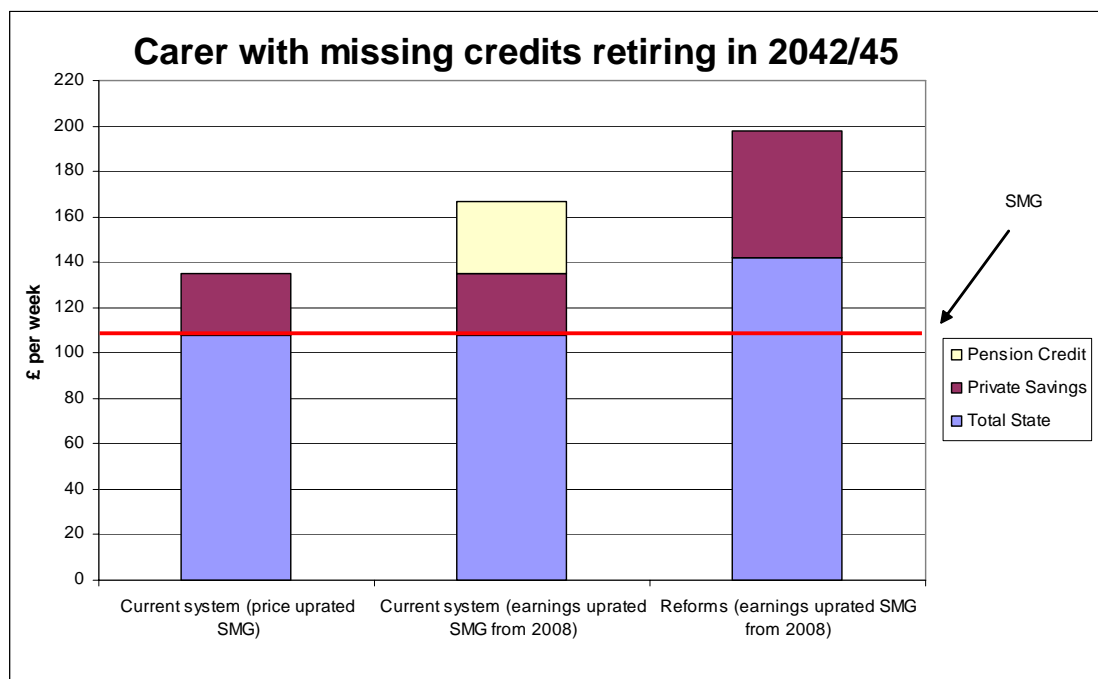
Median earner with longer career break



Carer, missing some credits

148. The hypothetical woman in this example is aged around 35 when the reforms come into effect. She is assumed to have two children and, in this example, the years in which the children were born mean that she likely to have missed out on some of her State Second Pension credits before the State Second Pension was introduced. After returning to work she is a moderate earner (earning around 80 per cent of median earnings).

149. Data from the Lifetime Labour Market Database show that working histories with this precise combination of work and Home Responsibilities Protection are not common.⁶² However nearly a quarter of this age cohort had similar periods of Home Responsibilities Protection combined with various other credits, work or missing years.
150. As the chart below shows, under the reformed system this woman could expect an outcome independently of nearly £200 per week – comfortably more than she would receive under the alternative variations of the current system. She is entitled to a full basic State Pension (totalling nearly twice what she would have received under variations of the previous system). Her overall state pension entitlement is over £130 per week – well above the level of the Pension Credit standard minimum guarantee.



151. Post-reform her private savings under personal accounts provide around double the amount that similar savings would have generated in the pre-reform system.
152. A woman with these characteristics would also face a shift away from means-tested benefits and towards state pensions and additional private savings. The increases to her state pension entitlement and additional private saving are greater than any loss of Pension Credit she would have been received had the current system continued with earnings uprating of the standard minimum guarantee.⁶³

⁶² Less than 5 per cent of women aged between 40 and 44 had a record between the ages of 20 and 39 which would correspond with this individual's history.

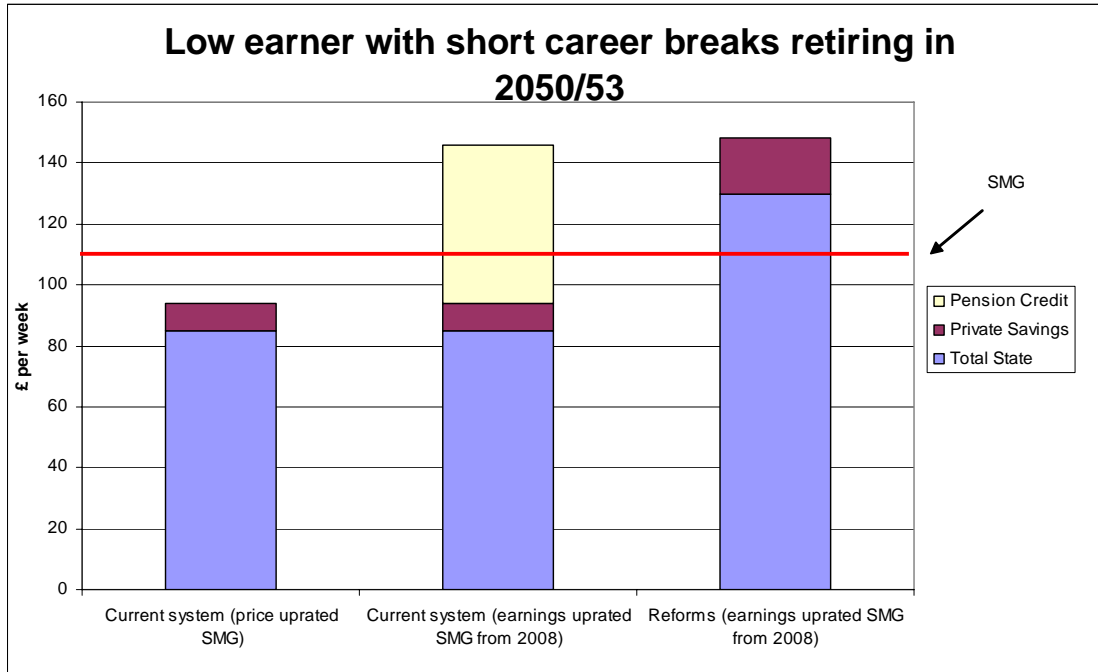
⁶³ This woman's experiences and outcomes are time specific (she is assumed to be around 35 when the reforms come into place and the years in which she is assumed to have had her children affects her State Second Pension entitlement). As such the chart showing retirement in different years is not shown.

Low-earner, with some short breaks and part-time working

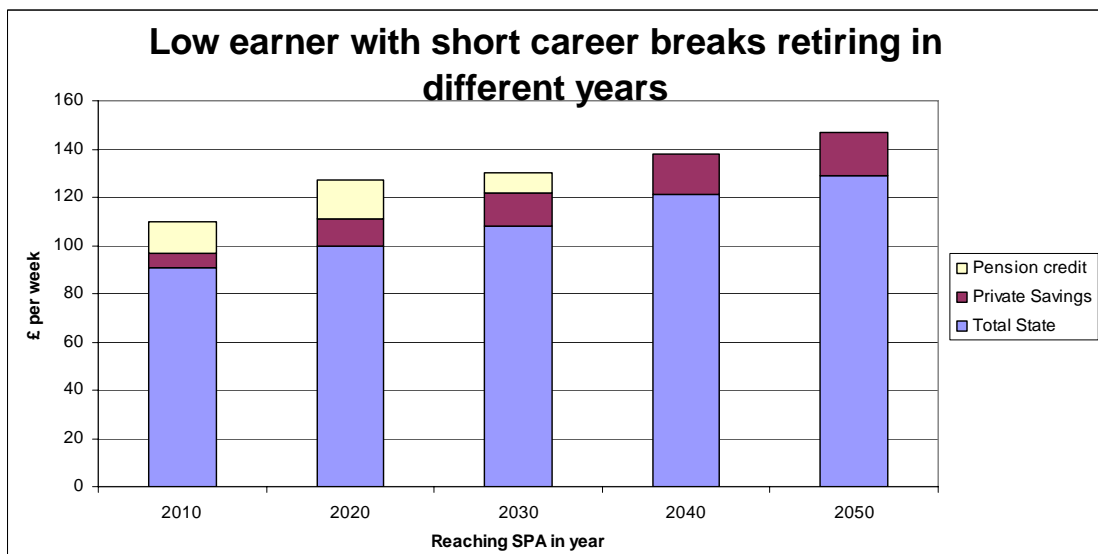
153. This hypothetical individual has a varied work history characterised by seven years of full-time work early in her career followed by caring and a mixture of full and part-time work with a further period of caring later in her career.
154. However this later period of caring does not comprise 20 hours or more a week for someone in receipt of the relevant benefits and so does not attract the new carer's credit. Her periods in work are relatively low-paid – at around the minimum wage level.
155. The Lifetime Labour Market Database shows that working histories with this particular combination of work and Home Responsibilities Protection are rare.⁶⁴ However nearer a fifth of the relevant age cohort had similar periods of Home Responsibilities Protection combined with a mixture of various other credits, work or missing years.
156. Again, the reforms to the state system mean that an individual with this kind of history could expect a significantly improved state pension outcome compared to the alternative versions of the current system going forward. This is despite the fact that she has some missing years where she is not working or being credited. Her overall state pension entitlement is at a level sufficient to comfortably avoid the Guarantee Credit threshold. This is income which she receives independently and does not depend on her being in a partnership.
157. Under the reformed system she is entitled to the full basic State Pension– more than double what she would have received were the current system to be carried forward. Her overall weekly income would be nearly £150 per week compared to the around £120 per week that a comparable individual would receive today.
158. Her overall income post-reform would be a little more than her income in 2053 were the current system to have continued but with the Pension Credit standard minimum guarantee uprated by earnings post-2008. However, under the reforms there is a move away from the means-tested element towards a combination of state pension income and increased private saving facilitated by the personal accounts system (with the employer contribution making a key difference).
159. This illustrates why the current system could not have been projected forward indefinitely – pensioners would have retired with significant proportions of their incomes means tested and this would have eroded incentives to save.

⁶⁴ Fewer than 5 per cent of women in the 40-44 age group had between 5 and 9 years of Home Responsibilities Protection combined with employee contributions (which would correspond with this individual's history) when they were between the ages of 20 and 39

160. The move away from means-tested benefits means that this woman would have a better incentive to save under the reformed system. As noted in section 4.4.2 above, an individual with these characteristics could expect a much improved payback on every £1 saved post-reform.



161. Individuals with similar work and caring patterns to this retiring at different points going into the future post-reform will face an increasing income at retirement as the reforms fully take effect. This is particularly driven by the increasing amounts of State Second Pension to which they would be entitled thus driving their overall state pension entitlement.



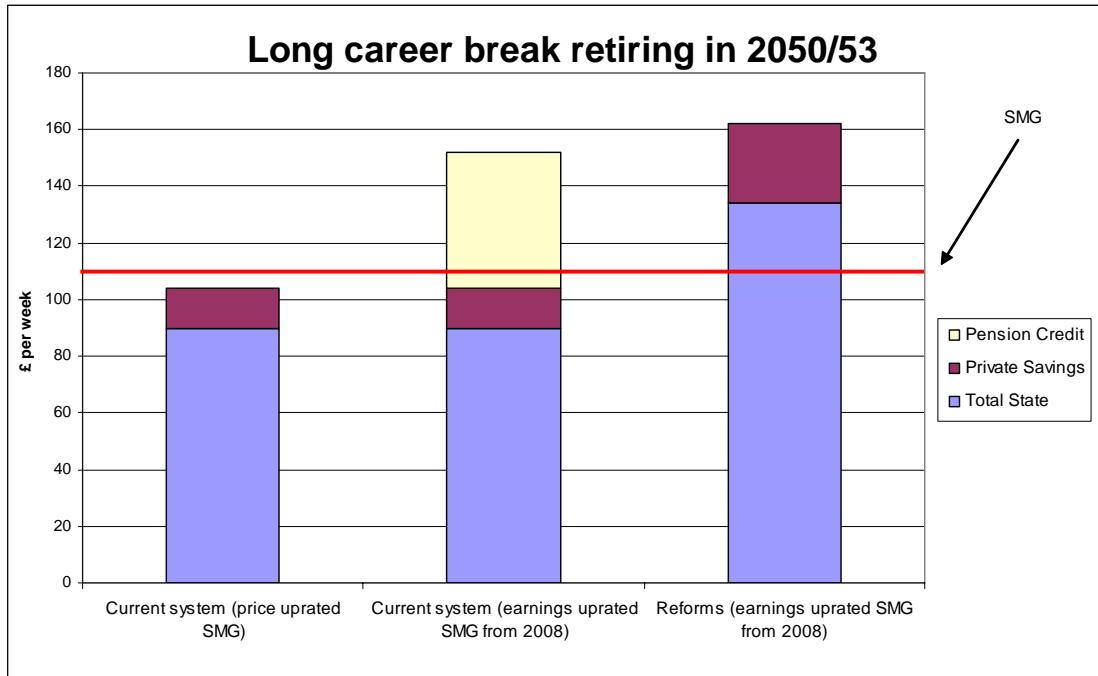
Long Career Break

162. In this case the individual works for 10 years and then takes 25 years out of the labour market to care for children before returning to work (initially at a fairly low salary of around £265 per week, but gradually rising up to around median female earnings). For 18 of the years out of the labour market she receives some credits for basic State Pension and State Second Pension.
163. This example of someone with a long break for childcare may reflect the experience of some ethnic minority women who currently have a higher proportion of their basic State Pension record protected by Home Responsibilities Protection.⁶⁵
164. The analysis of the National Insurance database shows that this particular type of work and caring history is fairly rare. Fewer than five per cent of women have a contribution record with 18 or more years of Home Responsibilities Protection within the last 20 years. Nonetheless, between a third and a half of women in the relevant age groups have at least 5 years of the last 20 made up of Home Responsibilities Protection.⁶⁶
165. Under the reformed system this woman sees a significant improvement in her state pension outcomes. The additional credits received for basic State Pension, the 30 year qualifying period and earnings uprating of the basic State Pension, in particular, mean her basic State Pension receipt under the new system is more than double what it would have been had the current system (or the alternative variations of it) continued. She also receives a slightly increased State Second Pension. This provides an overall State Pension income of over £130 per week which she would receive independently and regardless of her partnership status compared to around £90 per week without reform.
166. Although she has a number of years out of the labour market, on top of her state pension she receives more in private savings under the reforms. When she is in work she contributes to a personal account and receives more from private savings than in the pre-reform system - in particular as a result of the employer contribution.
167. Overall an individual with this work and caring history would receive slightly more retirement income under the reformed system than under the alternative variations of the current system taken forward. There is, however, a substantial shift in her income away from means-tested benefits towards a state pension foundation combined with a higher expected payback on her private savings.

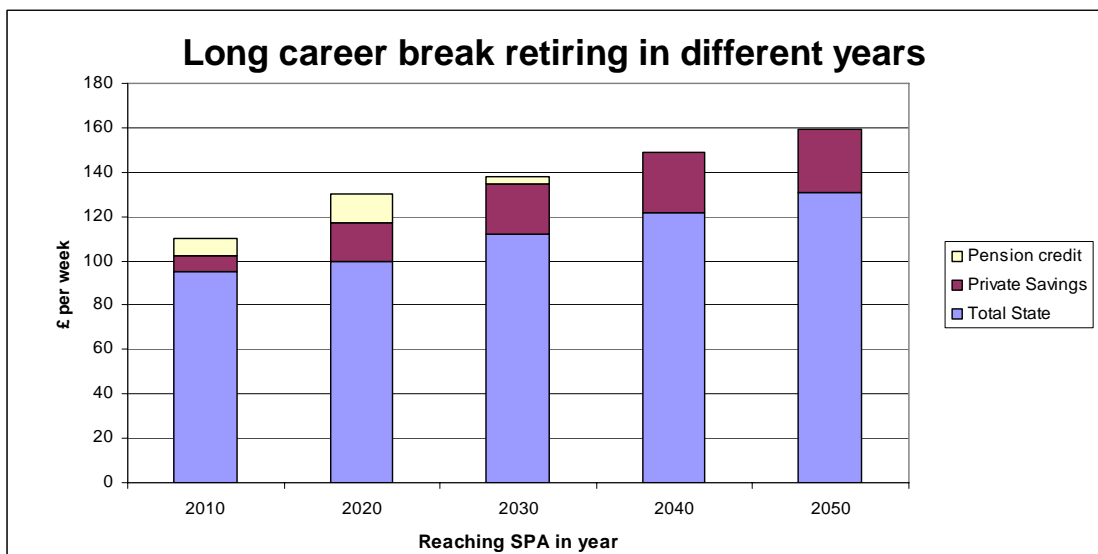
⁶⁵ See page 119, *Women and pensions: The evidence*, Department for Work and Pensions, 2005

⁶⁶ These groups are women aged 40-44 (their records between the ages of 20 and 39) and those aged 50-54 (their records between the ages of 30 and 49)

168. This can avoid potential problems arising concerning savings incentives. Section 4.4.2 above shows that a woman with these characteristics, under reasonable assumptions, can expect a payback of over £2 for every £1 they save as a result of the reforms whereas pre-reform there was a risk of this payback being less than £1.

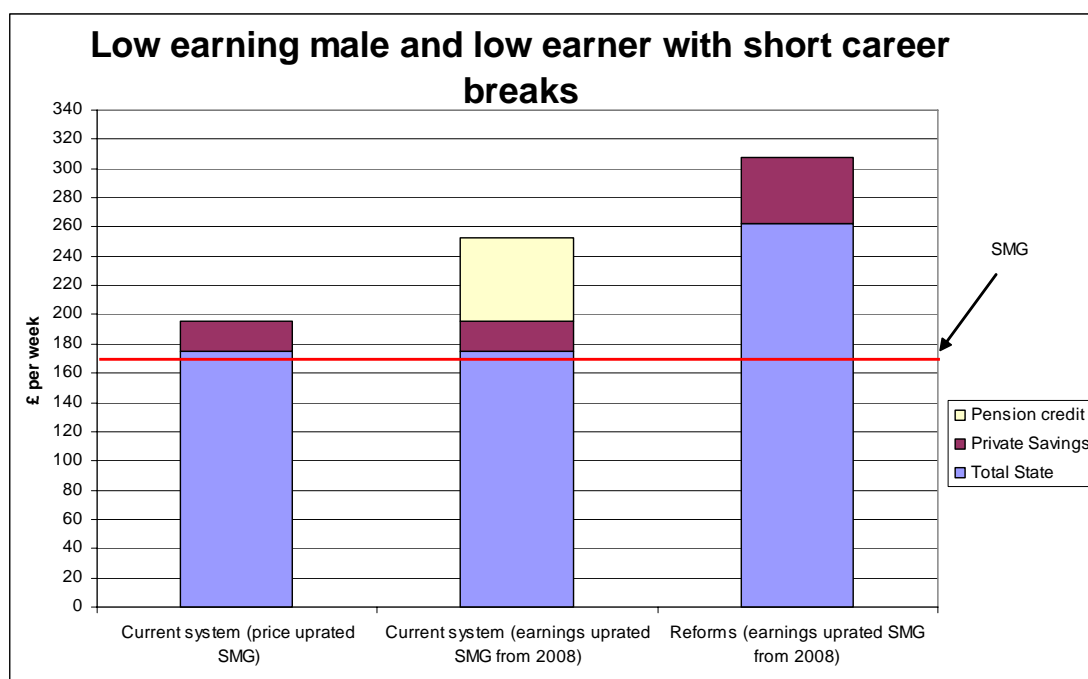


169. For individuals with these characteristics retiring in different years between now and 2050 there is a steady increase in the amount of state pension they receive which takes them well above the current levels and the amounts they would have received in the absence of reform.



Household Outcomes

170. The examples above show the income (state and private) which hypothetical individuals with these life experiences can expect to receive independently. They are not therefore in any way reliant on a partner or spouse to get a decent retirement income. This is particularly important for low-earners for whom the state pension forms a larger proportion of their income.
171. There may be cases, however, where these hypothetical individuals may have even better outcomes where they are in a couple. The following example shows the outcome if it is assumed that two low earning hypothetical individuals are in a couple rather than single.
172. The couple below comprises a low-earning male and a woman who is low-paid and has periods out of the labour market for caring. For this couple reaching State Pension age in 2050/2053 there is a considerably better outcome under the reforms than had the current system continued. The combined outcome under reform comfortably outweighs the outcomes under pre-reform scenarios. Again, the main effects come through the more substantial state pension provision (which more than outweighs any shift away from means-tested benefits).



Narrowing the gap in pension outcomes

173. As set out in section 4.3 above, differences in state pension outcomes will narrow as the reforms come into place. The pension reforms could also help to reduce the overall gender pension gap and the difference which women in work face as they move into retirement. At present a median female employee earns around 80 per cent of a median male employee.⁶⁷ This gap continues into retirement.
174. After the reforms to the pension system both the male and female median earners will receive more in pension income but the inequality in outcome is reduced – a woman could expect to receive around 87 per cent of the combined state and private pension of their male counterpart.
175. This is mainly driven by the effect of the state pension reforms. By 2053 the state pension outcome of a median earning woman will be virtually identical to that of the median earning man. Both men and women benefit from the effects of personal accounts and the employer contribution bringing their private pension income up.
176. This of course refers to a specific case and the results may vary in other examples. Nonetheless, analysis of the Lifetime Labour Market Database suggests that for a significant minority of women a long working history is a fairly typical labour market experience.
177. However, when comparing the outcomes for the different women with interrupted work histories looked at in the section above, they would experience a considerable narrowing in the gap between their outcomes and the outcomes for a median male employee. This suggests that the state pension reforms are acting to reduce income equality in retirement even where women have periods out of the labour market caring when compared to a man with a full working history.
178. The chart below shows the expected total (state and private) pension income on reaching State Pension age in 2005 and 2053 of a number of women with the work and caring histories used in the examples above. It shows that in all of these examples under the assumptions set out above there is a narrowing of the gap in pension outcomes post-reform. For example, the low earning woman with more than one break in her working career who retires in 2005 would receive just over half of the median male earner's income, whereas by 2053 this figure would have increased to nearly two thirds.

⁶⁷ Annual Survey of Hours and Earnings 2005

Figure 4.xii: Women with differing work histories. Outcomes at State Pension age relative to median male earner in 2005 and 2053

	Pension Income on reaching SPA in 2005	% of median male earner's pension income	Pension Income on reaching SPA in 2053	% of median male earner's pension income
Low earner short career breaks	110	53	148	65
Low earner, long career break	110	53	162	72
Low earner, full working history	122	59	159	70
Median female earner, full working history	166	80	196	87
Median male, full working history	208		226	

Source: DWP modelling

Notes: Figures include the expected payback on private pension savings based on assumed investment returns.

For details of the work and caring histories of these individuals see Annex C.

The outcomes for the individual females cannot be directly compared to each other since they have different lengths of time in work and different earnings levels.

179. This ties in with the emphasis of the state reforms in particular (e.g. to the qualifying years, better recognising caring responsibilities and flat-rating of State Second Pension). In all of the examples above the women will be earning significantly less than a male median earner during their working life (the full-time median earning woman earns approximately 80 per cent of the full-time median earning male's income).
180. This analysis shows that even where women have periods out of the labour market caring and therefore may not be contributing to a personal account their improved state pension outcomes can help to reduce the gender inequality in existence.

Summary of outcomes

181. All of the above examples have varied outcomes due to their differing and broken work histories, but they illustrate some of the important effects of the reform package. In all cases, the state pension they receive post-reform is considerably greater than a comparable individual would receive in the future in the absence of reform.
182. This chimes with some of the key purposes of the reform package: to provide a solid foundation for saving, take people out of the scope of Pension Credit and provide people with a strong incentive and opportunity to make private savings.

183. Earnings uprating of the basic State Pension, combined with the improved coverage for parents and carers, provides the solid state pension underpinning. As shown in the examples above, individuals (especially those with broken working histories) can expect a significant improvement to their state pension outcomes under the reforms.
184. The reforms making the state pension more generous and the restrictions to Savings Credit will mean that fewer people are entitled to Pension Credit. This will avoid potential problems with incentives to save which could develop if a majority of the population was entitled to Pension Credit. At the same time earnings uprating the Pension Credit standard minimum guarantee means that its value in earnings terms is maintained and more than doubles its value in price terms by 2050. This assists in keeping pensioners out of poverty whilst providing the essential safety net for those who are unable to build up sufficient state pension entitlement independently.
185. Some of these effects are illustrated in the examples above where the State Pension in some cases acts to replace means tested benefits (Guarantee Credit and Savings Credit). Several of the individuals above would have received Pension Credit were the current uprating arrangements to continue in the long term, with the Pension Credit standard minimum guarantee uprated in line with earnings and the basic State Pension uprated in line with prices.
186. This is particularly the case in the example of the low-earner with more than one career break and periods of part-time working. In this example there is a serious risk that disincentives to save would have developed.
187. Whilst there are variations in overall outcomes, all of these hypothetical low-earning individuals receive a significant increase in state pension and have overall outcomes which give them incomes in excess of the Pension Credit standard minimum guarantee. The low-earners will also experience high replacement rates (i.e. their income in retirement relative to their income during their working life).
188. The examples provided above of a carer with missing credits illustrates the effects for women who retire before 2050. This is before all of the effects of the reforms will have come into place although as this case shows, there is a still a positive outcome post-reform.
189. This is a general effect since it will take some time for the full effects of the reforms to come through. However, women who are aged 60 on or after the 6 April 2010 will benefit fully from the reforms to basic State Pension.

Chapter 5: Conclusions

190. The reform package is designed to provide a fairer and more generous state pension system which can provide a solid foundation for pension saving. The personal accounts system will provide the opportunity for many who may not be saving enough for retirement to supplement this state foundation.
191. Both men and women will gain from the reforms, but a number of the measures – focusing on fairness and improving coverage - will particularly improve the pension outcomes of women. This conforms with the assessment of some external experts who have identified women as key gainers from the reform package.⁶⁸
192. The improvements in coverage of state pensions combined with the earnings uprating of the basic State Pension, mean that more women in successive cohorts will receive a higher basic State Pension and accrue increased State Second Pension entitlement. For the first time caring will be valued equally with work so people taking time out of the labour market to undertake caring responsibilities will not be disadvantaged in terms of their state pension entitlement.
193. The examples of the hypothetical individuals in the previous section illustrate that women (and men) who spend periods of time caring in low-paid work will receive enhanced State Pension entitlement in a relatively short space of time and, increasingly, gain wider entitlement to the State Second Pension. As a consequence more and more women and men can be expected to have state incomes in excess of the Pension Credit standard minimum guarantee.
194. This increased income is income which women can receive independently – they do not need to be reliant on a partner to receive these amounts.
195. The interaction with personal accounts is an important element since the reforms to the state and private side need to be considered as a whole and are mutually reinforcing. The state system provides the underpinning of a pension level above current levels alongside a safety net in the form of Pension Credit for the smaller numbers who do not have much pension income. At the same time the reforms to savings credit help to remove potential disincentives to make private pension saving. The personal accounts system in turn provides the opportunity for this saving to take place in a low cost, portable vehicle which will be of particular benefit to the many women currently without decent occupational pension provision.

⁶⁸ See e.g.: *Pensions White Paper: who wins and who loses?*, Institute for Fiscal Studies, August 2006

Annex A: 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.

Annex B: Assumptions in Financial Incentives to Save Model

In each of the examples, each woman has a pension fund of at least twice the value of her contributions, due to the matching contribution from the employer and tax relief. Individuals benefit from both the returns on the investment and income smoothing, whereby individuals forego consumption in working life in order to boost consumption in retirement.

Calculations are based on the following assumptions:

Contributions are to a personal account at the default level with no further saving. They assume the reforms in *Security in retirement: towards a new pensions system* are enacted and individuals work to State Pension age. Individuals take a 25% lump sum of their pension fund, which is annuitised.

Earnings are assumed to rise at two per cent above inflation and the pension fund grows at 3.5 per cent above inflation before charges of 0.5 per cent. On reaching State Pension age the fund is annuitised in line with current annuity rates for an index-linked annuity, adjusted to reflect the increase in life expectancy. Inflation is taken to be 2.87 per cent, the expected RPI equivalent of a 2 per cent CPI inflation rate. It is assumed that tax thresholds will rise in line with earnings over the long term, and that the individual is entitled to Council Tax Benefit (but not Housing Benefit as the majority of pensioners own their own homes).

Annex C: Case study individuals

It is assumed that pre-reform, all individuals contribute 5 per cent of earnings between the Lower Earnings Limit and the Upper Earnings Limit into a private pension scheme. With full reform, individuals contribute 8 per cent into personal accounts (including 3 per cent in employer contributions).

Low-Earner, full work history

Age 25-68 she works full time on approximately 60% of female median earnings.

Median-Earner, full work history

Age 25 -68 she works full time on median female earnings (approximately £370 per week).

High-Earner, full work history

Age 25-68 she works full time earning around 150% of median female earnings

Median earner with short career break

Age 16-30 she works full time at median female earnings;
Age 31-36 she cares for children and receives credits;
Age 37-41 she starts part time work at 50% of median earnings.
Age 42-68 she returns to full-time work at 80% of median earnings.

Median earner with longer career break

Age 16-27 she works full time at median female earnings.
Age 28-32 she takes a career break and receives caring credits.
Age 33-37 she returns to part time work at 60% of median earnings.
Age 38-42 she takes another break to care and receives credits.
Age 43-68 she works full time median earnings.

Carer, missing some credits

Aged 35 when personal accounts starts in 2012
Age 16-21 she works, earns female median earnings;
Age 22-31 she takes a break to care for children. Given the age she is assumed to have had her two children she would have missed out on three years of State Second Pension credits.
Aged 32- 68 she returns to full time work, at female median earnings and saves into personal accounts.

Low earner with some short breaks and part-time working

Age 21-28 she works full-time – earning around 60% of median female earnings.

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

Age 40-49 she then works full time again at 60% of median earnings

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

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 60-68 she returns to full-time work again, until reaching State Pension age (earning approximately 60% of median earnings)

Long career break

Age 16-25 she works, earning around 60% of median earnings;

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 51-68 she returns to work until State Pension age – starting at 60% of female median earnings increasing to female median earnings

Household comprising Low-earning Male and Low paid carer with long career breaks.

Household comprises a low-earning male and a low-paid female carer with long career breaks

Low earning male

Full working history (aged 16-68) at around 50% of median earnings

Low earner with some short breaks and part-time working

Age 21-28 she works full-time – earning around 60% of median female earnings.

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

Age 40-49 she then works full time again at 60% of median earnings

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

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 60-68 she returns to full-time work again, until reaching State Pension age (earning approximately 60% of median earnings)