



# Women and Pensions Report:

Pensions for Today and Tomorrow

Oct 2009



# Foreword

**It has been another year of unremittingly gloomy financial and economic headlines, though women have been holding onto their jobs rather better than expected.**

However, this year's Women and Pensions report reveals that this is pretty much isolated good news with many of the major indicators pointing to a worsening outlook for retirement saving.

Men and women are, it is true, saving more for 'life after work' but the report shows that the savings gap between the sexes is actually widening.

This is particularly true for older women, for many of whom increased longevity simply means living longer in comparative or actual poverty.

New rules have allowed women retiring between April 2008 and 2015 to buy back lost National Insurance years in order to get a better state pension, but our postbag at Financial Mail reveals that even though this is a positive move, many women are having difficulty working out whether the cost is worthwhile.

And while the disparity continues in pay rates between men and women – more than 30 years of the Equal Pay Act have not bridged the gap between the sexes – inequality in retirement provision will persist. Tough economic times like those we are currently going through will simply heighten this inequality as women are less likely to save, more likely to use their money to supplement the family budget or make sure the kids don't go without.

More than half of the women surveyed this year say they feel worse off than they did five years ago. This is a worrying indication that they may consider increasing their levels of debt when, as the report highlights, debt is already a far bigger issue for women than men.

Though the report shows that younger women are aware of the need to save for a pension and are earning closer to what their male counterparts earn, the level of debt for those in the 18 to 29 age range is significantly higher than for men.

With lower salaries women will, of course, find it tougher to pay down their student loans and may therefore be less inclined to remain within the coming system of auto-enrolled personal accounts. They may also feel less inclined to go into further education altogether because of concerns about this long term debt overhang.

Younger women now entering the workforce do seem more aware that they must make their own retirement provision rather than simply relying on their partner, but an acceptable standard of living after work will remain little more than an aspiration for many. Partly, of course, this remains the result of motherhood. There is evidence that women are delaying having children in order to establish themselves better in a solid career, but childbearing almost invariably means part time work, years out of the workforce, a slower rate of promotion... all adding up to a poorer old age.

And if motherhood counts against women aiming for a decent retirement, divorce also has a disproportionate impact. Sure there have been some spectacularly high profile divorce settlements in recent months, but the reality is that ordinary women are almost invariably worse off than men as the result of a marriage breakdown – in particular in relation to long term savings and pensions. They suffer more and are less able to rebuild their savings. And while women's employment is holding up, those women who do lose their jobs are also more likely than men to lose their partners particularly if they are in long term relationships.

Clearly women would favour and benefit from more flexible methods of saving for retirement – one in five of those surveyed believed they would put more money aside if their savings were more accessible.

But, however concerning the retirement outlook for many women, the report does suggest an encouraging degree of realism among those surveyed: they know they'll have to work longer but at least they seem to have grand plans for what they will do when they eventually leave the world of work.

**Lisa Buckingham**  
Editor  
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# Executive Summary

Having first experienced a credit crunch and now a recession, we can report that 58% of those over 55 with a private pension expect to see some impact on their retirement plans. Across all age groups, only 12% of women who are not retired and have a personal pension thought that their pension would probably be unaffected by the downturn. Men appear more optimistic with nearly 1 in 5 expecting their pension to be unaffected. This optimism is supported by results from our annual pensions snapshot, the Scottish Widows Pensions Index and Average Savings Ratio, which reported a growing gender pensions gap in the UK. During 2009 the gap between men and women's pensions savings widened by a further 3%.

- The number of men who are now saving enough for an adequate retirement income has gone up from 55% to 59% between 2008 and 2009, while the number of women has barely changed increasing from 46% to 47%.
- The average amounts being saved by men and women each year also increasingly favours men. Men now save over 10% of their salary compared to women who save just over 8% of salary.

It's not all bad news for women who seem to be faring better than men in the job market. Official statistics show that the redundancy rate has increased at almost double the rate for men as it is for women. Our findings show that insecurity at work means that approximately 1-in-6 men now see the threat of unemployment as a barrier to save compared to around 1-in-8 women.

## A more 'short-term' savings culture

While women might feel less threatened at work, men and women are responding to this threat in very different ways. While more women than men are now focused on the need to save, the findings show that women are focusing on the short-term. Yet again we find that the impact of children and family life will play a role in shaping the savings behaviour of women more than men. Women prefer forms of savings they can access before retirement. However, the number of women focusing on the need to build up a rainy day fund has increased dramatically – by 8% - since the start of the financial crisis back in 2007. Today, 40% of women in the UK cite this - rather than saving for retirement – as a motive to save.

## Struggling with debt

Debt now affects greater numbers of Britons with nearly 2 million people seeking debt advice from the Citizen's Advice Bureau. Our findings reveal that women are saddled with around £1,000 of extra debt compared with men. This gender 'debt gap' increases among young women. Women under 30 have roughly £2,300 more unsecured debt than men of the same age presenting them with another major barrier to save.

## Hit by the closure of final salary

The closure of final salary pension schemes has been seen as a male problem. However, with 44% of the men in our sample having a dependent female spouse then women are likely to be hit indirectly by the decline in final salary schemes and falling household incomes in retirement. Furthermore, women make up 63% of final salary scheme members in the public sector. Any reforms to those pensions will see a disproportionate number of women being directly affected.

## Where next for pensions reforms?

Other long-standing issues come to the fore in this year's findings. Fewer young women accept that they will rely on the state for their retirement income. In all, only 6% of women under the age of 30 expect the state to provide most of their retirement income. Here we find a generational divide with older women for whom the state will remain a crucial source of retirement income.

After a series of reforms the picture for women in retirement is looking much more positive. Wider eligibility to the Basic State Pension is one of the major landmarks in recent years. Others would include the closing gender pay gap giving women a greater ability to save; changes to pensions sharing on divorce should enable women to retain a share of the pension if they split with their partner; personal accounts should help to widen access to private savings for women; while linking state pensions to earning rather than prices should provide better protection against inflation during retirement, a particular concern for women given that they can expect to live longer into their retirement than men.

However, with the gender pensions gap continuing to grow the need for further reform is clear.

### Key recommendations

More flexible long-term savings – using product design we can help women to turn 'excess' rainy day funds into retirement provision. The growth of £274bn in Individual Savings Accounts represents an opportunity to channel some of these existing funds into pension savings. This could involve a more joined up approach between the new personal accounts and existing forms of long-term savings.

Build awareness of the need to save for retirement – with the short-term crowding out the long-term women need to understand that saving for the long-term cannot be put off indefinitely. We need interventions – possibly through schemes such as Money Guidance – to change the way women think about retirement.

More focus on promoting personal accounts – the low-cost savings vehicle is designed with women in mind yet only one third of women have heard of the scheme, due to be phased-in in three years time. With household budgets feeling the squeeze more people are questioning whether they would stay in the scheme, which means that now is the time to promote better awareness.

Place more value on employee benefits – women often place value on short-term workplace benefits such as flexible working hours or the location of their workplace. Many women still have to fit work in around family life. This may mean that they are foregoing opportunities to build up pensions through the employer. More access to guidance and advice both in the workplace and beyond should help women to make more informed choices which don't leave them financially exposed over the long-term.

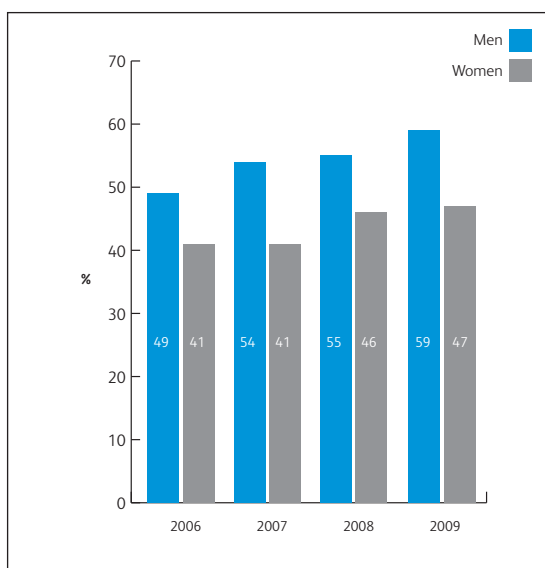
# Introduction

The Scottish Widows Women and Pensions Report is now in its fifth year. Since 2005 we have charted the level of pension saving by women in the UK as well as capturing their changing attitudes towards retirement. We have achieved this by using two measures: the Pensions Index and Average Savings Ratio.

## The Scottish Widows Pensions Index

The Scottish Widows Pensions Index measures the percentage of those who could and should be saving for their retirement who are currently doing enough to achieve a reasonable living standard in old age.<sup>1</sup> After a low point in 2006, where the combined savings index for men and women was 46% we have observed a steady increase in saving by both women and men – the Pensions Index has increased by 6% between 2006 and 2009 for women and 10% for men during the same period. This represents a 4% widening of the gap between the number of women and men who are saving adequately for retirement since 2006. Despite all the recent pension reforms, the gender gap in pensions preparedness is continuing to grow.

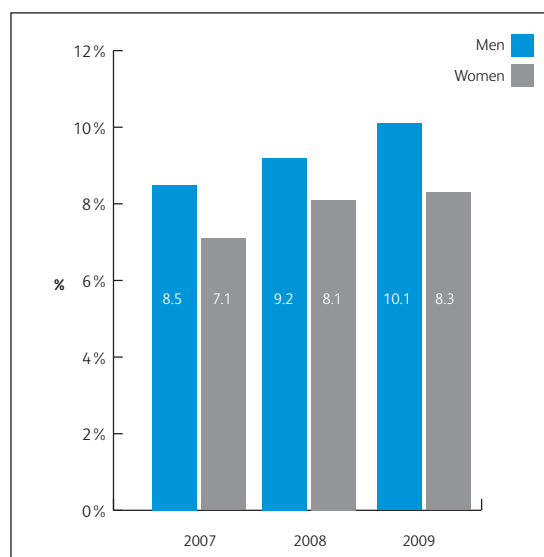
**Chart 1:** Scottish Widows Pensions Index – a widening gender gap



## The Scottish Widows Average Savings Ratio

The Scottish Widows Average Savings Ratio measures the average percentage of earnings saved by those not relying on a defined benefit scheme. The Average Savings Ratio has continued to rise this year for both women and men. However, the jump in savings is significantly higher for men than for women. Men now save almost 2% more of their salary when compared with women.

**Chart 2:** Scottish Widows Average Savings Ratio



This gender savings gap reflects the continuing pay gap between men and women, and a number of design features of the pensions system. This report looks at some of those issues in detail in Part 2 and 3. More pressing perhaps, given the current economic climate, is the impact of short-term factors such as the economic downturn which has squeezed family budgets. We examine these more immediate impacts in Part 1.

# Part 1: The impact of the recession on women's savings – How badly are women faring compared to men?

With the UK in its deepest recession since the 1930s concerns over the state of household finances have loomed large.

Families have had to cut back on their spending in order to place them on a sounder financial footing. Consumer debt has been paid down. In effect, short-term financial pressures have trumped the need for long-term financial planning. The economic downturn has had an impact on the retirement savings of 58% of those in our sample who are aged over 55 and who have access to a private pension. This impact has been significant enough for 20% of women in this age group to review their finances.

Against this backdrop, a mixed picture emerges of the recession's impact on women. 23% of women who are not retired and have a private pension admitted that the downturn was likely to have a great impact on the size of their pension pot at retirement. This reflects the fall in fund values, and the impact of the recession on the level of pension contributions. Only 12% of these women thought that their pension pot would probably be unaffected by the downturn, this compared to nearly 1-in-5 men. This difference in optimism is likely to be related in some way to the fact that men save greater amounts than women and save more regularly than women.

Key finding 1: The gloomy job market is proving a bigger obstacle to save for men

Financially, women may be faring better than their male peers. Official statistics show that since the end of 2007 the female redundancy rate has increased by 1.8%, from 4.8% to 6.6%, compared with a 3.5% increase for men, from 5.5% to 9.0%.<sup>2</sup> This is consistent with the recession of the early 1990s when the male unemployment rate peaked at 12.3% by 1993 compared with 7.9% among women.

This is being reflected in attitudes with women feeling more secure in their employment compared to men. In 2008, we found that equal numbers of working men and women – 78% – felt their job would be secure or very secure over the coming 12 months. However, today we find three quarters (75%) of women feel their job will be 'fairly' or 'very secure' over the next 12 months, an annual fall of 3%, compared with only 69% of men which represents a fall of 9%. The impact of these attitudes can be seen on people's willingness to save in the coming year.



### Diminishing job security: a growing obstacle to save

With unemployment approaching 2.5 million people,<sup>3</sup> the growing fear of job losses is now becoming a major obstacle to long-term savings particularly among men.

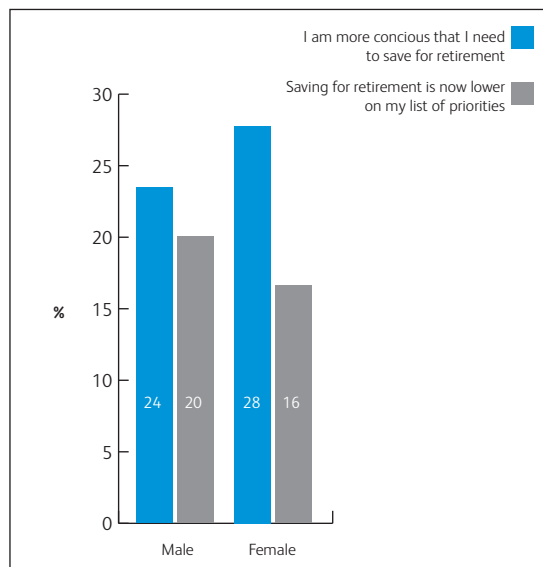
- In 2008, just 6% of women (and 8% of men) said that the uncertain job market would prevent them saving in the coming year.
- In 2009 we see that this has doubled among women to 12% or approx 1-in-8, and more than doubled among men to 17% or around 1-in-6.

### Key finding 2: women’s attitudes are becoming increasingly focused on the need to save

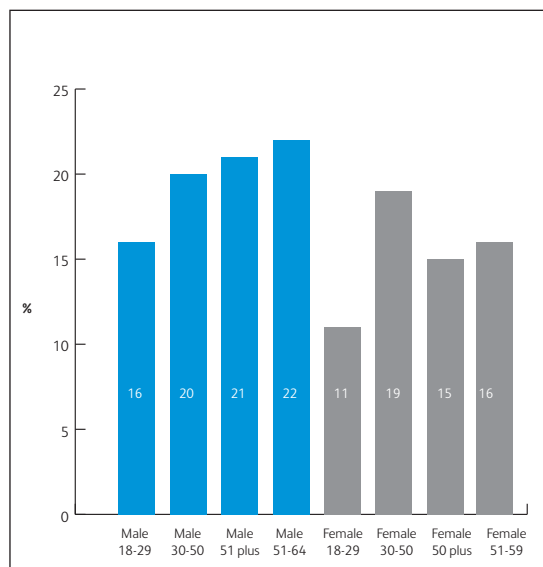
With fewer women than men citing the current economic climate as an obstacle to save, we can see some positives on the horizon. As we can see in Chart. 3 women have actually been made more conscious of the need to save. This is particularly true of women aged over 50 (and not retired with a private pension) who are twice as likely to feel this way compared with women under the age of 30. Chart. 4 also shows how women are less likely than men to be de-prioritising savings.

The fact that 20% of men compared to 16% of women have relegated retirement planning as a priority may reflect the fact that many men have already established retirement savings and feel they can afford to cutback. This is also reflected in Chart. 4 which shows that it is older men – who tend to have amassed the greatest savings – who are most likely to regard savings as a lower priority. While women might feel more inclined to save there are two more key findings which highlight important changes in how women are saving, and indeed, whether they are actually able to save as they had planned.

**Chart 3:** Impact of the recession on attitudes to saving



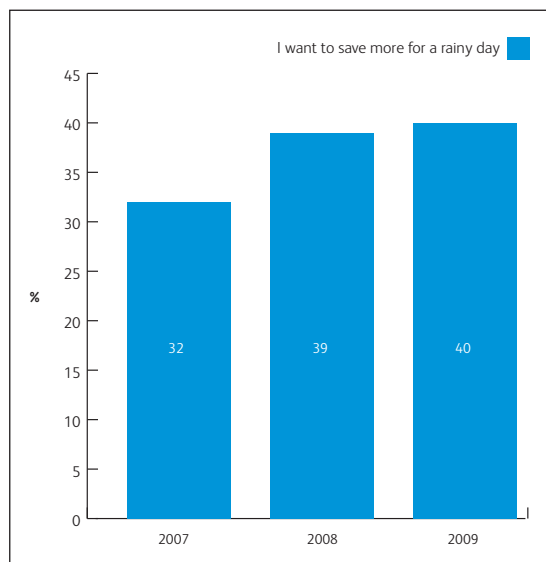
**Chart 4:** Saving is now lower on my priorities because of the recession



### Key finding 3: women's savings are becoming focused on the short-term

Women are more likely than men to have their long-term financial plans disrupted by events. Only 14% of women with dependent children have not had to stop any pension contributions or long-term savings after having children, compared with 26% of men. For some women it pays to think short-term. This same trend is now emerging in the current economic crisis with increasing short-termism apparent in women's savings motives. Fearful over the current economic uncertainty we find that they seek to keep their money easily accessible rather than locking it away in pensions. The most popular motive for women to save more in the next twelve months is the desire to build up a rainy day savings fund. Over the past 3 years the desire to build up a rainy day fund has been consistently popular amongst women. However, this desire has grown stronger since the credit crunch struck in 2007 (Chart. 5).

**Chart 5:** I want to save more for a rainy day



Looking at the motives of young people looking to start saving in the coming year, we find that men under the age of 30 are more likely to be motivated by the fact that they expect to get a pay rise in the coming year (46% compared with 33% of women). Meanwhile, women under the age of 30 are more likely to cite the need to save "for a rainy day" (46% compared to 39% of men).

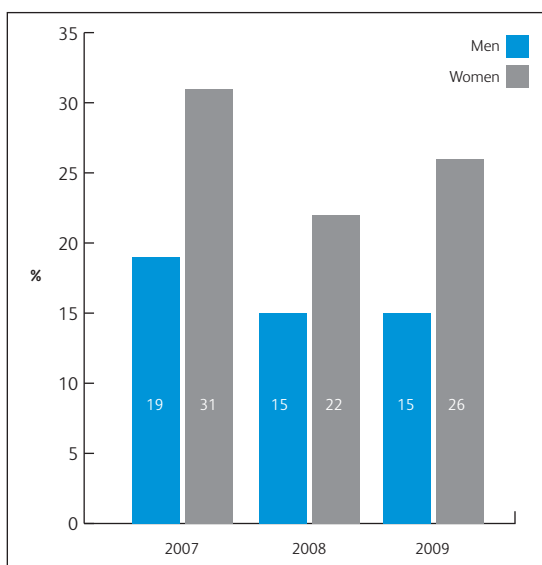
### Key finding 4: Women are particularly hit by a decreasing ability to save

While concerns over job losses appear to be influencing greater numbers of men, this is only one factor which explains savings behaviour. Even where people remain secure in their employment they may be prevented from saving as a result of barriers to save such as working on lower incomes or having the ability to save 'crowded out' by higher levels of household debt.<sup>4</sup> As our findings in 2009 show both these factors are hitting women harder.

So while women's aspirations to save appear to have held up quite well during the recession, we find that in reality, the number of women who are not currently saving anything has jumped to 26% (up 4% on 2008) compared to just 15% of men (which is unchanged on 2008). This is in line with other findings which show that good intentions don't always turn into good deeds. When asked 12 months ago whether they intended to save more, 48% of women under 30 said yes yet a year later only 22% had actually done so. Overall, one-third of women said they intended to save more and only one-in-six did. This means that another one-in-six women who wanted to save did not do so. At the same time, we find that just over half (54%) of women admit to feeling less well off now than they did 5 years, while men are slightly more upbeat with over a third (36%) feeling better off than they did 5 years ago.

This presents us with a clear contradiction: while women are more likely to see the need to save in a recession, albeit it in short-term savings, fewer women compared with men – as we can see below in Chart. 6 – actually find themselves able to save.

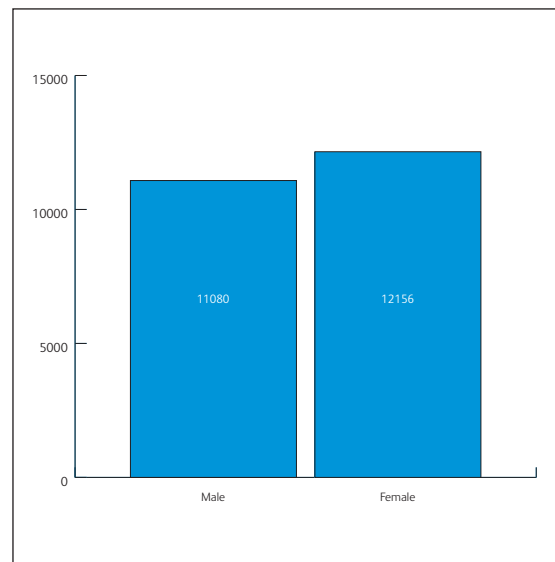
**Chart 6:** Non-savers by gender



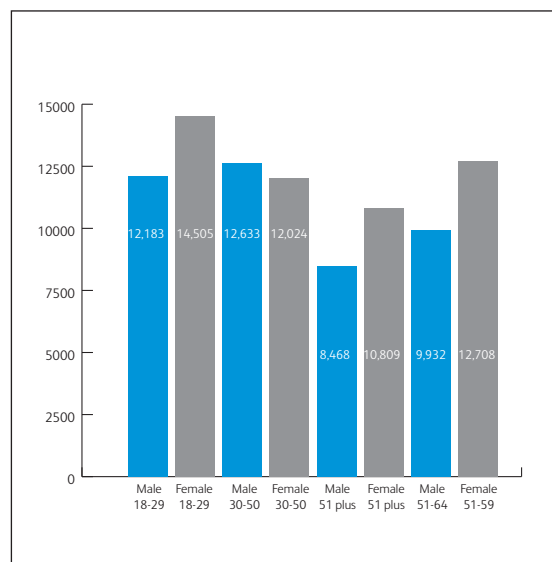
### Key finding 5: Household debt will hit women hardest – particularly younger women

One of the key impacts of the recession on family finances has been in the area of household debt. Debt enquiries to the Citizen’s Advice Bureaux (CAB) increased 11% between April 2008 and March 2009, with the CAB advising 1.93 million people struggling to pay back debts.<sup>4</sup> The rush to pay off debt affects women more as they tend to accumulate greater amounts of unsecured debt. The women we surveyed had around £1,000 worth of extra debt compared to men (Chart. 7). Servicing these credit commitments can become a formidable barrier to a women’s ability to save. It is worrying that the younger generation of women have much greater levels of debt, in part driven by student loans that need to be repaid. Women aged 18-29 have roughly £2,300 more unsecured debt than men of the same age (Chart. 8).

**Chart 7:** Average level of unsecured debt amongst men and women in £’s



**Chart 8:** Unsecured debt by age and gender in £’s



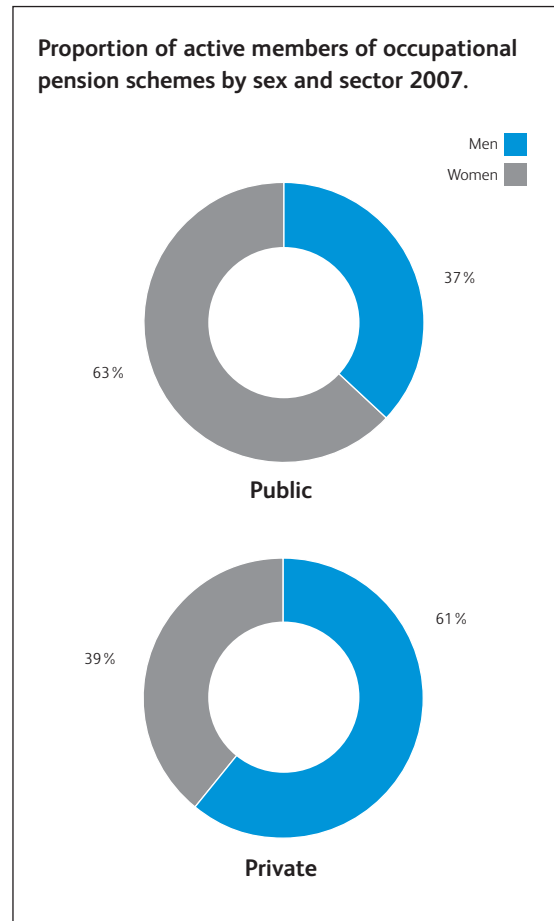
This debt burden may well have a major impact on the take up of personal accounts, particularly among those being auto-enrolled at age 22. With student loan repayments typically set at 9% of person's income, the prospect of personal accounts eating up a further 4% raises the serious question about whether many young people will stay enrolled in personal accounts.

### Key finding 6: The hidden impact of declining final salary schemes

The post-war expansion in occupational pensions, largely in final salary or defined benefit (DB) schemes, heralded – at least for men – a golden era in pension provision, which is now drawing to a close. Increasing life expectancy and falling stock market values have forced employers to close their final salary schemes to new, and even existing, employees. This trend has been exacerbated recently by the economic downturn as the shortfall in the UK's 7,400 defined benefit schemes, including final-salary pensions, increased from £39.3bn to £173.2bn in the year to the end of August 2009.<sup>5</sup> As fig 9 shows, the closure of DB schemes in the private sector is likely to directly hit men harder than women.

Significantly fewer women have access to a DB scheme in the private sector. In 2009 only 34% of women had a final salary scheme compared to 41% of men. However, with around one-third of men claiming to have a dependent spouse – increasing to 44% of men over the age of 50 – women are often dependent on their spouses for their retirement income so they are likely to be indirectly affected by the decline in household pensioner incomes as a result of closing DB schemes. Looking forward, we can also see how the recession may also force fundamental reforms to public sector pension schemes. Whilst we cannot speculate on what those reforms would entail, any changes will be felt disproportionately by women, many of whom are concentrated in public sector DB schemes. Chart 9 reveals that women account for nearly two-thirds of DB members in the public sector.

**Chart 9: Access to Defined Benefit Schemes<sup>6</sup>**



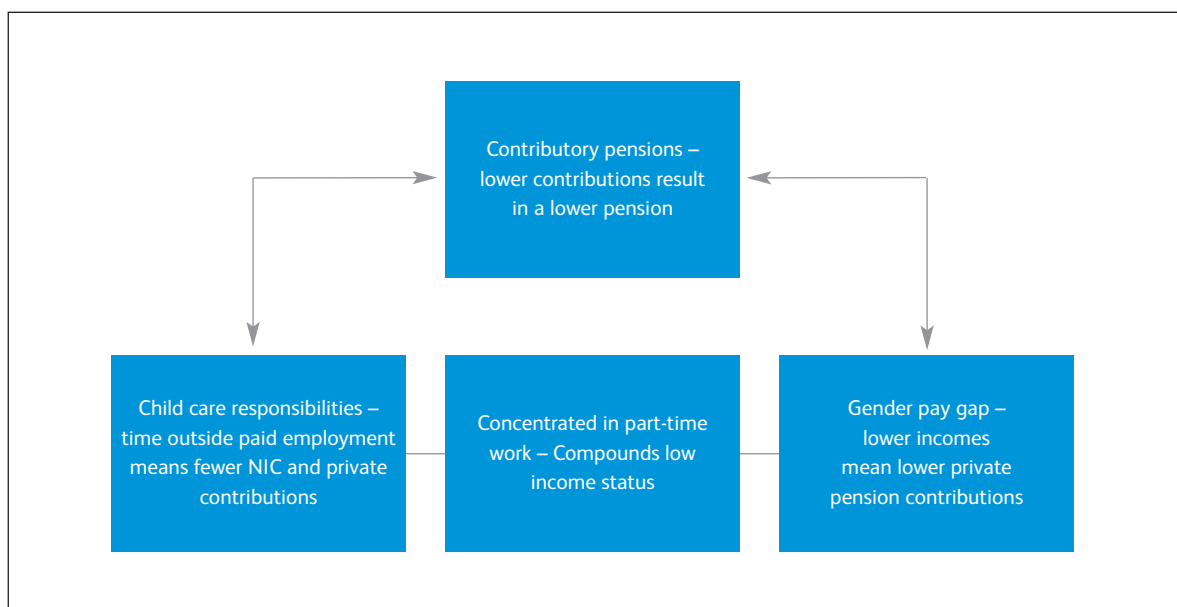
Percentages are calculated excluding those for whom sex is not stated

Source: ONS: Occupational Pension Schemes Survey

## Part 2: Women’s pensions today – Addressing the long standing barriers to save

The UK pension system was largely designed with men in mind. Rather than opting for a system that would provide universal benefits, Britain chose to adopt a contributory system whereby what you get out depends on what you paid in through National Insurance Contributions during your working life (Chart. 10). Generations of women have been disadvantaged as a result of working lives which have been punctuated with child caring responsibilities and caring roles for elderly relatives.

**Chart 10:** The vicious circle of women’s pension savings: Lower contributions result in a lower pension



Legacy issues of the pension system, and traditional gender roles, continue to shape women’s ability to save and their attitudes to pension saving. Many women perceive saving for retirement as selfish. They are well aware of the need to save, though often feel obliged to put their children’s needs first. This can be seen in women’s preference towards short-term accessible savings products. We also find that women with dependent children are almost twice as likely to stop long term savings as a result of having children compared with men: 12% of the women with dependent children we surveyed have had to stop all pension contributions and long term savings because of starting a family, compared to just 7% of men.

This legacy affects not just private pensions but also state entitlements as a result of broken national insurance contributions. Recent figures from the Office of National Statistics have shown that a larger proportion of women than of men receive less than the full Basic State Pension, currently worth £95.25 per week. In September 2008, 34% of female pensioners (2.3 million women) received 60% of full BSP or less, compared with 2% of male pensioners (under 0.1 million).<sup>7</sup> The last five years has seen major steps made to eradicate the elements that disadvantage women.

**Chart 11:** A period of major reform

Reforms	Change
<b>The Pensions Act 2007</b>	Re-established the link between the Basic State Pension (BSP) and earnings – better protecting state benefits on which women are more likely to rely against inflation. The Act also paved the way for increases in the future State Pension Age (SPA) between 2024 and 2046, and introduced a reduction in the number of qualifying years for women to be entitled to a full BSP from 39 to 30.
<b>The Pensions Act 2008</b>	Brings about fundamental changes with the introduction of automatic enrolment in 2012 and the creation of employer duties stipulating that they must contribute at least 3% of qualifying salary into a personal account or comparable employee pension scheme by no later than 2016.
<b>The Pensions Act 2008</b>	The successful campaign to allow people to purchase missing National Insurance Contributions will help those with broken work histories, particularly women and carers to make good any shortfalls in state pension entitlement.
<b>Welfare Reform and Pensions Act 1999</b>	Led to a more equitable pension settlements for both men and women when marriages breakdown. The Act also introduced the Stakeholder Pension, which was particularly targeted at groups of under-savers including women.
<b>Financial Services Financial Capability Programme and Money Guidance scheme</b>	The future introduction of the money guidance service across the UK will aim to help women and men gain a stronger understanding of their finances.
<b>Finance Act 2009</b>	Given the estimates that elderly relatives provide up to £3.9 billion worth of child care annually, <sup>8</sup> recent changes should provide extra income for grandparents who care for grandchildren and help many mothers return to work sooner, enabling them to maintain a full national insurance record and possibly contribute into a private pension.



### Key Finding 7: Changing patterns in employment and financial dependency may disadvantage men

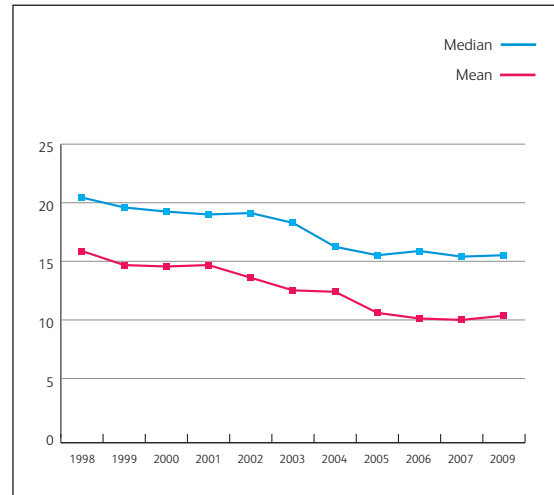
As women's lives become more like those of men, many of the concerns over the current pensions system will come to apply to both sexes equally.

In particular we find that patterns of dependency are changing. With the average number of children in a family decreasing<sup>9</sup> it follows that women, who have traditionally borne the brunt of providing childcare in their 30s, will see less disruption to their working and savings patterns. Meanwhile, as more people live into old age, someone will have to bear the brunt of providing care to elderly relatives and spouses.

### Key Finding 8: younger women no longer feel reliant on the state

The characteristics of women below the age of 30 are strikingly similar in terms of lifestyle and working lives to their male contemporaries. There is a growing appreciation amongst younger women of the need to save more for retirement. Women today know that they can't rely on their spouse. They are more financially independent than their mothers and grandmothers. Participation in the job market continues to grow and the gender pay gap has fallen over time (Chart. 12). The decision to have children is being delayed into later life. Crucially, the state pension is no longer seen as being sufficient in meeting retirement income needs (Chart. 13).

Chart 12: Gender pay gap<sup>10</sup>



Source: ONS: Annual Survey of Hours and Earnings April 1997 to April 2008



**Chart 13:** Decreasing reliance on the state

	Female 18-29	Female 30-50	Female 51 plus	Female 51 to 59
Percentage of women who thought the state pension will contribute the most income in retirement	6	11	26	21
Percentage of women who thought that the state pension will help ensure that they have a reasonable standard of living in retirement	35	37	60	55

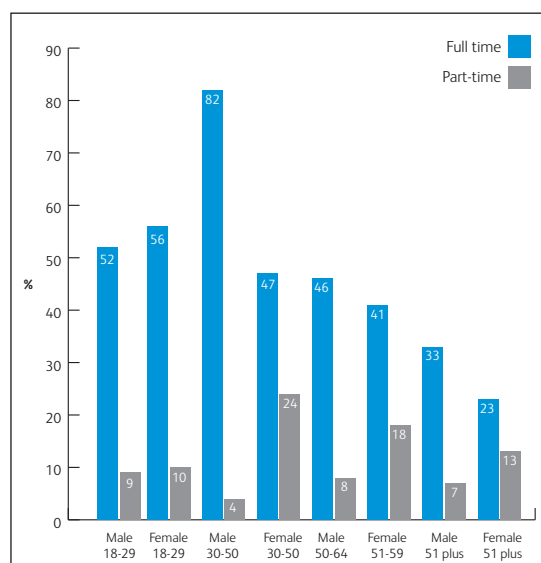
Recent changes to the Basic State Pension have meant that most women will be able to secure more generous benefits in the long-run. Whilst these changes are positive for many it appears that women increasingly realise the need to look beyond the state pension so that they can secure a comfortable retirement. With the state pension declining in value in real terms, the findings show that younger women place much less importance on the state pension compared to older generations. Only one-third of women aged 18-29 think that the state pension would help them have a reasonable standard of living. Meanwhile only 6% of women aged 18-29 thought that the state would contribute most of their retirement income. This is an interesting future trend as it displays a growing appreciation amongst younger women that they accept that they can no longer rely on the state pension. They will therefore need another source of income in retirement.

**Key finding 9: state provision will remain crucial particularly for older women**

Beyond the age of 30 the issue of fragmented working lives still serves to hamper women in their attempts to accrue adequate pension savings. Whereas 82% of men aged 30-50 work full-time this drops to 47% of women (Chart. 14). Beyond 30 we find women are more heavily concentrated in part-time employment, which is a major factor in explaining why women are less able to make pension contributions in their own right.

There is therefore a need to support women throughout their adult lives with more flexible working practices to help them blend their working lives with childcare responsibilities. Without such help, the ability to save and the frequency of saving are going to remain much more restrained when compared to men.

**Chart 14:** Different Working Patterns – % of men and women working full-time and part-time



## Part 3: Policy recommendations for women's pensions tomorrow

With women continuing to lag behind men in pension saving we need to look at what factors drive savings behaviour and how the savings environment can be better tailored to help support greater long-term savings among women.

In previous reports we have referred to this as designing pensions around the lives women lead. While a lot of progress has been made to achieve this goal in recent years – such as reducing the number of contributory years needed to become eligible to a full Basic State Pension, reflecting the fact that women spend long periods outside paid employment – there is still further work to be done. Scottish Widows has undertaken a major assessment of savings motives to look at what steps policymakers in the UK can take to leverage greater savings levels by ensuring that savings work with the grain of people's current savings motives.

### Would easier access to pension assets before retirement encourage women to save?

Currently, pension funds cannot be accessed before the age of 50, rising to 55 in 2010. This concept of pensions "lock away" has been cited as a major obstacle to save given the short-term planning horizons of many people, particularly women and those on low incomes. One reform recently mooted focused on allowing early access to the 25% tax free lump sum, which people are currently allowed to draw from their pension pot from the age of 50, to help make pensions more 'liquid' and provide much needed capital when hardship strikes during working life.

- A recent report produced in April 2009 highlighted the potential that early access to the 25% tax free lump sum could have, especially during tough economic times as the use of the lump sum could be used to pay off debts or mortgage arrears.<sup>11</sup>

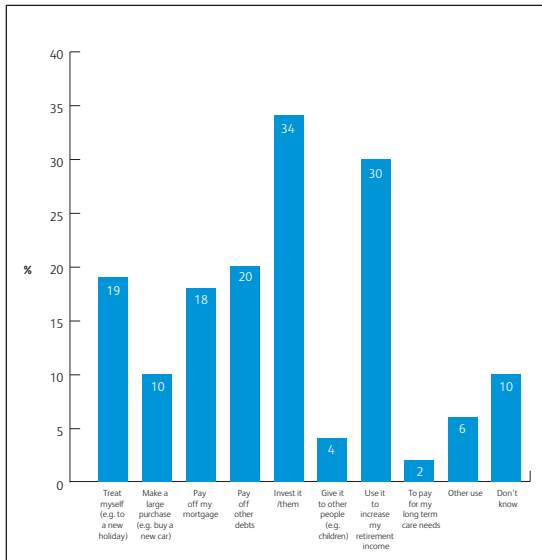
However, there are other products which already exist – such as mortgage or income protection – which could achieve the same purpose more cost effectively. Furthermore, countries which do have more flexible regimes still seek to recognise the need to encourage people to keep their pensions assets locked away until retirement. Examples such as the 401(k) plan in the US continue to place some restrictions on the ability of individuals to make withdrawals. Prior to the age of 59 and a half years, withdrawals attract a 10% penalty and the withdrawal is taxed as income.

- There is evidence to suggest that Americans would rather release equity from their home than tap the assets accumulating in their pensions. Borrowing against 401(k) plans remains low at around 16% of eligible households in 2004<sup>12</sup> while only 1.5% of US 401(k) accounts recorded a hardship withdrawal in 2007.<sup>13</sup>

We should not, therefore, see greater access to pension assets as a readymade solution to encouraging women to save more for retirement. Greater accessibility therefore needs to be approached in a balanced way which does not undermine a pension's appeal to long-term financial planning.

- We find that where people are currently given some flexibility, a significant proportion of people do not use their tax free lump sum for specifically funding their retirement. People intend to use their tax free lump sum for purposes such as funding a holiday or using it to make a large purchase.
- Nearly 40% of women intend to use the lump sum to pay off debts or mortgages (Chart. 15). Creating more 'liquid' pensions could simply result in lower retirement incomes and greater hardship in retirement. It is important not to send a message to people that they should come to over rely on their pension pots.

**Chart 15:** Proposed use of 25% tax free lump sum by women who have not yet retired



### Key recommendation 1: Flexible long-term savings would be attractive to some women

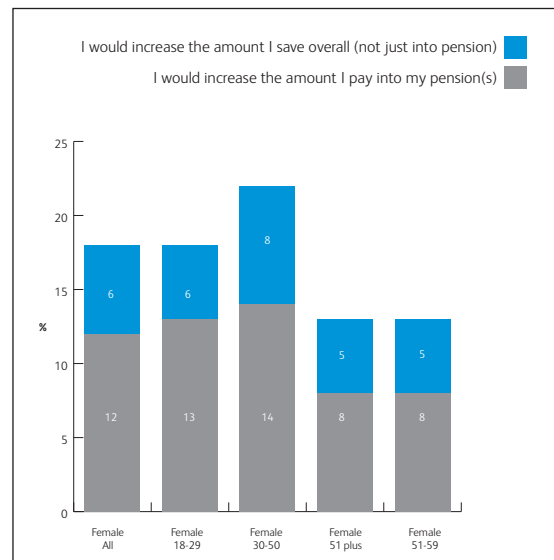
An alternative to easing access to pension funds would be to design more accessible long-term savings which could complement pension savings. Our research found that women could potentially save an extra £83 a month. This figure has increased over the course of the years, up from £71 per month just two years ago, and represents a significant amount which would add up to nearly a £1,000 over the course of a year. This is a source of money that many women could potentially save, but at the moment they choose not to. Given the right savings product – one which is designed more around the lives women lead – this money could be turned into a rainy day fund or eventually rolled into retirement savings. With so many women – particularly women aged 18-29 – so intent on building up short-term savings, and with the savings ratio hitting its lowest level in 50 years during 2008,<sup>14</sup> the notion of a lifetime savings product has re-emerged as a way to boost the level of savings.

Supporters of the idea argue that people – particularly women and those on low incomes – would be more inclined to save if they didn't feel that they were locking their money away, and could access their savings when they needed to.

The massive accumulation of funds – around £274 billion in Individual Savings Accounts (ISAs) by 2009<sup>15</sup> – illustrates the attractiveness of such flexible savings. Around 19 million adults invest in ISAs which are proving particularly popular with low-income groups.<sup>16</sup>

- Our findings showed that nearly 1-in-5 women would be encouraged to save more for the long-term if the savings were more accessible (Chart. 16).

**Chart 16:** The impact of greater flexibility to pension savings



Lifetime savings products could become a much bigger feature of the pensions landscape, notably with the development of “feeder funds” that enable the individual to first build up a flexible savings pot before payments spill over into the pension fund proper. The Government and industry must therefore help to foster a stronger savings culture, which equips women with access to the right products, and greater sources of financial advice, which enables women to build up sufficient long-term savings. This could see a natural alignment of current existing savings vehicles, for example, allowing employees to make contributions into an ISA wrapper (through the development of workplace ISAs) alongside contributions into the proposed personal accounts. This could prove to be particularly popular with the young, those on low incomes and women.

### Key recommendation 2: Greater effort is needed to build awareness of pension needs

While Independent Financial Advisors (IFAs) are the most popular form of advice, this can be expensive and beyond the reach of women in part-time work on those on lower incomes. With friends and family being the second most popular source of advice for women, this is likely to relate to the value that women place on trust. Money Guidance – the proposed national ‘free’ advice service – hopes to fill that advice gap by helping people across the UK to understand their finances better.

- Over one third of people said that they would use the system. However, support for money guidance is much stronger amongst the younger age groups as nearly 50% of women aged between 18 and 29 said they would use the service.
- Our evidence supports the FSA’s own research suggesting the need for a multi-channel approach to accessing the scheme. Women’s most favoured method for accessing money guidance was through the internet. Among younger women there was a preference for a face to face service.

### Key recommendation 3: a public campaign for personal accounts is required to tackle low awareness among women

Automatic enrolment is due to be phased-in starting in 2012 and will ultimately require individuals to save up to 8% of qualifying earnings into a workplace pension, including an employer contribution of at least 3%. This reform is particularly designed to help those earning low incomes, part-time workers and those with broken working patterns, all of which overlaps with women who traditionally under-save. The research shows that two thirds of women and nearly three quarters of men think that employers should provide access to a pension scheme and make contributions. However, support for personal accounts, which will be the main pension vehicle for lower earners, was not as strong and the general level of awareness of the scheme, particularly among women, remains low.

- Less than one third of women had heard of personal accounts. The need for a campaign to build awareness of the benefits of saving into a personal account is fast approaching.
- Between 2007 and 2008 there was a 12% increase in people suggesting that they would stay enrolled in personal accounts, however, this year it has fallen back to 30%. In recessionary times, the prospect of foregoing 4% of salary into a pension clearly seems less attractive, especially when a lack of money to make contributions (26%) is the main reason cited by women for opting out of personal accounts.
- For those who would consider staying enrolled into personal accounts, it appears that the savings gap still exists between men and women. While men would, on average, be happy to put in £51 per month, this falls to just over £32 in a month for women reflecting differences in pay and the fact that women’s finances are coming under greater pressure in the downturn. Notably, we found older women appear more inclined to save more in a personal account compared to younger women.

- The prospect of losing means-tested benefit because of saving in a pension is a big disincentive to save as just over 40% of women said this would encourage them to save less in a pension.
- Possible levelling down of existing pension provision from employers appears to be a much smaller concern to women than men. 44% of men admitted that if their employer reduced their pension contribution they would look at alternative employment, the figure was just 29% for women.
- People with children had very different priorities to those who had no children. Those with children under the age of 5 said that access to childcare benefits was as important (44%) as access to good quality pensions (also 44%). Issues like flexi-time were rated even more highly.
- Part-time workers – typically mums with children – are less interested in pay (59%) when compared to 81% of all people, and more interested in childcare benefits (24%) when compared with 9% of all people. This all illustrates how having a young family can often crowd out long-term financial planning needs.

#### Key recommendation 4: women should be encouraged to place more value of workplace pensions

Within the context of personal accounts it is important to observe that men and women clearly attach very different importance to the offer of workplace pensions when considered as part of the wider mix of workplace benefit. We found men are more driven by “hard” economic factors – such as pay, bonuses and overtime. Women are more motivated by “soft” social factors such as location, feeling of well-being, flexi-time and maternity leave.

- Around half of all women (51%) with a workplace pension scheme currently see that pension as an incentive to stay with their current employer. However, among men the figure increases to 56%.
- In spite of the changing role of men and women both at home and at work, we find that 41% of women under the age of 30 said that maternity or paternity leave was an important consideration compared with just 9% of similar aged men. Again, this is in line with official data which shows that some 28% of working women in Britain currently enjoy flexible working patterns compared to 18% of men, while 30% of working women in Britain currently work in part-time jobs. The figure for men was 18%.

## Conclusions

This year's Women and Pensions report reveals a mixed picture. Many families still operate a 'financial division of labour' which produce distinct savings motives. Men are predominately responsible for long-term savings and women look after the short-term finances, including the family budget. Hence men contribute greater amounts to pensions compared to women. This division is also seen in the responses women gave us when questioned about which workplace benefits they most value. On the whole, women appear to have more of a 'precautionary' motive to deal with unforeseen events. This is consistent with saving in short-term, accessible, rainy-day forms of savings. Men on the other hand, appear to have more of a 'life cycle' motive using excess income today to help smooth income variations in later life. This is consistent with saving in private pensions products.

The key finding that the gender pension gap has grown since 2008 shows how the negative impact of the economic downturn has particularly taken its toll on women. With women being forced to look more at their short-term finances, their aspirations for undertaking long-term planning have simply become less affordable. While this negative outlook may well change in the coming months as the UK shows signs of moving out of recession, the continued threat of unemployment and the need to pay down greater debt levels will no doubt persist in hampering women's attempts to save into a pension.

The position of women in their 50s remains particularly uncertain. This generation of women will find it too late to build up significant pension assets in personal accounts between 2012 and their retirement date. They may also find themselves left stranded by unforeseen events such as divorce or bereavement which can in many cases deprive women of access to a private pension in retirement. It is also concerning that the Scottish Widows Pensions Report 2009 revealed that it is the over 50s group which has seen its propensity to save fall during the recession.

For younger women the issues are different but equally important. Women under the age of 30 are particularly affected by household debt levels. Over time, this needs to change as part of attempts to reinvigorate more of a savings culture. With the Pensions Report 2009 showing that the UK appears to have hit a "natural rate" of savings adequacy in which around 55% of UK adults are on course for an adequate retirement, policymakers need to look at reforms – beyond the introduction of personal accounts – which would help to shift long-term savings behaviour, particularly among the young.



As our findings reveal there are numerous options which could help.

- As we have seen, the development of lifetime savings products which better align existing savings vehicles across the savings life cycle could help to overcome some of the natural inertia towards locking savings away for 30 or 40 years.
- The further development of matched government contributions on personal savings should also be examined. The evidence in support of a shift towards matched contributions is relatively thin. However, survey findings on the UK's pilot for the Savings Gateway suggest the scheme generated both new savers and new savings. 41% of savers were still saving three or more months after the pilot and 32% of participants said that they would be more likely to plan for retirement.<sup>17</sup> Scottish Widows' previous pensions reports revealed that lower income households would respond well to matching rather than tax relief.

- While the bequest motive has been shown to have limited appeal with only 19% of people citing as 'very important' the need to pass on some of the value of their pension to their children,<sup>18</sup> such a reform would still go with the grain of motivations for accumulating savings.

Beyond the measures outlined above, we find that moves to improve the UK's fragmented advice landscape would also help women, and in particular those aged below 30. A greater emphasis on education and advice may also help to break down some of the key attitudinal barriers which disadvantage women. As our findings reveal, women have low awareness of new initiatives such as personal accounts, while placing less value than men on existing forms of occupation pension arrangements.



## Footnotes

- 1 The definition of 'could and should' is those between 30 and state pension age who are earning at least £10,000 a year. The benchmark savings level is 12% of earnings, with those who depend on a defined benefit (DB) pension scheme all being classed as preparing adequately for retirement.
- 2 Office for National Statistics - Labour Market Statistics – Unemployment by age and duration – <http://www.statistics.gov.uk/statbase/tsdtables1.asp?vlnk=lms>
- 3 ONS Statistical Bulletin, September 2009
- 4 'Latest CAB figures show increasing demand for services' – CAB press release, 10th June 2009
- 5 PPF 7800 index, Pension Protection Fund – [http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/PPF\\_7800\\_September\\_09.pdf](http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/PPF_7800_September_09.pdf)
- 6 Occupational Pension Schemes Annual Report No. 15, Office of National Statistics, 2007 edition, pg 16.
- 7 Chapter 5: Pension Trends, Office of National Statistics, May 2009.
- 8 Martin Beckford, Pensions help for grandparents who fill child care gap, The Telegraph, 22nd April 2009.
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- 13 Hardship Withdrawals and the Mortgage Crisis, Nessmith and Utkus, Vanguard Research Note
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- 16 Incentives to save: Encouraging saving among low-income households, Personal Finance Research Centre, University of Bristol, March 2005
- 17 YouGov consumer research, February 2008, commissioned by Scottish Widows



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47936 10/09