Pension Issues for Women

This bulletin aims to highlight the key areas in Britain's pensions system where women have historically lost out and continue to do so. It will also offer guidance to actions which can be taken (where available) to offset any loss.

Women have fared worse than their male counterparts in pension provision, both from the state and in occupational pension schemes. Primarily this is due to the gender pay gap, but there are other factors which have contributed to this.

State Pensions

State pensions are based on your record of National Insurance contributions or credits throughout your working life. National Insurance contributions are paid between the age of 16 and your state pension age. Currently, the state pension age for women is 60. At this age, the obligation to pay National Insurance stops and the facility to draw on your state pension begins.

However, between April 2010 and April 2020, the state pension age is set to rise to 65 to bring it in line with the state pension age for men. If you were born before 6 April 1950 you reach state pension age at 60. If you were born after 5 April 1955, your state pension age is 65. If you were born between these two dates, your state pension age is calculated on a sliding scale and will between 60 and 65. If you would like to know your state pension age, you can contact visit our page on the GMB website www.gmb.org.uk/statepensionage

The amount of Basic State Pension you receive depends on the number years of National Insurance contributions you paid (or are credited with) during your working life (i.e. from age 16 to your state pension age). If you have not paid, or had credited, at least 10 years of National Insurance, you do not qualify for any Basic State Pension. To receive a full state pension your National Insurance record should include at least 39 years of contributions. If you have contributions recorded for between 10 and 39 years, the level of basic state pension payable is a proportion of the full amount.

As well as paying National Insurance for periods of employment, women can receive Home Responsibilities Protection. This is given to anyone receiving Child Benefit, or who is caring for at least 35 hours a week. You will be given Home Responsibilties Protection automatically if you receive Income Support and you are caring for a severely ill or disabled person. If you are caring for someone receiving Attendance Allowance, Constant Attendance Allowance or Disability Living Allowance (at the middle or higher rate) or are a foster carer (not receiving Child Benefit), you need to apply to receive Home Responsibilities Protection. However if you are getting Carer's Allowance you do not usually need to claim HRP as you will be credited with a contribution each week. To apply for Home Responsibilities Protection, you will need to complete form CF411 which is available from your local Jobcentre Plus office or at the following website http://www.hmrc.gov.uk/forms/cf411.pdf

Home Responsibilities Protection has the effect of reducing the number of years needed to qualify for a full pension. However, you do still need at least 20 years of paid National Insurance contributions to receive a full Basic State Pension.

Example – Mary reaches state pension age on 1 March 2010 (age 60). During her working lifetime, she has spent:

- 15 (tax) years caring for children under the age of 16,
- 21 years in employment for which she paid National Insurance
- 8 years caring for a sick relative (for which she received Carer’s Allowance)

Mary should receive 23 years worth of Home Responsibilities Protection to reflect the time spent caring. As she has more than 20 years of paid National Insurance, she can qualify for a full Basic State Pension. By adding the periods for which she paid National Insurance and receives Home Responsibilities Protection, she has sufficient years to receive a full Basic State Pension.

The Problems

1. Women are more likely to have career breaks to bring up children or care for other relatives. Home Responsibilities Protection can give some benefit for these periods, but this will only go so far and to receive protection for any particular tax year, you need to qualify for the **whole** tax year (for example, you will have to be receiving Child Benefit for the whole tax year). As a result it is more difficult for women to build up full National Insurance records and receive a full state pension.
2. Prior to 1977, married women were given the opportunity to pay reduced levels of National Insurance, in the form of the “Married Woman’s Stamp”. Women who took up this offer at the time have been allowed to continue making reduced contributions. Whilst this seemed attractive at the time, many women who took advantage of this are now finding that they have a much reduced level of state pension and that this is inadequate. This is because these women did not build up any entitlement to a state pension in their own right, but rather they rely on their husband’s National Insurance record, on which their pension is based.

The Solutions

1. Anyone concerned that they may not have a full record of National Insurance contributions should contact The Pension Service immediately on 0845 60 60 265 for a breakdown of their contributions and estimate of their state pension. Missing National Insurance contributions can be paid back, but only within a certain time frame. Usually missing contributions can be paid within six years, however this period has currently been extended and contributions can be back-paid to 1996. This facility will be further extended in the near future. You can read more in our bulletin on making voluntary National Insurance contributions.
2. Unfortunately there is no quick “fix-it” solution for the problems caused by the Married Woman’s Stamp. Anyone who opted into this arrangement, could opt out, but it may be unlikely that they will be better off in doing so by this late stage.
3. Members should be aware of the existence of Pensions Credit. For low earners in retirement, this means-tested benefit ensures that no-one would receive less than £123 per week. You can call The Pensions Service on 0845 60 60 265 for more information on the Pensions Credit.

The Future Of The State Pension For Women

A number of reforms of the state pension system have been proposed and are due to come into place in coming years. These should go some way to correcting the unfairness built in to the current system. However, these changes will do nothing to improve the position of members who reach their state pension age before 2010. The reforms include:

- A reduction in the number of years needed to qualify for a full Basic State Pension. From 6 April 2010, all women and men will need 30 years of National Insurance contributions (or credits) to get a full pension.
- The system of Home Responsibilities Protection will be completely reformed. Rather than reducing the number of years needed to qualify for a full pension, this protection will pay credited National Insurance contributions. These will also be payable on a weekly basis, meaning that someone caring for a part of a tax year, will receive protection where they currently do not.

Occupational Pension Schemes

Women have traditionally fared worse in their occupational pension schemes than men. Historically this has been due to discrimination against part time workers, different working patterns and the pay gap that still prevails.

Under European legislation that outlawed discrimination against part time workers, part time workers were granted the right to access the same pension arrangements as full time workers. This duty came into effect from 1 July 2000, and employers have to able to offer an objective justification of any different treatment applying to part timers.

Similar protections have existed for workers on fixed term contracts since 1 October 2002.

Pensions are invariably linked to salary. This is the case regardless of the type of pension scheme you are in. A defined benefit scheme pays a pension calculated with reference to your salary. The other type of pension, called a defined contribution scheme pays contributions towards a savings account which is used to provide a pension on retirement. The contributions made to this account by an employer and employee are almost always based on a portion of earnings, meaning that higher earners have more money paid to their savings account.

Many occupational pension schemes use a "pensionable salary" on which contributions and benefits are based. Pensionable salary can often reflect basic salary less an offset. For example a scheme might say that the first £4,500 of earnings is not pensionable and so no contributions are paid on that amount (so there is a pensionable salary offset of £4,500). This means someone would earning £34,500pa would have a "pensionable pay" of £30,000pa, whereas someone earning £12,500pa would have a pensionable pay of £8,000pa. A consequence of such an offset is that low earners are penalised proportionately more than higher earners in a pension scheme. This can be avoided by pro-rating any offset to reflect part time service or removing the offset altogether.

Another issue faced by women relates to the purchase of annuities. This is the most common way of converting defined contribution pension savings into a retirement income. Insurance companies provide annuities and they calculate the amount of pension they can provide from a lump sum based on the life expectancy of the member involved. This depends on many things including age, health and most notably sex. Statistics have shown that women, on average live some three years longer than men. As this means that a pension must be paid for three more years, the cost of providing this pension is higher. This means that a woman would not get as a high a pension as a male comparator when buying an annuity.

This is an inherent problem with annuity purchases, however there are some ways to maximise the value of your annuity. These include shopping around for an annuity provider and advising a provider of any previous health problems. You can find out more about how to get the most from an annuity by accessing the Financial Services Authority guide at
http://www.moneymadeclear.fsa.gov.uk/pdfs/retirement_options_ink.pdf

What Can Be Done?

As you have read the systems of the state pension and occupational pensions systems are not geared to the needs and working patterns of many women. However there are steps you can take to make the most of your pension. These include:

- Checking your National Insurance record to ensure any periods when you qualified for Home Responsibilities protection are accounted for
- Looking into making up any other missing National Insurance payments through voluntary contributions
- Check if your pension scheme applies an offset to earnings, and if so whether this is reduced for part time workers
- Shop around when purchasing an annuity.

In addition to GMB's general work on equal pay, we work to ensure equality in our pensions arrangements by:

- Calling for equality proofing of occupational pension schemes including the Local Government Pension Scheme and NHS Pension Scheme
- Campaigning for the new system of compulsory occupational pension schemes (called Personal Accounts) to be better suited to the needs of low earners
- Continued campaigning for a fairer and more generous state pension system for all

Contacts/Sources of Information

The Pension Service – This government body can advise you of your expected amount of state pension and of any missing years of National insurance. They also deal with applications for Pension Credit and Savings Credit. You can contact The Pension Service on 0845 60 60 265 or through their website http://www.thepensionservice.gov.uk

Her Majesty's Revenue and Customs (HMRC) – Formerly the Inland Revenue, will process applications to make voluntary National Insurance payments to increase entitlement to the Basic State Pension. HMRC can be contacted on 0845 915 5996 or through their website http://www.hmrc.gov.uk/nic/class3.htm

Financial Services Authority – This government body is set up to regulate financial advisers and help individuals understand the world of finance and financial products. They have a particularly useful leaflet on buying annuities which can be seen at http://www.moneymadeclear.fsa.gov.uk/pdfs/pensions_choose.pdf