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For Immediate Release

Women continue to face challenges following pension reforms

- **A new report by Scottish Widows and the Equal Opportunities Commission reveals that many women will continue to face financial hardship in retirement after pensions reform**
- **Almost a third (32%) of women currently have no private pension provision at all**
- **Half of all women saving for their retirement stop when they have children**
- **A median-earning woman who saves in a Personal Account throughout her working life may receive just 69% as much income from it as an equivalent male**
- **Changes to means-testing mean that many lower-earning self-employed women may receive no benefit from saving for their retirement**

A major new report, published by Scottish Widows and the Equal Opportunities Commission, reveals that the current pension system continues to fail women and that women will continue to lag behind men in pension provision even after the proposed reforms. Those who are self-employed or spend long periods caring for others could be particularly hard hit.

Irregular working patterns means that many women lose out on State and private pensions and that they cannot save consistently enough to build up sufficient retirement income. Almost a third of women (32%) have no pension provision at all and half of all women saving for their retirement stop when they have children. Due to ongoing caring responsibilities, women are far more likely to be found employed in lower-paid part-time work - only 37% are currently working full time (compared to 60% of men), while 18% of women are working part time (compared to 6% of men). Of those women not working over two thirds (65%) are housewives and 41% are caring for their children.

Unsurprisingly women are less optimistic about their retirement prospects than men, only 29% are optimistic about their retirement compared to 35% of men. Two thirds of women (66%) say they are unable to save any more than they currently are.

Men vs women – The pensions facts

- Almost a third of women (32%) have no private pension provision at all, compared with just 22% of men.
- Only 34% of women have Defined Benefit schemes compared to 44% of men. However, with many women employed in the public sector this difference may reduce over time.
- For those people that are saving into a Defined Contribution scheme women are saving on average £89 per month and men are saving £117. In total men save on average £199 a month while women only save £128.
- Women find it much more difficult than men to envisage cutting spending on non-essential items such as electronic goods, drinking and holidays. This may well be because they spend less on them at present.

Ian Naismith, head of pensions market development, Scottish Widows comments: "Our research is a stark reminder of the plight that women face in retirement. Our current system needs to start taking into account the fact that many women will not work full time continuously throughout their working lives with many taking time out to have children or care for dependents. Although the state system is beginning to adapt to women's needs, the proposed changes to workplace pensions will still not cater for women's irregular working patterns. Even those in employment may not work full time which means their pension pots will be severely reduced. But women do need to realise that relying on their spouse to fund their retirement will not necessarily mean that they are looked after and they need to take action to put money aside for retirement."

The Pensions Policy Institute (PPI) has undertaken a modelling exercise as part of the report to provide the Government, media, and the consumer with a glimpse into the likely retirement income of women should pensions reforms be implemented in their current form.

The findings reveal that men are likely to build significantly higher pensions than women under Personal Accounts. A median-earning women employee who saves from age 22 to age 65 could receive only 69% as much income from a Personal Account as an equivalent man. And the position is even worse for those with different career patterns:

- Maya is self-employed and a lower earner (third decile). She chooses to starts a Personal Account in 2012 and saves in it at the rate of 5% a year (4% personal contribution plus 1% tax relief) until she reaches 65 in 2055.
- Maya's pension fund is likely to be above the 'trivial commutation' limit, so she has to use it to buy a pension income. At her State pension age of 68, in today's terms Maya could receive £76 Basic State Pension plus £23 a week from her Personal Account. She would also be entitled to £15 from Pension Credit, bringing her weekly income up to £114.
- If Maya had saved nothing she would still have received £76 a week Basic State Pension and would have been entitled to £38 from Pension Credit. So her total income would have been £114 a week, exactly the same as she receives with her savings.
- If Maya had been employed, she would have been entitled to State Second Pension benefit which would have taken her beyond means-testing, and would also have had the benefit of an employer contribution.
- If Maya had been within the limit for 'trivial commutation' she could have taken her pension fund as a lump sum (minus tax). While the lump sum may have affected her means-testing until she spent it, the impact would have been greatly reduced.

Other case studies reveal that a woman with a broken career patterns will receive higher State pensions under the new regime than at present, but that a woman now in mid-career who has not yet started a private pension will be only modestly better off, especially if she has caring responsibilities as she approaches retirement.

Jenny Watson, chair, Equal Opportunities Commission comments: "Our pensions system is fit for a bygone age, designed around a male breadwinner in a safe job for life, with a full company pensions, a marriage lasting through retirement, and a dependent wife. Sadly for women today the gender pay gap at work becomes an even bigger pensions gap in later life because the system is unable to cope with interrupted working patterns. Most women still face a financial penalty in retirement for doing unpaid work as a parent, or a carer looking after older relatives, as well as spending time in low paid, often part time work. Change is long overdue."

Ian Naismith adds: "There are many self-employed women with low-paid jobs such as hairdressing and child-minding. The PPI's modelling data reveals that they could lose out heavily under the new regime. We call on the Government to consider what can be done about this, for example by allowing the self-employed access to State Second Pension or by increasing the limits for 'trivial commutation'.

Marital issues affecting retirement

Divorce is also an issue that can severely affect retirement income. It now affects one in two marriages. To make matters worse, new rules to make pensions fairer when couples break up are not being used by women, despite much publicity on their introduction almost six years ago. This failure to adopt the new pensions-splitting rules, so each partner gets a fair share, is creating a pensions underclass amongst women.

Ian Naismith concludes: "Marriage is no longer necessarily for life and women need to consider this when they are planning for retirement. It is important that everyone has their own pension income rather than relying on others. There also needs to be more effective communication that pensions sharing orders are there to help people out left in this situation – women seem to be concerned with protecting the matrimonial home and not their husband's pension pot."

- ENDS -

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Notes to editors:

The research to support the report was carried out by YouGov who interviewed a total of 5,806 people over the age of 18 between 16th and 22nd of March 2006. Modelling of potential outcomes was undertaken by the Pensions Policy Institute in October 2006.

Glossary

- **Defined-benefit scheme** - A pension scheme in which an employee's pension is based on number of years of service and final salary with each employer. In this type of scheme employees are typically provided with 1/60 of final salary for each year of service up to a maximum of 40/60 that is, two thirds of final salary. At retirement a tax free lump sum may be taken at the expense of a reduced pension. (Source: Global Investor: www.finance-glossary.com)
- **Defined contribution scheme** - A pension plan in which benefits are dependent on contributions to, and the growth of, the pension fund. (Source: Global Investor: www.finance-glossary.com)
- Trivial commutation – if an individual's total pension savings are below a minimum threshold (currently £15,000) it can be paid as a lump sum rather than in pension form. Part of the lump sum will be subject to income tax.

Scottish Widows was founded in 1815 as Scotland's first mutual life office. Becoming part of the Lloyds TSB Group in 2000, Scottish Widows has become one of the most recognised brands in the life, pensions and investment industry in the UK. The product range includes ordinary long term insurance, such as life assurance, pensions, annuities and permanent health insurance, and savings and investment products. Using a multi-sales network of Financial Advisers, Direct Sales, Direct Marketing, the Internet and via the branch network of Lloyds TSB, Scottish Widows currently employs about 4,000 people.

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