

Measuring the ethnicity pensions gap



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Executive summary

Last year The People's Pension examined in detail the drivers of the yawning gap in pension income between women and men, as the first part of a series examining the UK's 'under-pensioned'. Our second report focuses on another dramatically underpensioned group: ethnic minorities.

New calculations by The People's Pension reveal that the UK's overall ethnicity pension gap – the percentage difference in pension income for pensioners who belong to an ethnic minority group compared to pensioners of a White ethnicity – was 24.4% in 2017-18, or £3,350 a year.

From a gender perspective the gap is even greater. On average the gap in pension income between a female pensioner from an ethnic minority group and a male pensioner from white ethnic groups is 51.4%.

The People's Pension has produced this report in order to highlight the poorer pension outcomes among ethnic minorities and to make a case that pensions policy should address this problem, while recognising there are also wider labour market aspects beyond the control of pensions policy.

The main causes of the ethnicity pension gap are:

- Inequality in the level of state pension by ethnic group reflecting the fact that some ethnicities have below average rates of employment.
- The cumulative impact on workplace pensions over time of members of ethnic minorities earning less on average than people of a white ethnicity (both through lower employment rates and ethnicity pay gaps).
- The current minimum contribution threshold and earnings trigger for auto-enrolment depress ethnic minorities participation rates.

People from ethnic minorities are twice as likely to live in poverty compared to white people across Britain¹. The proportion of the UK population that identifies as Black and Minority Ethnic is projected to grow by about 50% between 2011 and 2051 (from 14% to 21%), as well as age significantly over the same period².

Ethnic minority pensioners are, on average

£3,350

worse off than other pensioners

¹ Healing a divided Britain: Equality and Human Rights Commission (2016)
² Ethnic population projections for the UK and local areas, 2001-2051. University of Leeds, 2010

Executive summary (continued)

Pension policies that could be effective in tackling the ethnicity pension gap include:

- Reforming automatic enrolment at the earliest possible opportunity so pension contributions are paid from the first pound of earnings and the earnings trigger is reduced to the Lower Earnings Limit of £6,136.

Modelling by the Department of Work and Pensions (DWP) shows that if the earnings trigger was reduced to the level of the Lower Earnings Limit for National Insurance in 2020-21, an extra 1.2 million employees would be brought into automatic enrolment and 15% would be from ethnic minority groups (compared to just 10% of the currently eligible workforce)³.

- Establish an independent Pension Commission with a remit including:
 1. reporting on the appropriate level of contributions under automatic enrolment, paying particular attention to data on pension provision by ethnicity group.
 2. considering how to improve pension provision for the self-employed and in the gig economy.
 3. examining the case for moving the state pension to a residency based eligibility test.

This report presents estimates of ethnicity pension gaps in the UK based on analyses of datasets of responses to the Department for Work and Pension's Family Resources Survey.

The overall estimate of the ethnicity pension gap has also been broken down in order to show some of its main causes and to highlight the type of pension policies that would be most effective in tackling it.

The experiences of different ethnic groups and the challenges they face can vary significantly so further breakdowns of the overall ethnicity pension gap (for example by gender and different ethnic groups) are also included to highlight issues that may need further attention and specific policies.

1.2 million

additional employees would be auto-enrolled into a pension if the earnings trigger was dropped to the NI lower earnings limit

15% would be ethnic minority workers

Estimate of the ethnicity pension gap

The main aim of this report is to raise awareness of the issue of inequality of pension income by ethnic group.

We have defined the ethnicity pension gap as the percentage difference in average gross pension income for pensioners who belong to an ethnic minority group compared to pensioners of a white ethnicity - in 2017-18 this was 24.4%

We believe it is also useful to represent the ethnicity pension gap as the estimated average shortfall in pension income for pensioners who belong to an ethnic minority group compared to pensioners of a white ethnicity – in 2017-18 this was £3,350.

This estimate is based on an analysis of the Department for Work and Pension’s (DWP’s) Family Resources Survey (FRS).

The FRS is a household survey that collects information on a representative sample of private households in the UK. The sample size is very large – more than 40,000 addresses for 2017-18. The FRS is used extensively within and outside the DWP to, for example, estimate living standards and benefit take-up rates.

FRS data are designated by the UK Statistics Authority as national statistics, though this does not imply that our use of FRS data to estimate the ethnicity pension gap has any official designation.

We do not claim that our estimate is the definitive measure of inequality in pension income by ethnicity in the UK, but we believe it is a useful and authoritative addition to the information available about this. We would encourage the government to collect more data and to produce more analyses of the data that it holds on levels of pension income by ethnicity, in order to provide

more valuable insights into this important issue.

It is possible to define the ethnicity pension gap differently and this would result in different estimates of inequality in pension income by ethnicity. It is also possible to derive estimates from different data sources. However, we believe that the definition adopted for this report and the use of the FRS as the main data source are reasonable and in line with the approach taken by other studies of inequality.

It is important to acknowledge the limitations of the FRS which obviously also impact our estimate of the ethnicity pension gap, these include:

- Sampling error
- Under-reporting of pension income
- Exclusion of people in nursing or retirement homes from the sample
- Weighting of responses to correct for differential response rates

Table 1 - Ethnicity pension gap by pensioner income

2015-16	2016-17	2017-18
22.0%	25.1%	24.4%

Source: FRS Data 2017-18



The average gap between a female pensioner from an ethnic minority group and male pensioner from white ethnic groups is

51%



Other estimates of ethnicity pension gaps

A single estimate of the overall ethnicity pension gap in the UK is a useful high-level illustration of a hugely important aspect of inequality in pension income. However, any single estimate also inevitably obscures important information about the nature of the underlying inequality.

This is particularly the case when discussing inequality between ethnic groups because the experiences of different ethnic groups and the challenges they face can and do vary significantly.

We have produced further analysis of inequality in pension income by ethnicity breakdown and by gender. These analyses highlight certain aspects of this inequality that are important in fully understanding the nature of the problem and to devise appropriate policies for tackling it.

Ethnicity breakdown

A detailed breakdown of the overall ethnicity pension gap is important to show differences between different ethnic groups that would otherwise be lost using an aggregated analysis.

All ethnicity groupings used in this report are based on the harmonised classification of ethnic groups⁴ derived by the Office for National Statistics (ONS) in consultation with key stakeholders.

Due to issues with sample sizes, the main breakdown shown in table 2 is for the five-category ethnicity breakdown, with White category being 0%.

This data shows that inequality in pension income is a particular issue for Asian ethnic groups and for the Black African, Caribbean or Black British groups.

While informative, the analysis in table 2 still obscures important differences within the five-category ethnic groups. Current data sources do not allow for a robust analysis on a more disaggregated basis. It is important for government to consider how the current data can be supplemented with additional information on groups who are most at risk of pension poverty.

Table 2 - Percentage gap between selected ethnic minority groups' and pension income in White ethnic groups

	2017-18
Black African, Caribbean or Black British	26.9%
Mixed or multiple ethnic groups	12.8%
Asian (Chinese, Indian, Bangladeshi, Pakistani, Other Asian)	30.35%
Other ethnic group (Arab, Other ethnic group)	-6.0%

Source: FRS Data 2017-18

Note: A negative gap indicates that pension earnings for that group were higher than for pensioners from White ethnic groups.

Gender breakdown

Another important analysis of the overall ethnicity pension gap is a breakdown of this statistic by gender.

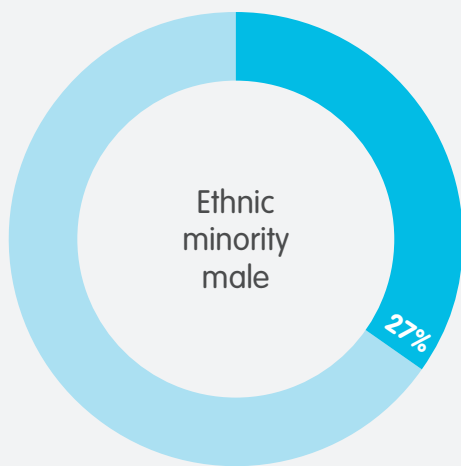
Chart 1 shows the average ethnicity pension gap for the period ending 2017-18 (i.e. the percentage difference in pension earnings compared to white ethnic groups – this will give a higher implied average than the overall ethnicity pension gap because men have higher pension income than women).

The gender breakdown of the ethnicity pension gap reflects the wider gender pension gap and clearly demonstrates that any policies addressing inequality in pension income by ethnicity group will have to account for differences in how it arises by gender as well.

The gender breakdown of the ethnicity pension gap differs between ethnic groups which are affected in different ways by key factors such as participation in the labour market and earnings levels.

The gender breakdown of the ethnicity pension gap reflects the wider gender pension gap and clearly demonstrates that any policies addressing inequality in pension income by ethnicity group will have to account for differences in how it arises by gender as well.

Chart 1 - Ethnicity pension gap by gender compared to the average white male 2017-2018



Male



Female

Source: FRS Data 2017-18

Main causes of the ethnicity pension gap

The ethnicity pension gap is driven by several factors, including: a state pension income gap, differences in labour market activity, the ethnicity pay gap and barriers to occupational pension scheme membership.

It is important to understand the impact of these factors in order to devise the most appropriate pension policies to address them (wider policies are obviously needed to tackle some of the main underlying causes, but these are outside the scope of this report).

State pension gap

Our analysis of the datasets of responses to the FRS shows that the overall ethnicity pension gap of £3,350 is partly because there exists an annual state pension income gap of £600 for ethnic minorities.

These results are consistent with the DWP's pensioner income series⁵ (also based on FRS data) that shows that 98% of White pensioner households are in receipt of the state pension compared to 94%, 85% and 90% for Black, Asian and Other pensioner households respectively.

The Pensions Policy Institute (PPI) also found shortfalls in state pension income in data for 2014-15 for a report it published in 2016 on differences in pension income⁶.

(It should be noted that the data published in our report is for individuals whereas the DWP and PPI analyses are on a household basis and hence not directly comparable.)

Most state pensions in payment in 2017-18 were awarded under the old state pension rules that applied to people reaching State Pension Age before April 2016. The state pension system was radically reformed for people reaching State Pension Age from April 2016 onwards.

Unfortunately, the various impact assessments of the new state pension system published by the government

...there exists an annual state pension income gap of £600 for ethnic minorities.

included very little detail on how the impact of the reforms was expected to vary between members of different ethnic groups.

Over the longer term, the new state pension will result in worse outcomes on average than under the old rules but, because the earnings-related element of the state pension will gradually be eliminated, the distribution of outcomes should be more even in the future.

Consequently, the state pension gap for ethnic minorities is likely to narrow in the future under current policy. However, many of the current drivers of the state pension gap for ethnic minorities are likely to persist in the future (i.e. those related to labour market participation rates) so consideration of further policy reforms will be necessary to fully address these. This is discussed further in the next section.

⁵ DWP Pensioners' Incomes Series: financial year 2017 to 2018

⁶ PPI The Under-pensioned: 2016

Labour market activity

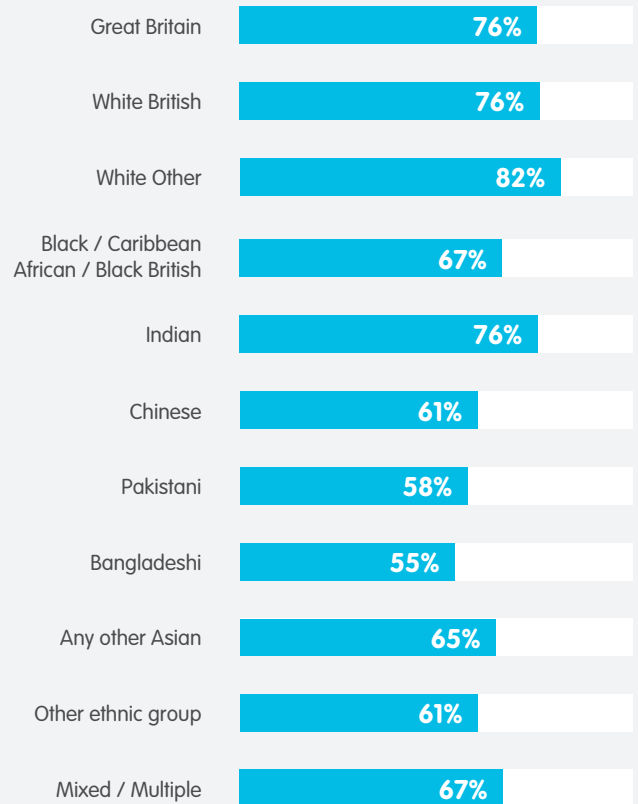
Employment

As shown by chart 2, there are significant differences in employment rates by ethnicity. The causes of these differences are largely beyond the scope of this report but the implications for pension policy are discussed in later sections.

Pension income in retirement is highly dependent on participation in the labour market, through qualification for state pension, potential membership of an occupational pension scheme or the ability to make contributions to a personal pension.

This data shows a wide range of employment rates for persons of working age between ethnic groups, from White Other (81.7%) to Bangladeshi (54.9%). This disparity will drive future differences in retirement income by ethnicity. It is important to consider what the implications for pension policy are.

Chart 2 - Employment rate by ethnic group 2018



Notes:

1. Employment rates are for all persons of working age (aged 16 to 64 years)
2. Data from the ONS Annual Population Survey

Labour market activity (continued)

Economic inactivity

Examining differences in economic activity by gender as well as by ethnicity provides further useful information.

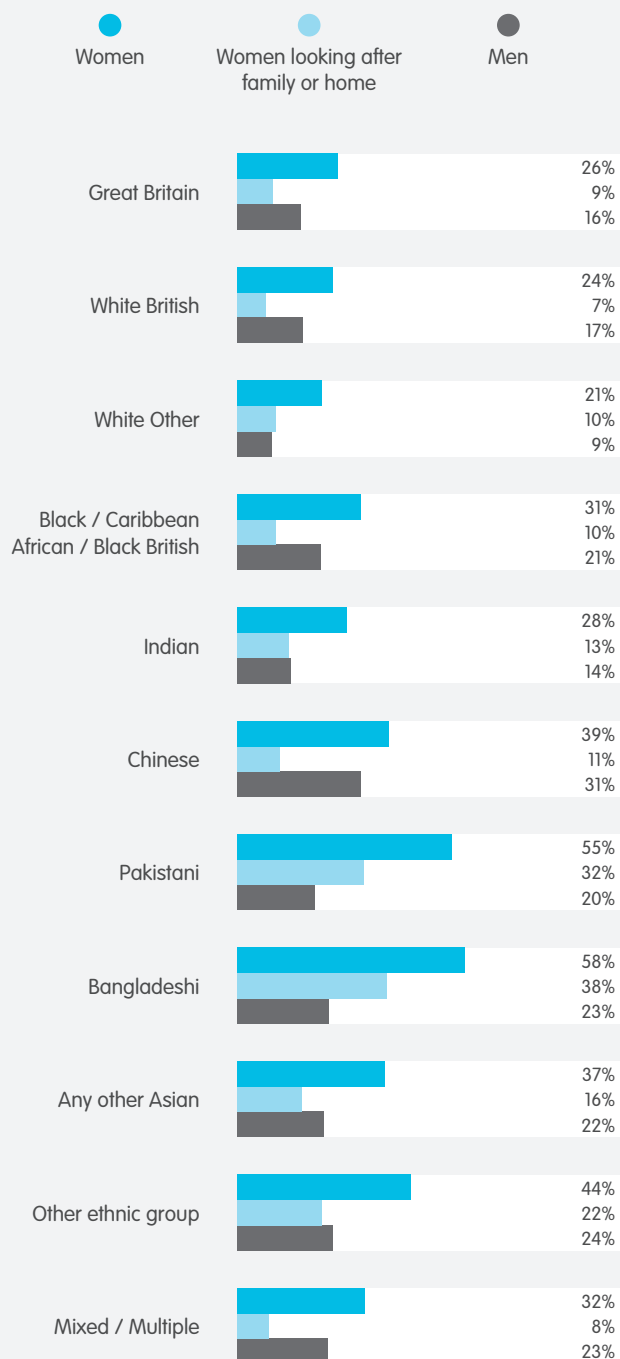
...differences in employment or economic activity rates by ethnicity are significantly driven by differences in the economic activity of women (and particularly by differences in the proportion of women undertaking caring responsibilities by ethnicity).

Chart 3 shows economic inactivity data by ethnic group and sex. It also shows the proportion of women who are categorised as economically inactive because they are looking after family or home by ethnic group. Unsurprisingly this demonstrates that economic inactivity is generally higher for women, largely because they are more likely to undertake caring responsibilities.

The chart also shows that differences in employment or economic activity rates by ethnicity are significantly driven by differences in the economic activity of women (and particularly by differences in the proportion of women undertaking caring responsibilities by ethnicity). The low employment rates for the Bangladeshi and Pakistani ethnic groups overall are greatly influenced by the proportion of women from these groups looking after family or home (38.1% and 32.1% respectively, compared to 7.3% for the White British ethnic group).

These major differences call into question whether the current pension system works equally well for all ethnic groups. This is examined further in the next section of the report.

Chart 3 - Economic inactivity by ethnic group and sex



Notes:

1. The figures in chart 3 are for Great Britain and 2018
2. Economic inactivity rates are for all people of working age (aged 16 to 64 years)
3. Data from the ONS Annual Population Survey

Labour market activity (continued)

Self-employment

Levels of self-employment are also an important factor because pension provision for this group is generally much poorer than for employees.

Even amongst the self-employed as a group, the final report of the review of State Pension Age showed a disparity in pension provision by ethnicity with 50% of self-employed white people having a personal pension compared to 33% of self-employed people from other ethnic groups.

Self-employment has risen significantly in recent years, both in absolute numbers and as a proportion of the workforce. Table 3 below, based on data from the ONS Annual Population Survey(2018), shows rates of self-employment for different ethnic groups in 2017.

Clearly members of the Pakistani and Bangladeshi ethnic groups are much more likely to be self-employed and this has consequences for their pension income and the ethnicity pension gap.

Table 3 - Self employment rates by ethnic group

	Percentage self-employed
All	15.2
Indian	12.8
Pakistani & Bangladeshi	24.1
Black	12.3
Mixed	13.7
White	15.2
Other	16.1

ONS Annual Population Survey 2017

The gig economy

The gig economy tends to refer to people using apps to sell their labour. Limitations on survey data means there is no official figures on the number of people who are participating in the gig economy. It is also unclear how many participants in the gig economy are supplementing income from more traditional employment. However, the gig economy is the main employment for hundreds of thousands of people and this seems to be growing rapidly.

The employment status, and hence potential eligibility for automatic enrolment, of people participating in the gig economy is not always clear cut and sometimes is the subject of litigation. Even when gig workers are classified as employees or workers, the ability to postpone the requirement to auto-enrol eligible jobholders for up to three months can greatly impact levels of occupational pension scheme membership in the gig economy.

Data from the Chartered Institute of Personnel and Development (CIPD) suggests that gig economy workers are far less likely than other workers to be contributing to an occupational pension scheme (30% compared to 57%)⁷. The same source also shows that gig economy workers are far more likely to come from an ethnic minority group (only 68% identify as White British).

The future growth of the gig economy can have significant potential consequences for the ethnicity pension gap and it is important to consider what pension policies might be appropriate to address this.

7 CIPD To gig or not to gig?: 2017

Labour market activity (continued)

Occupational pension scheme membership

Even groups that have similar levels of employment can still have differing levels of occupational pension scheme membership, driving future disparity in pension income, for several reasons.

While the self-employed and people working in the gig economy generally have lower levels of pension provision, employees generally benefit from the statutory requirement on employers to automatically enrol their workers into occupational pension schemes.

This policy has resulted in a huge increase in the active membership of occupational pension schemes (from 8.3 million in 2010 to 17.3 million in 2018), driven mainly by an increase in membership of private sector schemes (from 3 million to 11 million over the same period)⁸.

However, the detailed rules of automatic enrolment can result in differences in occupational pension scheme membership and levels of pension contribution by ethnicity and therefore contribute to the ethnicity pension gap in the future.

Under automatic enrolment there is an earnings trigger of £10,000 a year per job with no requirement on employers to enrol anyone earning less than this.

Research from the PPI showed that employees from most (but not all) ethnic minority groups were more likely to fail to meet the eligibility criteria for automatic enrolment than white employees⁹.

Ethnicity pay gap

While the state pension is becoming increasingly flat rate over time, occupational pension schemes provide benefits that are closely related to the underlying earnings of members. This means that the ethnicity pay gap experienced while people are working, inevitably contributes to subsequent inequality in retirement income.

Ethnicity pay gap reporting is not as established as gender pay gap reporting but information on inequality in pay by ethnic group is increasingly available.

ONS has published earnings and employment statistics for different ethnic groups in Great Britain for 2018¹¹.

Modelling by DWP showed that if the earnings trigger was reduced to the level of the Lower Earnings Limit for National Insurance in 2020-21, an extra 1.2 million employees would be brought into automatic enrolment and 15% would be from ethnic minority groups (compared to just 10% of the currently eligible workforce)¹⁰.

The ONS data shows a relatively complicated picture. Employees from the Chinese and Indian ethnic groups have consistently earned more, on average, than white British employees. Employees of mixed or multiple ethnicities have earnings of a similar level to white British employees. Employees from all other ethnic groups earned less than white British employees.

The causes of inequality in pay by ethnicity, and appropriate policies for tackling it, are beyond the scope of this report which is focussed on pension policy, but these are clearly vitally important issues and will continue to drive inequality in retirement income until fully addressed.

8 ONS Occupational Pension Schemes Survey, UK: 2018

9 PPI PPI Briefing Note Number 75 (2015)

10 DWP Automatic Enrolment Review 2017: Analytical Report

11 ONS Ethnicity pay gaps in Great Britain: 2018

Policies to address the ethnicity gap

Inequality in pension income is a complicated issue with many causes. Any policies that reduce inequality and working age poverty would likely reduce the pensions gap. The recommendations in this report focus on potential pension policies that could narrow the ethnicity pension gap.

State pension reform

In the previous section we showed that a state pension gap is a significant element of the overall ethnicity pension gap. While recent reforms implementing a more flat-rate benefit should reduce the level of variation in state pension awarded by ethnic group in the future, a state pension gap is likely to persist unless other factors are also addressed.

Moving to a more flat-rate benefit cannot address the variation in state pension entitlement by ethnic group that is related to differing levels of economic activity.

Data in the previous section showed that there was significant variation in levels of economic activity by ethnic group, particularly relating to the proportion of women who are looking after family or home.

The contributory principle for National Insurance benefits (i.e. the link between National Insurance contributions and qualification for benefits) means that the variation in levels of economic activity by ethnic group will result in differences in state pension entitlement. Credits for caring responsibilities will offset some of the impact of differences in economic activity.

While the long-standing contributory principle has merits, not least it goes with the grain of much of public opinion, it has also resulted in poor treatment of some groups and is clearly a factor in the ethnicity pension gap and likely to remain so in the future. These issues with the contributory principle have long been recognised and partly addressed through an expanding system of credits over the years.

While the contributory system can be argued to reinforce incentives to work and to link rights to responsibilities, it is becoming increasingly difficult to deal with the inequalities it causes through credits.

The Pensions Commission, chaired by Adair Turner, discussed the possibility of moving to a universal pension payable to all individuals who meet a residency test. Its recommendation was for the flat-rate, Basic State Pension to be on a residential basis with the earnings-related, State Second Pension remaining on a contributory basis.

Since that time, the Basic State Pension and State Second Pension have been abolished and replaced by the new State Pension which is a flat-rate benefit.

The new State Pension also makes less provision for dependent spouses (either through entitlement to a pension on a partner's contribution record or through inheritance of state pension) than the old system. This will have a greater impact on those ethnic groups that have higher levels of female economic inactivity.

While the move to a more individual state pension system reflects changes in wider society since the state pension was first established, it should be recognised that not all groups have experienced these changes in the same way.

In particular, the data clearly shows that some ethnic groups, particularly those with a higher proportion of women who are classified as economically inactive because of caring responsibilities, are likely to be more adversely affected by the move towards a more individual state pension than others. A new Pensions Commission should consider these issues.

Policies to address the ethnicity gap (continued)

Improve pension provision for the self-employed and in the gig economy

The issue of poor workplace pension provision for self-employed people has been the subject of discussion for many years. The Taylor Review of Modern Working practices called on the government to explore ways to improve pension provision amongst the self-employed¹². Improving pension provision for the self-employed was also covered in the review of automatic enrolment and has been the subject of initiatives from DWP since then.

There is not much official data on the gig economy, but research indicates that pension provision for these workers is also much lower than for employees. Measures, such as curtailing the ability of employers to postpone the requirement to assess their staff for automatic enrolment for up to three months, have been suggested to address this.

Relatively poor pension provision for the self-employed and in the gig economy is a contributor to the ethnicity pension gap, because some ethnicities are disproportionately represented in these groups. There are ample reasons for policy makers to address pension provision for the self-employed and in the gig economy but the need to do this in order to help address the ethnicity pension gap should add urgency to these efforts.

Reform of automatic enrolment

Automatic enrolment has had a major impact on pension provision in the UK, significantly increasing the number of people contributing to occupational pension schemes.

The latest commentary and analysis on automatic enrolment by The Pension Regulator¹³ shows that 1.4 million employers had completed declarations of compliance and 10 million workers had been automatically enrolled in a workplace pension at the end of March 2019.

The policy of automatic enrolment was reviewed in 2017¹⁴ and a number of recommendations were made, some of which are particularly relevant to addressing the ethnicity pension gap.

In particular, the recommendation to require pension contributions from the first pound earned rather than from the Lower Earnings Limit should disproportionately benefit employees from those ethnic minorities that have

There are ample reasons for policy makers to address pension provision for the self-employed and in the gig economy but the need to do this in order to help address the ethnicity pension gap should add urgency to these efforts.

lower average earnings. It is important for action to be taken to implement this proposal at the earliest possible opportunity rather than waiting until an unspecified date “in the mid-2020s” as per the government’s response to the review.

The review proposed maintaining the earnings trigger for automatic enrolment at £10,000. The data in the previous section demonstrates that the earnings trigger disproportionately excludes members of ethnic minorities with lower average earnings from occupational pension provision.

Reducing the earnings trigger to the level of the Lower Earnings Limit would help tackle the ethnicity pension gap as well as having other benefits.

¹² Good Work: The Taylor Review of Modern Working Practices, 2017

¹³ Automatic enrolment; Commentary and analysis, TPR October 2019

¹⁴ Automatic Enrolment Review 2017: Maintaining the Momentum, Dec 2017 DWP

A new independent Pension Commission

The success of automatic enrolment was based on the consensus generated by the Pensions Commission chaired by Adair Turner. Significant further reform necessary to address outstanding issues will likely need a consensus similar to the one that preceded the introduction of automatic enrolment in the first place.

It is particularly important to consider what level of income is required for a decent standard of living in retirement and whether increases to the minimum contributions under automatic enrolment are needed to ensure all workers have an opportunity to achieve this.

A new independent Pension Commission would be best placed to tackle this and other important potential reforms to automatic enrolment. Such a commission would also be able to consider data on pension provision by ethnicity and consider policies that might be necessary to tackle the ethnicity pension gap.

We have recently sponsored a detailed road map by Bright Blue and the Fabian Society for the building of a new pensions commission (Framing the Future, 2020).

A new independent Pension Commission would be best placed to tackle this and other important potential reforms to automatic enrolment. Such a commission would also be able to consider data on pension provision by ethnicity and consider policies that might be necessary to tackle the ethnicity pension gap.



B&CE Holdings Limited
Manor Royal, Crawley, West Sussex, RH10 9QP. Tel 01293 586666. www.bandce.co.uk

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