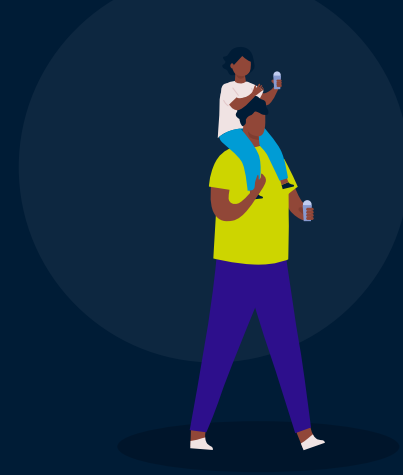


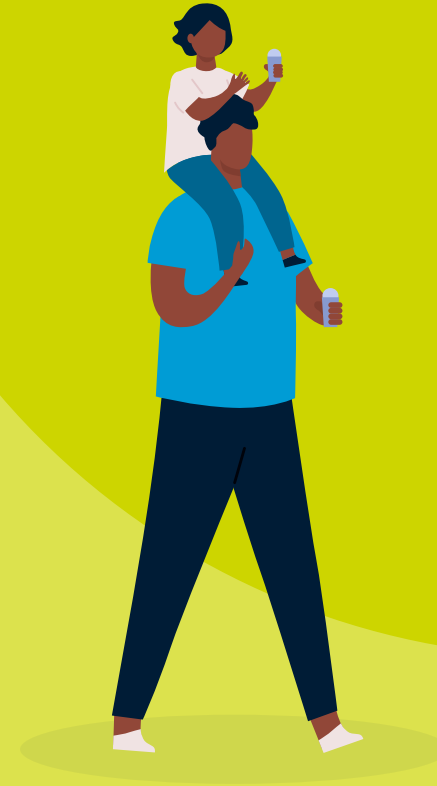
# *The underpensioned* Index 2022

How we can reduce the pension inequalities affecting the most financially at-risk groups in society



# Contents

Foreword	03
Summary	05
The scale of the pensions gap	06
Understanding the causes of pension inequality	10
Our five point plan for fairer pensions	17



*“Now, more than ever, we must all work together to close the pensions savings gap and create a fairer system for all.”*

**Joanne Segars**

Chair of Trustees, NOW: Pensions

# Foreword

*Since it was introduced exactly ten years ago, auto enrolment has transformed how millions of people in the UK save for their pension.*

---



Yet for far too many in our society, a comfortable retirement remains out of reach, usually through no fault of their own. These groups are often locked out of the auto enrolment system, unable to earn enough to put money aside for later and, as a result find themselves on the wrong side of a growing pension savings gap.

At NOW: Pensions, our mission is to fight for a fair pension system which enables everyone to get the retirement they deserve.

That is why in 2020, together with the Pensions Policy Institute (PPI), we produced our first Underpensioned Report, which highlighted the inequalities experienced by many during their working lives.

The data in our new 2022 report, shows that these inequalities remain and in some cases are growing, so must be addressed urgently, if the gap is not to widen further.

In the face of economic uncertainty and a global cost of living crisis, it would be easy to say that we have other priorities. Yet the underpensioned challenge is long-term by nature and requires a comprehensive, far-sighted perspective, to find the practical solutions that will help those who need it most.

---

*Joanne Segars*

Chair of Trustees, **NOW: Pensions**

“

**We have been working with the PPI on the underpensioned index over the past three years and it is very clear that the underpensioned groups are the most financially vulnerable when it comes to saving for their later life.**

Since the publication of our first report in 2019, we have experienced a global pandemic, economic downturns, furloughs and redundancies. The working patterns of the underpensioned groups means that they are more likely to work in sectors that have been severely impacted by these events.

In this report, we look at the long-term effects of under-saving for later life and put forward policy proposals which will help to create better equality in retirement for all groups.

We need to ensure that everyone has the same opportunity to save for later life and so we are calling on the government to make the policy changes recommended by the 2017 Automatic Enrolment review as soon as possible so that we can enable these groups to be less dependent on the state pension. We hope that this report will help raise awareness of the savings gaps and motivate the industry and policymakers to close these pension savings gaps and create a fairer pension system.

Now is not the time to stay quiet. Now, more than ever, we must all work together to close the pensions savings gap and create a fairer system for all.



*Samantha Gould*

Head of Campaigns & Report Author  
**NOW: Pensions**

“

**The current economic climate could exacerbate the underpensioned gap, making it more challenging to implement further policies to narrow the gap in the short term, but it is important that the underpensioned challenge is approached with a long-term view.**

Private pension incomes of underpensioned groups remain below three-quarters of average population private pension incomes, with some groups experiencing significant declines compared to the 2020 Index. When income from State Pension and benefits is taken into account, the underpensioned gap is smaller but still significant.

Automatic enrolment has brought many more in underpensioned groups into pension saving, but they remain disproportionately ineligible. While underpensioned groups remain less likely to meet automatic enrolment qualifying criteria compared to the population average, the gap has narrowed as most groups' eligibility has increased, some substantially, since the first Underpensioned Index report in 2020. Employment rates have also increased among underpensioned groups, although broadly in line with trends in the broader population, so lower rates of employment and higher rates

of part-time employment compared to the population average persist. Underpensioned groups continue to have lower than average incomes, reflecting both lower hourly rates of pay and lower numbers of hours worked on average.

While some of the potential policy levers discussed in relation to underpensioned groups may not be appropriate to be actioned during the current crisis, inequalities may increase during this period. It is, therefore, more important than ever that plans are made for improving inequalities over the long term, even if they may not be actioned until the economy has stabilised. Slow progress on narrowing gaps in retirement wealth and income, despite the success of automatic enrolment, emphasises the importance of taking a long-term perspective on the underpensioned challenge and continuing to monitor the gap through this longitudinal analysis, even in a challenging economic landscape.



*Lauren Wilkinson*

Senior Researcher, **Pensions Policy Institute**

# Summary

**Two years ago, together with the Pensions Policy Institute (PPI), we published a report which investigated the reasons why some groups in the UK are unable to save adequately for later life and are underpensioned in retirement.**

While nobody could have predicted the events that have happened since our first report in 2020, it is saddening that pension inequality within our society has worsened.



The underpensioned groups who are most at risk from retirement poverty include:

- Women, in particular especially single parents and those who are divorced
- Carers
- Ethnic minorities
- The disabled
- Self-employed

In this report, we can reveal that private pensions incomes of these groups remain below three-quarters of those saved by the average population, and that some groups have experienced significant decline over the past two years.

There are various reasons why these groups cannot earn and save enough for their later life, including inequalities in employment, income and housing. In addition, significant pension-specific inequalities inevitably contribute to poorer retirement outcomes for some of these groups.

As a result, and through no fault of their own, millions of people in the UK are currently unable to save enough money for their later years.

Yet there are ways in which they can be helped. And while the current economic circumstances mean it is challenging for the government to implement potential remedies, doing nothing is not an option.

*Action is needed now to reduce the pensions gap and allow everyone to enjoy the comfortable retirement they deserve.*

---

## Section 01

# The scale of the *pension gap*



## *Underpensioned* groups have retirement incomes equivalent to less than 80% of the population average

Average (mean) annual income	From private pension 2020	From private pension 2022	Difference
Population average	£6,650	£7,750	+£1,100
Women	£3,920	£4,950	+£1,030
Single mothers	£3,350	£3,850	+£500
Divorced women	£3,880	£4,250	+£370
People from ethnic minority backgrounds	£4,710	£4,800	+£90
People with disability	£2,930	£2,850	-£80
People with caring responsibilities	£4,720	£5,600	+£880
Self-employed	£6,410	£4,300	-£2,110

Using data compiled by the Pensions Policy Institute, we looked at the retirement incomes of those groups in society who are at greater risk of experiencing pensions inequalities.

- Women, particularly divorced women and single mothers
- Black, Asian and ethnic minorities
- Disabled
- Carers
- Those in non-traditional employment, including self employed and multiple job-holders

We found that their private pensions incomes were less than 85% of the population average, with some groups experiencing significant declines compared to the 2020 index.

Over the last decade, many underpensioned groups have experienced a reduction in comparative incomes. Private pension

incomes of divorced women, people from ethnic minority backgrounds and people with disabilities have all reduced comparative to the population average since 2012.

Single mothers' private pension incomes have remained at 50% of the population average, while for women in general and carers the gap has narrowed, but not greatly.

These groups often experience inequalities during their working lives which contribute to lower pension incomes in later life. Inequality experienced during a person's working life increases the risk of their retirement savings being inadequate.

Gaps in work history are correlated with gaps in pension contributions. Underpensioned groups experience greater disruption during their working lives and are more likely to spend time out of the labour market or work part-time. These inequalities are largely caused by the factors outlined in part 2 of this report.

*Inequality experienced during a person's working life increases the risk of their retirement savings being inadequate.*

# Underpensioned groups have an over-reliance on the state pension

The table below shows the over-reliance of the underpensioned groups on the State Pension.

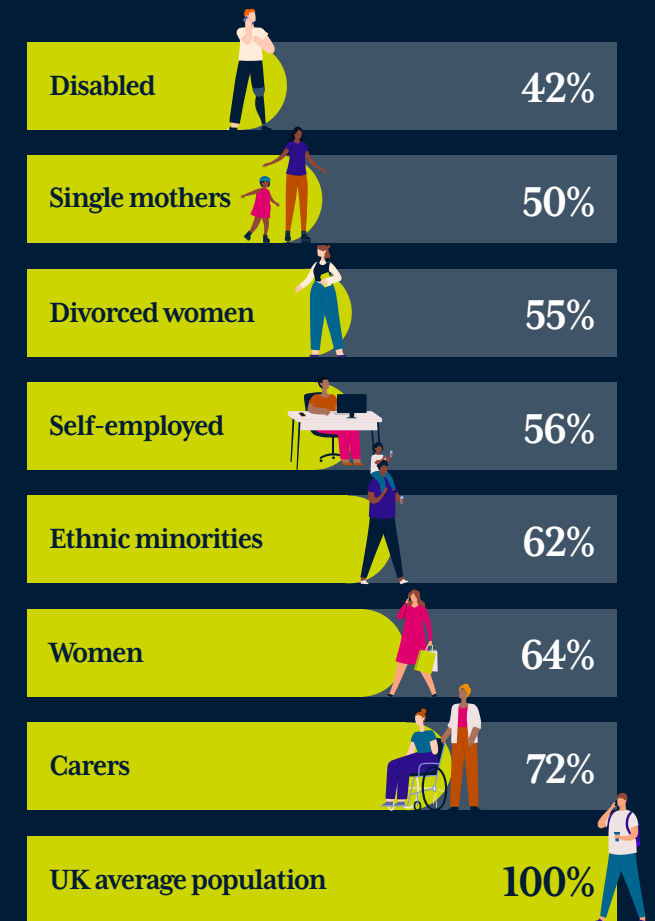
Almost all groups will get the majority of their income in retirement from the State Pension.

When private pension income is combined

with State Pension and other benefits, most underpensioned groups will struggle to achieve incomes above the minimum PLSA retirement living standard of £10,900 per year for a single person and £16,700 for a couple.

Average (mean) annual income	From private pension	From State Pension and other benefits
Population average	£7,750	£10,350
Women	£4,950	£10,050
Single mothers	£3,850	£11,400
Divorced women	£4,250	£11,400
People from ethnic minority backgrounds	£4,800	£10,350
People with disability	£2,850	£14,750
People with caring responsibilities	£5,600	£10,800
Self-employed	£4,300	£9,300

## Underpensioned groups are over-reliant on the state pension





As the chart shows, the private pension income of single mothers, divorced women and carers has remained relatively stable, albeit significantly lower than the rest of the population.

However, other groups have experienced considerable declines in their private pension income in the period since our last report. People from an ethnic minority background for example, decreased by almost 10%, compared to the population average, while the incomes of people with disabilities declined by almost 8%.

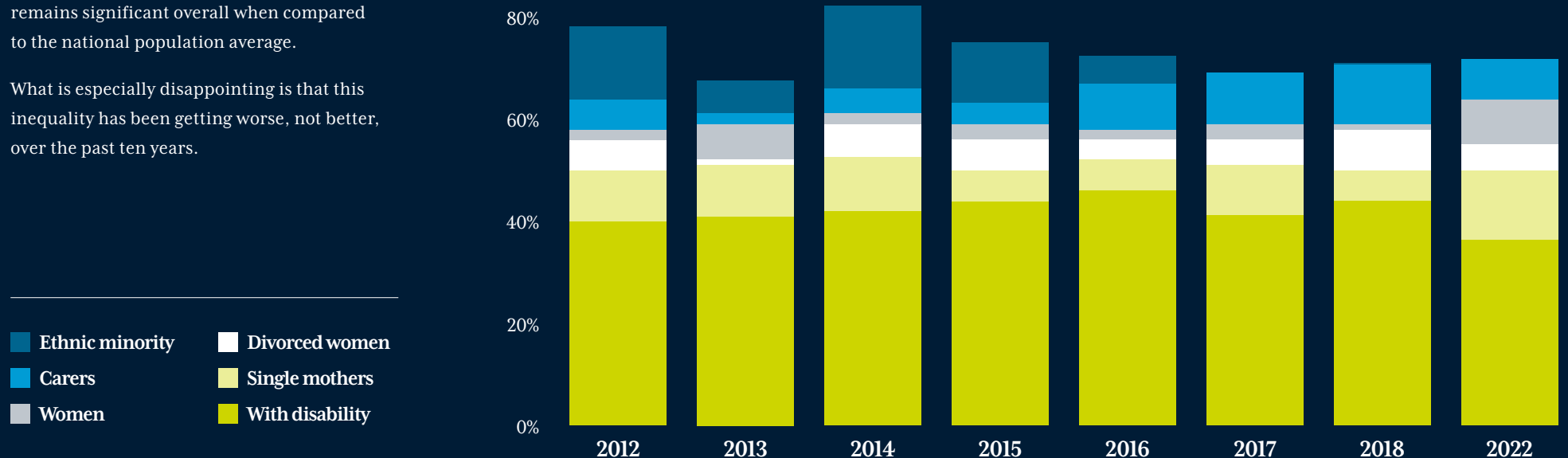
It is true that the gap does narrow slightly when income from State Pension and benefits is taken into account, but even then it still remains significant overall when compared to the national population average.

What is especially disappointing is that this inequality has been getting worse, not better, over the past ten years.

The slow progress over the past decade highlights more clearly than ever the importance of making plans today to improve inequalities over the long-term, even if they cannot be implemented until the economy has stabilised. It takes a long time for structural changes to the labour market and the pensions framework to affect the ability of people to build their pensions pot. Yet it is vital that thought is given to potential policy solutions, even in these challenging times.



### Average private pension income as a proportion of population average, by underpensioned group (age 65+)



## Section 02

# Understanding the causes of *pension inequality*



## The Labour Market

Many people in *underpensioned* groups are unable to earn sufficiently through their working lives to be able to save for a comfortable retirement

This is often because of disadvantages they face throughout their working lives, which are associated with lower incomes and, as a result, lower pension savings.



### Employment rates

Compared to the population average, **underpensioned groups have lower employment rates and higher levels of part-time work.**

Members of these groups are often likely to spend more time out of full-time employment, or adopt non-traditional work patterns such as part-time work or multiple jobs, compared to the average population.

The more time they spend out of work, the less they will be able to contribute to their pension and the lower their final fund size and income level will be.

Although some of these groups have seen an increase in employment rates over the past two years, this broadly follows the same trends across the population as a whole. This indicates that many people are choosing to work out of necessity to meet the current cost of living crisis, rather than the effects of any structural improvements in the underpensioned labour market. Ultimately, employment rates of the underpensioned groups, especially for members of certain ethnic groups, remain well below the population average.

## Incomes

As well as working less, underpensioned groups have lower than average incomes.

This reflects both lower hourly rates of pay and the lower number of hours worked, due to the high prevalence of part-time work among these groups.

Women's average annual incomes are 80% of the population average and 67% of men's average annual incomes. For single mothers this figure is substantially lower at just 60% of the population average. Since 2018, the gap between women's average incomes and the population average has grown from 12% to 20%

While it is true that some ethnic minority groups such as Indian and Chinese do have higher than

average annual incomes, many have significantly lower, such as those from Pakistani, Black and Afro Caribbean and Bangladeshi backgrounds.

Furthermore, the average incomes of people with disabilities or caring responsibilities has grown since 2018, but remains substantially lower than average. Carers typically earn 90% of the population average, while those with disabilities have average incomes worth on average 81%.

*As well as working less, underpensioned groups have lower than average incomes*

## Inequalities in Housing

Levels of homeownership are lower among underpensioned groups, and many will still be renting throughout later life.

Single mothers, for example, often find it difficult to get on the property ladder due to lower incomes, while divorced women's homeownership can be complicated as a result of the division of assets during a divorce.

Those with disabilities may have higher than average housing costs in retirement due to their additional needs.

Many of the underpensioned will still be renting in retirement, further eroding their already low pension income and exacerbating pensioner poverty.



## Cost of Living Crisis

**The current economic climate is likely to exacerbate the underpensioned gap.**

High levels of price inflation, particularly on necessities such as home energy costs, food and petrol inevitably affect those on lower incomes the hardest and will have an impact on their ability to save into a pension, leading to greater pension inequalities over the long term.

Some underpensioned groups are likely to be disproportionately impacted by the cost of living:

### Childcare

Women with children and single mothers may find it more challenging to increase their hours of paid work, especially as childcare costs have been increasing above the rate of inflation for several years.

### Disabilities

It may be harder for people with disabilities to reduce their household energy usage, especially those who need to keep their homes warmer all day or use specialist medical equipment.

### Self-employed

Price inflation and supply chain issues may have a greater impact on self-employed small business owners, forcing them to spend more and save less.

*The current economic climate is likely to exacerbate the underpensioned gap*

---



## Pension specific inequalities

# In addition to labour market inequalities, those in *underpensioned* groups may be disadvantaged by the pensions system itself

Auto enrolment (AE) – the process by which working people in the UK are automatically enrolled into a workplace’s pension scheme – has been hugely successful.

It was introduced by the government in 2012 following concerns that not enough people were saving adequately for retirement, and that the state pension would not provide an adequate income.

While automatic enrolment (AE) has been very successful in increasing workplace pension participation and brought many in underpensioned groups into pension savings, they are still disproportionately likely to be ineligible.

### Why are so many missing out?

The problem with auto enrolment is that it was designed for traditional patterns of work and is not suited to help employees who take significant career breaks, work in multiple or part-time roles, or frequently move between jobs. A lot of these are characteristics that we see in our underpensioned groups.

This worsens the widening pensions and savings gap as well as later-life inequalities experienced by these groups, who are much more likely to be ineligible for auto enrolment.

Group	% ineligible in 2020	Number	% ineligible in 2022	Number	Difference
Population average	15	5m	13	4m	-1m
Women	23	3m	17	2.5m	-0.5m
Single mothers	31	382k	29	317k	-65k
Divorced women	14	100k	10	82k	-18k
People from ethnic minority backgrounds	15	600k	13	549k	-51k
People with disability	21	800k	18	721k	-79k
People with caring responsibilities	37	590k	22	490k	-100k

## The good news

For many groups the gap has narrowed since our first report in 2020, as more underpensioned have met the qualifying threshold of £10,000.

### Women

While 23% of employed women were ineligible for AE two years ago, today that number has fallen to 17%, or 2.5 million women.

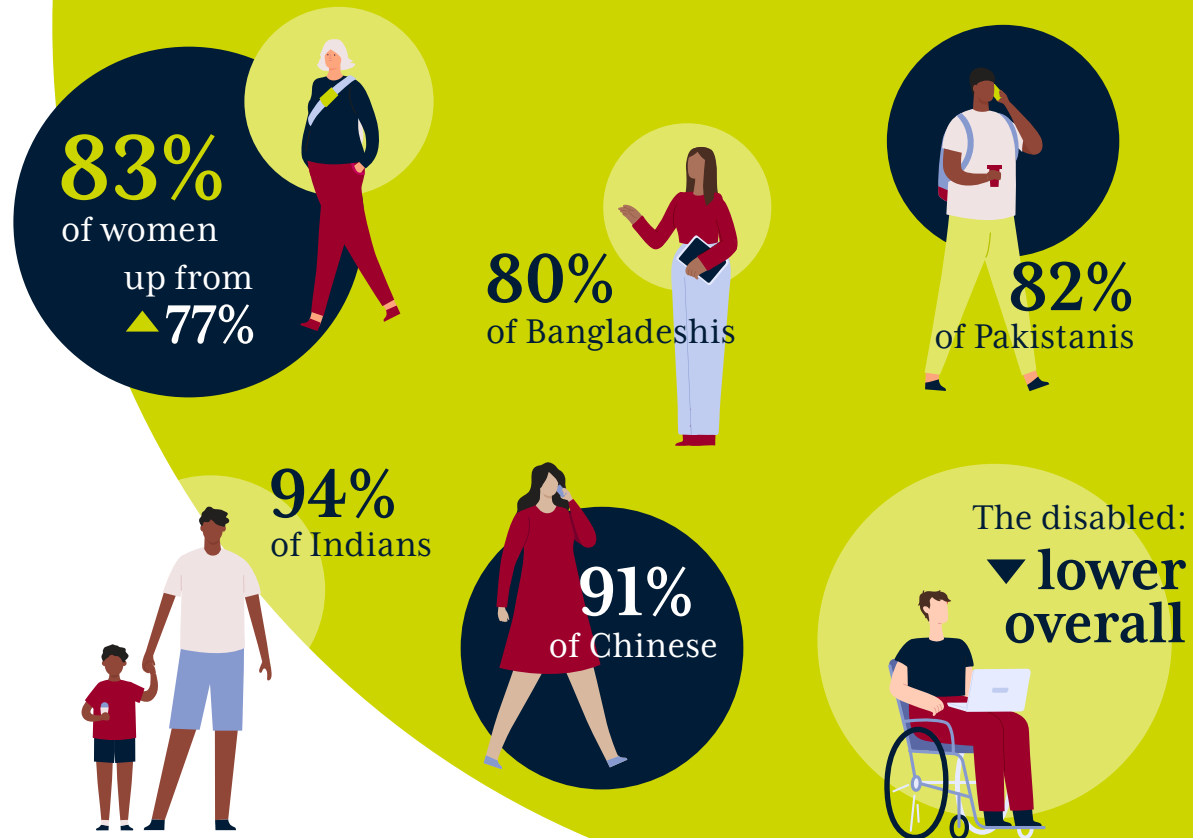
### Ethnic minorities

AE has also increased pension participation rates among many ethnic minority groups. 94% of Indians in the UK and 91% of Chinese are eligible for AE for example. However, participation does fall sharply to 80% and 82% respectively for members of the Bangladeshi and Pakistani communities.

### The disabled

Similarly, AE has been particularly successful in encouraging those disabled who are eligible to save. However, given their significantly lower employment rates, it must be noted that pension participation is unfortunately much lower overall for this group.

## ✓ Eligible for auto enrolment



## The bad news

Of the 14.6 million employed women in the UK, around 2.5 million (17%) do not meet the qualifying criteria for automatic enrolment, compared to 8% of male employees.

1.9 million women earn below the earnings threshold of £10,000, making up 79% of the workers who do not meet this qualifying criterion. However, women's eligibility for automatic enrolment has increased substantially since the first Underpensioned Index report in 2020, when 23% of employed women were ineligible, this has reduced to 17% ineligible in 2022.

While automatic enrolment has been particularly successful at encouraging disabled people who are eligible to save into a pension, as a group they are at a greater risk of being ineligible. 18% of employees with a disability are ineligible for automatic enrolment, compared to 13% of the broader population.

Multiple job holders are disproportionately likely to be ineligible for AE, with 79% of multiple job holders eligible compared to 87% of the full population of employees.

This is primarily because each job tends to pay under the £10,000 threshold.

Similarly the self-employed are excluded from AE as they are their own employer. Since so much of the success of AE is due to saver's inertia, introducing a legal requirement that the self-employed enrol themselves into a workplace pension scheme would not have the same positive impact on their saving behaviour.

## X Ineligible for auto enrolment

13%  
of the general population



17%  
of women



21%  
of multiple job holders



18%  
of disabled



100%  
of self-employed



## Cost of Living Crisis

The current economic climate may exacerbate the underpensioned gap. High levels of price inflation, particularly on specific types of goods and utilities (inflation has been especially high on necessities such as home energy costs, food and petrol), can impact people's ability to cover their needs. This impact can be particularly detrimental to those on low incomes, who have lower than average disposable income which can be used to mitigate the potential risk, spending a greater proportion of expenditure on basic needs.



## Section 03

# Our five point plan for *fairer pensions*

While the reasons for the pension gap are undoubtedly complex, doing nothing is simply not an option. The state and employers must come together to make it easier and more attractive for underpensioned groups to save for their later years, and to have the same opportunities for pension saving as the wider population.

We are pushing for five policy proposals that could help to close the gaps in pensions income for those groups who are most at risk, and which would create a fairer and more inclusive pension system.



# Our *five point* plan

Getting more people saving via automatic enrolment would be the most effective way to start closing the current savings gaps faced by the UK's underpensioned. NOW: Pensions' policy proposals to close the current savings gaps for these groups to help boost financial, later life equality.

1.

## Removal of the £10,000 auto enrolment trigger to get more underpensioned groups into a workplace pension

Employees are only enrolled into their workplace pension scheme if they earn more than £10,000 per annum, in a single role. We are calling for the government to reduce this threshold, with enrolment starting on the first pound of income.



2.

## Removal of the lower earnings limit so contributions are on every pound of earnings

The minimum total contributions under auto enrolment have been set by the government at 8%. The employee pays 5% of this and the employer must pay the remaining 3%.

Pension contributions are only taken after the Qualifying Earnings sum of £6,240 has been deducted. An employee earning just over the £10,000 threshold will only pay their 5% contribution on the remaining £3,860. We want the government to remove this barrier so that contributions are deducted from an employees' full salary.

3.

## The introduction of a family carer's top up

People who take time out of work to care for their family are compensated with State Pension credits. However, they miss out on auto enrolment.

Our proposed family carer's top-up would see the government pay the equivalent of the employer's contribution at the same level as the National Living Wage into carers' pensions. The top-up would equate to about £820 per year and boost pension outcomes by approximately 20% for individuals who take 10 years out of work due to caring responsibilities before returning to the workforce full-time.

4.

## Ensuring that pension funds are always considered in divorce settlements

The divorce rate of the over 60's has doubled since 1993. Divorced women are particularly disadvantaged if pension savings aren't taken into account when marital assets are divided. Although pension savings are often the second most valuable asset, 77% of divorce settlements don't take them into account as there's a greater focus on property assets.

Ensuring that pension funds are considered by default in all divorce settlements will help to address pension inequality.

5.

## Greater action on the availability and cost of childcare to enable those who want to return to work to do so

Despite tax changes that help families with childcare costs, prices continue to rise steeply. The Family and Childcare Trust reported in 2022 that childcare prices for children under three had risen to £138.70 for 25 hours per week, equating to £7,210 per year. This is double what the average household spends on food and drinks each week.

The UK now has the third-highest childcare costs in the developed world and is a huge obstacle for working parents to continue to earn and save for their future.

# Summary

Despite the current cost of living crisis, getting more people to save via auto enrolment would be the most effective way to close the savings gap faced by the UK's underpensioned.

Disruption to pension contributions and being forced into making short-term decisions about accessing pension savings could lead to poorer retirement outcomes for some of those underpensioned groups.

We have long called for two specific changes to the AE policy: Removing the £10,000 earnings trigger and starting pension contributions from the first pound of earnings would help many more to save for their retirement.

If the earnings trigger was removed, assuming minimum required contributions on band earnings were made, lower earners could make up to around £273m in contribution over a one-year period in 2021, with £102m from employer contributions and £171m from employee contributions, assuming everyone eligible was automatically enrolled and remained in.

Furthermore, for those who are more heavily reliant on the state pensions, we must protect the triple lock, which ensures that it is uprated by whichever of inflation, average earnings or 2.5% is higher. Any permanent changes to the way that the state pensions is uprated will inevitably have a disproportionate impact on members of underpensioned groups.

If income from multiple jobs was assessed on a total rather than 'per job' basis, an additional 12% (128,000) multiple jobholders would become eligible for automatic enrolment, including 108,000 women and 20,000 men.

*Getting more people to save via automatic enrolment would have the biggest positive impact on later life equality for underpensioned groups.*

## Our recommendations

If the £10,000 lower earnings trigger was removed, an additional 16% (171,000) multiple jobholders would become eligible, including 147,000 women and 24,000 men. However, it is important that such changes are considered holistically, especially in the midst of the current cost-of-living crisis.

### Policy proposals to close the gap:

Removing the £10,000 trigger would get

**2.4 million more people**

from underpensioned saving through auto enrolment

Taking pension contributions from the first

**£1 of salary**

would increase pension wealth by

**52%**





NOW: Pensions  
6 Bevis Marks  
London EC3A 7BA

[nowpensions.com](https://nowpensions.com)

**NOW:**  
Pensions

PENSIONS POLICY INSTITUTE  
**PPI**

**Disclaimer**

This report was created using the PPI Underpensioned Index, December 2022. To view the technical appendix and the full list of assumptions used to produce this data, please [click here](#).

**Information correct as at December 2022.**

NOW: Pensions is a UK occupational pension plan. This is written as a general guide only. It should not be relied upon as a substitute for specific professional advice.

NOW: Pensions Ltd. Registered office: 6 Bevis Marks, London, EC3A 7BA.  
Registration number: 07766398. Registered in England and Wales.

NPDO292