Choice and risk in pensions: gender and class inequalities

Pension providers and governments alike warn that individuals need to save more through private pensions. Most economists attribute lack of saving to irrational behaviour described as 'myopia' – an inappropriately short time horizon. Yet individuals often have sound reasons for reluctance to save additional amounts towards pensions (Rowlingson, 2002). These include a rational response to uncertainties, especially the risk of a poor return on investments. The mis-selling of personal pensions and the theft and misuse of occupational funds are indications of the way pension risks and costs are increasingly passed on to individuals (Ward, 1996; Peggs, 2000; Ring, 2002). Meanwhile state pensions are shrinking as governments seek to reduce state spending on pensions, as part of a more general rolling back of the welfare state (Aldridge, 1998). Confronted with unsatisfactory state pensions and risky private provision, even individuals who can afford to are understandably reluctant to save for their old age in this way.

Widening choice, growing complexity and uncertainty about the future of pensions means an increasing risk of making decisions that do not provide the best value for money. When politicians and pensions experts admit they find the British pension system hard to grasp, it is no wonder that individuals are bemused by pension scheme rules, and that many feel alienated or misled by 'information' from the state or the purveyors of private pensions. For those with interrupted and unpredictable employment trajectories, choosing an optimal pension strategy becomes well-nigh impossible.

This chapter first considers the issue of pension choice in the context of uncertainty about risks in the various types of second tier pensions. Gender and class inequalities in pension coverage are then analysed using data from the General Household Survey (GHS). The characteristics of employees who opted for a personal pension or who remained in the state pension scheme are examined, distinguishing between those who could have belonged to an occupational pension and those who lacked access to such a scheme. The chapter finally considers the issue of mis-selling of personal pension plans to men and women for whom this was unlikely to be the best option.

Choice, information and risk

Pension choices were limited during the post-war period before the 1980s. Where employers offered an occupational pension scheme, membership was compulsory. The main social divisions were between employees with or without an occupational pension scheme (although the quality of these varied) and between employees and the self-employed. For most employees, individual advice was not important; information about pensions, such as from a trade union or employer, would apply to most of a company's employees. However, married women's long-standing right to opt for the 'small stamp' in National Insurance led to many making a decision they regretted at retirement, having not realised that they would forfeit a basic state pension in their own right. This exemplifies the 'downside' of choice.

Choices in pensions have proliferated since the 1980s. Pension saving in the first and second tiers of pension is compulsory for most workers (see Chapter One, Figure 1.6), with a number of options – whether to contract out of the state scheme into an occupational or personal pension, whether to make additional contributions above the compulsory level, whether to invest any surplus income into housing or other forms of saving or whether to use all income for immediate needs. Decision making is beset by multiple unpredictabilities. These include not only the future performance of the stock market as a whole, of specific pensions and savings plans and of the housing market, but also the individual's future employment, earnings trajectory, retirement timing and family circumstances.

Pension choices are made in the context of an ideological and moral climate constructed by policy makers, commercial interests and the media. Since the mid-1980s, Conservative governments engaged in a 'rhetoric of responsibility' (Smart, 1999) in which contributing to a private pension was portrayed as responsible behaviour while paying into state pensions was not. This ideological position, which is in sharp contrast to the rest of Europe, was associated with an emphasis on consumer power and choice, the latter being linked to notions of good and evil and right and wrong (Phillips, 1998). The morally inferior status assigned by this rhetorical framing to those relying solely on state pensions affects mainly older women (see Chapter One). Such dependence on state pensions may seem to disqualify recipients from full citizenship. It "withdraws their status as adults [and] may promote the insidious idea that, like children in Victorian Britain, they may be seen but not heard" (Mann, 2001, p 138). The potentially disempowering effects of social disapproval are magnified for those older people who depend on means-tested benefits, again mainly women. The Labour government elected in 1997, despite having condemned Conservative pensions policy while in opposition, continues to imply that making provision for retirement income through the private sector is morally superior, encouraging individuals to contract out of the state second tier pension through financial incentives (see Chapter One).

People's understanding of second-tier pension schemes is limited (Williams and Field, 1993). Occupational pensions are often taken up without much forethought or knowledge and the complexity of written material about pension schemes is a deterrent (Field and Farrant, 1993). Contributors to personal pensions similarly lack understanding about them (Williams and Field, 1993)

and advice about the implications of women's interrupted employment patterns has been lacking (Davies and Ward, 1992).

Women are particularly prone to feel uninformed about pensions. Hawkes and Garman (1995) found that women were three times more likely than men to say they had not joined an available occupational pension scheme because they knew too little about pensions or had not given enough thought to the matter. Almost 40% of contributors to a personal pension thought they would receive a guaranteed amount, unaware that their pension was linked to stock market performance. Employees also lacked understanding about the State Earnings-Related Pension Scheme (SERPS). Thus 42% of full-time employees who were not contracted out into a private pension scheme thought they were not contributing to SERPS, despite this being the default option (Hawkes and Garman, 1995).

With an increasing range of options, especially the introduction of personal pensions in 1988, the chance of making substantial losses due to a particular pension decision has escalated. Large numbers of people, against their best interests, opted out of sound occupational pension schemes into a personal pension which was likely to provide a lower pension – "a clear case of poorly-informed buyers confronted with sales staff with a powerful incentive to sell" (Mann, 2001, p 133). This mis-selling scandal, with compensation to investors estimated to cost £13.5 billion (Jones, 2000) and the high-profile fraud of Robert Maxwell that robbed Mirror Group employees of their occupational pension fund, began to reveal the shaky nature of the pensions promise offered by private sector providers. Investigations revealed multiple flaws (Goode, 1993), and prompted a search, which does not seem to have been very successful, for regulatory mechanisms to prevent a repetition and restore confidence.

Neither the endemic nature of private pension risk nor the inability of experts to provide advice to protect against such risk was fully appreciated by the public in the early 1990s. Despite a proliferation of regulatory bodies concerned with the conduct of the private pensions industry, the increased speed of trading stocks, with globalisation of finance markets and computerised processing, have all reduced the feasibility of regulation (Mann, 2001). Because pension funds occupy a grey area in terms of ownership, fund managers are enabled to act primarily in the interests of their shareholders, producing a poor deal for pension scheme members (Blackburn, 2002). In Britain, the collapse of Equitable Life's guarantees after 1999 showed that even an ancient and respected institution (founded in 1762) can make mistakes, while the implosion of Enron in the US in 2002 demonstrated (if this were necessary) that neither the integrity of top executives nor the independence of auditors can be assumed. These events highlight the irrelevance of financial education of consumers in the face of boardroom incompetence or fraud.

Warnings about the effect of ageing populations on the future sustainability of state Pay-As-You-Go pension schemes have been rife but the equivalent threat to the viability of private funded pensions has been largely ignored. Indeed, a persuasive message of governments and private pension providers has been that a personal pension fund is inviolate, owned and controlled by the contributor. The risk of loss in value was downplayed and despite the mantra (in small print) that share prices can go down as well as up, few took this warning seriously during the bull market of the late 1980s and early 1990s. Those belonging to occupational pension schemes were also blissfully unaware of the level of risk until the trickle of closures and reductions in projected benefits became a river in 2002 (see Chapter Seven).

Shock at the pensions crisis might have been less if debate on pension privatisation in the 1980s and 1990s had been more balanced. Challenging the dominant expert discourse and assumptions has been less evident in pensions than in medicine and law, enabling fund managers, actuaries and advisers to marginalise the voices of pensioners and contributing members (Mann, 2001). Policy makers have failed to take seriously the arguments for maintaining robust state pension provision. The only organised resistance to the creeping individualisation of risk in pensions has come from the trade unions, first in successfully demanding a larger rise in the basic pension at the 2000 Labour Party conference and more recently in arguing for protection of final salary occupational pension rights and for employers who operate an occupational pension scheme to be compelled to contribute 10% of payroll (TUC, 2002). This latter proposal could, however, increase the stampede away from occupational pensions, leaving most employees with a choice between a stakeholder pension and the State Second Pension.

The reductions in state pensions outlined in Chapter One – the decline in value of the basic pensions, numerous cuts in SERPS and a rising state pension age – are a collective loss imposed initially by Conservative governments in the 1980s and 1990s. Private pension losses are more likely to be experienced as a personal misfortune or as resulting from a failure of the individual's financial judgement. The idea that each individual is responsible for pension decisions that turned out badly is reinforced by the calls for increased financial education, implying that if individuals had been better informed they could have avoided or minimised their loss. This is true only in the sense that resistance to pension privatisation might have been more widespread had the voting public realised the risks; but having been hustled onto the *Titanic* of pension privatisation, with inadequate state pension lifeboats, few could avoid the disaster entirely.

The emphasis on pension choices and financial education not only facilitates blaming the victims but also ignores the fact that vulnerable social groups have less advantageous choices available to them. This applies particularly to women. Due to the low level of the basic state pension and the brief time in which SERPS has operated, private pensions are a major source of gender and class inequality of retirement income (Arber and Ginn, 1991; Ginn and Arber, 1991, 1999). This is increasingly so as the basic pension declines, reducing its redistributive effects. The next section examines gender differences in private pension coverage, among those of working age.

The gender gap in private pensions

The gender difference in private pension coverage among employees is stark, mainly because a higher proportion of women work part time. The reason for low membership of occupational pension schemes among part-timers differs according to the sector of industry (Ginn and Arber, 1993). Women employed part time in the private sector tend to work for an employer who does not operate a scheme; in 1987, 71% of women part-timers in this sector gave this as their reason for not belonging to an occupational pension scheme and part-timers are still concentrated in jobs where no occupational pension scheme is offered. In the public sector, where such schemes are more common, it was legal in the past for an occupational pension scheme's rules to exclude part-timers from membership. In 1987, 44% of women part-timers working in the public sector who were not members gave this as their reason (Ginn and Arber, 1993). European Court judgments deeming exclusion of part-timers to be indirect discrimination against women had some effect and in Britain it has been illegal since 1995 to discriminate against part-time employees in terms of access to occupational pensions. In 1995, 30% of British occupational pension schemes in the private sector of industry and 8% in the public sector still excluded some part-timers, the hours limit for eligibility varying among schemes (NAPF, 1996). Part-timers' occupational pension coverage has since increased. While this may help women in the future, many midlife and older women have lost the chance of accruing occupational pension entitlements for those periods of the lifecourse when they worked part time to accommodate the demands of childrearing.

Even when women do join an occupational pension scheme they tend to derive less benefit from it than men for several reasons. First, many women leave their employment and hence the pension scheme for family reasons, long before normal retirement age. Their pension rights may then be 'preserved' in the scheme for later payment. Although a degree of inflation proofing is now required for preserved pensions, the entitlement will be much less than if the member had remained in the scheme and benefited from the rise in earnings. A large minority of early leavers receive no pension at all, having withdrawn their own contributions after one or two years' membership and forfeited the value of their employer's contributions. Thus over 30% of women aged 60-74 in 1994 who had joined an occupational pension were never able to draw a pension from it, compared to only 14% of men (Disney et al, 1997). Second, even women who stay in an occupational pension scheme until retirement receive less due to the gender pay gap and to periods of part-time employment. Third, women's tendency to have a flatter earnings profile with age means they gain less from a final salary pension scheme, in which the amount of pension depends on earnings in the last few years. Women's lower earnings relative to men also reduce their ability to make AVCs to an occupational pension scheme above the compulsory minimum (Price and Ginn, 2003).

Despite the wider access to private pension coverage offered by personal pensions, the gender gap remains substantial. In the mid-1990s, just over half of adults aged 20-59 were contributing to some form of private pension, 64% of men but only 38% of women (Ginn and Arber, 2000a; and see Table 2.1a). A third of adults contributed to an occupational pension scheme and 19% to a personal pension. Among employees, 81% of men but only 56% of women contributed to a private pension. Just over half (52%) belonged to an occupational pension scheme, 61% of men and 42% of women (see Table 2.1b). Only 23% of women part-timers were members. Personal pensions were held by 17% of employees, 20% of men and 14% of women. Thus among employees the gender gap in occupational pensions is replicated in personal pensions, with women's coverage only about 70% of men's. The gender difference among all adults is wider because of women's lower employment participation rates.

Considering only gender differences in private pension coverage masks important variations among women. Later chapters explore variation according to ethnicity (Chapter Three) and partnership and maternal status (Chapters Four and Five). The next section examines class differences in men's and women's private pension coverage.

Table 2.1: Percentage contributing to a private pension, women and men aged 20-59

	a) All adults			b) Employees				
	All	Men	Women	All	Men	Women		
						FT	PT	All
Has private pension	*51*	*64*	*38*	*69*	*81*	*72*	*34*	*56*
Employee, occupational pension	32	40	25	52	61	56	23	42
Employee, personal pension	11	13	9	17	20	16	11	14
Self-employed, personal pension	6	9	2					
Not employed, personal pension	2	2	2					
No private pension	*49*	*36*	*62*	*31*	*19*	*28*	*66*	*44*
Employee	19	12	27	31	19	28	66	44
Self-employed	4		6	3				
Not employed	26		18	32				
Column %	100	100	100	100	100	100	100	100
N=	24,069	11,756	12,313	15,056	7,603	7,453	4,260	3,175

Note: FT (full-time) employment is defined here as 31+ hours/week.

Source: Ginn and Arber (2000a), using data from the GHS 1993-94 combined

Class differences in private pensions

Whereas men and those previously in middle-class occupations generally have occupational pensions to cushion them from cuts in state pensions, this is less so for men and women in manual occupations. The class bias of occupational pensions has been well documented (Sinfield, 1978; Hannah, 1986; Arber, 1989; Ginn and Arber, 1991, 1993), and is additional to the effects of earnings, hours of work, sector of employment, and job duration. Among employees aged 20-59, manual workers in 1987 were far less likely to belong to a scheme than non-manual, even after controlling for all these factors as well as age group (Ginn and Arber, 1993). The effect of occupational class was even more marked for women than for men. For example, the odds of membership for a woman in an unskilled manual occupation were only a fifth of the odds for a woman working in a professional occupation or as a manager in a large organisation and only a quarter of the odds for a woman in a routine non-manual occupation.

One important reason for class inequality in occupational pension scheme membership is that certain types of employers, mainly larger organisations, are more likely to offer such a scheme. With the introduction of personal pensions, however, access to a private pension became theoretically available to all employees. Figure 2.1 shows differences in coverage by occupational and personal pensions among employees, according to socioeconomic category (SEC), gender and hours of work.

Figure 2.1: Private pension contributions of employees by gender, socioeconomic category and hours of work of women

Note: For key to socioeconomic categories, see Table 2.2; [a] 31+ hours per week.

Source: Ginn and Arber (1999), using data from the GHS 1993-94 combined

The small proportion of women employed as professionals and managers in large organisations (SEC 1) retained much of their advantage in private pension coverage even if they worked part time. Part-timers in this occupational group had a pension coverage rate (71%) exceeding that of women employed full time in routine non-manual occupations (SEC 3) or in manual occupations (SECs 4, 5 and 6). However, high occupational status is rare among part-timers. Only 13% of women employed as professionals and managers (SEC 1) worked part time, while half of women in routine non-manual occupations (SEC 3) did so. The class gradient in private pensions coverage was mainly due to occupational pensions, reflecting their differential availability, and the decline in coverage with socioeconomic group was steeper for women than for men.

Personal pension coverage, in contrast, was more evenly distributed among socioeconomic groups, reflecting wider availability of this type of pension. However, personal pensions benefit those in higher socioeconomic groups and full-timers most. For part-timers and the low paid, predominantly women, the advisability of choosing a personal pension (including stakeholder pensions) is doubtful, especially if they cannot be sure of many years of high earnings in the future. Computer simulation of a range of hypothetical employment trajectories of women has illustrated this point (Falkingham and Rake, 2001). These authors estimate that a person retiring in 2050 would need to have earned above women's average wages and have been employed full time for 47 years in order to obtain a combined basic pension and stakeholder pension above the level of means-tested benefits – a tall order. Their calculations for the stakeholder pension were made before the 2001 fall in investment returns and hence should be regarded as optimistic.

In the context of the shift in the public–private mix of pensions, it is important to understand which social groups opted to contribute to the different second tier pension schemes. The remainder of the chapter draws on research (Ginn and Arber, 2000a) focusing on how pension choices have been exercised by employees.

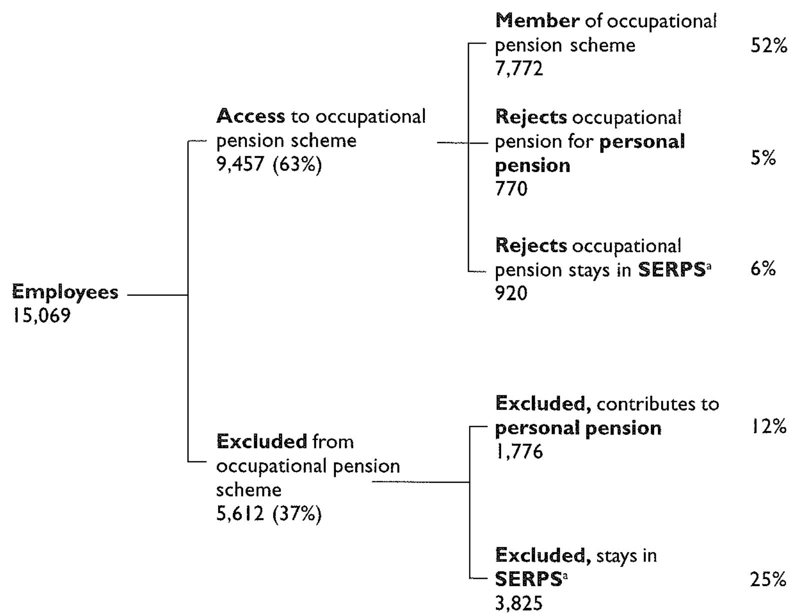
Pension choices made by employees

Personal pensions, introduced in 1988, were intended for employees who might benefit from a private pension, yet were unable to join an occupational pension scheme – either because their employer did not operate a scheme or because they were ineligible under the scheme's rules, as was the often the case for part-timers. Half a million employees were expected to sign up for a personal pension but due to the over-generous financial incentives offered in the late 1980s, five million were contributing to a personal pension by 1993 (DSS, 1994, p 9). Personal pension coverage among employees rose between 1988 and 1994 from 8 to 13% for women and from 15 to 22% for men; by 1995, coverage of working age employees was 28% for full-time men, 22% for full-time women and 11% for part-time women (ONS, 1997). An unexpectedly large number of occupational pension scheme members were persuaded to

switch to a personal pension in circumstances likely to provide poorer benefits – the notorious mis-selling of personal pensions, while others opted out of the State Earnings-Related Pension Scheme (SERPS). In order to understand what characteristics were associated with the likelihood of employees rejecting an occupational for a personal pension or choosing a personal pension in preference to SERPS, data from two years of the General Household Survey (GHS) combined, 1993 and 1994, were analysed (Ginn and Arber, 2000a).

Employees' pension options are summarised graphically in Figure 2.2, which shows the proportions of employees taking each pathway. The 63% with access to an occupational pension scheme had three options: to belong to their employer's scheme (52%), to reject it for a personal pension (5%), or reject it and make no private pension contributions (6%). The 37% of employees lacking access had two alternatives: to contribute to a personal pension (12%) or not (25%). The majority of employees with no private pension arrangements must contribute to SERPS, although some, mainly women employed part-time, were paid too little to contribute to National Insurance.

Figure 2.2: Pension arrangements of British employees aged 20-59



Note: [a] A minority currently paid no SERPS contributions because earnings were too low.
Source: Ginn and Arber (2000a), using data from the GHS for 1993-94 combined

Three main groups of employees can be distinguished:

- **Members**: the 52% who belonged to an occupational pension scheme
- **Rejectors**: the 11% who could belong to an occupational pension scheme but chose not to
- **Excluded**: the 37% who could not join an occupational pension scheme.

The characteristics of these three groups of employees are shown in Table 2.2. As expected, both access to an occupational pension scheme and membership were associated with being male, being aged over 30 (Table 2.2a) and with higher socioeconomic category (SEC) (Table 2.2b).

Among employees with access to an occupational pension scheme, analysis showed that women, especially those working part time, were more likely than men to be rejectors (see Figure 2.3a). For men and for women employed full time, there was a near-linear relationship between age group and proportion of rejectors, while among women part-timers, the proportion of rejectors was high in all age groups at around 40%, only falling below 30% among those in

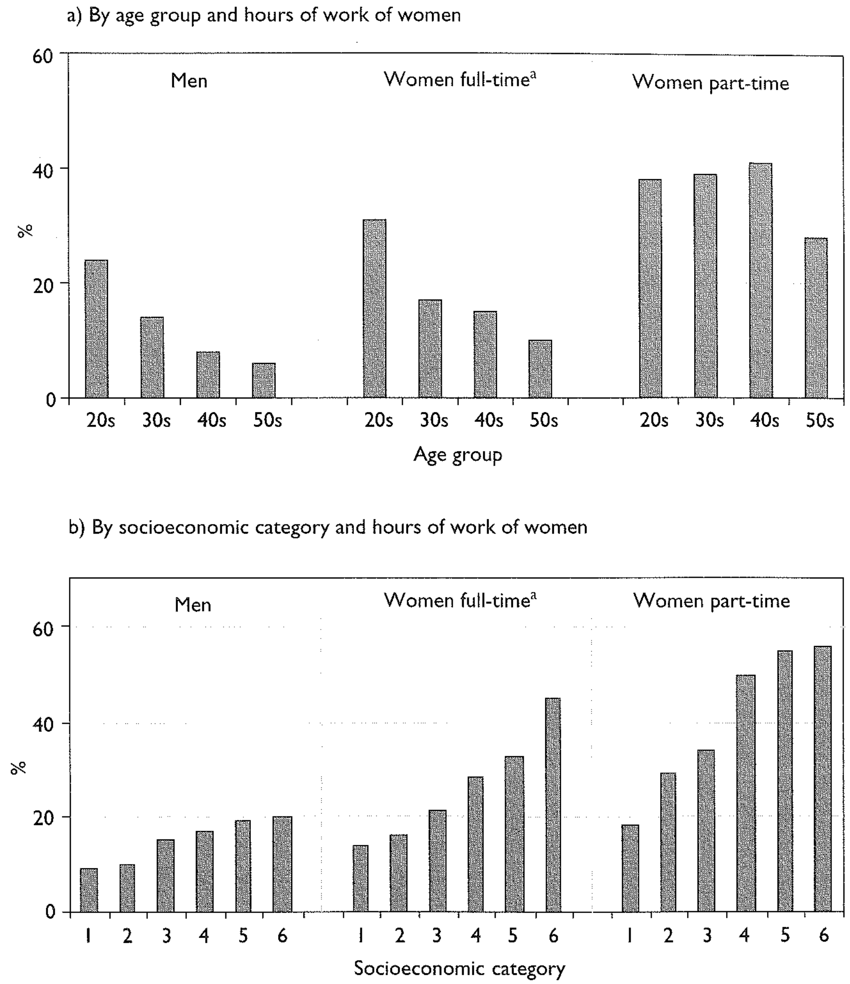
Table 2.2: Percentage who were Members, Rejectors and Excluded, by age group and socioeconomic category, men and women employees aged 20-59

	Men			Women (full-time)			Women (part-time)		
	Member	Rejector	Excluded	Member	Rejector	Excluded	Member	Rejector	Excluded
All	61	9	30	56	14	30	23	13	64
a) Age group									
20-29	42	14	44	44	19	37	20	12	68
30-39	63	10	27	61	13	26	24	15	61
40-49	71	6	23	63	11	26	22	15	63
50-59	68	5	27	64	7	29	24	10	66
b) Socioeconomic category									
1	78	8	14	73	12	15	55	12	33
2	65	7	28	64	13	23	38	15	47
3	66	11	23	55	14	31	24	12	64
4	51	10	39	40	15	45	15	16	69
5	47	11	42	31	16	53	12	14	74
6	42	11	47	30	25	45	11	13	76

Key to socioeconomic categories: 1 Professionals/managers in large organisations; 2 Intermediate non-manual/managers in small organisations; 3 Routine non-manual; 4 Skilled manual; 5 Semi-skilled manual; 6 Unskilled manual; Excluded: Never worked; Armed forces, full time students, inadequately described.

Source: Ginn and Arber (2000a), using data from the GHS 1993-94 combined

Figure 2.3: Percentage rejecting an occupational pension scheme, among men and women employees with access



Note: For key to socioeconomic categories see Table 2.2; [a] 31+ hours per week.

Source: Ginn and Arber (2000a), using data from the GHS for 1993-94 combined

their fifties. This high rate of rejection of an occupational pension scheme is likely to reflect part-timers' lower pay irrespective of age group. Some confirmation of this was provided by analysing according to socioeconomic category (see Figure 2.3b). Among women part-timers in the highest level occupations, the proportion of rejectors was relatively low, only slightly higher than for women full-timers in these occupational groups. In addition to younger age and lower socioeconomic category, rejecting an available employer's scheme was found to be associated with lower earnings, shorter job duration and working in a smaller organization (Ginn and Arber, 2000a).

Take-up of personal pensions

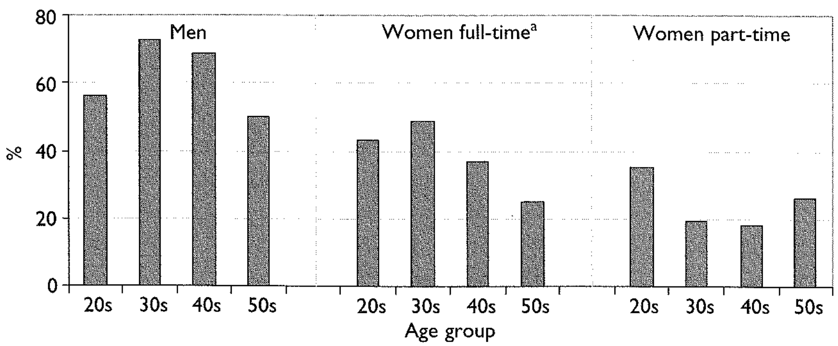
This section examines personal pension take-up, distinguishing between rejectors and the excluded. Employees in both these groups would by default remain in SERPS unless their earnings were below the Lower Earning Limit for NI contributions. For brevity, we refer to these low-paid employees as remaining in SERPS.

Among rejectors (11% of employees) men were more likely to have a personal pension (63%) than women full-timers (42%) and part-timers (22%) (see Figure 2.4). For men and women employed full time, those in their thirties were most likely to have a personal pension, while part-timers showed a different pattern, with those aged 30-49 least likely to contribute. Take-up was more common among those in higher socioeconomic groups and with higher earnings (Ginn and Arber, 2000a).

Among the excluded (37% of employees), take-up of a personal pension was more likely for men (48%) than for women full-timers (34%) and part-timers (12%) (see Figure 2.5). Comparing Figures 2.4 and 2.5, the pattern of take-up by rejectors and excluded according to age group is similar, although the proportions of the excluded contributing to a personal pension were lower in each population sub-group than among rejectors, and among women part-timers there was less variation with age group among the excluded.

Multivariate analysis confirmed that personal pensions had found their target among employees lacking access to an occupational pension: take-up among the excluded was highest among the relatively young and well paid (Ginn and Arber, 2000a). However, take-up by those who were less advantaged in the labour market, especially women, is a matter of concern. If individuals were likely to have been better off in SERPS, this constitutes mis-selling.

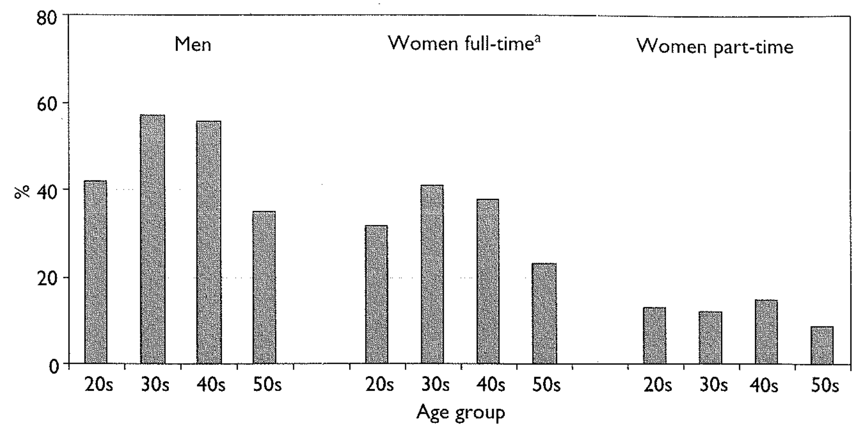
Figure 2.4: Percentage of Rejectors contributing to a personal pension, by age group and hours of work of women, men and women aged 20-59



Note: [a] 31+ hours per week.

Source: Ginn and Arber (2000a), using data from the GHS for 1993-94 combined

Figure 2.5: Percentage of Excluded contributing to a personal pension, by age group and hours of work of women, men and women aged 20-59



Note: [a] 31+ hours per week.

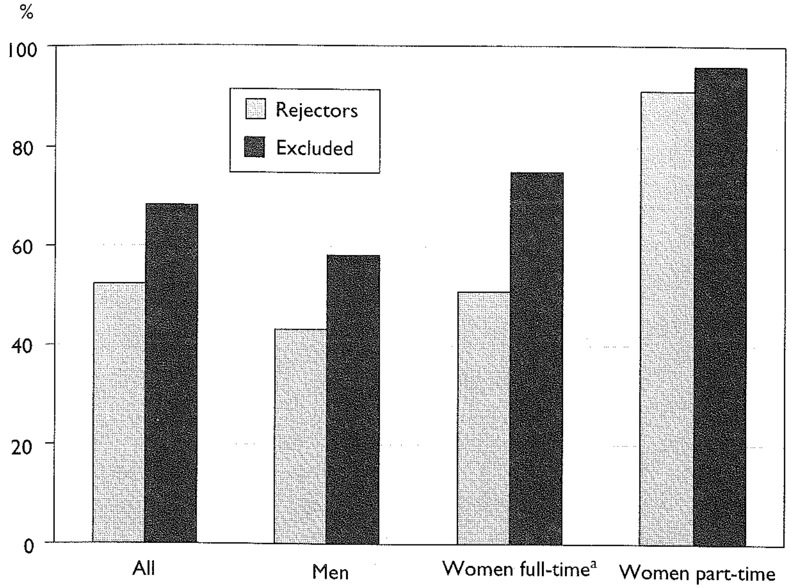
Source: Ginn and Arber (2000a), using data from the GHS for 1993-94 combined

Mis-selling of personal pensions to rejectors and excluded

A personal pension was expected to provide a better return on contributions than SERPS if, in the long run, the rate of interest exceeded the growth in national earnings. Experts estimated that opting out of SERPS into a personal pension would not be advantageous for those earning below £200 per week (in 1993) (Durham, 1994). Contributing to a personal pension when young and switching back into SERPS between age 30 and 40 has been considered the optimal strategy on average (Dilnot et al, 1994). In the following analysis of personal pension contributors, it is assumed that those who in 1993-94 were earning less than £200 per week or were aged over 40 were probably ill-advised to contract out of SERPS into a personal pension.

In all, half of rejectors were apparently subject to mis-selling and 68% of the excluded (see Figure 2.6, first two bars). The proportions of mis-sold pensions among women were much higher, 62% and 83%, and over 90% among part-timers. Among men who had taken up personal pensions, mis-selling was mainly due to their being aged over 40 but among women it was mainly due to low earnings, especially among part-timers. The extent of personal pension mis-selling to women employed part time (who comprised 14% of all personal pension contributors) is surprising, as is the fact that a quarter of women part-timers with a personal pension reported current earnings below the Lower Earnings Limit. Mis-selling to employees excluded from access to an occupational pensions scheme received far less publicity than mis-selling to

Figure 2.6: Percentage of personal pension contributors over age 40 or paid less than £200 per week, by gender, hours of work and whether Rejector or Excluded from an occupational pension, men and women aged 20-59



Note: [a] 31+ hours per week.

Source: Ginn and Arber (2000a), using data from the GHS for 1993-94 combined

rejectors, despite the former group being more disadvantaged in the labour market.

To put these findings in the broader context of all employees in the mid-1990s, of the 48% of employees who did not belong to an occupational pension (see Figure 2.2), over a third (or 17% of all employees) contributed to a personal pension. Among these personal pension contributors, 63% were apparently mis-sold a personal pension, according to the criteria used here. As a proportion of all employees, rejectors who were mis-sold represent nearly 3% and the excluded 8%, with women over-represented in both groups. These estimates of mis-selling are inevitably crude, since the outcome will depend on the performance of particular personal pensions as well as on the level and continuity of the individual's future earnings and on macro-economic developments far into the future. However, recent research using longitudinal data from the British Household Panel Survey has shown that low earners are particularly likely to have gaps in pension scheme membership (Banks et al, 2002), reinforcing the adverse effects of low pay on their eventual pension.

The pension choices available since 2001 differ in detail from those in the mid-1990s but similar principles apply. The State Second Pension (S2P) boosts the return on contributions for the low paid through an enhanced accrual rate

on low earnings, compared with SERPS, while stakeholder pensions (SHPs) provide a lower cost, easily transferable, form of personal pension (but with a similar risk of poor investment returns). According to a report by the Association of British Insurers (ABI), only about 750,000 SHPs were taken up in the first year since their introduction in 2001, compared with the expected 2.5 million (Griffiths, 2002). The ABI survey found that, despite government hopes that these new pensions would help to narrow the gender difference in private pension coverage, only a third were sold to women. The majority of SHPs were sold to those earning between £10,000 and £30,000 per annum, somewhat higher than the target range of £10,000 to £20,000. The poor take-up is likely to reflect the fact that most of those wishing to contribute to a private pension were already doing so, and also the gloomy projections for investment returns in any type of defined contribution scheme. One commentator observed that if SHP take-up had been a success among the lower paid, "the Government would be heading for the mother of all mis-selling scandals" (Warner, 2002, p 1) since the lower paid would merely deprive themselves of means-tested benefits in retirement – the pensions poverty trap. Whether opting out of the S2P into a SHP is advantageous or not will be hard for either pension providers or individuals to judge as it depends on many unknowns. These include the future structure of rebates for contracting out, the possibility of changes in projected S2P and basic pension amounts and the likely pattern of the individual's future employment and earnings. The Pension Credit, applying from 2003, adds another layer of uncertainty to already difficult decisions for individuals as to whether and when to opt out of the S2P.

Summary and conclusions

The analysis of employees' pension choices in the 1990s indicates that the social groups for whom personal pensions were intended took up the option in large numbers. However, this policy success was marred by extensive mis-selling involving over 10% of all British employees, mainly low-paid women. The implications for women's retirement income are particularly serious, given that the analysis did not take account of future gaps in their employment, which would further reduce the value of a personal pension.

The fact that those with lowest earnings are least likely to save through a private pension is not surprising. Indeed, for those with low lifetime earnings and gaps in employment, paying into state pensions is a sensible strategy, expected to provide the best value. SERPS, and its successor the State Second Pension, are user-friendly schemes, being fully portable, giving automatic membership to all employees earning over the Lower Earnings Limit and providing a defined benefit. However, as noted in Chapter One, the combination of basic and second tier state pensions, even if received in full, is projected to provide an income below poverty level – the level of the Minimum Income Guarantee. Most people with low lifetime earnings, mainly women who have raised a family, can expect a pension income at poverty level whatever choice they make, unless state pensions are substantially improved.

Pension policy since 1986 has been portrayed as improving choice and encouraging individuals to take responsibility for their own retirement income by investing in a private pension. Yet widening second-tier pension choices confront individuals with decisions that even experts find difficult to make. This is especially so for women, whose career earnings and employment participation are more variable and unpredictable than those of men. Those who are most disadvantaged in the labour market tend to have less knowledge of pensions, less access to the most advantageous type of private pension and lower earnings from which to make contributions. Pension policy since the 1980s has led many low-paid employees to spend their contributions on personal pensions unlikely to provide a worthwhile return. Financial incentives to contract out of state pensions have diverted resources from the National Insurance Fund and incurred substantial costs to taxpayers.

The stated aim of policy makers in the 1980s, to reduce poverty in later life by increasing their pension saving through the private sector, seems a vain hope given the failure of private pensions to deliver during a bear market. The crisis of confidence in pensions among working age individuals is understandable: government reforms over two decades have eroded the cash value of state pensions while the inherent fragility of private pension promises has become painfully evident. Unlike the stampede to personal pensions in the 1990s, take-up of stakeholder pensions has been much lower than expected. Some means to insure private pensions, for example through an industry-wide levy to be used in the event of scheme insolvency, could help to restore confidence in private pensions, while top-up payments by government into private pensions on behalf of carers would help make saving more worthwhile for women. However, using public resources to shore up failures in the market would, it has been argued, involve unacceptable moral hazard, subsidising incompetent or corrupt pension providers. Moreover, top-up payments in private pensions would seem an inefficient way to support disadvantaged groups, compared with improving state pensions.

The risk of non-optimal pension choices applies to all, but is especially likely among the low paid, who cannot afford independent advice. Unfortunate decisions are also more serious for those whose pension income is already likely to be low, such as the majority of women and those working in manual occupations. As the next chapter shows, this also applies to ethnic groups who are disadvantaged in the labour market.

THREE

Pension prospects for minority ethnic groups

This chapter examines the pension arrangements made by British men and women of working age from five minority ethnic groups – Indian, black, Chinese/other, Pakistani and Bangladeshi, compared with white. Key questions are the extent to which private pension coverage is lower for men and women from each ethnic minority, compared with white people; whether ethnic differences in coverage relate mainly to variation in employment participation; whether gender inequality in pension coverage is similar across all ethnic groups; and whether the influence of motherhood on employment and pension scheme membership applies equally to women from each ethnic group. The chapter is based on research using three years of the British Family Resources Survey combined, 1994/95, 1995/96 and 1996/97 (Ginn and Arber, 2000b, 2001). First, the income and receipt of private pensions by older men and women from minority ethnic groups are compared with that of white people.

Incomes of older men and women from minority ethnic groups

Incomes of older British individuals from minority ethnic groups are on average lower than those of white people and reliance on means-tested income support is greater (Berthoud, 1998), with particularly high rates of poverty among minority ethnic women who are not married. In each ethnic group older women's personal income is lower than men's (Ginn and Arber, 2000b). In terms of other measures of wealth – car ownership and housing tenure – older people from minority ethnic groups tend to be disadvantaged, although certain ethnic groups such as Indians and Chinese have rates of home ownership comparable with that of white people.

White men aged over 60 had a median personal income of £141 per week in the mid-1990s, compared with only £120 for black people, Indian and Chinese/other men (see Table 3.1, first two columns). Although the Pakistani/Bangladeshi group of men had a higher income, this must be set against the very low income of women in this group. The gender gap in income was least among black people (Table 3.1, third column). Thus among those aged over 60, white women's median income was 62% of men's but black women's was 80% of black men's. The gender gap in income was wider for older Indians than for white people and wider still for older Pakistanis/Bangladeshis. In