

The under-pensioned: disabled people and people from ethnic minorities

Adam Steventon and Carlos Sanchez

Pensions Policy Institute

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Executive summary

This research has been commissioned by the Equality and Human Rights Commission (EHRC) to examine the likely future pension incomes of disabled people and people from ethnic minorities. Overall, it finds that disabled people and people from ethnic minorities have many of the ‘alarm bell’ characteristics that are associated with lower pension incomes. If current trends continue, they are likely to have lower pension incomes in future than the traditionally-employed median-earning male.

Lower pension income is still associated with gender

Female pensioners currently have lower incomes than male pensioners. Although the Government’s reforms to state and private pensions are likely to improve pension incomes for men and women, some differences in their average incomes are likely to remain. This is because reforms to state pensions, and S2P in particular, will take many decades to filter through the system. Although the link between individuals’ earnings and their state pension entitlements is reducing, private pension income is linked to paid employment. The gender pay gap is improving but women still earn less than men on average, so their private pension incomes are likely to remain lower than men’s on average for some time.

Disabled people

Using the broadest definition of disability, one-fifth of today’s working-age population is disabled. These disabled people have many of the characteristics that are associated with lower pension incomes. For example, they:

- **Are less likely to be in work:** Only 50 per cent of working-age disabled people are in work, compared to 80 per cent of working-age non-disabled people. This is of concern because the UK pension system is built upon the contributory principle, so the amount of pension received is closely linked to employment.
- **Are less likely to qualify for state pensions.** The crediting system to state pensions, which rewards certain non-work activities, helps many disabled people build up entitlement. Although almost everybody is expected to receive the full amount of Basic State Pension in future, this is not true for the State Second Pension. Thirty-three per cent of disabled people might not qualify for the Second State Pension each year, compared to 24 per cent of non-disabled people.
- **Have lower earnings when in work:** Lack of affordability is the main reason people give for not saving in a private pension. But disabled people in full-time employment earn less than non-disabled people at every age and disabled people are also more likely to work part-time.

- **Are less likely to be saving for a private pension:** Disabled workers are less likely than non-disabled workers to be saving in a private pension at every age. For example, 55 per cent of 45-54 year old disabled people in work are saving for a pension, compared to 64 per cent of comparable non-disabled people.
- **Are less likely to work after state pension age.** For example, only 9 per cent of 65-69 year old disabled people are in employment, compared to 19 per cent of equivalent non-disabled people.

Disabled people are not a homogeneous group. Some types of disability can have a more acute impact on pension incomes than other types. For example, only 21 per cent of people whose main disability is a mental health condition and 27 per cent whose main disability is a learning difficulty are in employment, compared to 65 per cent of people with diabetes.

To illustrate the potential implications of these characteristics for future pension incomes, this research uses two hypothetical case studies of disabled individuals. These are compared to a median-earning man with a full savings history. The median-earning man illustrated is likely to have an above-average pension income, receiving around £254 a week in a combination of state and private pensions when he reaches state pension age. In comparison:

- Robert is a manual worker who saves for a pension from age 25. At age 55, he becomes disabled with a back condition and stops work. His pension income is around £199 a week, which is £55 a week lower than the median-earning man.
- Deborah has a stress-related disability in her thirties. Although she returns to work after five years, her earnings on returning to work are lower than they would be if she had not become disabled. Her pension income is around £182 a week, which is £72 a week lower than the median-earning man.

Additional state help is available to some disabled people in retirement, in the form of Attendance Allowance and Pension Credit. The single pensioners who receive these state benefits have higher incomes on average than other single pensioners.

However, some organisations have expressed concern that these state benefits may not fully meet the extra cost that some disabled people face, for example, for care and mobility.

People from ethnic minorities

Ten per cent of the UK population belong to an ethnic minority group. Ethnic minority groups in the UK are younger on average than the rest of the population and there are currently very few older people from this segment of society. This means that the

number of older people from ethnic minorities could increase rapidly in future. Pension provision for this group is, therefore, of particular interest to policy.

There is a great deal of diversity among ethnic minority groups. In this report, 'ethnic minority' is taken to mean non-White, rather than non-British. Of course, many people from ethnic minorities are British Citizens and some White people are not.

Taking an overall view across all of the different ethnic minority groups, we can say that people from ethnic minorities are more likely than the rest of the population to have the characteristics associated with lower pension incomes. For example, they:

- **Are less likely to be in work:** 60 per cent of working-age people from ethnic minorities are in employment, compared to 76 per cent of working-age White people.
- **Are less likely to qualify for state pensions.** The difference in employment rates means that 35 per cent of people from ethnic minority groups might not qualify for the State Second Pension each year, compared to 24 per cent of White people.
- **Have lower earnings when in work:** full-time employees from ethnic minority groups have lower earnings than White people at most ages.
- **Are less likely to be saving for a private pension.** Ethnic minority workers are less likely than White workers to be saving for a pension at every age. For example, 54 per cent of 45 to 54 year old people in work from ethnic minorities are saving for a pension, compared to 63 per cent for comparable White people.
- **Are less likely to work at older ages.** For example, 32 per cent of 60 to 64 year old people from ethnic minorities are in employment, compared to 45 per cent of corresponding White people.

People in some ethnic minority groups are more likely to work part-time or be self-employed. For example, around a third of Pakistani (31 per cent) and Bangladeshi (35 per cent) people work part-time compared to around a quarter (26 per cent) of White people and, as with the White population, women in these groups are considerably more likely than men to work part-time. Around 26 per cent of Pakistani people are self-employed, compared to 13 per cent of White people, and the self-employed do not qualify for State Second Pension.

Two hypothetical case studies of ethnic minority people illustrate some of the impacts of these characteristics:

- Ayesha is a Bangladeshi woman who only begins to work at age 40, after spending time at home with her family. When she does work, she works part-time. Her pension income is around £127 a week, which is £127 a week lower than the median-earning man.
- Sayeed is a Pakistani man who is in full-time employment for the first half of his adult life. At age 40 he becomes self-employed when he takes over the family business. His pension income is £141 a week, which is £113 a week lower than the median-earning man.

The relatively few ethnic minority pensioners who are currently in the UK have incomes that are substantially lower than the rest of the population.

Policy implications

This analysis shows that disabled people and people from some ethnic minority groups are more likely than the rest of the population to have the characteristics associated with lower pension income. While there is a range of variation, this does suggest these groups are likely to have lower pension incomes in future than a traditionally-employed median-earning male.

The Government's recent state and private pension reforms are likely to benefit disabled people and people from ethnic minorities. Without these reforms, the incomes shown above for the hypothetical case studies would most likely be even lower. Ethnic minorities in particular are likely to be over-represented in the target group for the new system of personal accounts due to be launched in 2012. However, people from ethnic minorities may be more likely than the rest of the population to opt out of saving, due to higher rates of in-work poverty, lower levels of financial capability and possibly lower levels of familiarity with the English language.

Further analysis of the future distributions of incomes for these people, and how they compare to the population as a whole, would help assess the need for a policy response. A variety of policy options could be considered, including:

- Further widen the system of credits for state pensions.
- Continue to encourage private pension saving.
- Continue to encourage labour market participation, including reducing discrimination.
- Continue to address the pay gap.

There are some specific policy decisions that have yet to be made concerning the Government's private pension proposals. Some of these could have a significant impact on disabled people and people from ethnic minority groups:

- The charging structure for personal accounts.
- Policies to reduce the risk of pension saving not being suitable for those who are auto enrolled.
- The design of generic advice and information that is expected to accompany the launch of auto enrolment in 2012.
- Sharia-compliant investment choices in personal accounts.

1 Introduction

Research by the Pensions Policy Institute (PPI) in 2003 investigated the future pension incomes of women, disabled and ethnic minority people. It constructed hypothetical case studies who have the characteristics observed of these groups, and compared their estimated pension incomes with the individual who was then typically used as the stereotype for policy analysis, namely the traditionally-employed median-earning male. Women, disabled and ethnic minority people were found to be 'under-pensioned' when compared to this particular policy stereotype.

Since the original PPI analysis, the Government has introduced major reforms to both state and private pensions, which had a specific aim to be fair to women and carers. These reforms are likely to improve significantly women's pension incomes. The time is now ripe to review the pension situation of the other groups, and consider to what extent the recent reforms will help them.

This new research has been commissioned from the PPI by the Equality and Human Rights Commission (EHRC) to examine the specific pension situation of disabled people and people from ethnic minorities. The research asks:

- What are the pension characteristics of disabled and ethnic minority people? For example, what are their working patterns and their current pension provision?
- What future pension incomes might people in these groups have? How much will the recent pension reforms help them, and what is the potential significance of policy decisions that have yet to be made?

Since disabled people and people from ethnic minorities have some similar employment characteristics to women, this report begins with a summary of the existing evidence on women and pensions.

Many characteristics are relevant when investigating future pension incomes. Low earnings, time spent out of full-time employment, low and/or infrequent pension contributions and long retirements can all reduce pension incomes (see Box 1).

Box 1: Characteristics that can lead to lower pension income

Low earnings

Having low earnings is the most important cause of lower pension income, as it affects how much income an individual will receive from state and private pensions. For example, the amount people receive from S2P will continue to be related to earnings until some time after 2030. The perceived or actual unaffordability of making pension contributions is cited as a barrier to saving in a private pension.

Non-standard employment

Any time not spent in full-time work can reduce pension income. People with periods of part-time work, economic inactivity and/or unemployment may experience a loss in income. Self-employment can also result in lower pension income. The self-employed are excluded from S2P and do not benefit from an employer contribution into private pensions.

Low or irregular private pension contributions

Not contributing to a private pension or making small contributions reduces pension income. People in some industries are more likely than others to receive a pension contribution from their employer. The amount an individual receives from a defined benefit pension is often linked to the number of years the individual has been an active member of the scheme, as well as their final salary. Pensions from defined contribution schemes and personal pensions are long-term products that benefit from the impact of compound rates of return to help funds grow over time. Any break in contributions, especially in earlier years, can have a disproportionate impact on the size of the final pension fund.

Early retirement

Retiring early can reduce pension income because there are potentially fewer years of contributions to top-up state and private pensions. Retiring early will also mean that savings for retirement need to last longer. Spreading pension wealth over more years will usually result in lower income during retirement.

Living to older ages

The impact of having a long life is analogous to early retirement because more time is spent in retirement. Incomes from pensions tend not to increase in line with growth in earnings. Although the link between the level of the Basic State Pension and average earnings will be restored at some point between 2012 and 2015, incomes from the State Second Pension will continue to be indexed with prices. Although incomes from defined benefit pensions are usually increased during retirement, the

income from private pensions can also fall in value during a person's retirement relative to average earnings.

Disadvantage is cumulative

Non-standard employment is associated with low earnings. Low earnings are associated with irregular private pension contributions. Therefore, disadvantage in one way is often linked to disadvantages in other ways, and it is the cumulative impact of all of them that can result in significant disadvantages overall.

Unless specified otherwise, data in this report, including all charts and tables, come from PPI's analysis of the Labour Force Survey, Second Quarter 2007.

2 The pension position of women

This chapter briefly summarises the evidence on women and pensions, since women have some similar characteristics to disabled people and people from ethnic minorities. Female pensioners currently have lower incomes than male pensioners and, while the Government's pension reforms are likely to improve the incomes of future female pensioners, differences with men are likely to remain.

Female pensioners

Female pensioners currently have lower pension incomes than male pensioners. Although median net incomes of single male and female pensioners are similar (DWP, 2007a):¹

- Women's incomes are supported to a greater extent by means-tested benefits. Around 57 per cent of the people in receipt of the Guarantee Credit element of Pension Credit are women (DWP, 2008a).²
- Income is much more unevenly distributed within couples, with women having on average around 30 per cent of the household's income in their own right (DWP, 2007b: 17).³ Although resources can be shared across the household, this illustrates the extent to which women may be reliant on their partners' incomes in retirement.

Much of the difference in pension incomes is due to the fact that women earn less than men, are more likely to spend time out of the labour market due to caring and are more likely to work part-time:

- Around 70 per cent of women of working-age are in employment compared to 79 per cent of men of working-age (ONS, 2008a).
- Women earn less than men. The official pay gap, which measures the difference in median hourly earnings excluding overtime of full-time employees, was 13 per cent in April 2007 (ONS, 2007a).⁴ This has improved from 17 per cent in 1997.
- Around 43 per cent of women in employment are working part-time, compared to only 11 per cent of men. As a result, the majority of people working part time are women (77 per cent).

The Government's pension reforms

The Government's reforms to state and private pensions both explicitly aimed to be fair to women and carers (DWP, 2006b:15; DWP, 2006d: 20), and have improved women's eligibility to state pensions.

The state pension reforms were enacted in the 2007 Pensions Act and will:

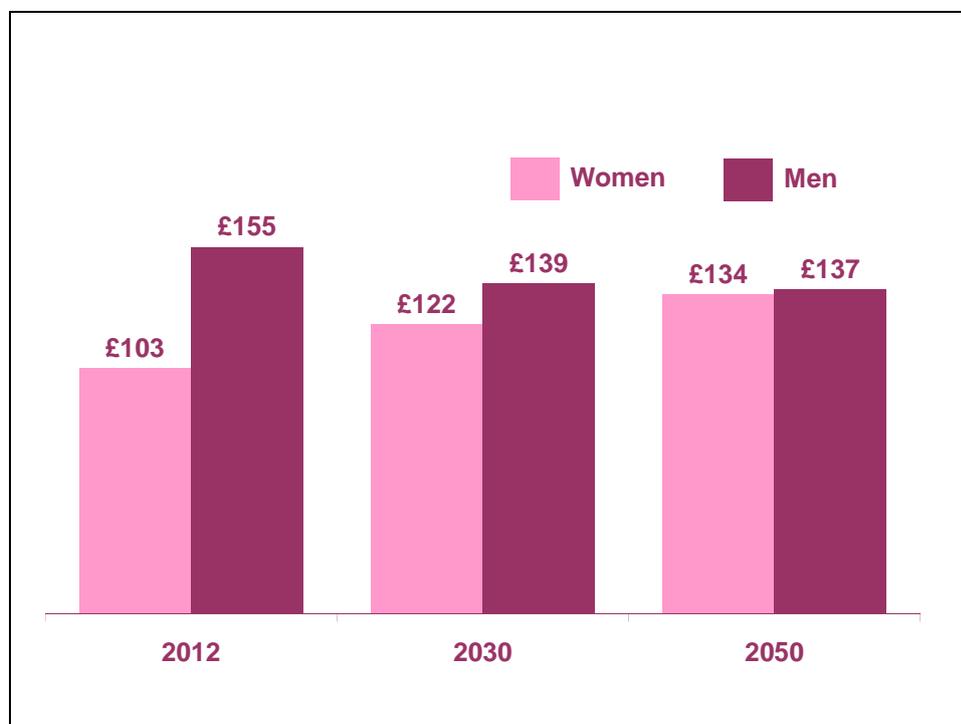
- Extend the coverage of Basic State Pension (BSP) for women and men reaching state pension age from April 2010. For example, the number of qualifying years required for a full BSP will be reduced from 39 for women and 44 for men to 30 for both women and men.
- Replace the existing system of Home Responsibilities Protection with a new system of more inclusive, weekly, positive credits for Basic State Pension and State Second Pension (S2P). This will mean that some types of caring will be valued more equally with paid employment in the state pension system.
- Restore the indexation of the BSP to increases in average earnings rather than prices at some point between 2012 and 2015. Over the long-term, average earnings are expected to increase more rapidly than prices, so this change should increase the level of the pension. Given that women are more reliant on state pensions than men and that the coverage of BSP will be widened, this should benefit women relatively more than men.
- Make S2P flat-rate by around 2030, so that a person's level of entitlement to S2P will no longer depend on their level of earnings. This could reduce the inequality in S2P income between men and women, although convergence will take decades. S2P will continue to be increased with prices once in payment.

Women's eligibility to state pensions would have improved to some degree without the Government's recent state pension reforms, as a result of greater levels of participation by women in the labour market and the maturing of Home Responsibilities Protection (introduced in 1978). The Government's reforms should speed up and extend this process. For example, currently around 35 per cent of women reaching state pension age receive the full amount of Basic State Pension. Without the reforms, this proportion would have increased to around 50 per cent by 2010 and is likely to have continued to increase after this date. With the reforms, according to the Government, the proportion of women receiving the full amount of BSP on reaching state pension age in 2010 will be around 75 per cent, rising to around 90 per cent by 2025, the same proportion as men (DWP, 2007b: 18).

Chart 1 illustrates the future state pension incomes of some hypothetical examples of men and women, under the Government's reforms. Several generations of men and women are shown, reaching state pension age in 2012, 2030 and 2050. They have the following life histories:

- The men mostly work full-time from age 21 until retiring at state pension age, earning at male median earnings. However, they are unemployed for two years in their twenties and work part-time between age 55 and age 60.
- The women have spells of full-time and part-time work interrupted by two career breaks. The first is a six year break to care for children for which they are assumed to receive credits to state pensions. The second break lasts for five years to care for an elderly relative, for which they are assumed to receive no credits to state pensions. When in work, they earn at female median earnings, which are lower than male median earnings.

Chart 1 Income from BSP and SERPS/S2P for median-earning men and women reaching SPA in different years under the proposed pension reforms (in £ per week, 2006/07 earnings terms)



Source: PPI Briefing Note, 36.

The state pension incomes of these men and women will converge, although full convergence will take decades, partly because of the gradual nature of the reforms to S2P. The man who reaches SPA in 2012 could have around £50 a week more in BSP and S2P combined than the woman. This difference would reduce to around £17 a week for those reaching SPA in 2030, and to around £3 a week for those reaching SPA in 2050. Of course, people have very diverse life histories, and there may be more of a difference between other examples of men and women.

The Government's private pension reforms are currently being scrutinised by Parliament. They would:

- Automatically enrol most employees into saving into a pension from 2012. Individuals will have the option to opt-out of saving but the default position will be that they save.
- Introduce a compulsory employer contribution in respect of employees who remain opted-in.
- Introduce a new low-cost national pensions savings scheme, called personal accounts, for people without access to an existing high-quality work-based pension scheme.

Employees who are auto enrolled to a pension scheme and remain opted-in will have to contribute at least 4 per cent of a band of earnings between £5,035 and £33,540 (in 2006 earnings terms). Employers will be compelled to contribute at least 3 per cent of this band and the state would contribute at least 1 per cent of this band through tax relief.

The private pension reforms could increase the retirement incomes of both men and women (PPI, 2007a). The Government's latest working estimate is that around 9 to 11 million people will be eligible for auto enrolment into a work-based pension following its reforms, of which 3.5 to 4 million are expected to be women (DWP, 2008b: 151-152). Some of these individuals could choose to opt out of saving in a pension and the Government expects that, after opts-out, around an extra 2 to 3 million women and 2.5 to 4.5 million extra men will participate in a work-based pension scheme.

Men's and women's pension incomes

Although the Government's reforms to state and private pensions are likely to improve pension incomes for men and women, some differences in their average incomes are likely to remain. This is because reforms to state pensions, and S2P in particular, will take many decades to filter through the system (PPI, 2006a). Under the recent reforms, the earnings-related component of S2P would become smaller over time, and eventually disappear by around 2030. Men will continue to accrue higher average entitlements to S2P than women in the interim, due to their higher earnings (PPI Briefing Note, 35).

Although the link between individuals' earnings and their state pension entitlements is reducing, private pension income is linked to paid employment. Since, on average, women earn less than men, their private pension incomes are likely to remain lower

than men's on average. Many of the reforms that improve the future pension incomes for women will also improve the future pension incomes of disabled people and people from ethnic minorities because, in some cases, there are similarities in their working patterns. The next two chapters explore in detail the characteristics of disabled people and people from ethnic minority groups.

3 Disabled people

More than one in five adults in the UK is disabled, using the broadest definition of disability. This is only a snapshot in time. A much larger proportion of people experience illness or disability at some point in their life.

Disabled people are not a homogeneous group. The characteristics of disabled people can vary depending on the type and severity of their health condition. For example, only 21 per cent of people whose main disability is a mental health condition are in employment, compared to 65 per cent of people with diabetes.

3.1 Who are disabled people?

The Disability Discrimination Act 1995 (DDA) defines a disabled person as someone who *has a physical or mental impairment which has a substantial and long-term adverse effect on his ability to carry out normal day-to-day activities*. The DDA 1995 was amended by the DDA 2005 in several ways. It made it clearer to interpret whether somebody is classed as disabled and extended the definition of disability so that people who have had a disability in the past but who have subsequently recovered are now also covered.

Additional provisions were made relating to people with progressive conditions and the new Act removed the requirement that a mental illness should be 'clinically well-recognised'. It also ensured that people with HIV, cancer and multiple sclerosis are deemed to be covered by the DDA effectively from the point of diagnosis, rather than from the point when the condition has some adverse effect on their ability to carry out normal day-to-day activities.

Under the DDA, 'day-to-day activities' covers a number of physical aspects of daily life, such as mobility, manual dexterity, physical co-ordination, continence, lifting and carrying, as well as other aspects such as speech, hearing, eyesight, memory and learning ability. 'Long-term' is generally 12 months or longer. 10.7 million adults in the UK are currently disabled under this definition, or 22 per cent of the total adult population. This includes 5.9 million people of working age, or 16 per cent of the working age population (men aged 16-64, and women aged 16-59).

As well as using a form of the DDA definition of disability, some surveys use an additional definition of 'work-limiting' disability. This is a disability that limits the amount of, or kind of, work that people can do, rather than whether or not they work. An additional 1.1 million people of working age are disabled using this definition, taking the total to 6.9 million disabled people of working-age in the UK (or 19 per cent

of the working-age population). From this point onwards, the broadest definition of current disability will be used, which includes both the DDA current disabled and work-limiting current disabled definitions.

This report focuses on people who are currently disabled, in order to analyse the working and pension characteristics of people when they are disabled. However, the number of people with a current disability is only a snapshot in time. There is evidence to suggest that a much larger proportion of people are limited by illness or disability at some point in their life (DWP, 2007c).⁵ Therefore, more people than suggested in this report may experience a disability that affects their ability to engage in paid employment at some point in their lives and, as a result, their pension contributions. One disadvantage of using cross-sectional surveys, as we do here, is that they only provide information on current disability, when in fact disability is a situation which starts and may worsen, improve or end (DWP, 2006c: 22).

Types of impairment

There are many types of impairment and disabled people can experience more than one type. Table 1 groups these into broad categories. It shows the number of working-age disabled people by their current main health condition and is based on what survey respondents report as their main health problem/disability.

A relatively large proportion of working-age disabled people report a physical impairment as their main health condition: 31 per cent report difficulties using their arms or legs, and back ailments. Another 17 per cent report circulation or digestive conditions, which could relate to blood pressure, heart, liver or kidney disease, and 11 per cent report mental health conditions such as psychosis and depression.

Older people

Older people are more likely to be disabled than young people (Chart 2). While 9 per cent of people aged 16 to 19 are disabled, 50 per cent of people aged 70 or older are disabled. Consequently, a relatively large proportion of the disabled population is elderly: over one-third (36 per cent) of disabled people are aged 65 or older, and over one-quarter (28 per cent) are aged 70 or older. There is little difference between men and women in the prevalence of disability, overall and within different age groups.

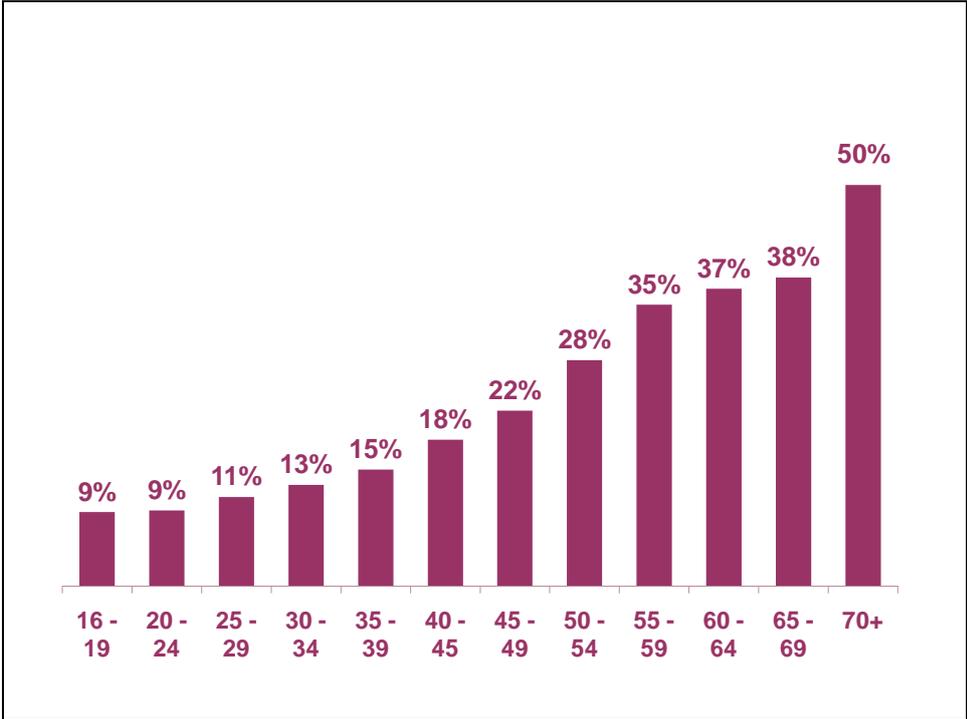
Older people are more likely than younger people to be disabled because of the long-standing nature of some types of health condition and because the risk of becoming disabled increases slightly with age. The rate at which people become disabled is relatively constant up until age 45 but then starts to increase slightly (DWP, 2006c: 23).

The severity of disability also increases with age. Less than 1 per cent of adults aged below 34 reported a serious disability, compared to more than 25 per cent of adults aged 65 and over (DoH, 2001).⁶

Table 1 Main health condition reported by disabled people of working age in the UK, 2007⁷

	Millions	Percentage of working-age disabled people
Physical impairment, such as difficulty using arms or mobility issues, which could mean using a wheelchair or crutches	2.2	31
Problems with circulation, such as chronic heart disease, blood pressure or digestive problems, such as liver or kidney disease	1.1	17
Chest or breathing problems, skin conditions or allergies	0.9	13
Mental health conditions, such as depression or schizophrenia, phobias, panics and bad nerves	0.8	11
Diabetes	0.4	6
Learning disability/difficulty, such as Down's syndrome or dyslexia, or cognitive impairment, such as autistic spectrum disorder	0.2	3
Sensory impairment, such as being blind/having a serious visual impairment or being deaf/having a serious hearing impairment	0.2	3
Other types of impairments including speech impediments, epilepsy and progressive illness, such as cancer and multiple sclerosis	1.2	17
Total	6.9	100

Chart 2 Prevalence of disability by age bands, 2007



The onset of disability

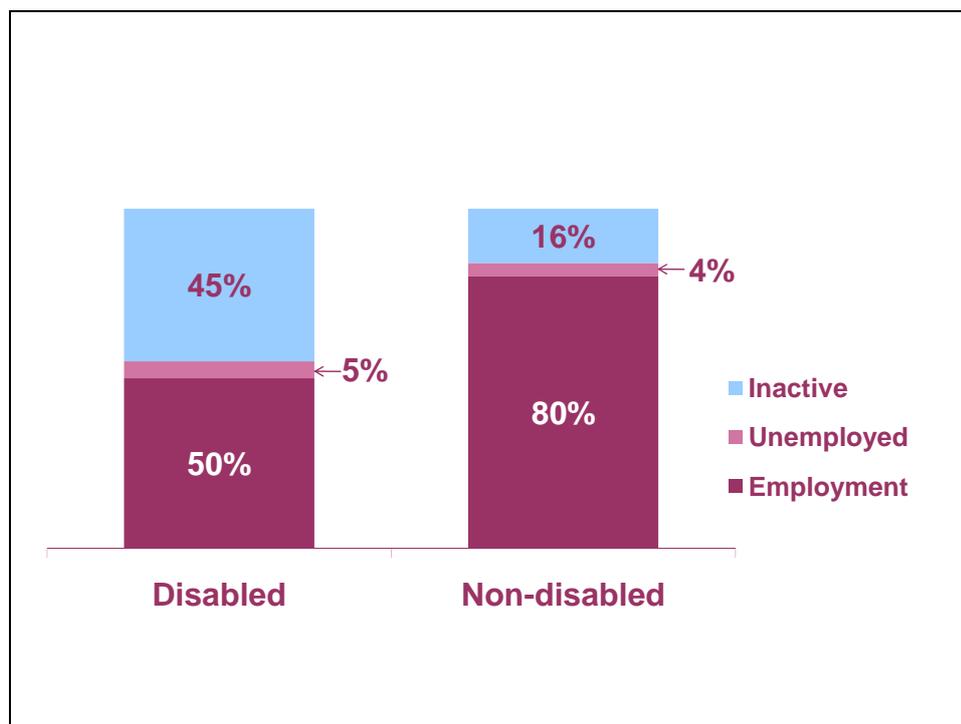
The onset of disability is unpredictable. Only around 1 in 20 disabled people were born disabled. While one-in-five disabled people aged between 16 and 44 were born disabled, very few older disabled people were born disabled. Of disabled people over state pension age, two-thirds did not become disabled until they were at least 50 years old, and almost one-third were not disabled before age 65 (DWP, 2002a).

Across the UK, there are regional variations in the prevalence of disability. Disability is particularly prominent in the North-East of England and Wales, with nearly a third of the local adult population in these regions disabled (31 per cent and 29 per cent, respectively). London, the South-East and East of England have lower than average proportions of disabled people (21 per cent, 22 per cent and 23 per cent, respectively). These variations may be linked, in part, to regional differences in industries and employment rates (see page 21 below).

3.2 What are the working patterns of disabled people?

Being in employment can give individuals greater opportunity to contribute to state and private pensions or make other forms of retirement saving. However, 50 per cent of working-age disabled people are in work, compared to 80 per cent of non-disabled people (Chart 3).

Chart 3 Economic activity status and employment rates of working-age disabled and non-disabled people, 2007



Source: ONS Labour Force Survey Historical Quarterly Supplement, Q2 2007.

Note: Economically inactive means not in work and not looking for work.

The Department for Work and Pensions has a Public Services Agreement (PSA) target to *maximise employment opportunity for all* (HM Treasury, 2007b). The gap between the overall employment rate and the employment rate for disabled people is one indicator it uses to measure progress against this target. Currently, the overall employment rate for the working-age population as a whole (disabled and non-disabled people combined) is 74 per cent, so the difference with the employment rate for disabled people stands at 24 per cent. This is an improvement from 1998, when the gap was 35 per cent.⁸

Disabled people have a higher unemployment rate than non-disabled people. The unemployment rate measures the proportion of working-age economically active people who are unemployed, and stands at around 9 per cent for disabled people and 5 per cent for non-disabled people.⁹

Even if they are not economically active, disabled people are more likely to want to work than non-disabled people: 28 per cent of economically inactive disabled people of working-age would like to work, compared to 22 per cent of comparable non-disabled people. This suggests that disability deters some people from looking for work, even if they would like to.

On top of this, some people who report not actively seeking work may accept a job under the right circumstances, such as flexible working hours, working close to home, or working at home. Although no direct evidence has been found, it is possible that disabled people are deterred from seeking work because they perceive that these types of jobs are not available. This would result in an underestimate of 'unemployment' among disabled people.

A detailed study of the employment rates of disabled people attempted to disentangle the causes of having a low probability of being in employment. It found, under its definition of disability, that demographic and economic characteristics only accounted for part of the 'employment penalty' faced by disabled people and that the presence of a disability was more important in explaining the reduction in job chances they faced (DWP, 2006c).¹⁰

Long-term unemployed

Disabled people are more likely to be long-term unemployed than non-disabled people. Some 39 per cent of unemployed disabled people are long-term unemployed, meaning that they have been unemployed for more than one year. This compares with 21 per cent of unemployed non-disabled people. Long-term economic inactivity is also high among disabled people: over half of disabled people currently out of work have been out of work for more than 5 years.¹¹

Long-term inactivity or unemployment can increase the difficulty of returning to work. The most powerful predictor of being in employment in a particular year is being in active employment the previous year, but even after controlling for previous paid work, people with a long-term health condition are less than half as likely to be working the following year as people without a long-term health condition (DWP, 2007c).¹²

The average annual rate of disabled people making a transition from benefits into employment is 4 per cent, while it is six times higher for non-disabled people.¹³ Weak financial incentives, a lack of awareness of tax credits to strengthen incentives along with worries about losing and having to reclaim state benefits are among the top reasons given by disabled people for not entering the labour market.

Severity of disability

Labour market participation can vary widely according to the type and severity of the impairment of disabled people (Chart 4). People with mental health conditions have the lowest employment rates of all impairment categories, at only 21 per cent. In

contrast, people with diabetes or reporting difficulties with breathing or with allergies have higher employment rates, above 60 per cent.

Chart 4 Employment rates for disabled people of working age by main reported health condition, 2007

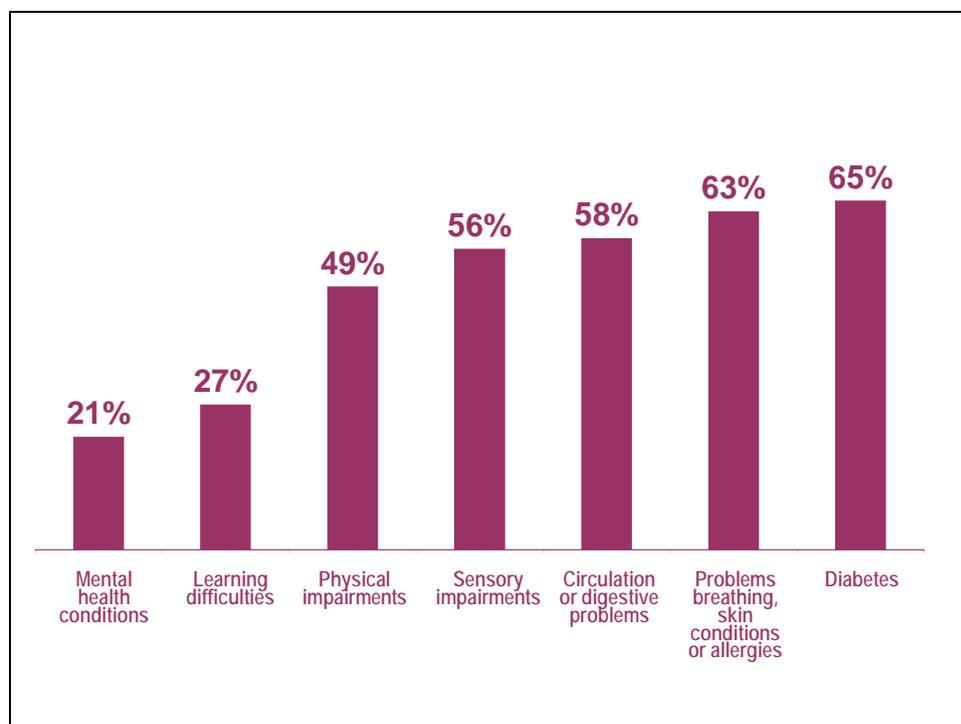


Chart 4 is consistent with other research showing that disability characteristics like type and severity of impairment are important determinants of employment rates (DWP, 2006c).

Older people

Older disabled people are less likely to be economically active than younger disabled people. Around half (49 per cent) of disabled people aged between 50 and state pension age are economically active, compared to 61 per cent of disabled people aged between 25-34. The economic activity rates of disabled people are lower at every age compared to non-disabled people. Whereas only 49 per cent of disabled people aged between 50 and state pension age are active, 86 per cent of corresponding non-disabled people are active.

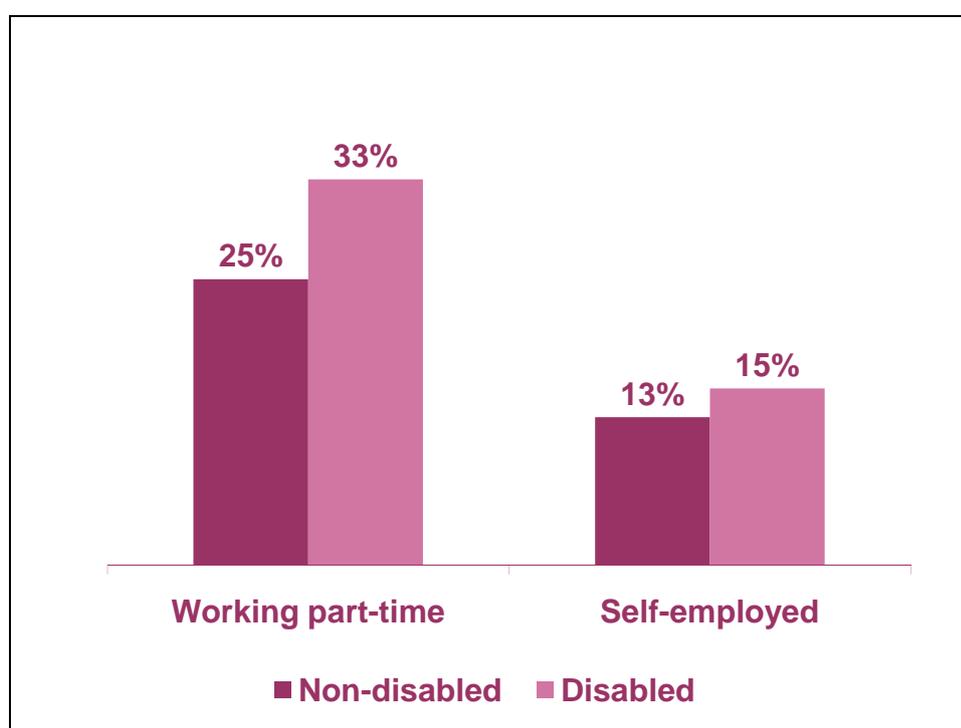
Part-time work

Disabled people in work are more likely to be working part-time than non-disabled people (Chart 5). Part-time work is relevant for pension outcomes because people who are working part-time are less likely to have a private pension than people in full-time work.¹⁴ 65 per cent of part-time employees are not accruing a private pension,

compared to 41 per cent of full-time employees.¹⁵ By ‘accruing’ private pension we mean the individual is either contributing to a private pension or receiving a contribution from an employer.

Lower pension provision among part-time workers may be due to lack of access to pension provision among those working part-time and due to lower weekly pay (ONS, 2007a).¹⁶ Concerns about affordability are often cited by individuals as a barrier to pension saving (DWP, 2007d)¹⁷ and may be greater for part-time workers.

Chart 5 Proportion of working population who work part-time or who are self-employed by disability status, 2007



There is less of a difference in the prevalence of self-employment among disabled and non-disabled people: 15 per cent of disabled people in work are self-employed, compared to 13 per cent of non-disabled people in work.

Educational qualifications

People who were born with disabilities, or develop them in early life, tend to leave school at an earlier age than non-disabled people and are less likely to be in full-time education at age 20 (DWP, 2002a). Disabled people of working-age have lower levels of educational qualifications than non-disabled people and are more than twice as likely to have no qualifications.¹⁸ Lower levels of educational attainment are often associated with poorer labour market prospects and lower earnings (DWP, 2002c).

Even when comparing people who have high levels of educational qualifications, disabled people are less likely than non-disabled people to be in work. For example, 74 per cent of disabled people with a degree or equivalent qualification are in work, compared to 89 per cent of non-disabled people. However, the gap in employment rates is particularly large for people with no qualifications. For example, 23 per cent of disabled people with no qualifications are in employment compared to 60 per cent of comparable non-disabled people (DRC, 2007).

Industries and occupations

There is little difference in the industries in which disabled people and non-disabled people work, although there is a small difference in their occupations. Disabled workers are slightly more likely than non-disabled workers to be in manual and lower skilled occupations (23 per cent compared to 18 per cent) and slightly less likely to be in managerial, professional or highly-skilled occupations (37 per cent compared to 43 per cent).

The lower occupational level of disabled workers is not only caused by a drop in occupational level following the onset of disability. There is some evidence to suggest that disabled workers had lower occupational levels than non-disabled people even before the onset of their disability. For example, disabled people are geographically concentrated in areas of relatively high unemployment (such as mining and industrial areas).

According to a recent survey, 40 per cent of disabled people had not received 'on the job' training, compared to around 30 per cent of non-disabled people (ODF, 2004). Nearly 60 per cent of disabled employees feel they possess higher personal skills than those required in their job, compared to just over 50 per cent of non-disabled employees (ODF, 2004).

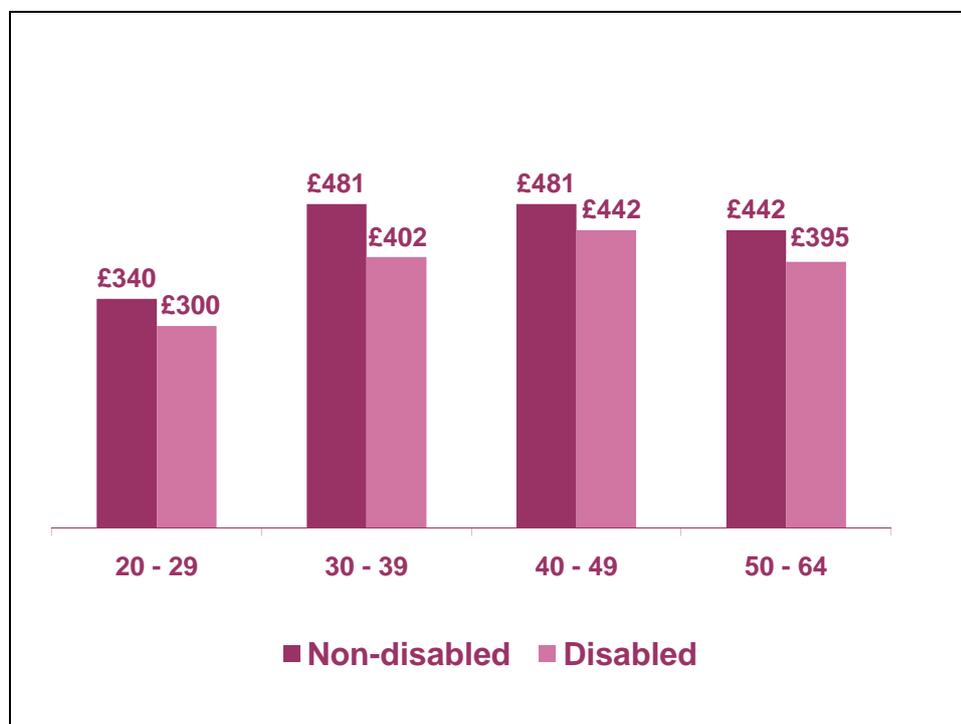
3.3 How much do disabled people earn?

The median level of weekly earnings from full-time employment of disabled people is around 8 per cent lower than the median weekly earnings of non-disabled people: £388 per week compared to £423 per week for non-disabled people. In every age group, median earnings are lower for disabled employees working full-time (Chart 6).

The median weekly earnings of disabled men is around 10 per cent lower than the median earnings of non-disabled men, while the median earnings of disabled women is around 5 per cent lower than the median earnings of non-disabled women. Part of the cause of lower earnings for disabled people is that people who become disabled during their working life often had relatively low earnings before they become

disabled and lower income workers are more likely to become disabled than higher income workers (Bardasi et al., 2000).

Chart 6 Median weekly gross earnings of full-time employees by age group, 2007



A robust analysis of earnings by all types of impairment is not possible using the LFS because sample sizes are not large enough. Where sample sizes are big enough (for the most common types of impairment), a comparison suggests that earnings can vary by type of impairment. For example, disabled employees with physical impairments working full-time have median earnings of £375 per week, whereas disabled employees with circulatory or digestive conditions have median earnings of £412 per week.

Low-income households

A combination of low earnings for those in work and high levels of worklessness result in many disabled people living in low income households. Almost half (49 per cent) of working-age adults in households containing a disabled adult had incomes in the bottom 40 per cent of the income distribution, compared to only 28 per cent of working-age adults in households not containing a disabled adult (DWP, 2008c: 106).¹⁹ Furthermore, almost a third of households with a disabled adult have no adults in work, compared to less than 10 per cent of households without a disabled adult (Smith and Twomey, 2002). A large part of the income of disabled households

is derived from disability and other social security benefits designed to help working-age disabled people meet the extra costs of disability (see Box 2).

Box 2 State benefits for working-age disabled people

Disability Living Allowance (DLA) aims to help disabled people meet the extra cost of disability. It is payable to people who have personal care or mobility needs and who are under 65 when they first claim. It is not means-tested.

There are two parts to DLA. The care component is paid to people who need help to look after themselves (e.g. with washing and dressing) and can be paid at one of three different rates: lower (£17.75 in 2008/09), middle (£44.85) or higher (£67.00). The mobility component is for people who, because of their illness or disability, have difficulties walking. It is paid at one of two rates: lower (£17.75) or higher (£46.75). Around 2.9 million people receive DLA, receiving on average £64 per week (DWP, 2008a).

Incapacity Benefit (IB) is for people of working-age who are unable to work because of illness and/or disability. It is not means-tested.

The level of IB depends on a number of factors, including the length of time a person has been too ill to work and their age.²⁰ Recipients with dependents can also qualify for more help. Around 2.4 million people receive IB, receiving on average £55 per week. Employment and Support Allowance is expected to replace Incapacity Benefit for new claimants from October 2008.

3.4 What is the pension provision of disabled people?

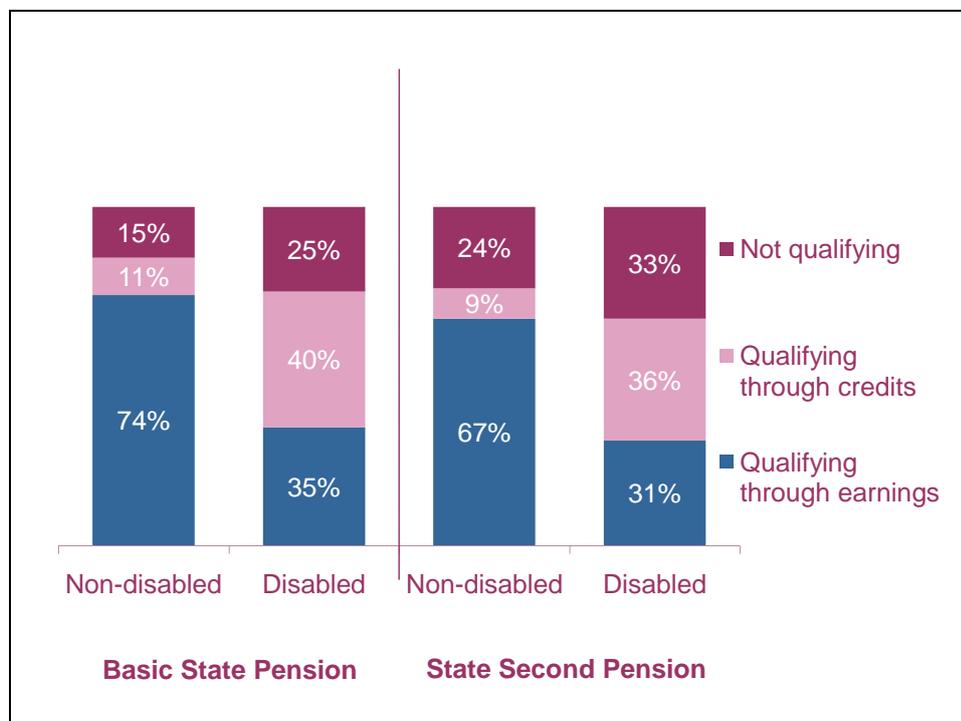
State pensions

Disabled people are less likely to build up entitlement to state pensions than non-disabled people (Chart 7). The chart shows the proportion of working-age people who would have built up entitlement to state pensions in 2005/06 on the basis that the reforms in Pensions Act 2007 had already been in place.

One-quarter (25 per cent) of disabled people would not have built up entitlement to the Basic State Pension (BSP) in 2005/06, compared to one-sixth (15 per cent) of non-disabled people. Note that this is only an estimate at a point in time, while a person's final entitlement to BSP at state pension age will depend on the record of entitlements built up over their entire working life. The reforms in Pensions Act 2007 will mean that people reaching state pension age from 2010 will only need to have built up 30 qualifying years in order to receive the full amount, in comparison to the

current situation of 44 years for men and 39 years for women. As a result, most people in future are expected to retire with a full BSP (DWP, 2007b: 18).

Chart 7 Proportion of working age people who would have built up entitlement to state pensions in 2005/06, had the Pensions Act 2007 reforms already been in place



Source: PPI analysis of the Family Resources Survey 2005/06; illustrates what proportion of working-age people would have received a qualifying year towards state pensions if the Pensions Act 2007 reforms had been in place in 2005/06. Note: Disabled people are those registered with their Local Authority, or with a long-standing disability or illness that limits their behaviour.

One-third (33 per cent) of disabled people would not have had a qualifying year for S2P, compared to one-quarter (24 per cent) of non-disabled people. Unlike BSP, every year counts towards a person’s final S2P entitlement at state pension age,²¹ since for S2P there is no change analogous to the reduction to 30 qualifying years.

A relatively large proportion of disabled people would have built up entitlement to state pensions through credits (40 per cent for BSP and 36 per cent for S2P), which are available towards state pensions for a range of activities, including receipt of long-term Incapacity Benefit (see Box 2). Non-disabled people are much more likely than disabled people to have built up entitlement to state pensions by virtue of their earnings.

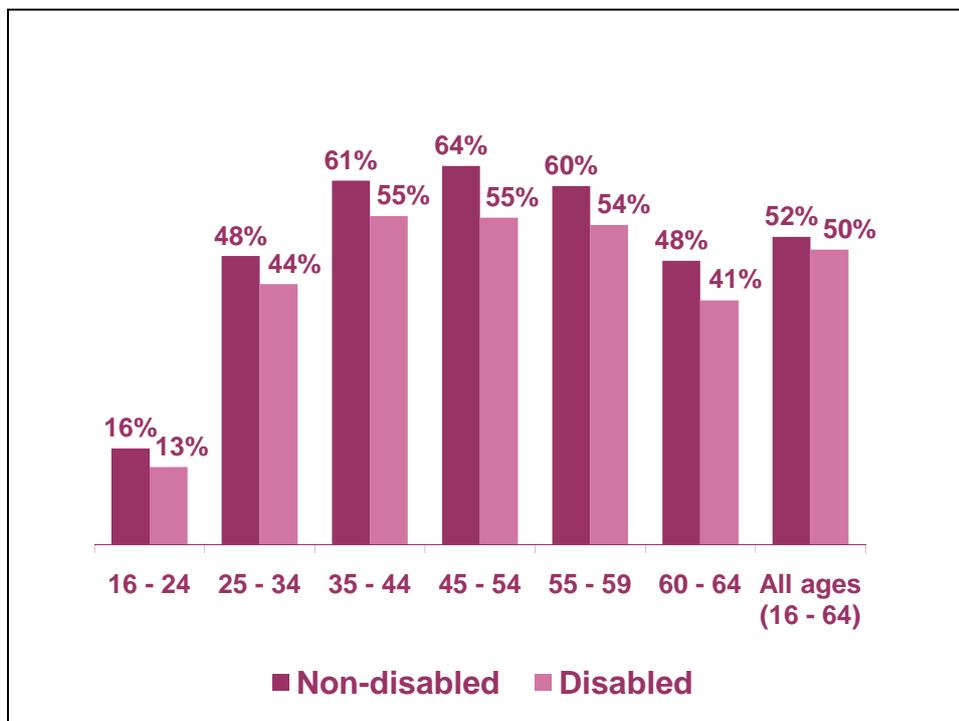
Private pension provision

Even if they are in work, disabled people are less likely to be accruing private pension provision than their non-disabled counterparts at every age (Chart 8). By ‘accruing’ private pension we mean the individual is either contributing to a private pension or receiving a contribution from an employer. Occupational, personal and stakeholder pensions are all included.

The figures for ‘all ages’ in Chart 8 are similar for disabled people and non-disabled people, even though differences exist for the individual age groups. This is because the figures for ‘all ages’ are distorted by the different age distributions of disabled people and non-disabled people. Older people are more likely than younger people to be disabled and also more likely to have private pension provision.

Lower earnings could help explain the lower private pension provision among disabled people in work. Concerns about affordability are often cited by individuals as a barrier to saving in a pension and in one recent survey, ‘not earning enough’ was the most common reason why employees did not join their company pension scheme (DWP, 2007d). Disabled people may also face additional costs of living due to their disability, which may not be fully met by state disability benefits. This could further reduce their ability to save.

Chart 8 Proportion of employees and the self-employed with current private pension provision, 2005/06



Source: PPI analysis of the Family Resources Survey 2005/06. Note: See Chart 7.

It was noted above (page 12) that disabled people in employment are more likely to work in manual and lower skilled occupations and less likely to work in managerial, professional and highly-skilled occupations than non-disabled people. Only 20 and 29 per cent of people employed in manual and elementary occupations have a company pension compared with between 45 and 64 per cent of people employed in managerial, professional and highly skilled occupations.²²

Chart 8 shows only people who are in employment. Very few people who are not in employment are accruing a private pension and as disabled people are less likely to be in employment than non-disabled people, they are much less likely to have private pension provision than their non-disabled counterparts. Only 22 per cent of working-age disabled people as a whole have a private pension, compared to 43 per cent of non-disabled working-age people.

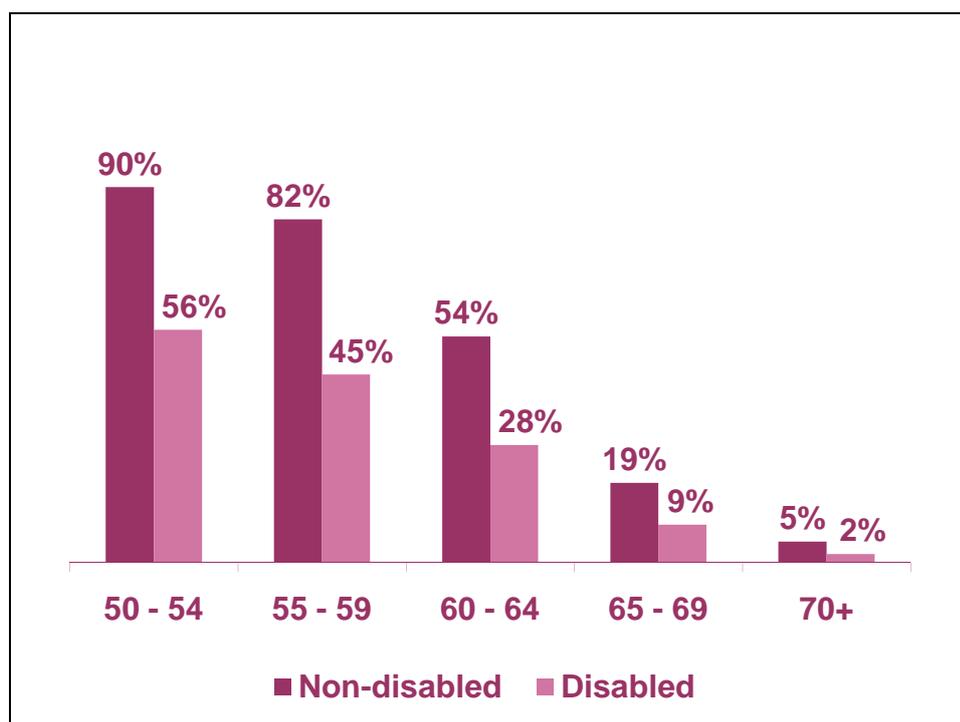
Regular pension contributions

Disabled people are less likely to make regular private pension contributions than non-disabled people; 37 per cent of non-disabled people aged 25-59 and in work in 2001/02 had made contributions to a private pension in each of the previous 10 years, compared to 30 per cent of disabled people. One-quarter of disabled workers had not made any private pension contributions at all in the previous 10 years, compared to only 13 per cent of non-disabled workers (PPI, 2003a:14).

Work at older ages

Disabled people are only half as likely as non-disabled people to work beyond the age of 50 (Chart 9). More than half (54 per cent) of non-disabled people aged between 60-64 are employed, compared to only 28 per cent of disabled people. This partly reflects lower overall levels of employment among disabled people.

Retiring later can improve pension income by giving people more time to make extra pension contributions and by reducing the number of years over which pension saving must be spread. Chart 9 does not necessarily imply that disabled people are retiring earlier than non-disabled people, since the differences in the proportions working could reflect lower overall employment rates. Further research could examine whether or not disabled people are retiring earlier than non-disabled people, and the specific barriers that they face to working at older ages.

Chart 9 Proportion of people in employment by age band, 2007

3.5 What is the position of disabled pensioners?

The disadvantages that disabled people experience throughout their working lives will mean that they are less able to make provisions for retirement. There are, however, a number of state financial benefits that are available for disabled people during retirement. For example, Attendance Allowance (AA) is a tax-free benefit for older people who need help with personal care because they are physically or mentally disabled. It is paid to people who become ill or disabled on or after their 65th birthday: around 1.5 million older people are in receipt of this benefit (DWP, 2008a).

Not all disabled people receive state disability benefits.²³ However, the benefits can be a significant top-up for those who do receive them; on average, they make up around one-fifth of household income for households who receive them.²⁴ Where disabled people receive disability benefits, the benefits help bridge the gap in pension outcomes with non-disabled people. In 2005/06, single pensioners in receipt of disability benefits had mean gross incomes of £245 per week, which is slightly higher than the amount that was received by single pensioners who were not in receipt of disability benefits, which was £233 per week.²⁵ In contrast, pensioner couples in receipt of disability benefits had significantly lower mean gross incomes than pensioner couples who were not in receipt of disability benefits, at £381 per week compared to £519 per week. This is because pensioner couples in receipt of

disability benefits have lower incomes than other pensioner couples from earnings, private pensions and investments.

Older people may also be eligible for extra amounts in benefits if they are disabled. For example, some lower-income older people may be eligible for higher rates of Pension Credit through the severe disability premium. This premium is set at £50.35 per week for single pensioners and double that amount (£100.70 per week) for pensioner couples where both partners qualify, in 2008/09. Around one-quarter of claimants of Pension Credit receive extra amounts due to severe disability (DWP, 2005).

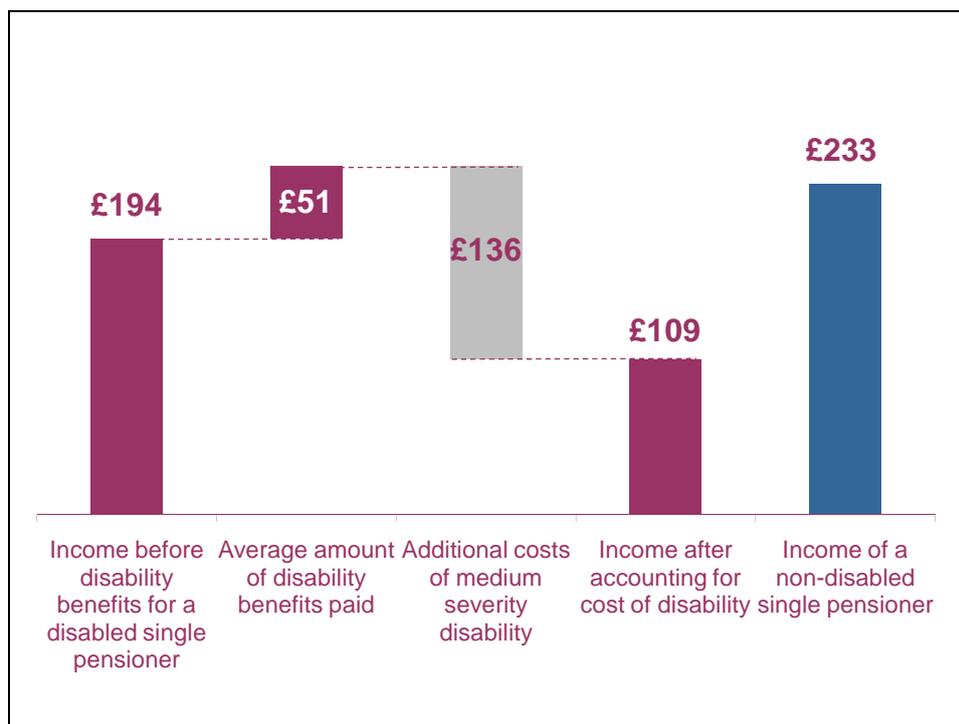
Although the mean income of single pensioners receiving disability benefits is higher than the mean income of single pensioners that do not receive them, this does not take into account the extra costs of disability. These costs include additional expenditure on items that non-disabled people also purchase (such as heating, laundry and transport), as well as expenditure on items specifically relating to disability (such as special equipment and adaptations, information in Braille etc). According to one study, a single pensioner with medium severity of disability may face extra costs of up to 70 per cent of income (Buchardt and Zaidi, 2003). The level of benefits received does not appear to increase incomes by enough to meet this level of additional cost in full, suggesting that disabled pensioners have lower disposable incomes than non-disabled pensioners, despite higher gross incomes (Chart 10).

Living to older ages

There is no specific research that shows that disabled people as a group have shorter life expectancies than non-disabled people after reaching state pension age. It is also difficult to disentangle the specific impact of disability from other inter-related factors that affect life expectancy, such as life-style and social class.

Shorter life-expectancy is linked to having a number of specific conditions, such as cancer, heart disease or high blood pressure that may have caused disability. One indication of this is the availability of 'impaired life annuities': a pension annuity that pays out a higher regular income than a standard annuity to people who have experienced a specific health condition. Eligibility for impaired life annuities is determined by an individual health assessment and rules about which health conditions lead to eligibility vary between annuity providers.

Chart 10 Gross average weekly income before and after disability benefits and the extra costs of disability for a single pensioner, 2005/06



Source: Broad calculation based on research from Buchardt and Zaidi (2003) and data from the 2005/06 Pensioners’ Incomes Series

Note: The deduction of disability benefit does not include the premium pensioners receive on their disability benefit.

3.6 Summary

This chapter has found that disabled people are more likely than non-disabled people to have the characteristics that are associated with lower pension incomes:

- Only 50 per cent of working-age disabled people are in employment. This compares to 80 per cent for working-age non-disabled people.
- Disabled people in full-time employment have lower median earnings than their non-disabled counterparts at every age.
- Disabled people in work are more likely to be working part-time than non-disabled people. People in part-time work are less likely to have a private pension.
- Although almost everybody is expected to receive the full BSP in future, incomes from S2P will vary. Thirty-three per cent of working-age disabled people may not build up qualification for S2P in any given year, compared to 24 per cent of non-disabled working-age people.
- Even if they are in work, disabled people are less likely to be accruing a private pension than non-disabled people, at every age. Very few people who are not in work accrue a private pension.

- Although state disability benefits can be a significant top-up for those pensioners who receive them, some organisations have argued that they may not cover fully the extra cost of disability.
- Disabled people are less likely than non-disabled people to work at older ages.

Disadvantage is cumulative. While some people will only experience one of the characteristics associated with lower pension incomes, others will experience multiple characteristics, such as time out of work, part-time work and lower earnings, which combine to reduce pension incomes.

Women and disabled people are two groups who may receive lower pension incomes in the future than other people and the next chapter will explore the particular situation of people from ethnic minorities. People who fall into more than one of these groups might experience multiple, or 'cross-sectional', disadvantage which may exacerbate their situation.

4 People from ethnic minorities

One in ten adults in the UK is from an ethnic minority group. There are, however, a range of different ethnic groups within this broad grouping. For example, slightly less than one-half is Asian, and a further quarter is Black.

Ethnic minority groups in the UK are younger on average than the rest of the population and there are currently very few older people from this segment of society. Consequently, the number of older people from ethnic minorities could increase rapidly in future. Pension provision for people from ethnic minorities is therefore of interest to policy.

4.1 Who are people from ethnic minorities?

In this report, 'ethnic minority' is generally taken to mean non-White, rather than non-British. Many people from ethnic minorities are British citizens, and many White people are not British citizens. For example, there is a relatively large Irish population in the UK and immigration from Eastern Europe has been growing in recent years.

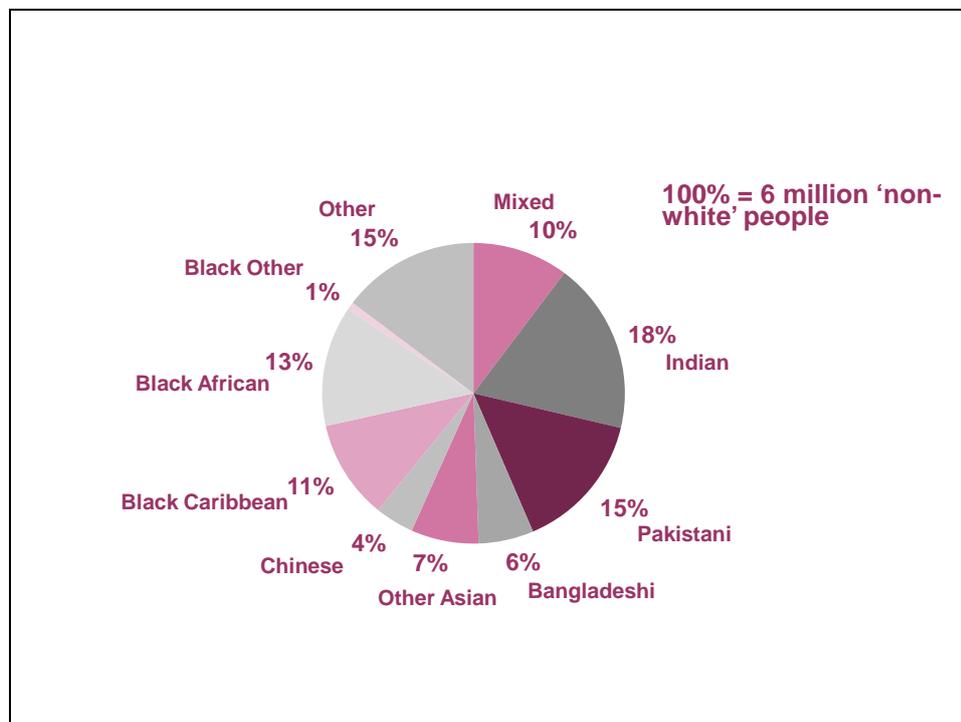
In total, there are 6 million people in the UK from ethnic minority groups, or 10 per cent of the total UK population. There are many different ethnic groups within the broad grouping of 'ethnic minorities' (Chart 11). A little less than half (46 per cent) of the ethnic minority population are Asian, mainly Indian and Pakistani; a quarter (24 per cent) is Black, split evenly between Black African and Black Caribbean people; a further 4 per cent are Chinese while 15 per cent belong to 'other' groups.²⁶ This last group is growing rapidly; in 2001, only 6 per cent of people from ethnic minority groups in the UK were in the 'other' category, suggesting that the ethnic minority population is becoming more diverse.

It is important to highlight the great diversity that exists both within and between the different ethnic minority communities. This diversity is driven not only by economic circumstances but also by differences in national and regional origins, patterns of migration, length of stay and generation, educational achievements, the ability to speak English and religion (FSA, 2005).

Where possible, analysis in this report will be shown separately for the constituent ethnic minority groups. It will also be shown separately by gender, where possible, since substantial differences exist between men and women in some of the ethnic minority groups. Unfortunately, available surveys are not always sufficiently large or detailed to allow separate analysis for each ethnic minority group and by gender. These instances will be flagged up in the text as areas for further research. Potential

further research could pool several waves of the same survey to generate larger sample sizes to use in the analysis, or even develop new surveys with more detailed information on the ethnic minority population.

Chart 11 Proportion of ethnic minority population from each ethnic minority group in the UK, 2007



Population age structure and size

Ethnic minority groups have a younger age structure than the White population; 53 per cent of people from ethnic minorities are aged under 30, and 85 per cent are aged under 50. This compares with 35 per cent and 64 per cent respectively for the White population. There are further differences between the different ethnic minority groups. For example, Pakistani, Bangladeshi and people from mixed groups, in particular, have younger populations on average, while the Chinese population is older.

The size of the overall ethnic minority population is growing. In 2001, there were around 4 million people from ethnic minority groups, or 7 per cent of the total UK population. Its younger age structure, with more people at younger ages, coupled by the fact that some ethnic minority groups have larger families, suggests that the ethnic minority population will continue to grow in future.

Only around 3 per cent of people above state pension age today are from ethnic minorities. This is because of the different age structure of the White and non-White

populations. Whereas 23 per cent of White people are currently aged 60 or over, only 7 per cent of people from ethnic minority groups are aged at least 60. This falls to 3 per cent for Black Caribbean people and people of mixed race. As ethnic minority groups age, they may grow to make up a greater proportion of the older population.

Urban areas

People from ethnic minority groups are concentrated in urban areas. Nearly half of the ethnic minority population reside in London – 43 per cent compared to just 9 per cent of people from White groups. But there are differences between people from different ethnic groups. Around 21 per cent of Pakistani people live in Yorkshire and Humberside, in cities like Bradford. A similar proportion live in London, compared to 63 per cent of Black African people. Chinese people live right across the UK.

4.2 What are the working patterns of people from ethnic minorities?

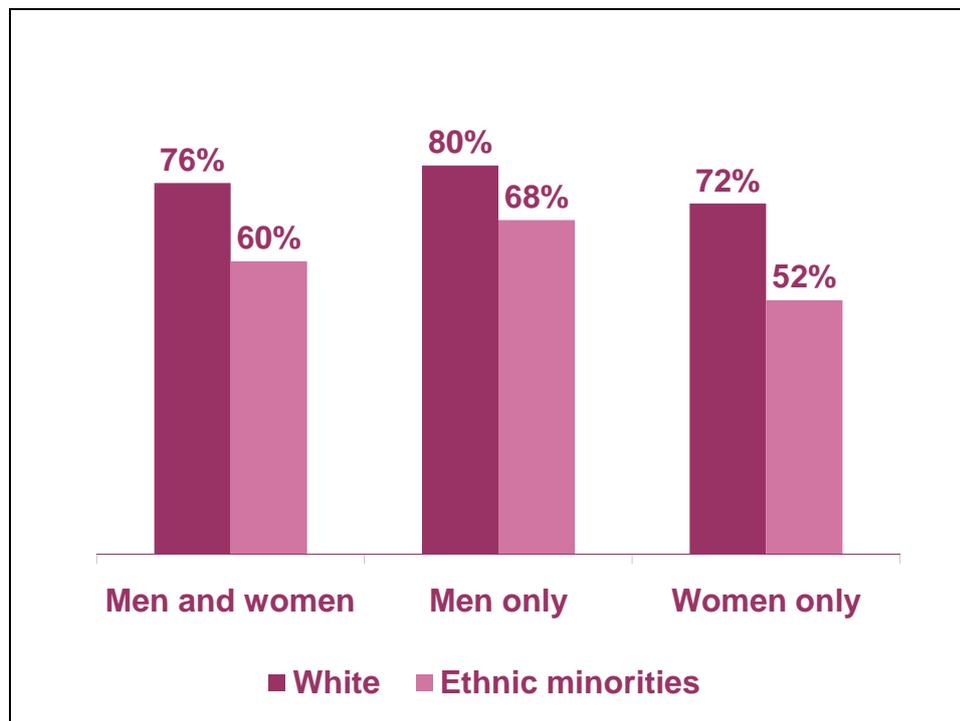
People from ethnic minorities are more likely to have characteristics that lead to lower pension income. They are less likely to be employed and more likely to be unemployed. Of those in work, people from some ethnic minority groups are more likely to work part-time or be self-employed, and have lower earnings than their White counterparts, although there are significant differences between ethnic minority groups.

There are a number of different reasons why people in some ethnic minority groups are more likely to be unemployed or to have lower earnings than White people. This section of the report will show that some - but not all - ethnic minority groups obtain lower educational qualifications on average than White people. Ethnic minority communities are often concentrated in areas of the country with higher unemployment and lower earnings than the rest of the country and there may be cultural or language barriers to overcome.

There is evidence that even after controlling for these factors, people from some ethnic minority groups are more likely to experience labour market disadvantage (Berthoud and Blekesaune, 2006). The cause of this disadvantage is not considered in this report. What is of interest here, in relation to the impact on pension income, is the extent of the disadvantage.

Employment

Ethnic minority people are less likely to be in work than people from White groups. The employment rate – the proportion of people of working age in work – is lower for people from ethnic minority groups, at 60 per cent compared to 76 per cent for White people (Chart 12).

Chart 12 Employment rates by ethnicity, 2007

Source: ONS Labour Force Survey Historical Quarterly Supplement, Q2 2007.

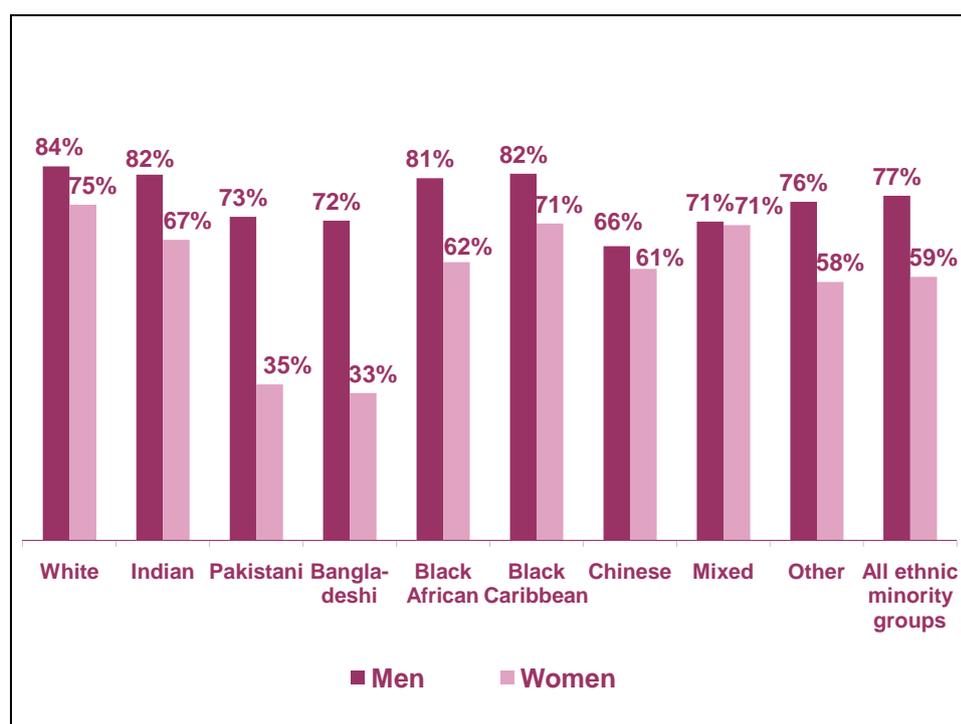
The Department for Work and Pensions has a Public Services Agreement (PSA) target to *maximise employment opportunity for all*. (HM Treasury, 2007b). The gap between the overall employment rate and the employment rate for ethnic minorities is one indicator it uses to measure progress against this target. Currently, the overall employment rate for the working-age population as a whole (White and ethnic minority people combined) is 74 per cent, so the difference with the employment rate for ethnic minorities stands at 14 per cent. This is an improvement from 1998, when the gap was 17 per cent.²⁷

Economic activity rates include people who are in employment and people who are not in employment but who are looking for work. Around 68 per cent of working-age people from ethnic minority groups are economically active compared to 80 per cent of White working-age people. Rates are lower for ethnic minority groups than for White people for all ages; for example, around 75 per cent of people from ethnic minorities aged 25-34 and 35-49 are economically active, compared to around 86 per cent of White people in the same age groups.

Gender

Economic activity rates vary between ethnic minority groups and by gender (Chart 13). Indian, Black African and Black Caribbean men have relatively high economic activity rates, which are only marginally lower than the rate for White men. At the other extreme, around a third of Bangladeshi women (33 per cent) and Pakistani women (35 per cent) are economically active, compared to 75 per cent of White women.

Chart 13 Economic activity rates for men and women by ethnic group, 2007



Source: ONS Labour Force Survey Historical Quarterly Supplement, Q2 2007.

The difference in economic activity rates between women from ethnic minorities and White women may be partially explained by the larger size of ethnic minority families. Women from ethnic minorities are more likely to get married and give birth at an earlier age than White British women (Runnymede Trust, 2007: 5). They also have more children, on average. For example, 7 per cent of White families have three or more dependent children, compared to 10 per cent of Black Caribbean families, 29 per cent of Pakistani and 35 per cent of Bangladeshi families (EOC, 2007).

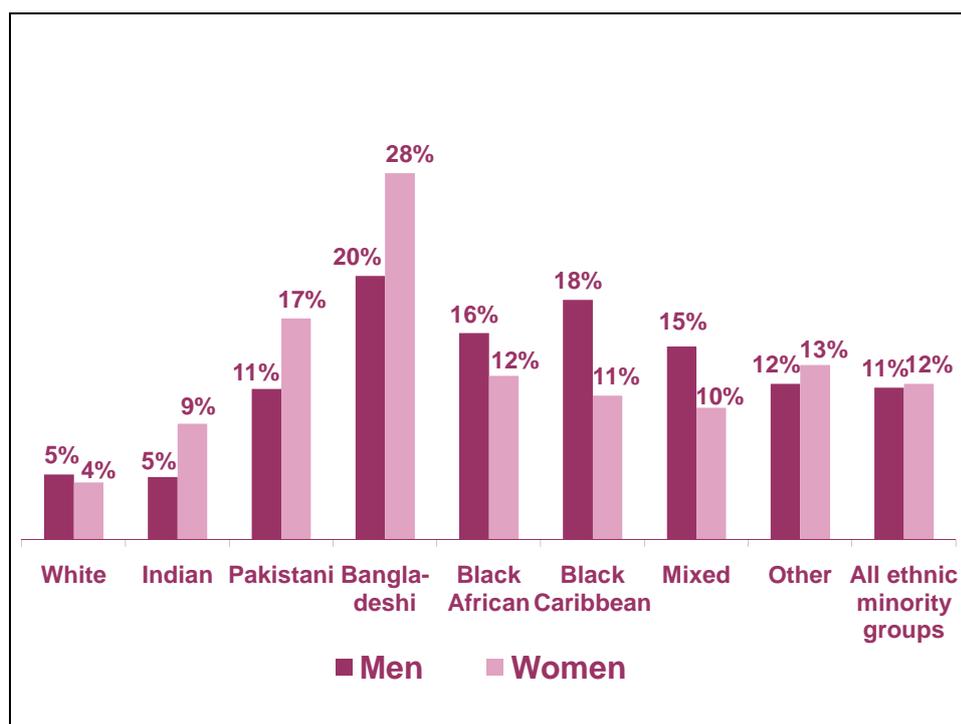
Women from some ethnic minority groups are more likely to spend significant amounts of time caring than White women. This includes help or support given to family members, friends, neighbours or others, because of long-term physical or mental ill-health or disability, or problems relating to old age. For example, over 8 per

cent of Pakistani and Bangladeshi women of working-age spend more than 20 hours per week caring, compared to around 4 per cent of corresponding White British women (EOC, 2007). There may be cultural and religious differences relating to views about the role of marriage that could affect the degree to which women work (DWP, 2007e). Choices that individuals make about work participation will in turn affect pension incomes. Other reasons that contribute to their lower employment rate include job segregation and job opportunities in local labour markets (EOC, 2006a).

Unemployment

The unemployment rate measures the proportion of the economically active population who are looking for work as opposed to having a job. Overall, 12 per cent of people from ethnic minority groups are unemployed, compared to 5 per cent for White people. Unemployment rates vary between ethnic minority groups and by gender (Chart 14).

Chart 14 Unemployment rates for men and women by ethnic group, 2007



Source: ONS Labour Force Survey Historical Quarterly Supplement, Q2 2007.

Note: Figures for the Chinese population are not shown as sample sizes are too small to produce reliable estimates.

Indian men have unemployment rates that are comparable to White men, at 5 per cent. But Bangladeshi and Pakistani women are much more likely to be unemployed than White women. Their unemployment rates are 28 per cent and 17 per cent,

respectively, compared to 4 per cent for White women. Unemployment rates can differ markedly at a local level and may be due to a number of reasons: demographics and qualifications, women's roles, local job opportunities and local strategies to increase women's participation in employment, plus access to resources (EOC, 2006a).

As well as being more likely to be unemployed, people from ethnic minorities are likely to remain unemployed for longer. This is shown by higher rates of long-term unemployment among women from ethnic minorities; 24 per cent of unemployed women from ethnic minority groups have been unemployed for more than one year, compared to 16 per cent of White women. These figures, however, under-estimate the amount of time some women from ethnic minority groups can remain out of the labour market, since a much larger proportion of women from this segment of society are economically inactive, compared to White women. Unemployment estimates are based on people who are economically active.

Part-time work

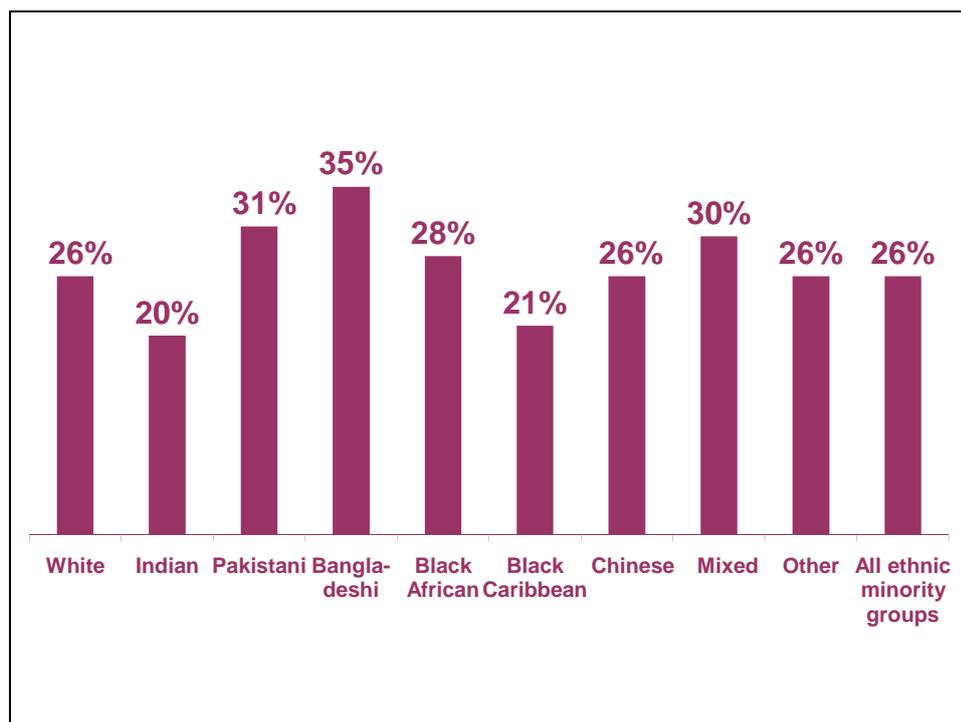
Part-time work is relevant for pension outcomes because people who are working part-time are less likely to have a private pension than people in full-time work.²⁸ As commented on in the previous chapter, 65 per cent of part-time employees are not accruing a private pension, compared to 41 per cent of full-time employees.²⁹ Lower pension provision among part-time workers may be due to lack of access to pension provision among those working part-time and to lower weekly pay (ONS, 2007a).³⁰ As mentioned above, concerns about affordability are often cited by individuals as a barrier to pension saving (DWP, 2007d), and may be greater for part-time workers.

There is large variation in part-time work between different ethnic groups (Chart 15). For example, around 35 per cent of Bangladeshi and 31 per cent of Pakistani workers are part-time, compared to 26 per cent of White workers and around 20 per cent of Indian and Black Caribbean workers.

In the working population as a whole (White and ethnic minority people combined), women are much more likely than men to work part-time: 43 per cent of women work part-time, compared to only 11 per cent of men. The same is true for the ethnic minority working population, although the difference between men and women is smaller than for the population as a whole: 36 per cent of ethnic minority women work part-time compared to 17 per cent of ethnic minority men. Analysis of part-time work is not available by gender for all of the constituent ethnic minority groups, due to small sample sizes but where analyses are available. For example:

- A higher proportion of Pakistani men work part-time than White men (22 per cent compared to 10 per cent of White men). However, Pakistani women are even more likely to work part time (52 per cent).
- 18 per cent of Black men work part-time, compared to 31 per cent of Black women.

Chart 15 Proportion of working population who work part-time by ethnic group, 2007

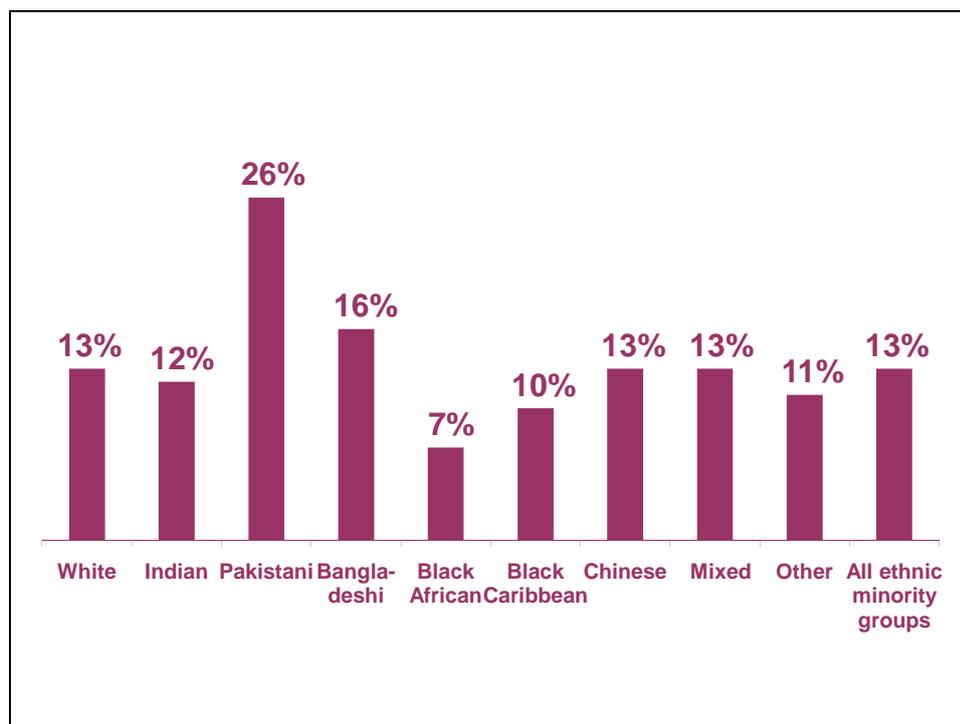


Self-employment

Periods of self-employment can lead to lower pension incomes. The self-employed do not build up entitlement to State Second Pension (S2P) and, although they pay lower National Insurance (NI) contributions as a result, they do not seem to use this extra amount to save towards a private pension. Only 34 per cent of working-age self-employed people have a private pension, in comparison to 56 per cent of working-age employees (DWP, 2007f). By definition, the self-employed cannot receive a pension contribution from their employers, which may explain the lower coverage of private pensions among the self-employed and could also lead to lower contribution rates.

Overall, people from ethnic minority groups are no more likely than White people to be self-employed although there are significant variations between different groups. For example, 26 per cent of Pakistani workers are self-employed compared to 13 per cent of White workers and 7 per cent of Black African workers (Chart 16).

Chart 16 Proportion of working population who are self-employed by ethnic group, 2007



In the working population as a whole (White and ethnic minority people combined), men are more likely than women to be self-employed: 18 per cent of men are self-employed, compared to 8 per cent of women. The same is true for the ethnic minority working population: 18 per cent of ethnic minority men are self-employed compared to 7 per cent of ethnic minority women. As with part-time work, analysis of self-employment is not available by gender for all of the ethnic minority groups due to small sample sizes. However, analyses are available for some: 32 per cent of Pakistani men are self-employed compared to 18 per cent of White men. Pakistani men are, therefore, both more likely to be self-employed and more likely to be working part-time than White men, and so may be particularly at risk of lower pension incomes. In comparison, 11 per cent of Pakistani women are self-employed.

Industries

Some industries have traditionally been more likely than others to give their employees access to a private pension with an employer contribution. The distribution and catering industries (e.g. hotels and restaurants) tend to have relatively small proportions of companies providing support for private pension arrangements. On the other hand, the manufacturing, banking and finance, and construction sectors tend to have higher proportions of companies that provide pension support (DWP, 2002b).³¹

People from ethnic minority groups are less likely than White workers to be employed in well pensioned industries. 23 per cent work in the distribution and the catering industries, compared to 18 per cent of White people; in contrast, 10 per cent of people from ethnic minorities work in the manufacturing sector compared to 13 per cent of White people. Differences, however, are larger between different ethnic minority groups:

- 13 per cent of White people and 14 per cent of Indian people work in the manufacturing industry, compared to just 6 per cent and 7 per cent of Black African and Bangladeshi people respectively.
- 9 per cent of White people work in the construction industry, compared to very few (between 1 per cent and 2 per cent) of Pakistani, Bangladeshi and Black African people.

Public sector employers are more likely to offer Defined Benefit pension schemes and to be using auto enrolment as a joining technique into those schemes than private sector employers.³² While Black workers are more likely to work in the public sector than their White counterparts, Asian workers are more likely to work in the private sector.

Occupations

Workers from ethnic minority groups are less likely to have managerial roles than White workers, are less likely to be employed in skilled trades and are more likely to be in elementary occupations. There are, however, large differences between different ethnic minority groups:

- 8 per cent of Bangladeshi and 9 per cent of Black African workers are managers and senior officials, compared to 18 per cent of Chinese and 15 per cent of White workers.
- 21 per cent of Indian workers are in professional occupations, compared to 10 per cent of Bangladeshi, 11 per cent of Black Caribbean workers and 13 per cent of White workers.
- 18 per cent of Pakistani workers are in processing plants and factories as machine operators, compared to only 4 per cent of people from mixed ethnic groups and 7 per cent of White people.
- Nearly one-in-five Bangladeshi (18 per cent) and Black African (16 per cent) workers are in elementary occupations, compared to a little over one-in-ten White workers (11 per cent).

This is important because as noted above (page 21), having access to a private pension can be associated with one's occupation.

Educational levels

Some ethnic minority groups have lower educational qualifications on average than White people. For example, Bangladeshi and Pakistani people are the least likely to have a degree (at 7 per cent and 12 per cent of working-age people, respectively), in comparison to 17 per cent for White British people (ONS, 2006). Educational qualifications are particularly low among women in some ethnic minority groups; for example, 5 per cent of working-age Bangladeshi women have a degree. In contrast, high proportions of some other ethnic minority groups have a degree, such as Chinese and Indian people (at 31 per cent and 25 per cent of working-age people, respectively).

However, relatively high numbers of younger people from ethnic minorities are in education: 78 per cent of 16-19 year olds and 36 per cent of 20- 24 year olds from ethnic minorities are in full-time education, compared to 62 per cent and 19 per cent of White people, respectively. This helps to explain why only half (50 per cent) of young people from ethnic minorities aged 16-24 are economically active compared to over two-thirds (68 per cent) of young White people.

Depending on the level and prestige of the qualifications that today's younger people from ethnic minorities will obtain, the educational attainment of the next generation of ethnic minorities could be higher than of the previous generation. If the assumption that education leads to better skills is correct, then the next generation of ethnic minorities might have better occupational opportunities when they enter the labour market.

4.3 How much do people from ethnic minorities earn?

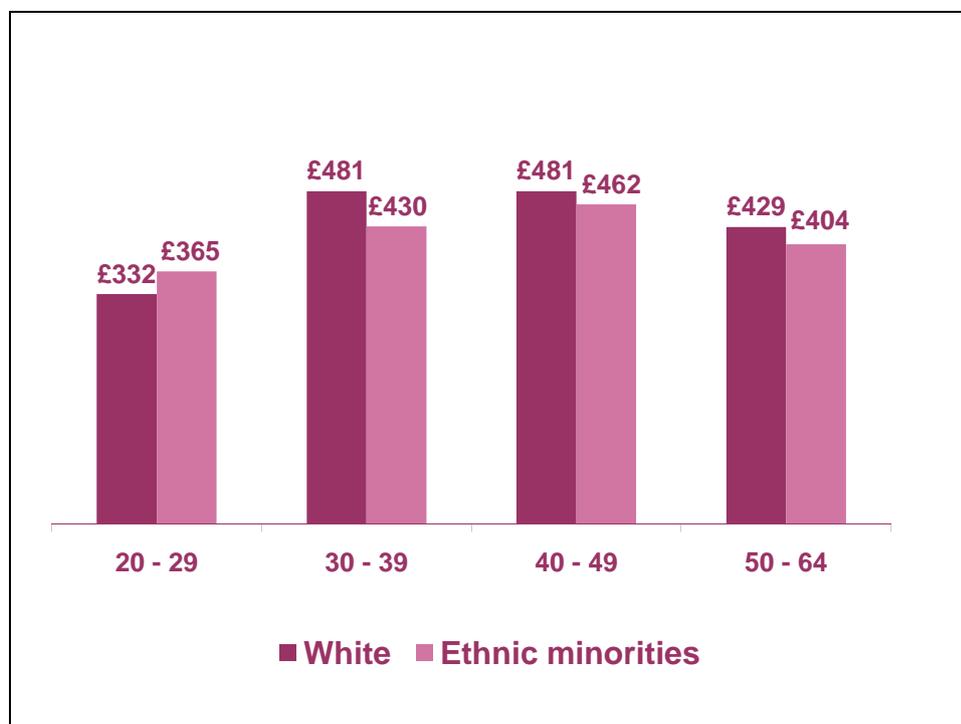
Earnings

Full-time employees from ethnic minority groups have lower earnings than White employees at most ages (Chart 17). However, the chart shows that younger people from ethnic minorities are doing better than older generations relative to White people. Median earnings for people in their twenties from ethnic minorities are higher than median earnings for comparable White people.

Analysis of earnings by gender and constituent ethnic minority group is limited using the Labour Force Survey since sample sizes can get relatively small. In 2005, the Equal Opportunities Commission (EOC) sponsored a study on pay gaps between people from ethnic minorities and White British men (EOC, 2006b). The study used

five waves of LFS data, from 2001 to 2005, to alleviate the problem of small sample sizes, although a range of uncertainty still exists.

Chart 17 Median weekly gross earnings of full-time employees by age groups, 2007



Note: Note that figures that are not disaggregated by age will be distorted by the different age distributions between the groups

The EOC study estimated the average hourly earnings of men and women in ethnic minority groups who are in full-time work. It compared these to the average hourly earnings of White British men in full-time work to estimate the size of the ‘pay gap’. For men in ethnic minorities, the average pay gap was 4.5 per cent (Table 2). The pay gap was largest for Bangladeshi men (39.1 per cent) and Pakistani men (19.5 per cent), followed by Black African men (12.2 per cent) and Black Caribbean men (10.7 per cent). The average hourly earnings of Indian men were higher than the earnings of White British men by 7.5 per cent.

The pay gap with White British men was larger for women than for men. Ethnic minority women were found to earn 13.1 per cent less than White British men. The pay gaps were largest for Pakistani women (28.2 per cent), Bangladeshi women (22.8 per cent) and Black African women (19.0 per cent). Indian women in full-time work were earning 11.3 per cent less than White British men, while the pay gap was smallest for Black Caribbean women, at 9.4 per cent. Women from ethnic minorities

had average hourly earnings that were 4.4 per cent higher than White British women (Table 2).

Table 2 Ethnic minority pay gaps (per cent)

	Ethnic minority men compared to White British men	Ethnic minority women compared to White British men	Ethnic minority women compared to White British women
All ethnic minority groups	-4.5	-13.1	+4.4
Bangladeshi	-39.1	-22.8	-7.4
Pakistani	-19.5	-28.2	-13.9
Black African	-12.2	-19.0	-2.8
Black Caribbean	-10.7	-9.4	+8.8
Indian	+7.5	-11.3	+6.5

Source: EOC (2006b).

Note: A negative figure represents lower pay than the comparator group.

Larger households

The size and characteristics of ethnic minority households varies considerably between different ethnic minority groups. For example, Indian, Pakistani and Bangladeshi households are much larger than either White, Black Caribbean, Chinese or Black African households (FSA, 2005). The vast majority of British Asian households include both parents and dependent children, and a sizeable proportion live in extended three-generational households. By contrast, about half of Black Caribbean and Black African households are headed by single parents (usually women) and very few people of these ethnic groups live in extended households.

Low-income households

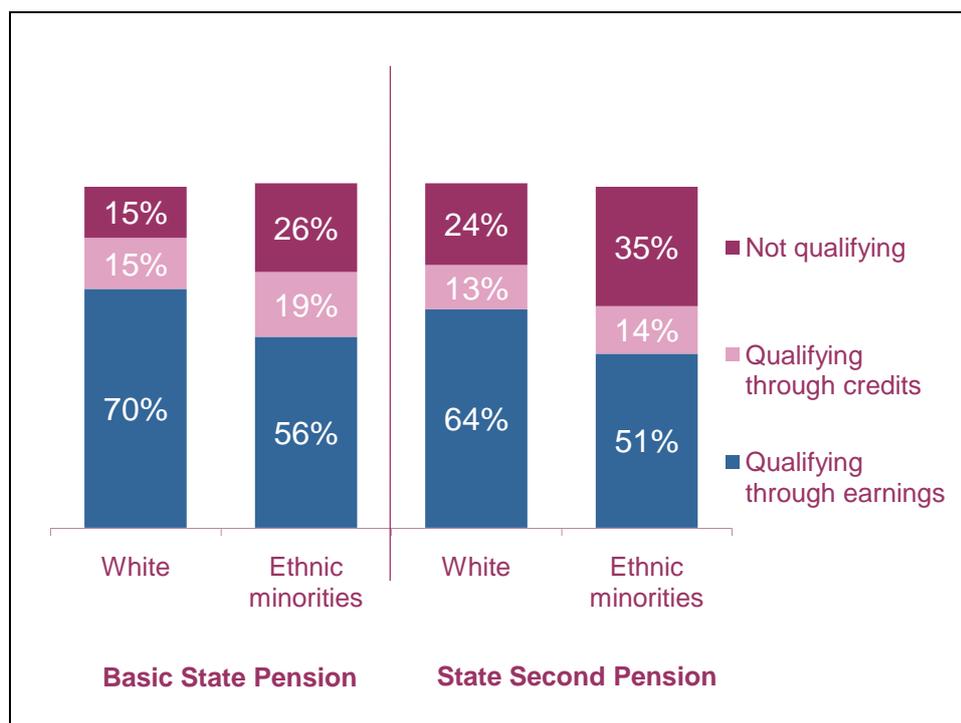
A combination of low earnings for those in work and high levels of worklessness result in many people from ethnic minority groups living in low income households. Around 31 per cent of households headed by a White person of working-age have incomes in the bottom 40 per cent of the income distribution. This compares to 77 per cent of households headed by a Pakistani or Bangladeshi adult of working-age and 46 per cent of households headed by a Black adult of working-age (DWP, 2008c: 104).³³ Hardship, debt and financial exclusion are closely connected to the difficulties of living on a low income (Runnymede Trust, 2007: 8).

4.4 What is the pension provision of people from ethnic minorities?

Entitlement to state pensions

People from ethnic minority groups are less likely to build up entitlement to state pensions than White people (Chart 18). The chart shows the proportion of working-age people who would have built up entitlement to state pensions in 2005/06 on the basis that the reforms in the Pensions Act 2007 had already been in place.

Chart 18 Proportion of working age people who would have built up entitlement to state pensions in 2005/06, had the reforms in the Pensions Act 2007 already been in place



Source: PPI analysis of the Family Resources Survey 2005/06.

Note: See Chart 7.

Around one-quarter (26 per cent) of people from ethnic minority groups would not have built up entitlement to the Basic State Pension (BSP) in 2005/06, compared to around one-sixth (15 per cent) of White people. Note that this is only an estimate at a point in time, while a person’s final entitlement to BSP at state pension age will depend on the record of entitlements built up over their entire working life. The reforms in the Pensions Act 2007 mean that people reaching state pension age from 2010 will only need to have built up 30 qualifying years in order to receive the full amount, in comparison to the current situation of 44 years for men and 39 years for women. As a result, most people in future are expected to retire with a full BSP (DWP, 2007b:18).

Around one-third (35 per cent) of people from ethnic minorities would not have built up entitlement to the State Second Pension (S2P) in 2005/06, compared to around one-quarter (24 per cent) of White people. Unlike BSP, every year counts towards a person's final S2P entitlement at state pension age,³⁴ since for S2P there is no change analogous to the reduction to 30 qualifying years.

Part of the reason why people from ethnic minorities are less likely than White people to have built up entitlement to S2P in 2005/06 is due to the relatively high proportion of people from ethnic minorities who are in education. Out of the 35 per cent of people from ethnic minorities not building up entitlement, approximately 7 per cent are students over the age of 18. In comparison, of the 24 per cent of White people not building up entitlement, only 2 per cent are students over the age of 18. The younger age structure of ethnic minority groups is likely to explain in part the difference with the number of White people in education.

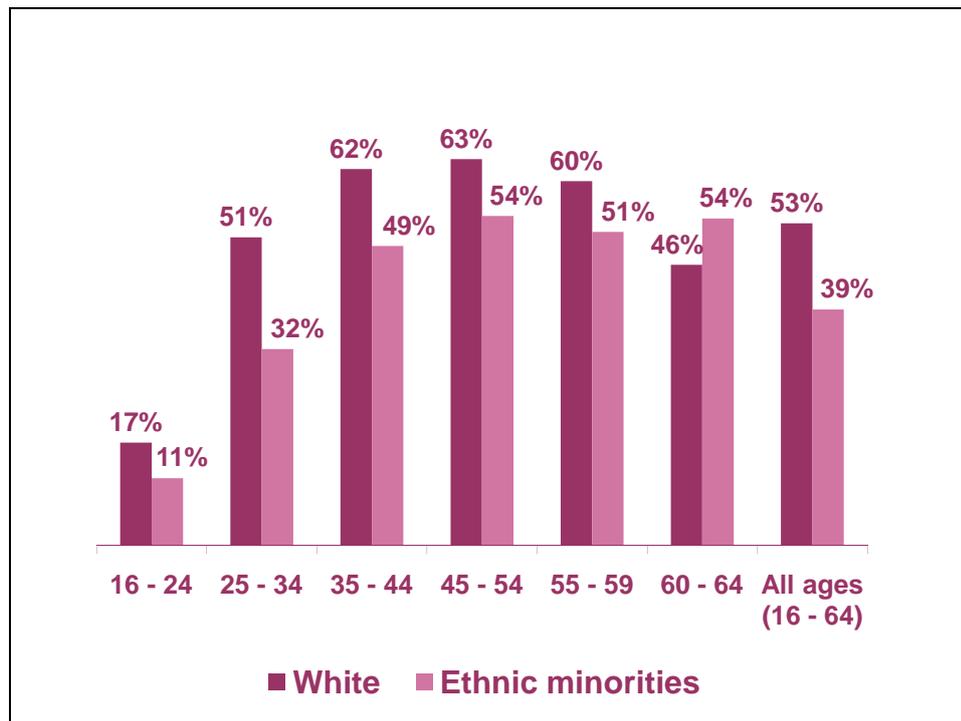
People do not build up entitlement to S2P while they are self-employed. It was noted above that, overall, people from ethnic minorities are no more likely than White people to be self-employed, so this does not explain why ethnic minorities are less likely than White people to build up entitlement to S2P. However, some ethnic minority groups, such as Pakistani people, are more likely to be self-employed, which could lead to lower levels of entitlement to S2P for these groups (see Chart 16).

Private pensions

Workers from ethnic minority groups are less likely than their White counterparts to be accruing current private pension provision. By 'accruing' private pension we mean the individual is either contributing to a private pension or receiving a contribution from an employer. Occupational, personal and stakeholder pensions are all included. The largest difference between White and ethnic minority pension provision is in the 25-34 age group (Chart 19). This is significant, as this age group accounts for a large proportion of the ethnic minority population, given the younger age structure of the ethnic minority community.

Overall, across all ages, 53 per cent of White workers are accruing a private pension, compared to 39 per cent of workers from ethnic minority groups. However, the lower proportion of people from ethnic minorities who are accruing a private pension is partly due to the younger age structure of the ethnic minority population. Because of this, it is more instructive to look at the separate age bands shown in Chart 19, rather than the figure for all age groups combined.

Chart 19 Proportion of employees and the self-employed with current private pension provision, 2005/06



Source: PPI analysis of the Family Resources Survey 2005/06.

Chart 19 illustrates how many **workers** are accruing a private pension provision. However, people from ethnic minorities are less likely than White people to be in work and very few people who are not in work accrue a private pension. Across all people of working age (working and not working), 41 per cent of White people have a private pension compared to 25 per cent of people from ethnic minorities.³⁵

Women ethnic minority workers are more likely than their male counterparts to have a private pension; 44 per cent of female workers compared to 35 per cent of male workers. However, women are less likely to be in work than men. Across all people of working age (working and not working), 26 per cent of ethnic minority men of working age are accruing a private pension, compared to 24 per cent of ethnic minority women of working age.³⁶

The lower earnings of ethnic minorities compared to White people may partly explain their lower levels of private pension participation. Concerns about affordability are often cited by individuals as a barrier to pension saving (DWP, 2007d). However, lower earnings alone would not explain why women ethnic minority workers are more likely than their male counterparts to have a private pension. Other potential reasons include:

- The types of work that people from ethnic minorities are more likely to do and the industry sectors in which they work. As we have shown earlier, people from ethnic minorities are more likely to be in elementary occupations and less likely to be in managerial roles or well pensioned industries.
- There may be cultural and institutional reasons for lower private pension participation among ethnic minority workers (Runnymede Trust, 2006:10), including communication difficulties, or a lack of experience or confidence in financial institutions.
- Traditional gender roles and the roles of extended families may also be influences on levels of private pension participation (FSA, 2005), while remittances to the extended family overseas may reduce disposable income for saving.
- Women and men might typically have different preferences for retirement saving as opposed to immediate consumption or other forms of saving.

These factors may lead to wider financial exclusion among ethnic minority groups, at least in terms of formal saving. People from ethnic minorities are less likely to have bank accounts and other savings and investment products. Many do, however, make use of informal savings schemes within their own communities (FSA, 2000).

Pension contributions

As well as being less likely to have a private pension, people from ethnic minority groups are slightly less likely to make regular contributions to a pension than White people. Thirty-six per cent of all people aged 25-59 and in work in 2001/02 had made contributions to a private pension in each of the previous 10 years, in comparison to 28 per cent of people from ethnic minorities (PPI, 2003b). This may partly be due to the lower average age of people from ethnic minorities.

4.5 What is the position of older people from ethnic minorities?

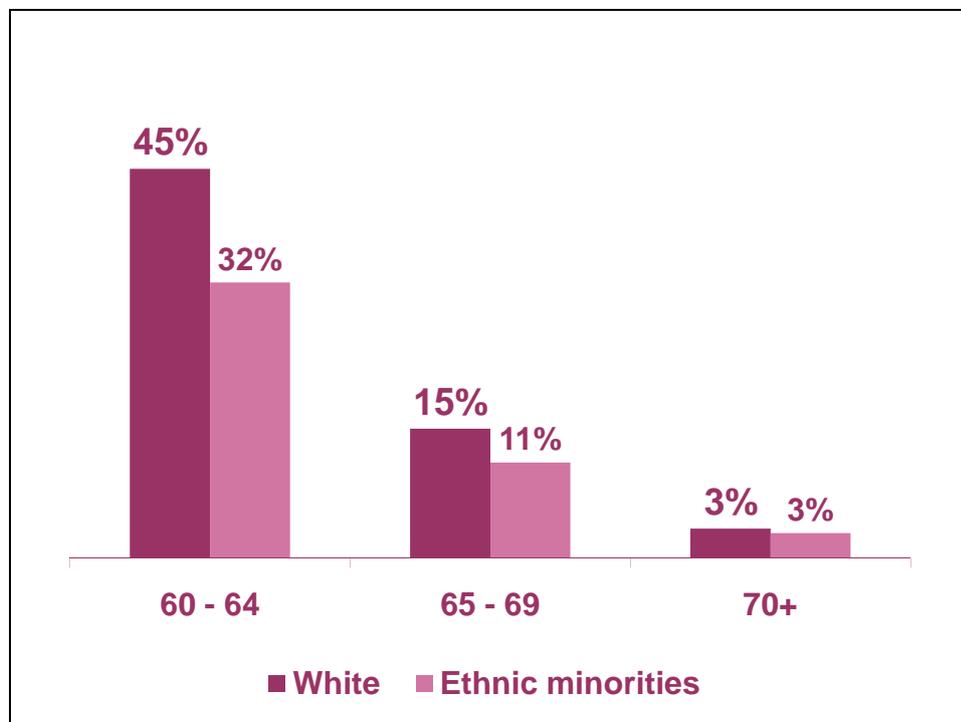
Employment

Older people from ethnic minorities are less likely to be in work than older White people; around one-third of people from ethnic minorities aged 60 to 64 are in employment, compared to nearly half of corresponding White people (Chart 20). This partly reflects lower overall levels of employment among ethnic minorities.

Retiring later can improve pension income by giving people more time to make extra pension contributions and by reducing the number of years over which pension saving must be spread. As noted in the previous chapter, analysis of the type shown in Chart 20 does not necessarily imply that people from ethnic minorities are retiring earlier than White people, since the differences in the proportions working could reflect lower overall employment rates. Further research could examine whether or

not people from ethnic minorities are retiring earlier than White people and the specific barriers that they face to working at older ages.

Chart 20 Proportion of people in employment by age band, 2007



Households

We have seen that the size and characteristics of ethnic minority households varies considerably between different ethnic minority groups. For example, the vast majority of British Asian households include both parents and dependent children, and a sizeable proportion live in extended three-generational households. Living in larger households could lead to greater levels of care and financial support within the household. Although people with caring responsibilities may have reduced opportunities to engage in paid employment and build up private pension savings, they may also be able to draw on other resources, such as a partner’s income, in retirement.

It has been suggested that the strong multi-generational bond, within Asian groups in particular, is starting to break down. While some younger Pakistani and Bangladeshi generations continue to consider multi-generational households as desirable (PSI, 1998), and a viable alternative to pension provision (JRF, 2001), elders from Asian communities are increasingly choosing to remain independent, and are using a range

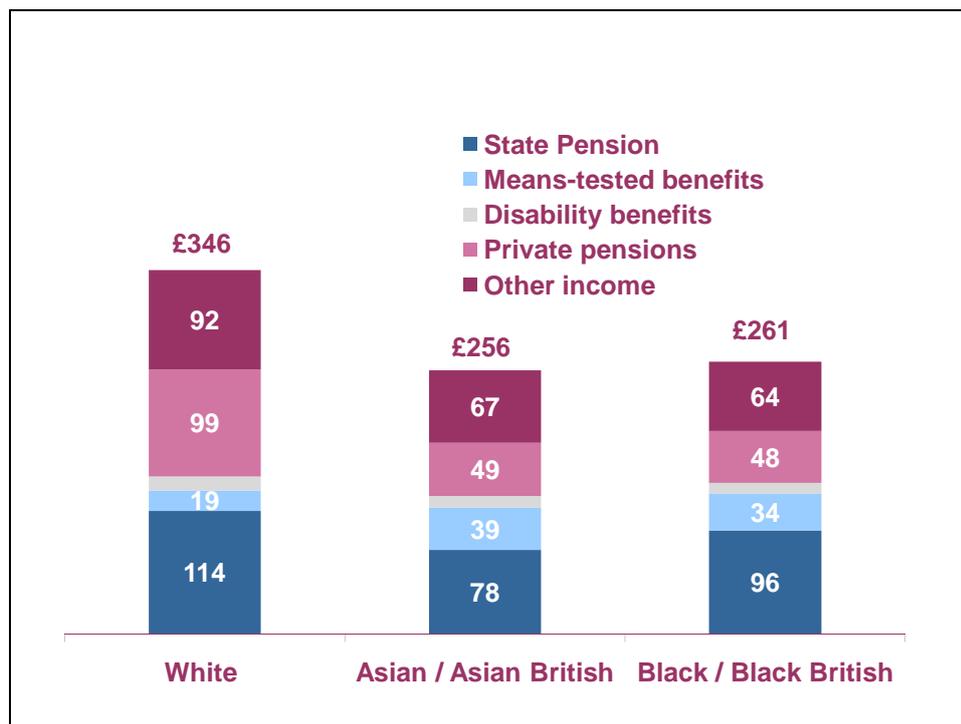
of voluntary social and health care services instead of having to rely on family support (PPI, 2003b).

Pension incomes

We have shown that working-age people from ethnic minorities have the characteristics that are associated with lower pension incomes. Here we look at the position of today’s older people. The incomes of pensioners from ethnic minorities are lower than the incomes of White pensioners (Chart 21).

Whereas the mean total gross income of White pensioner households is around £346 per week, the mean total income of Asian households is around £256 per week, and £261 for Black pensioner households. White pensioners on average receive more income from state pensions (like BSP and SERPS), significantly more income from private pensions (occupational and personal pensions) and more income from other sources, such as investments and other earnings.

Chart 21 Components of mean gross income of pensioner units by ethnic groups, 2003-06



Source: DWP, 2007a.

People from ethnic minority groups who are currently above, or approaching, state pension age, may not have spent all of their working lives in the UK. Although large scale immigration from the Caribbean began soon after World War II, peaking in the

mid-1950s, immigration from India and Pakistan grew throughout the 1960s, with immigration by other Asian groups in the early 1970s (PPI, 2003b).

A man aged 65 today who came to the UK in 1970 will have spent a maximum of 38 years working in the UK by the time he reaches state pension age. This may restrict his entitlement to UK state pensions, since, for example, 44 qualifying years are currently needed to qualify for the full amount of Basic State Pension.³⁷ However, people who enter the UK midway through their working lives may have a pension entitlement from their country of origin to supplement their UK pension.

Pensioners living in a household headed by someone from an ethnic minority group have a greater risk of poverty. Around 54 per cent of pensioner households headed by a White person have incomes in the bottom 40 per cent of the income distribution. This compares to 76 per cent of pensioner households headed by a Pakistani or Bangladeshi adult and 63 per cent of households headed by a Black person (DWP, 2008c: 134).³⁸ Moreover, large family sizes, longer periods in education, and higher rates of unemployment among young minority ethnic people, mean that some parents will still be providing financial support to their children at the time they retire (Runnymede Trust, 2006:10).

Means-tested benefits

Asian and Black pensioners are more dependent on income from means-tested benefits, like Pension Credit. Nearly half (46 per cent) of Asian and Black pensioners receive means-tested benefits, compared to less than one-third (31 per cent) of White pensioners (DWP, 2007a).³⁹ On average, incomes from means-tested benefits only make up 5 per cent of the total income of White pensioner households, whereas they account for around 15 per cent of the total income of Asian and Black pensioner households.

4.6 Summary

This chapter explored the specific characteristics of people from ethnic minorities. It finds that people from ethnic minorities are more likely than White people to have the characteristics that are associated with lower pension incomes:

- People from ethnic minorities are less likely to be in work than White people (60 per cent compared to 76 per cent) and have a higher unemployment rate (12 per cent compared to 5 per cent).
- Some ethnic minority groups are more likely to work part-time than White people. Rates of part-time work are particularly high for women in some ethnic minority groups, for example, the majority of Pakistani women workers are part-time.

- Some ethnic minority groups are more likely to be self-employed than White people. Rates of self-employment are particularly high for Pakistani men.
- Employees from ethnic minority groups have lower earnings than White people at most ages. Pay gaps with White British men are particularly high for Bangladeshi men, Pakistani women and Bangladeshi women.
- People from ethnic minorities are less likely to be qualifying for state pensions, even after the recent pension reforms. Thirty-five per cent of working-age people from ethnic minorities might not build up qualification for the State Second Pension each year, compared to 24 per cent of White people.
- Even if they are in work, people from ethnic minorities are less likely to be accruing private pension than White people at most ages. Very few people who are not in work accrue a private pension.
- People from ethnic minorities are less likely than White people to work at older ages.
- The incomes of today's ethnic minority pensioners are lower than the incomes of White pensioners. As a result, current older people from ethnic minorities are more likely to be dependent on means-tested benefits.

As noted in the previous chapter, disadvantage is cumulative. While some people will only experience one of the characteristics associated with lower pension incomes, others will experience multiple characteristics, such as time out of work, part-time work and lower earnings, which can combine to reduce pension incomes. The next chapter explores this possibility.

We have shown that women, disabled people and people from ethnic minorities have similar characteristics which may lead to them receiving lower pension incomes in the future than other people. People who fall into more than one of these groups might experience multiple, or 'cross-sectional', disadvantage which may exacerbate their situation.

5 Future pension outcomes

The previous chapters have shown that disabled people and people from ethnic minorities have many of the characteristics that are associated with lower pension incomes. This chapter uses hypothetical individuals with some of the characteristics observed of these groups to illustrate their potential future incomes.

All the individuals tested have weekly pension incomes that are substantially lower than a comparator of a median-earning man with a full savings history. While these are only examples, and there is a wide range of outcomes, this does highlight how the characteristics observed of disabled people and people from ethnic minorities may filter through to lower pension incomes in future.

5.1 What could outcomes be under the reformed pension system?

This chapter uses hypothetical individuals with some of the characteristics observed of these groups to illustrate their potential future incomes. The illustrations allow for the impact of the Government's state and private pension reforms. We consider the specific impact of these reforms later in this chapter.

Although the individual examples give a useful insight into how different characteristics can affect future pension incomes, they are unlikely to be representative of the population as a whole. The examples should not, therefore, be taken to show the average pension incomes of disabled people or people from ethnic minorities.

The individuals are compared to another hypothetical individual, called Peter. Peter is a median-earning man with a full savings history. He is aged 25 in 2012 and saves the minimum 8 per cent into a personal account from age 25 until retiring at state pension age in 2055. He has a weekly pension income of £254 a week at state pension age. Other PPI research suggests this will be well above the average received across the whole pensioner population (PPI, 2006b: 19).⁴⁰

Some of the examples of disabled and ethnic minority people are women. These individuals experience some of the cross-sectional disadvantages of the type referred to in the last chapter. By comparing these individuals to Peter, this report illustrates the cumulative disadvantage that results from their gender and disability or ethnic minority status. This includes both a gender effect and a disability/ethnic minority effect.

Pension incomes of disabled people

Robert illustrates the potential implications of becoming disabled later in life. He is an older, manual worker who has saved in a pension continuously from age 25.

However, a back condition means he is not able to work from age 55. His details are set out in the box below.

Robert: 55-year old man with late onset of disability

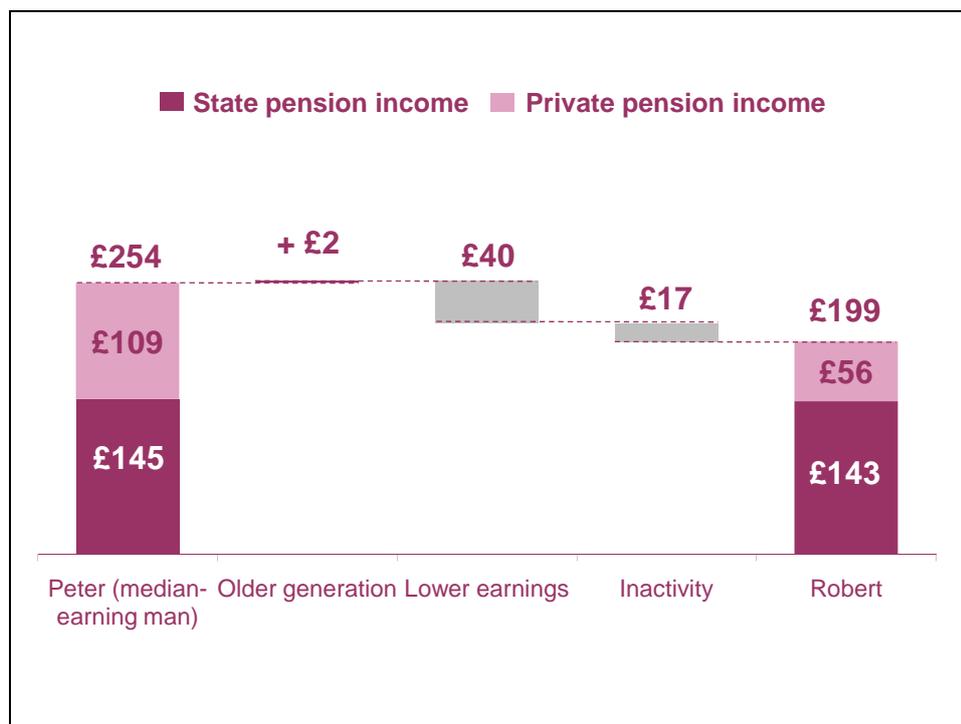
Robert is a single man who becomes disabled with a bad back in 2012, aged 55:⁴¹

- He starts full-time work at age 18 as a machine operator and earns at the age-specific median rate for a male manual worker.
- He begins saving for a private pension at age 25. He and his employer contribute a total of 8 per cent of band earnings into his work-based pension scheme.⁴²
- As a direct result of the physical nature of his work, he is unable to continue working from age 55 and becomes economically inactive.⁴³
- He receives Employment and Support Allowance from age 55.⁴⁴
- He begins to draw on his private pension saving at his state pension age (age 65) in 2022.

Robert could receive £199 a week at state pension age, made up of £143 in state pension and £56 in private pensions. Chart 22 compares Robert against Peter, the median-earning man with a full savings history. Robert is older than Peter and this leads to a slight generational effect that increases Robert's pension income by £2 a week.⁴⁵ However, overall, Robert has a lower pension income than Peter because:

- He earns at the median rate for manual workers, which is lower than the level of earnings assumed for Peter. This is not a consequence of his disability but reduces his pension income by £40 a week.
- He becomes disabled at age 55 and no longer works. Although he receives credits to state pensions after age 55, he contributes less towards state and private pensions. His pension income is reduced by a further £17 a week.

Chart 22 Robert's income at state pension age, £ per week, 2007/08 earnings



Source: PPI analysis using the Individual Model.

Note: Charts 22 - 25, after the Government's pension reforms.

Therefore, Robert's disability reduces his pension income by around £17 a week, mostly as a result of fewer contributions to private pensions. Note that these figures are for state and private pensions and exclude means-tested benefits such as Pension Credit. Although Robert would not be entitled to Pension Credit when he retires, he could become eligible for Savings Credit later in his retirement.⁴⁶

Deborah is another example of a disabled person. Unlike Robert, she becomes disabled early in life, at age 35, as a result of work-related stress. Her details are set out in the box below.

Deborah: 25-year old woman with early onset of disability

Deborah is a single woman, aged 25 in 2012, who becomes disabled in her thirties but returns to employment after a period of economic inactivity:

- She starts working full-time at age 21, earning at the age-specific median rate for women. She is auto enrolled into a personal account at 25 and remains opted in.
- She and her employer make the minimum contributions into her personal

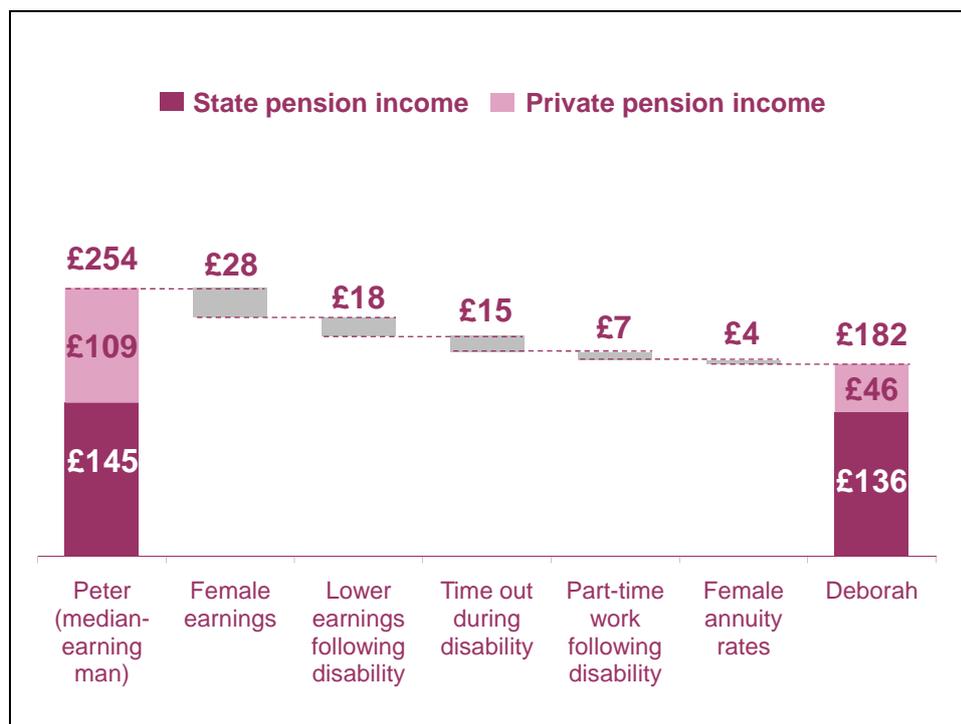
account of 8 per cent of band earnings in total.

- As a result of work-related stress, she stops full-time work at age 35. She is out of the labour market for 5 years, during which time she does not qualify for state pensions.
- At age 40, she returns to work on a part-time basis, working two days a week. She qualifies for auto enrolment into work-based pension saving but chooses to opt out because she feels she cannot afford the contributions.
- She resumes full-time work at age 45. She is auto enrolled once more into saving in a personal account and this time remains opted in.
- As a result of her career break and lost work experience, she earns at the 3rd decile, rather than at the median, level of earnings for women when she returns to work following her time out of the labour market.⁴⁷
- She stops work at state pension age (68) in 2055.

Deborah could receive £182 a week at state pension age, made up of £136 in state pension and £46 in private pensions. Deborah has a lower pension income than Peter because (Chart 23):

- She earns at median female earnings rather than at median male earnings. This is not a direct result of Deborah's disability but reduces her pension income by £28 a week. She receives £1 a week less from State Second Pension (S2P) and £27 a week less from private pensions.
- She has even lower earnings following her disability. This reduces her pension income by a further £18 a week. She receives £1 a week less from S2P and £17 a week less from private pensions.
- She spends five years out of the labour market because of her disability, which reduces her pension income by a further £15 a week. She receives £7 a week less from S2P and £8 a week less from private pensions.
- She works part-time for five years, which reduces her private pension income by a further £7 a week. It has no impact on her state pension.
- When she retires, she receives a lower annuity rate than Peter. This is a result of her higher life expectancy which means that her pension saving must be spread over a longer expected retirement. Her private pension income is reduced by a further £4 a week. Her state pension is unaffected.

Chart 23 Deborah's income at state pension age, £ per week, 2007/08 earnings



Source: PPI analysis using the Individual Model.

Deborah would not be entitled to Pension Credit when she retires but could become eligible for the Savings Credit element if she survives until her 90s and is single rather than married at that age.

Pension incomes of ethnic minorities

Ayesha is a Bangladeshi woman who is out of the labour market during the first half of her adult life and then enters the labour market to work part-time. She illustrates the fact that a very high proportion of Bangladeshi women are economically inactive, many work part-time and on average have relatively low earnings when employed. Her details are set out in the box below.

Ayesha: 25-year old Bangladeshi woman with economic inactivity

Ayesha is a single woman, aged 25 in 2012, with a long period of economic inactivity due to caring followed by some part-time work later in life:

- At the early ages of her life, Ayesha is out of the labour market due to caring responsibilities. She receives credits to state pension until her youngest child reaches age 12, when Ayesha is aged 35. She remains out of the labour market between age 35 and age 40 but does not receive credits for state

pensions during this time.

- She starts work at age 40 on a part-time basis, working 1 day a week. She does not qualify for auto-enrolment into work-based pension saving because she earns less than £5,000. She earns at the median level of earnings observed for full-time female Bangladeshi employees, reduced pro-rata for her part-time hours.
- At age 50, she begins working 2 days a week. She qualifies for auto-enrolment into work-based pension saving and does not opt out. Both her and her employer make the minimum level of contributions into her personal account, a total of 8 per cent of band earnings.
- She stops work at her state pension age (age 68) in 2055.

Ayesha could receive £127 a week at state pension age, made up of £124 in state pension and £3 in private pensions. Ayesha has a lower pension income than Peter because (Chart 24):

- She has lower earnings when in work, which reduces her pension income by £39 a week. Ayesha is assumed to have the median level of earnings of female Bangladeshi employees, rather than the median level of earnings of all male employees. She receives £2 a week less from S2P and £37 a week less from private pensions.
- She does not enter the labour market until age 40, which reduces her pension income by a further £38 a week. She receives £6 a week less from S2P and £32 a week less from private pensions.
- She works part-time after returning to work, which further reduces her pension income by £50 a week. She receives £13 a week less from S2P and £37 a week less from private pensions.

Ayesha has a very small private pension, worth around £3 a week at state pension age. She could choose to trivially commute her pension saving and take it as a one-off lump sum, rather than as a weekly pension income. If she took this option, she could receive a lump sum of around £2,200 but would not have the £3 of weekly pension income shown in the chart.

Ayesha would be entitled to the Savings Credit element of Pension Credit at state pension age, if she were single. If she is married, then her entitlement to Pension Credit would depend on her partner's income.

Chart 24 Ayesha's income at state pension age, £ per week, 2007/08 earnings



Source: PPI analysis using the Individual Model.

Sayeed is a Pakistani man who is in full-time employment for the first half of his adult life but then becomes self-employed when he takes over the family business at age 40. He illustrates the fact that a high proportion of Pakistani men are self-employed.⁴⁸ His details are set out in the box below.

Sayeed: 25-year old Pakistani man with periods of self-employment

Sayeed is a single man, aged 25 in 2012, who has a combination of full-time work and self-employment:

- He is employed full-time from age 21, earning at median earnings for full-time male Pakistani employees.
- He is auto enrolled into personal accounts in 2012, when he is aged 25, and remains opted in. Both he and his employer make the minimum level of contributions, a total of 8 per cent of band earnings.
- At age 40 he takes over the family business and becomes self-employed.
- The self-employed would not be auto enrolled into personal accounts and he does not voluntarily opt in when he is self-employed.
- He stops work at his state pension age (age 68) in 2055.

Sayed could receive £141 a week at state pension age, made up of £109 in state pension and £32 in private pensions. Sayeed has a lower pension income than Peter because (Chart 25):

- He has lower earnings, which reduces his pension income by £27 a week. He receives £1 a week less from S2P and £26 a week less from private pensions.
- He becomes self-employed at age 40, which reduces his pension income by £86 a week. He receives £35 a week less from S2P because people do not build up entitlement to S2P while self-employed. He receives £51 a week less from private pensions because he does not voluntarily opt in to saving in a private pension when he is self-employed.

In addition to the pension income illustrated in the chart, Sayeed may be able to use his business to partly fund his retirement. For example, if Sayeed sold his business and used the proceeds to buy an annuity, his pension income could be increased by around £13 a week for each £10,000 that the business is worth.⁴⁹

Chart 25 Sayeed's income at state pension age, £ per week, 2007/08 earnings



Source: PPI analysis using the Individual Model.

In summary, Robert, Deborah, Ayesha and Sayeed all have lower pension incomes than Peter, the median-earning man with a full savings history. All of the individuals receive the full amount of Basic State Pension (£90.70 a week in 2008/09), which will

be increased in line with national average earnings under the Government's pension reforms. However, amounts received from State Second Pension and private pensions vary.

Incomes from State Second Pension and private pensions tend to increase at best with prices during retirement. Over the course of their retirements, the incomes of Robert, Deborah, Ayesha and Sayeed may become closer to Peter's income, as all of the individuals become more reliant on Basic State Pension and some individuals become eligible for means-tested benefits. However, some difference is likely to remain.

5.2 Have the recent pension reforms improved outcomes?

The above analysis includes the potential impact of the Government's reforms and shows that, even with the reforms, disabled people and people from ethnic minorities may have lower incomes than a traditionally-employed median-earning male. However, the effects of the Government's reforms are uncertain.

The Government's state pension reforms were enacted in the Pensions Act 2007. They will increase the generosity of the Basic State Pension by indexing in line with national average earnings, make it easier for people to qualify for the Basic State Pension and State Second Pension, gradually remove the earnings-related element of State Second Pension, and gradually increase state pension age.

The Government's private pension reforms are currently being scrutinised by Parliament in the Pensions Bill 2007/08. If enacted, most employees will be auto enrolled into saving in a work-based private pension from 2012. Individuals will have the right to opt out if they choose. If they remain opted in, they will contribute at least 4 per cent of a band of earnings,⁵⁰ which will be topped up by at least 3 per cent from the employer and at least 1 per cent from the state via tax relief.

A new national pension saving scheme, called personal accounts, will be introduced for people earning between above £5,000 and who do not have access to an existing good-quality work-based pension scheme. Eleven per cent of the target group for personal accounts are expected to be DDA disabled (DWP, 2006e). Disabled people make up around 12 per cent of all employees between age 22 and state pension age, which means they are marginally underrepresented in the personal accounts target group.

In contrast, people from ethnic minorities are expected to form a disproportionately large portion of the target group for personal accounts: they could make up 12 per

cent of the target group, although they only account for 8 per cent of all employees (DWP, 2006e). This shows clearly that the Government's private pension reforms have the potential to make a significant positive impact on the pension situation of this group. However, some organisations have argued that people from ethnic minorities may be more likely than the target group as a whole to opt out of personal accounts, due to higher rates of in-work poverty, low levels of financial capability, and lower levels of familiarity with the English language and pensions terminology (Runnymede Trust, 2007). Thus it is uncertain to what extent they will benefit from the reforms.

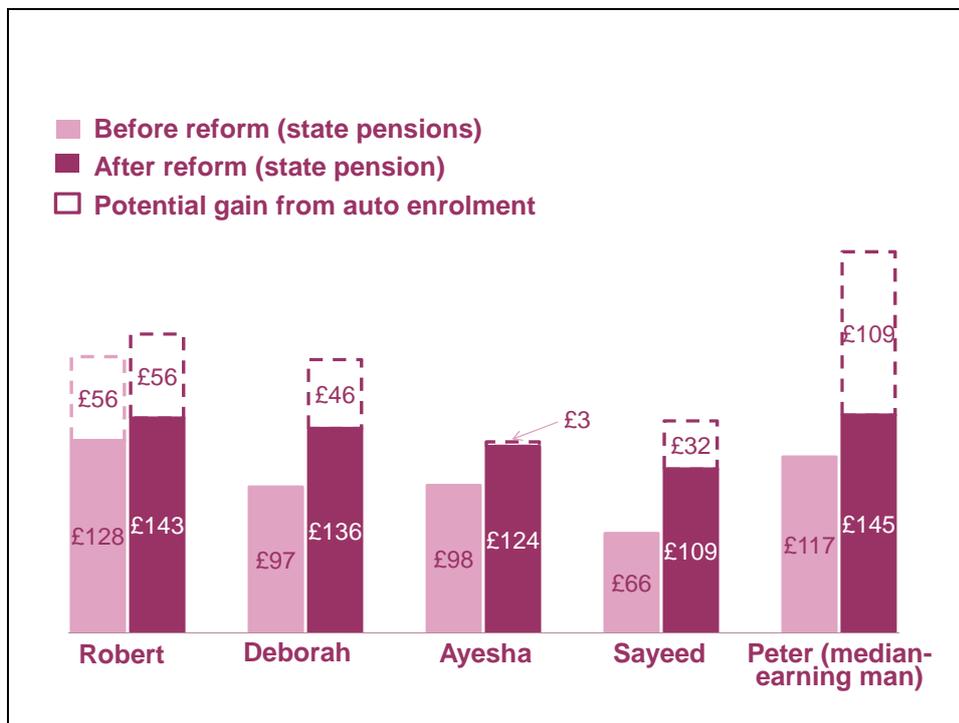
The Government's state and private pension reforms could increase the pension incomes of the individual examples (Chart 26):

- The bold bars in Chart 26 show the gains in state pensions resulting from the Government's state pension reforms. For example, Robert's state pension income is increased from £128 to £143 by the reforms. The other individuals gain more from the state pension reforms than Robert because they are younger, aged 25 rather than 55 in 2012. They therefore benefit from the Basic State Pension being uprated with earnings for a longer period of time.
- The dashed bars in Chart 26 show the **potential** impact of the Government's private pension reforms. It assumes that the individuals save in the way assumed earlier in this chapter but that they would **not** have saved in the absence of reform. Because Robert's saving happens before the Government's private pension reforms are introduced in 2012, he is shown to have a private pension income under both the before-reform and after-reform pension system.

The potential increases in pension income resulting from the Government's private pension reforms are very uncertain. Individuals may opt out for more or fewer years than assumed in this report; or they may save more than the minimum amount into a pension. They may have saved for a private pension even in the absence of reform, in which case the gains from the private pension reforms would be smaller than shown in Chart 26.

The Government's reforms will increase the state pension age for the younger individuals (Deborah, Ayesha, Sayeed and Peter) from age 65 to age 68. Therefore, although these individuals could receive a higher weekly income from state pensions following the reforms, they may receive their state pensions for three years less. The lifetime gains of the Government's reforms, considered across the whole of the individuals' retirements, will therefore be smaller than suggested in the chart, and may amount to an overall loss rather than a gain.

Chart 26 Pension income at state pension age, in £ per week, 2007/08 earnings



Source: PPI analysis using the Individual Model.

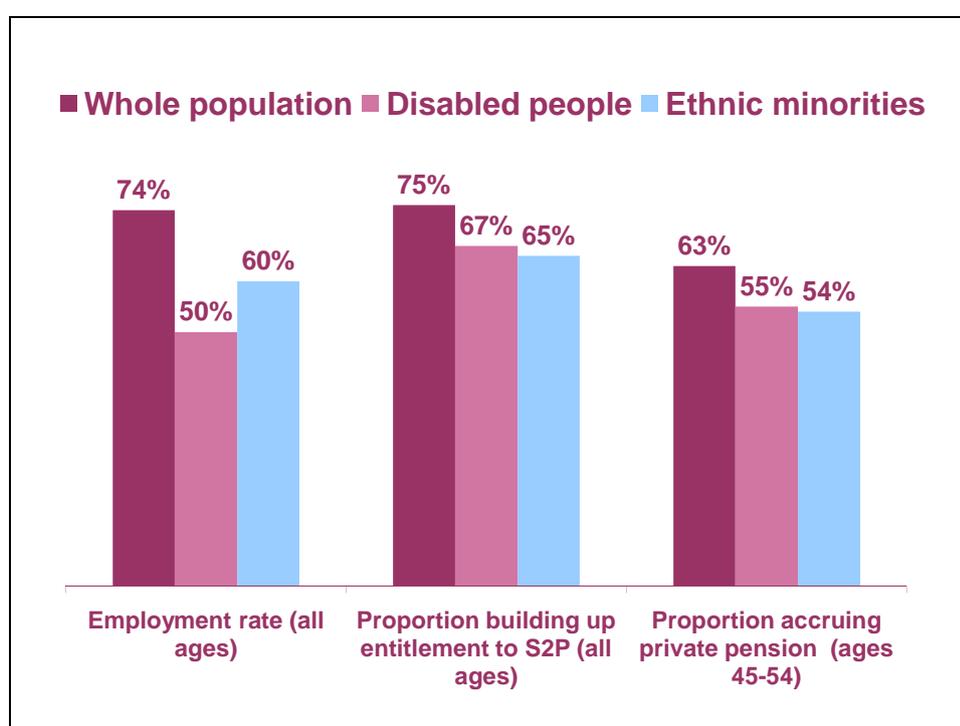
To illustrate this point, suppose that these individuals had decided to retire at age 68 in the absence of reform, rather than at age 65 as assumed in the chart. In this scenario, they could have used state pension deferral to receive higher amounts from state pensions. Some of them would have received higher weekly incomes from state pensions than under the reformed pension system.

Finally, incomes from means-tested benefits are not included in the chart. The Government’s reforms could reduce incomes from Savings Credit for these individuals, compared to what would have happened if there were no reforms. The impact depends on whether these individuals are married in retirement and whether they take up their entitlement to means-tested benefits.

6 Conclusions and policy implications

This report has shown that disabled people and people from some ethnic minority groups are more likely than the rest of the population to have the characteristics associated with lower pension incomes. Some of these key indicators are shown in the chart below. While there is a range of variation, this does suggest these groups are likely to have lower pension incomes in future than a traditionally-employed median-earning male.

Chart 27 Key statistics on the pension provision of disabled people and people from ethnic minorities



Further analysis of the future distributions of incomes of disabled people and people from ethnic minorities, and how they compare to the population as a whole, would help assess the need for a policy response. While this paper has examined women, disabled and ethnic minority people separately, further research could examine in more detail the situation of people who fall into more than one of these disadvantaged groups and who might therefore experience multiple, or 'cross-sectional', disadvantage. This might include the differences between disabled men and women and the situation of disabled people from ethnic minorities.

If a policy response is appropriate, four broad policy areas might be worthy of consideration:

1. **Further widen the system of credits for state pensions:** Although most people are expected to receive the full amount of Basic State Pension in future, around one-third of disabled people and people from ethnic minorities might not build up entitlement to State Second Pension each year, even after the Government's state pension reforms have been implemented. Unlike BSP, every year counts towards final S2P entitlements. A further widening of the crediting system for S2P could improve final entitlements, at a cost to the taxpayer. Credits are awarded for specific activities and these would need to be identified, so a first step might be to understand better why some disabled people and people from ethnic minorities are not building up entitlement to S2P.

2. **Continue to encourage private pension saving:** Even if they are in work, disabled people and people from ethnic minorities are less likely than other people to save for a private pension. They may be more likely than other people to face certain barriers to saving, including lower earnings, a cost of disability, communication difficulties, cultural differences, lack of experience of financial institutions and financial exclusion. The Government plans to auto enrol most employees into saving for a private pension, which should increase the number of people saving for pension. The information that accompanies the launch of auto enrolment could address the specific requirements of disabled people and people from ethnic minorities.

3. **Continue to encourage labour market participation:** People are much more likely to save for a private pension if they are in work. However, only around 50 per cent of working-age disabled people and 60 per cent of working-age ethnic minorities are in employment, compared to 74 per cent for the working-age population as a whole. The Government has a Public Service Agreement target to narrow the gap between the employment rates of disabled people and ethnic minorities and the overall employment rate while a number of initiatives have been introduced, including the New Deal for Disabled People, pathways to work and Employment and Support Allowance. Further progress on encouraging labour market participation for these groups could improve their future pension incomes, which may mean reducing discrimination.

4. **Continue to address the pay gap:** Disabled people earn less than non-disabled people at every age. This is also true for most ethnic minority groups. Addressing the pay gap could improve future pension incomes of these groups.

There are some specific policy decisions that have yet to be made concerning the Government's private pension proposals. These decisions are more narrow in focus

than the four broad policy responses identified above, but could still have a significant impact on the future retirement incomes of disabled people and people from ethnic minority groups. They are:

- A. **The charging structure for personal accounts:** The personal accounts delivery authority has consulted on the charging structure for personal accounts and is expected to report back later this year.⁵¹ This relates to the structure of the charge that will be levied on individual members of personal accounts for administering their accounts and investing their pension contributions. Disabled people and people from ethnic minorities have lower earnings on average than the rest of the population and are more likely to have breaks in their working and savings histories. This means that these groups could benefit from a charging structure that:

Does not penalise people who make relatively small contributions:

For example, an annual flat fee could have a disproportionately large impact on disabled people and people from ethnic minorities.

Does not penalise people who have breaks in their savings histories: For example, an Annual Management Charge (AMC) could have a disproportionately large impact on individuals who begin saving early in life but then stop saving because they unexpectedly become disabled.

- B. **The suitability of personal accounts:** The Government has launched a work programme to establish a shared understanding of the evidence on financial incentives to save for retirement following the introduction of the Government's pension reforms. The work programme will assess the potential costs, benefits and other impacts of measures that could affect incentives to save in retirement.⁵²

Certain characteristics of disabled people and people from ethnic minorities may mean they are more likely to have low returns from saving in a pension: lower earnings, broken working and savings histories, and self-employment.

- C. **The design of generic advice and information:** A system of generic advice and information is expected to accompany the launch of auto enrolment in 2012. Disabled people and people from ethnic minorities might have different needs to the rest of the population, particularly if some parts of these groups have lower levels of financial capability and lower levels of familiarity with the English language.

- D. **Sharia-compliant investment choices in personal accounts:** The personal accounts delivery authority is expected to consult on the range of investment options that will be available within personal accounts. Muslims under Sharia law are prohibited from receiving interest. The inclusion of a Sharia-compliant investment choice might be important to encourage participation among some ethnic minority groups.

Appendix: Modelling assumptions

The hypothetical individual examples in Chapter 5 are produced using the Individual Model. This is a model that was developed by the Pensions Policy Institute with funding from the Nuffield Foundation. It calculates the future state and private pension incomes of hypothetical individuals on the basis of certain assumptions. Three types of assumptions are required, which are discussed in this appendix: assumptions about the characteristics of the hypothetical individuals, about future pensions policy and about future economic conditions.

The characteristics of the hypothetical individuals

A series of assumptions are required to define the characteristics of the hypothetical individuals, including:

- Current age.
- Sex.
- Work history, e.g. for which years does the individual work.
- Type of work, e.g. employment or self-employment.
- When not in work, whether the individual receives credits towards state pensions, for example, through caring or receipt of certain state benefits.
- Savings history, e.g. in which years does the individual save for a private pension.
- When saving, how much the individual and their employer (if they have one) contributes.
- The age at which the individual takes their pension saving.
- Whether a tax-free lump sum is taken from pension saving.
- The type of annuity that the individual buys with their pension saving.

People have a wide variety of work and savings histories and the hypothetical individuals are not intended to be representative of the population as a whole. Rather, they illustrate the potential effect on pension incomes of some of the characteristics that are observed of disabled people and people from ethnic minorities.

The assumptions made about the hypothetical individuals are described in the boxes in Chapter 5. A few assumptions are common through all of the individuals, which it is worthwhile to mention here:

- Incomes are presented on an individual basis, to show the impact of the characteristics of the individuals on their own state and private pension incomes. However, an individual's well-being in retirement could be affected by the incomes of family members.

- The analysis assumes that individuals and their employers contribute the minimum amount into a pension that will be prescribed in legislation for individuals who are auto enrolled from 2012 onwards. Some of the individuals may contribute more than the minimum amount, which would increase their pension incomes. If higher earners are more likely than lower earners to contribute more than the minimum amount, then this could widen the difference between Peter and some of the examples of disabled people and people from ethnic minorities.
- All of the individuals are assumed to take their private pension at state pension age. However, there is evidence from Chapter 3 and 5 that disabled people and people from ethnic minorities are less likely than the rest of the population to work at older ages. It is therefore possible that disabled people and people from ethnic minorities might take their private pension at an earlier age on average than the rest of the population. This would mean that the analysis overstates their private pension income.
- None of the individuals are assumed to take a tax-free lump sum. This assumption has been made so that the total value of pension saving is included in the analysis on a consistent basis. If the individuals took a tax-free lump sum, they would have lower pension incomes than shown but would also have an additional source of capital from the lump sum.
- All of the individuals are assumed to buy a level annuity (i.e. an annuity which does not increase with inflation during the course of an individual's retirement) and which does not provide a pension for the individual's partner after his or her own death. Other choices of annuity are likely to lead to smaller pension incomes at state pension age than are illustrated in Chapter 5.

Future pensions policy

The Individual Model requires assumptions on future pensions policy. The analysis in Chapter 5 takes account of the reforms to state pensions that were enacted in the Pensions Act 2007 and the reforms to private pensions that are contained in the Pensions Bill 2007/08, which is currently being scrutinised by Parliament. Thereafter, it assumes no further reforms are made.

The analysis assumes that the Basic State Pension is increased in line with increases in national average earnings from 2012. The Government has said that it aims to introduce this change in 2012, subject to affordability and the fiscal position, but that it will do so in any event by then end of the next Parliament at the latest (DWP, 2006 SR: 17). If the earnings-link is introduced later than 2012, all of the individuals could have lower pension incomes than shown in Chapter 5.

The Pensions Bill 2007/08 would, if enacted, mean that most employees are automatically enrolled into saving in a pension from 2012. At this stage, it is uncertain

how many people will opt out of saving once they are automatically enrolled. The savings histories chosen for the hypothetical individuals illustrate one potential pattern of saving following the reforms; however, people may opt out for more or fewer years than assumed.

Future economic conditions

In the analysis, price inflation is assumed to be 2.5 per cent a year. Earnings inflation is assumed to be 2.0 per cent a year above price inflation. These assumptions are used to project the future values of the levels and thresholds that are used to define entitlements to state pension.

The earnings inflation assumption is also used to project the future levels of earnings of the hypothetical individuals. The earnings patterns of the hypothetical individuals vary across their lifetimes based on age distributions that are derived from the Labour Force Survey (LFS). However, since the figures from the LFS are all in 2007 earnings terms, they are adjusted to allow for future earnings inflation.

Investment returns on private pension saving are assumed to be 3.5 per cent a year in excess of price inflation. Annual management charges are assumed to be deducted each year, equal to 0.5 per cent of the value of assets under management.

To estimate how much pension income an individual might receive from their pension saving, the Individual Model projects future annuity rates. The assumptions used are:

- Mortality follows the PMA92/PFA92 mortality tables, adjusted for future mortality improvements using the medium cohort projection contained in (CMIB 2002).
- The level of post-retirement investment return used by annuity providers to set annuity rates are assumed to be 1.4 per cent in excess of price inflation.
- Calculated annuity rates are multiplied by a factor of 1.04 to allow for expense charges.

This appendix has shown that the individual analysis requires a wide range of assumptions to be made. Alternative assumptions would lead to higher or lower figures for the pension incomes of all of the hypothetical individuals. However, modest changes in the assumptions are unlikely to change the fundamental conclusion of Chapter 5, that the examples of disabled people and people from ethnic minorities are likely to have lower incomes than a median-earning man with a full savings history.

Glossary

Annuity

In this paper, 'annuity' refers to an immediate life annuity, unless otherwise stated. An immediate life annuity is an insurance product that pays an income from the date of purchase until the date of death. An annuity insures an individual against the financial risk that he or she lives longer than expected and so requires an income for longer than expected.

Attendance Allowance

A tax-free state benefit for older people who need help with personal care because they are physically or mentally disabled. It is paid to people who become ill or disabled on or after their 65th birthday.

Auto-enrolment

A pension scheme enrolment technique which means that employees automatically become members of the pension scheme, either when they start a new job or at a certain predetermined point in time. Employees have the right to opt out of saving in the scheme if they choose. If the Pensions Bill 2007/08 is enacted, employers will be required to automatically enroll most employees into saving in a private pension.

Basic State Pension (BSP)

The first-tier of state pension benefits in the UK. Individuals can receive up to £90.70 a week (in 2008/09), provided they have a sufficient number of 'qualifying years'. A qualifying year is a year in which the individual earns at least a minimum amount or in which the individual receives a credit, for example, through caring or receipt of certain state benefits. After April 2010, individuals will need at least 30 qualifying years to receive the full amount of BSP. Individuals who have fewer than 30 qualifying years will be entitled to less than the full amount.

Disability Discrimination Act

Legislation that received Royal Assent in 1995. It was subsequently revised in 2005.

Disability Living Allowance

A social security benefit for people who are disabled, have personal care needs, mobility needs or both, and who are aged under 65.

Disabled

A person who either falls within the scope of the Disability Discrimination Act or who has a disability that limits the amount of, or kind of, work that they can do. Other

definitions of disability are occasionally used in this paper and these instances are clearly marked.

Economic activity rate

The proportion of working-age people who are in employment or who are looking for work.

Economically active

A person who is either in employment or is actively looking for work.

Employment and Support Allowance

A state benefit that is expected to replace Incapacity Benefit for new claimants from October 2008.

Employment rate

This measures the proportion of working-age people who are in employment.

Ethnic minority

A person who considers him or herself to belong to one of the following ethnic groups: Asian, Black, Chinese, mixed or some other non-White group.

Home Responsibilities Protection (HRP)

A scheme that was introduced in 1978 as a way of protecting the BSP entitlement of people who were not paying National Insurance contributions but who were contributing to society in another way, for example, by caring.

Incapacity Benefit

A state benefit for people who have an illness or disability. A person may be eligible if they have an illness or disability and are either unemployed or self-employed or work for an employer but cannot receive Statutory Sick Pay or have been receiving SSP and this has now stopped.

Level annuity

A level annuity pays out the same amount each year without being increased to protect against inflation. This means that the real purchasing power of a level annuity decreases from year to year.

National Insurance contributions

These are contributions that must be paid by most workers. Payment of Class 1 National Insurance contributions gives entitlement to a range of state benefits, including state pension.

Occupational pension

A pension scheme organised by an employer on behalf of its employees. Only employees of the organising employer(s) can usually join the scheme, and active membership usually ends when the employee no longer works for the employer.

Pension Credit

A state means-tested benefit available to older people. Pension Credit has two components: Guarantee Credit, which aims to provide a minimum level of income, and Savings Credit, which aims to reward saving.

Personal accounts

Personal accounts is the name of a new, low-cost, national pension savings scheme that the Government proposes to introduce from 2012.

Personal pensions

Unlike occupational pensions, which are organised via an employer, personal pensions are individual accounts organised directly between an individual and a pension provider.

Private pension

A pension that is not provided through the state, for example, an occupational or personal pension.

State pension age

This is the first age at which men and women can claim their state pension. It is currently 65 for men and 60 for women. State pension age will increase for women to 65 between 2010 and 2020. The Pensions Act 2007 legislated for further increases in state pension age for both men and women, to 66 between 2024 and 2026, to 67 between 2034 and 2036 and to 68 between 2044 and 2046.

State Second Pension (S2P)

Along with its predecessor SERPS, S2P makes up the second-tier of state pension provision in the UK. It is earnings-related, so the amount received by an individual depends on how much they earned or were credited as earning during their working life.

Unemployment rate

This measures the proportion of the economically active population who are looking for work as opposed to already being in employment.

Working age

People who are aged at least 16 and less than state pension age.

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Endnotes

¹ Net median incomes before housing costs are £184 a week for men and £177 a week for women, based on DWP (2007) *Pensioners' Incomes Series 2005/06* Table 2.6

² Of the 2.5m beneficiaries of Guarantee Credit (i.e. people in receipt of the Guarantee Credit only or both the Guarantee Credit and Savings Credit), as of May 2007, 1.5m were women. DWP (2008) Tabulation Tool.

³ Women who are part of a pensioner couple receive an income on average of £146 per week compared to £334 per week for a man in a pensioner couple. For more information on differences between the pension provision of men and women, see (DWP, 2006a).

⁴ Women in full-time work tend to work fewer paid hours per week than men, so the difference in median weekly earnings is greater than the difference in median hourly earnings. The median weekly earnings of full-time male employees was £498 in April 2007; for women the median was £394, 21 per cent lower than for men (ONS, 2007a).

⁵ Among BHPS respondents who have been interviewed every year since 1991, 48 per cent have been limited by a health condition in at least one of those 14 years. The BHPS does not seek to identify 'long-term' or 'long-standing' health conditions; therefore, this figure is based on a broader definition of disability than is used throughout this report.

⁶ 'Serious disability' is defined based on a person's ability to carry out specific tasks. For example, if an individual can walk only a few steps they are classified as having a serious disability, while if they can walk more than a few steps but less than 200 metres they are classified as moderately disabled. The Health Survey for England does not cover mental illness, and so lower overall levels of disability are reported compared to the Labour Force Survey. The survey also only covers private households, and so excludes those in residential care and nursing homes.

⁷ Percentages shown add up to more than 100 per cent due to rounding.

⁸ DWP Opportunity for all indicator 19.

⁹ Note that the unemployment rates quoted in the text are higher than the proportions unemployed shown in Chart 3. This is because the unemployment rate is restricted to people who are economically active while Chart 3 is for all working-age people.

¹⁰ The study found that the average employment probability of disabled people would have been 7 per cent points lower than for non-disabled people, at only 69 per cent, even if they had not been disabled. The actual employment rate among disabled people, including consideration of their disability characteristics, was only 29 per

cent. So the average employment disadvantage associated with disability – the employment penalty – was 40 per cent points.

¹¹ Office for Disability Factsheet based on LFS 2007. Figures use the definition of disability which includes all those with a current long-term disability that substantially limits their day-to-day activities. This is a narrower definition of disability than we use elsewhere in this report.

¹² Evidence using longitudinal data from the BHPS. The BHPS does not seek to identify 'long-term' or 'long-standing' health conditions; therefore, estimates are based on a broader definition of disability than is used throughout this report.

¹³ Office for Disability Factsheet based on LFS 2007. Figures use the definition of disability which includes all those with a current long-term disability that substantially limits their day-to-day activities. This is a narrower definition of disability than we use in this report.

¹⁴ PPI analysis of the Family Resources Survey 2005/06

¹⁵ PPI analysis of the FRS 2005/06 based on all adults in employment. Private pension includes both occupational and personal pensions.

¹⁶ In April 2007, median weekly gross earnings of full-time employees was £457, compared to £144 per week for part-time employees.

¹⁷ 'I don't earn enough' was the most common reason, given by 22 per cent of respondents that had not joined their company pension scheme. 'I cannot afford to' was given by 12 per cent of respondents.

¹⁸ Only 12 per cent of disabled people of working age have a degree or equivalent qualification, while 25 per cent have no qualification. The corresponding figures are 21 per cent and 11 per cent for comparable non-disabled people.

¹⁹ Figures are before housing costs. For working-age adults with any long-standing illness, disability or infirmity that leads to a significant difficulty with one or more areas of the individual's life. Everyone classified as disabled under this definition would also be classified as disabled under the DDA; however, some individuals classified as disabled under the DDA would not be captured by this definition, (DWP, 2008c: 100-1). Analysis excludes households with a disabled child.

²⁰ There are two short-term IB rates for 2008/9; the higher rate is £75.40 and the lower rate is £63.75. The long-term IB rate is £84.50 and there are different rates for people below and above state pension age.

²¹ Currently, a Labour Market Attachment Test applies in S2P, which means that people who are long-term sick or disabled need to have worked and paid (or have been treated as having paid) NICs for around one-tenth of their working life from

1978 in order to qualify for any entitlement to S2P. However, the labour market attachment test will be abolished for people reaching state pension age after 6 April 2010 as part of the Government's state pension reforms.

²² PPI analysis of the FRS 2005/06

²³ In November 2004, 2.7 million people in Great Britain over state pension age received a sickness or disability benefit (Attendance Allowance, Disability Living Allowance, Incapacity Benefit, Severe Disablement Allowance, Invalidity Allowance, or the severe disability premium in Pension Credit) or received state pension and were in hospital (DWP 2004: 10). In comparison, around 4.2m people over age 65 were disabled (note: this excludes women aged 60-64 and is based on a narrower definition of disability than the current DDA definition) (DRC 2007:35).

²⁴ PPI calculation based on Pensioners' Incomes Series 2005/06

²⁵ PPI calculation using Pensioners' Incomes Series 2005/06. Figures are for gross income, i.e. income from all sources received by the pensioner benefit unit including income from state benefits (including Housing Benefit), earnings from employment and self-employment, any private pension income, and tax credits, before the deduction of taxes and housing costs.

²⁶ The other category includes all people who do not consider themselves to belong to any of the White, mixed, Asian, Black or Chinese ethnic groups.

²⁷ DWP Opportunity for all indicator 19.

²⁸ PPI analysis of the Family Resources Survey 2005/06.

²⁹ PPI analysis of the FRS 2005/06 based on all adults in employment. Private pension includes both occupational and personal pensions.

³⁰ In April 2007, median weekly gross earnings of full-time employees were £457, compared to £144 per week for part-time employees.

³¹ The FRS can also be used to calculate a proxy for pension provision by industry sector. According to the FRS 2005/06, around 55 per cent of people employed in the manufacturing and banking sectors have a private pension. In contrast, only 30 per cent of people employed in the distributing and catering sectors have a private pension.

³² There are 5.1 million active members in public sector Defined Benefit schemes compared to 3.4 million active members in private sector schemes, (ONS, 2007b). The public sector, however, comprises 20% of total employment (Livesey et al, 2006). Most major public sector schemes operate auto-enrolment as a joining technique.

³³ Figures are before housing costs.

³⁴ Currently, a Labour Market Attachment Test applies in S2P, which means that people who are long-term sick or disabled need to have worked and paid (or have been treated as having paid) NICs for around one-tenth of their working life from 1978 in order to qualify for any entitlement to S2P. However, the labour market attachment test will be abolished for people reaching state pension age after 6 April 2010 as part of the Government's state pension reforms.

³⁵ PPI analysis of the Family Resources Survey 2005/06.

³⁶ PPI analysis of the Family Resources Survey 2005/06.

³⁷ The Pension Act 2007 reduces the number of qualifying years needed for a full BSP to 30 for people reaching state pension age after April 2010.

³⁸ Figures based on incomes after housing costs using a three year average to overcome small sample sizes.

³⁹ Pensioners' Incomes Series, based on 2003-2006 averages.

⁴⁰ This PPI analysis across the whole of the pensioner population suggests that, on one set of assumptions, a median net pensioner income in 2050 of £165 a week (in 2006/07 earnings). This includes older pensioners, who on average have lower pension incomes than people at state pension age. It also includes income from means-tested benefits. Long-term projections are subject to a very wide degree of uncertainty.

⁴¹ The prevalence of back or neck problems increases with age and one quarter of disabled people reporting a bad back or neck as their main health problem are aged between 50 and 59.

⁴² This is the same as the minimum level of contributions that will apply for individuals who are auto enrolled into work-based pension saving from 2012, for comparison purposes. However, Robert saves before 2012.

⁴³ Without long periods of longitudinal data, it is not possible to know how long people with different types of physical impairments remain out of the labour market, on average. There is evidence to suggest that some people can remain inactive for many years. For example, one in ten of respondents tracked continuously for 14 years reported a long-term health condition for 8 or more of those years (though not necessarily the same illness, nor continuously). DWP (2007c) page 25. According to the Office for Disability Issues, over half of disabled people currently out of work have been out of work for more than 5 years.

⁴⁴ Employment and Support Allowance is expected to replace the current Incapacity Benefit for new claimants from October 2008. It is assumed to include the same system of credits to state pensions as exists for Incapacity Benefit.

⁴⁵ A median-earning man who is aged 55 in 2012 would have a higher income from SERPS and S2P than an equivalent individual who is aged 25 in 2012, but could receive a lower private pension income if he retires at his lower state pension age of 65 rather than 68. The £3 illustrated in the chart is the net effect.

⁴⁶ This assumes Robert will not be eligible for the Severe Disability Premium in Pension Credit, e.g. because he is not eligible for Attendance Allowance or the middle or highest rate of the care component of Disability Living Allowance, or lives with a non-disabled partner.

⁴⁷ The size of the reduction in Deborah's earnings that results from her period out of the labour market is an arbitrary assumption intended to illustrate one possible outcome. Other individuals may be affected by taking time out of the labour market to a greater or lesser extent than assumed here.

⁴⁸ There is limited data on self-employment patterns and data specifically relating to Pakistani men are even more limited. The assumption that Sayeed becomes self-employed at age 40 and remains so until state pension age is an arbitrary assumption intended to illustrate one possibility.

⁴⁹ PPI analysis assuming a level annuity, i.e. an annuity that does not increase over time.

⁵⁰ On earnings between around £5,000 and £33,500 a year (in 2006/07 earnings).

⁵¹ See the PPI's response to the consultation, available at www.pensionspolicyinstitute.org.uk

⁵² The PPI has published a number of reports in this area (PPI, 2006c; PPI, 2007b; PPI, 2007c; PPI Briefing Note 44).

This report examines the likely future pension incomes of disabled people and people from ethnic minorities by examining their working patterns, earnings and other characteristics.

WHAT IS ALREADY KNOWN ON THIS TOPIC

Research in 2003 showed that women, disabled and ethnic minority people are 'under-pensioned' compared to a man who is traditionally-employed and median-earning. Major reforms to both state and private pensions since then are likely to improve significantly women's pension incomes.

WHAT THIS STUDY ADDS

Ethnic minority and disabled people have many of the characteristics associated with low pension incomes.

If present trends continue, people from these groups are likely to have lower pension incomes in the future.

Recent Government reforms are likely to be of some benefit and future policy decisions could also have a significant impact.

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