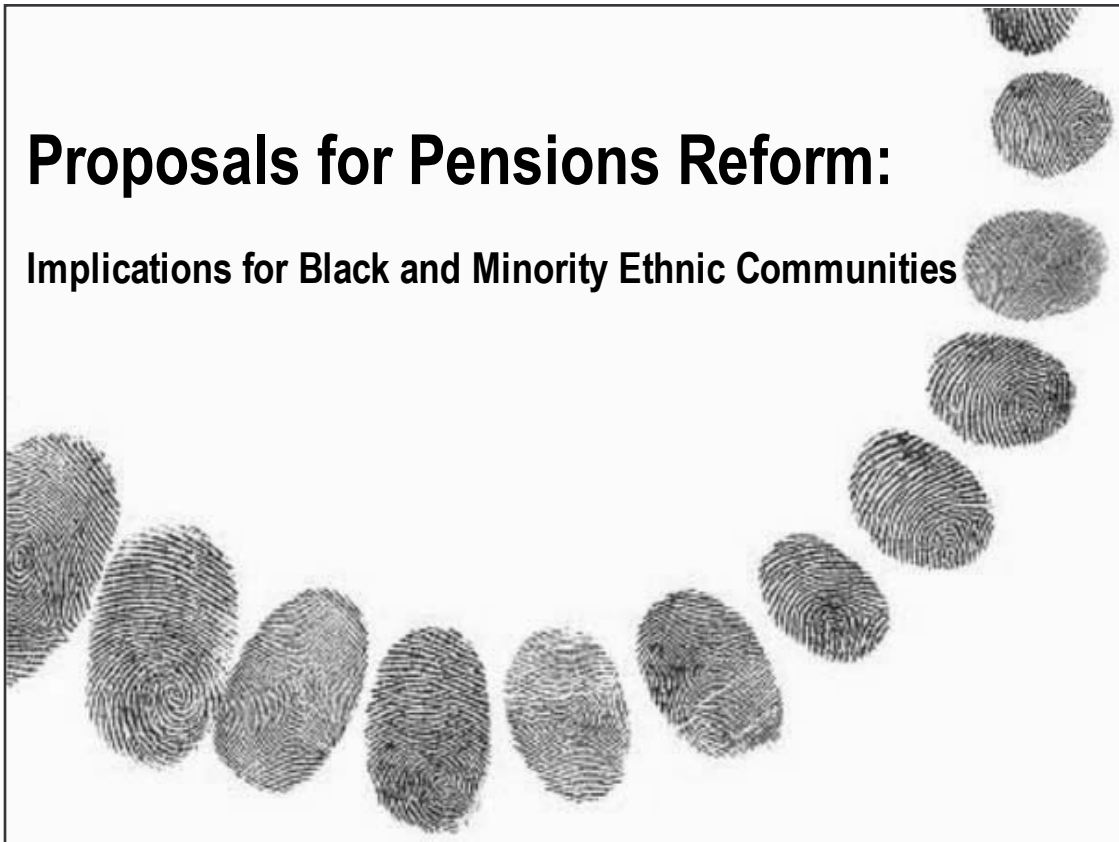
Proposals for Pensions Reform:

Implications for Black and Minority Ethnic Communities



White Paper Consultation Response

The Runnymede Trust's response to *Security in Retirement: towards a new pensions system* (DWP 2006)

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Proposals for Pensions Reform - Implications for Black and Minority Ethnic Communities

Helen Barnes, Policy Studies Institute

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This paper begins the process of assessing the potential impact of proposals for changes to the pensions system made by the Pensions Commission (Pensions Commission, 2005) and Pensions White Paper (DWP, 2006b) on Black and Minority Ethnic (BME) groups in this country.

Background: Pensions, the Welfare State and Ethnic Diversity

Britain is a multi-ethnic society: Eight percent of its population is from BME communities. Britain is also an unequal society; the final income of the top fifth of households in the UK is four times that of the bottom fifth. These facts pose many challenges for policymakers, especially given the established links between ethnicity and inequality.

In 2004/5 after housing costs, 18% of White households had a low income (defined as 60% of median income); in comparison, 52% of Pakistani/Bangladeshi households and 34% of Black Caribbean households were on a low income, although there has been a reduction in the gap between white and non-white poverty rates over the past decade, the risk of poverty for minority ethnic households remains between twice and three times as for white households (HBAI statistics, 2006). Non-white households are almost twice as likely as other households to have no savings, and there is a strong correlation between pension savings and other forms of saving (Babb et al., 2004). Efforts to address pensioner poverty in the UK therefore need to take into account the fact that poverty affects different communities disproportionately.

Pension provision is a significant element of Britain's welfare state, and a key tool in alleviating poverty both in the present and the future. Changes to government policy on pensions need to take note of the ethnic diversity of the UK and work to promote equality. It would be a mark of failure for any pension policy if existing inequalities between disadvantaged minority ethnic groups and white communities were not addressed or were allowed to widen.

There is a rich ethnic diversity among British people. Runnymede has argued that Britain should be seen as a community of communities and a community of citizens. This formulation allows for an understanding of ethnic diversity as being both about the experiences of communities based on ethnicity, heritage or other markers of identity, as well as individual experiences contributing to a sense of belonging in and contribution to a wider society. In this paper we use terms such as 'Black and minority ethnic' (BME) to refer to all minority ethnic groups, but recognise that there is a great diversity of experiences, both between communities and among those who share a particular ethnic identity. Where relevant we use available data for specific communities.

What the Pensions Commission Set Out to Do

The Pensions Commission's terms of reference asked it to review the evolution of the UK's systems of pension provision and advise on whether the current system of voluntary private provision could deliver adequate results. A specific issue the Commission was asked to comment on was whether a system of compulsory earnings-related savings might be appropriate. Its report, published in November 2005, concludes that existing voluntary arrangements, combined with the state pension, are not adequate, and proposes a new settlement, combining two main elements:

- A new policy for earnings-related provision, which recognises the inadequacy of a purely voluntary approach, but stops short of full compulsion, relying on automatic enrolment, into either company schemes or a new National Pension Savings Scheme (NPSS) but with a right to opt out, and with a modest level of compulsion on employers to make matching contributions.
- Reform of state pension provision to make it simpler to understand, and less means-tested than under current indexation arrangements.

Ethnicity and the findings of the Pensions Commission
The issue of ethnicity is mentioned only briefly in the Pensions Commission report and appendices, but its recommendations have important implications for minority ethnic groups in the UK. Eight percent of the population is from an ethnic minority, a proportion that will continue to grow over time, and non-white ethnicity has consistently been associated with socio-economic disadvantage. The Runnymede Trust has therefore commissioned the Policy Studies Institute (PSI) to produce this short paper highlighting the implications of the Pension Commission proposals for BME groups.

In it we aim to identify some of the key issues which may cause the proposals in the Pensions Commission report and Pensions White Paper to have a differential impact on white and non-white groups. These are primarily concerned with the incidence and causes of *low income* among minority ethnic groups, and the *consequent potential for inequitable pension outcomes*.

Key Issues Considered in This Paper

1. What do we know about the present differences in life circumstances between white and BME people of, or approaching, state pension age?
2. To what extent can we expect these differences to persist or change over time?
3. To what extent can current and future migrant groups expect to experience patterns of socio-economic disadvantage similar to or different from those of BME people currently approaching or experiencing retirement?
4. It is those currently aged under 50 who will be affected by the Pensions Commission proposals – what do we know about differences between white and BME groups in these age groups, and what implications do they have?
5. Case studies attached to this paper contain illustrative examples of the effects of the reforms.

It is also important to note that the extent of intra-ethnic diversity, across a number of domains, is in many cases greater than that between white and non-white groups, although there are broad differentials at this level (Modood et al., 1997, Loury et al., 2005). Platt's (2007, forthcoming) report for the Joseph Rowntree Foundation attempts a systematic review

of the evidence base relating to both the causes and effects of poverty among different ethnic groups.

There is limited data on ethnicity and pension provision, and it is also difficult to predict how the situation of minority ethnic groups may change over time. This paper reviews and discusses a range of published research resources on the current situation of minority ethnic groups in the UK, and offer some indication of future trends.

We begin in **Section 1** with a look at the current income situation of minority ethnic pensioners, and the implications for the future if there were no change in pension provision, with particular reference to:

- Labour market disadvantage
- Poverty and low income
- Health
- Issues of language and culture

Section 2 follows with a summary of the Pension Commission and White Paper proposals and recommendations for reform of the state pension system and encouragement of private pension savings.

Section 3 examines what these proposals imply for minority ethnic communities, with particular reference to:

- Interrupted work records
- Longer working lives
- Means testing
- Potential impact of personal accounts

Section 4 summarises the position thus far.

Acronyms used in this paper

BSP	Basic State Pension
DASH	Determinants of Adolescent Social Health and Wellbeing
DWP	Department of Work and Pensions
ELSA	English Longitudinal Study on Ageing
ESOL	English for Speakers of Other Languages
ESP	Enhanced State Pension
FRS	Family Resources Survey
HRP	Home Responsibilities Protection
NI	National Insurance
NPSS	National Pension Savings Scheme
ONS	Office for National Statistics
PAYE	Pay As You Earn
SPA	State Pension Age
S2P	State Second Pension

Section 1. Current Pension Provision among Minority Ethnic Groups

Minority ethnic pensioners have, on average, lower incomes than white pensioners (DSS, 2000; Ginn and Arber, 2001, Pensions Commission, 2004). Research on the extent of current pension provision among minority ethnic people of working age also suggests that they are significantly less likely than the white population to have access to a private pension. Analysis of the FRS by the PPI (2003) demonstrated that only 44% of non-white people have a private pension, compared to 56% of white people, and that among those aged 25–34 this difference is even larger than among older age groups (39% compared to 57%). The author attributes these differences to lower employment rates, lower earnings, the over-representation of ethnic minorities in part-time work and self-employment, and segmentation into particular sectors of the labour market.

A recent report on social exclusion among those aged 50 and over (Barnes et al., 2006) found that 30% of non-white respondents were financially excluded, meaning that they lacked a pension or other long-term savings, compared to only 9% of white respondents. As the authors note, this is likely to be an underestimate, since the methodology adopted excluded those who did not speak English fluently.

Another paper based on ELSA data, and looking at the adequacy of pension incomes (Banks et al., 2005), was unable to consider ethnicity because of small sample sizes, but demonstrates the strong correlation between pension wealth and other forms of wealth. Although it is possible to be income poor and asset rich, the over-representation of ethnic minorities in low-income groups suggests that on average they are less likely to have access to pension wealth in later life.

As the PPI report (2003) makes clear, the link between employment and pensions means that unless there are major changes in the labour market position of ethnic minorities or a decisive break with the principle of linking pensions with work history, ethnic minorities are likely to remain an under-pensioned group in the future. The key implication of this reduced access to private pension wealth is that minority ethnic groups are more reliant on whatever state pension system is in place, and it will have the greatest impact on them.

The following sections of the paper examine the evidence for the current pension situation of ethnic minorities and seek indications of the likely direction of future change. The ability of individuals to make adequate provision for their retirement is constrained by labour market disadvantage, poverty and low income, health inequalities, and lack of access to information. There are strong relationships between these issues, as is demonstrated in sections 1–4 below.

1.1 Disadvantage in the labour market

It is widely acknowledged that minority ethnic groups continue to face labour market disadvantage, in the form of lower employment rates, lower earnings, early exits from the labour market and segmentation into particular sectors. As well as established differences between white and non-white groups, there is evidence of considerable and growing intra-ethnic diversity. The issues faced are also different for first generation migrants and for those who are born and brought up in the UK; while there is increasing diversity in the immigrant population, there are also continuities with earlier patterns and trends (Berkeley et al., 2006; Platt, 2006).

The minority ethnic employment rate is substantially lower than that of the white population. While there has been some progress, differences between the economic activity and employment rates of minority ethnic and indigenous white groups has persisted over the last two decades (Modood et al.,1997; Twomey, 2001; ONS, 2003; Strategy Unit, 2003; Barnes et al., 2005). Figures from the winter 2002/2003 LFS indicate that 58% of those in minority ethnic groups were in employment compared with 76% of the white population (ONS, 2003). While the white population has an unemployment rate of 5%, that for mixed minority ethnic employment groups is 15%, Black or Black British 13%, Asian or Asian British 11% and other ethnic groups 14%.[1] The Department for Work and Pensions and Jobcentre Plus, alongside other agencies, has been charged with taking measures to help reduce the minority ethnic–white employment gap.

The picture of labour market position and progress is a complex one. Several minority ethnic groups have experienced polarised skill and qualifications outcomes, and are over-represented amongst both high and low achievers (Strategy Unit, 2003). Some groups, notably those of Indian and Chinese ethnicity, have experienced significant improvements in their economic and social position over recent years (Strategy Unit, 2003; Loury et al., 2005; Platt, 2006).

There is considerable evidence of labour market segmentation by ethnicity. Over half of Bangladeshi men with jobs work in the restaurant industry, compared with only 1% of white men, and one in eight Pakistani men works as a taxi driver or chauffeur, compared to one in a hundred white men. At the other end of the spectrum, one in twenty Indian men is a medical practitioner. These very different employment patterns have obvious implications for income and access to pensions (Strategy Unit, 2003; Pensions Commission, 2004). With the exception of Indian men (who earn 3% more than their white counterparts), all minority ethnic men have lower earnings, and the average earnings of Bangladeshi men are just over half those of white men (Strategy Unit, 2003).

People from an ethnic minority are over-represented in self-employment, relative to white people, although this applies mainly to men. While rates of self-employment for Black African and Caribbean men are lower than those for whites, they are notably higher for Pakistani and Chinese and, to a lesser extent, for Indian and Bangladeshi men. A quarter of Pakistani men with jobs are self-employed – a figure which has risen sharply in recent years – as are almost 20% of Chinese men (Strategy Unit, 2003).

The labour market profile of minority ethnic women is as diverse as that of minority ethnic men, and follows a broadly similar pattern. The first point of divergence is found in relation to economic activity rates. Women of Chinese, African, Asian and Black Caribbean origins have economic activity rates close to those of white women (about 75%), with Indian women following closely at about 60% (Modood et al., 1997; Twomey, 2001). There is also some evidence of segmentation in the female labour market. Half of employed Black Caribbean women work in public administration, education or health, the highest rate for any ethnic group, thus providing many with access to public sector pension schemes. Accordingly, close to 30% of Black Caribbean or African women (almost as many as white women and more than Black men) have occupational pensions, while Chinese and Asian women have reduced membership of such schemes (Pensions Commission, 2004).

[1] While unemployed people receive credits to BSP, they do not receive credits to S2P.

Pakistani and Bangladeshi women, who are aggregated in most studies because of small sample sizes, are found at the opposite end of the spectrum with less than one-third actively engaging with the labour market. Similar patterns apply to the unemployment rate: 6% of Chinese, 9% of white, 12% of African Asian and Indian, 39% of Pakistani and 40% of Bangladeshi women are unemployed. An overall difference is also found between white and all other ethnic groups with respect to working patterns: minority ethnic women are on the whole more likely more than white women to be working full-time (Modood et al., 1997; Twomey, 2001; Lindley et al., 2004).

There is variation in achievements and disadvantage by age. Human capital levels are an important supply-side determinant of labour market outcomes and second-generation ethnic minorities have experienced improved educational attainment and eroded language barriers. Gender differences in labour market disadvantage are further stratified by age, a theme that recent studies of the labour market prospects for Pakistani and Bangladeshi women reiterate (Dale et al., 2002; Ahmad et al., 2003).

1.1.1 The impact of migration history on work trajectories and pension provision

Almost 10% of people living in England were born outside the UK (Census 2001), although no breakdown of this figure by ethnicity is provided, and over half of those from BME communities were born and raised in the UK. Migration history is an important influence on labour market history and family formation, and country of birth is also likely to have an impact on long-term health, because of the significance of early childhood experiences.

Age at migration is important in terms of qualifying years of work for pension purposes – a man aged 65 now, who came to the UK in 1971, will have had a maximum of 35 years working in the UK by the time he reaches state pension age (SPA), while 44 years of work are required for a full basic state pension (39 in the case of women) (PPI, 2003). It is also currently not possible to redress this by working after state pension age, since employee National Insurance contributions cease at SPA. Age at migration also affects work opportunities, as the over-35s often find it harder to adapt, retrain and learn English than those who come to the UK at younger ages. Those with limited English tend to remain trapped in low-paid work in catering and other 'ethnic enclave' employment (Barnes et al., 2005)

Cause of migration also has an impact on labour market trajectories. Forced migrants to the UK have particularly low rates of participation in the labour market, even relative to other minority ethnic groups (Carey-Wood et al., 1995). Bloch (2002) found that only 29% of forced migrants were in employment, and most of these were in temporary posts.

Among individuals and communities who originally saw their residence in the UK as temporary, what is often referred to as 'the myth of return', where people retain a primary attachment to their country of origin, may affect attitudes towards the acquisition of human capital relevant to the UK labour market, as well as influencing plans and investments for retirement (Anwar, 1979).

In addition to those people currently approaching pension age, who came to the UK in earlier periods of mass immigration, there are new migrant groups, including spouses, forced migrants and migrant workers, for whom these issues are likely to be equally pertinent in the future (Berkeley et al., 2006).

1.1.2 Implications of low participation in the labour market
The factors that have the greatest impact on future capacity to save for a pension or access to job-related pension provision are those that already polarise BME communities in current society. They are summarised below. They will have to change before the pension savings capacity of individuals can be improved:

(a) Low earnings
(b) Large families for whose long-term financial support a (single) relatively low earner is responsible
(c) Late entry to the jobs market, for migrants, so full pension entitlement cannot be built up
(d) Low skills, lack of language capacity, health problems and discrimination increase the risk of unemployment and economic inactivity, reducing the ability to save for a pension
(e) Although they qualify for Basic State Pension, the self-employed are not eligible for S2P, and thus tend to be on the margins of provision unless very financially successful with a private pension and an asset to dispose of on retirement
(f) Women are often not able to enter the jobs market through family commitments (for which they are inadequately compensated) and/or lack of skills
(g) Health problems can have a long-term effect on employment prospects and earnings, and these may be acquired at an early age (see section 1.3 below)
(h) Where migration is seen to be temporary in nature, this can militate against making and maintaining long-term pension commitments
(i) In addition to the factors affecting individual saving, BME groups also have reduced access to BSP because of broken contributions records (e.g. because of caring activities, migration during working life, unrecorded periods of unemployment, and jobs paying less than the earnings threshold for NI)

1.2 High rates of poverty and low income
High proportions of minority ethnic households are in receipt of means-tested benefits. While only 23% of white households rely on such benefits, this rises to 37% for Black African and Caribbean and 44% for Bangladeshi and Pakistani households; Indian households having similar claiming rates to white households at 24% (Platt, 2003). This is because of higher rates of non-employment (i.e. unemployment and economic inactivity), as well as lower rates of entitlement to non-means-tested benefits (i.e. where contributions have not been built up or entitlement has been exhausted).

Although some of the over-representation of ethnic minorities in poverty is due to being out of work, rates of in-work poverty are also higher among minority ethnic than white households, and notably high among Bangladeshi and Pakistani households (Modood et al., 1997; Platt, 2002). High rates of in-work poverty suggest obvious limitations on the ability to save, whether for retirement or any other purpose.

Child poverty rates are by definition higher than overall poverty rates: 19% of all working-age adults, but 30% of children, live in households with incomes lower than 60% of the median. Pakistani and Bangladeshi children have much higher poverty rates than other ethnic groups – almost 70% live in such households compared to 41% of Black Caribbean and 36% of Indian children, and over 60% live in households in the bottom fifth of the income distribution (compared to 18% of white, 43% of Black African, 34% of Black Caribbean and 26% of Indian children) (Marsh and Perry, 2003).

Child poverty among different ethnic groups is associated with different patterns of employment among adults: 44% of Bangladeshi and Pakistani families have no adults in work (compared to 33% of white families, 36% of Caribbean families and 20% of Indian families), and only 2% of families are headed by dual-earner couples. For Indian families, low income is associated with low earnings rather than worklessness, and they have a higher rate of dual earners than white families (32% compared to 19%). High rates of lone parenthood among Black Caribbeans (70% as opposed to 46% among white families) account for much child poverty, despite higher rates of employment among Black Caribbean than white lone parents (Marsh and Perry, 2003).

1.2.1 How poverty impacts on future pension provision

These current very high rates of child poverty among some BME communities have implications in respect of future pension provision. Adults in such households do not have surplus income to invest for the future. Given adequate information, those on low earnings may make a rational choice to opt out of any scheme which is not completely compulsory, prioritising the immediate needs of their family. Those growing up in poor households also face a significantly increased risk of poverty in adulthood (Ermisch et al., 2001; Blanden and Gibbons, 2006). Despite evidence of social mobility among ethnic minorities in the UK, there are growing signs of intra-ethnic diversity, including income polarisation, which mean that inequalities are likely to persist, and may even increase, over time (Loury et al., 2005; Platt, 2005).

1.3 Poor health

Despite lower rates of obesity than for the general population, rates of cardiovascular disease are higher for all non-white ethnic groups apart from Chinese and Black Africans. Among those aged 55 and over, rates of angina are highest among Pakistani men (31%) and Indian women (15%) compared to 9% in the general population, and the prevalence of heart attacks is highest among Pakistani men (19%) and women (6.9%) (compared to 10% and 5% for men and women in the general population). Bangladeshi and Pakistani women and Black Caribbean men also have double the risk of a stroke compared to the population as whole. The incidence of diabetes is also increased for Black Caribbeans, Pakistanis, Indians and Bangladeshis, at around double that of the general population (all figures from Health Survey for England, 2004).

These health differentials have a variety of causes, including the impact of early childhood experiences (e.g. child poverty, and exposure to infection and lack of access to health care in less developed countries), genetic predisposition to certain conditions, and the impact of socio-economic inequalities, including low incomes, poor working conditions and unemployment.

1.3.1. Impact of poor health on future pension provision

It is difficult to predict the long-term health outcomes for today's minority ethnic children and young adults, although evidence from the DASH (Determinants of Adolescent Social Health and Wellbeing) survey, which covers 8000 London children and young people from a variety of ethnic backgrounds, should provide a source of such data over time. Children from Black African, Caribbean and Pakistani backgrounds show increased rates of obesity relative to the population as a whole (DoH, 2005) which may imply continued ethnic differentials in diabetes and cardio-vascular disease if it persists. High rates of child poverty also imply a risk of poor long-term health outcomes (Bradshaw, 2001). Salway (2004) finds high rates of long-term limiting illness (around twice those of the white population – 1.7 for

men and 2.1 for women) among Bangladeshis, from as young as 35 years of age, and highlights their significance as a cause of low income for this group.

1.4 Language and cultural issues

Pensions information is complex and difficult to absorb, even for the specialist. Those with ESOL needs have a particular reliance on clear and accessible information, in community languages. While it is often assumed that there is less need for this among younger people, there are some ESOL needs among this group, and new arrivals to the UK will continue to need information in other languages and/or simple, clear English. In the absence of such information, people from minority ethnic groups are likely to rely heavily on the advice and services of community intermediaries, who may not be providing them with the most appropriate advice and services.

The low rates of employment among women in some minority ethnic communities (particularly Pakistani and Bangladeshi groups) arise from a number of factors, including large family size (implying both higher replacement rates and a longer child-rearing career) and prevalent traditional practices, e.g. a preference for a breadwinner/homemaker division of labour. It is less clear to what extent these patterns will persist over time. Recent analysis of the Labour Force Survey by Dale et al. (2005) demonstrates that, irrespective of ethnicity, degree-educated women under 30 without a partner or child all have employment rates in excess of 90%, and that employment rates are significantly higher for women of Bangladeshi and Pakistani ethnicity born and educated in the UK than for older women who came to the UK as adults, although this may represent differences in human capital as well as changes in cultural attitudes.

There are varying cultural attitudes towards saving for retirement, some of which may be influenced by overall values relating to the acquisition and deployment of assets. Much has been made of the continuing attachment to the idea of an intergenerational compact, and expectations of future support from adult children as a factor in the retirement planning of minority ethnic groups, but its practical importance may be overstated. Nesbitt and Neary's (2001) qualitative study of retirement decisions suggests a strong preference for support from adult children among Pakistani and Bangladeshi men. Such attitudes are also explored in Taylor and Barnes (forthcoming). Where strong norms of family support do exist, commitment to such an ideal may lead people in the prime of their working life to invest more heavily in their children's welfare (e.g. spending on private education) than in their own future; remittances to the extended family overseas may also reduce disposable income for saving. Moreover, large family sizes, longer periods in education, and high 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.

Religious beliefs may also influence attitudes to pension saving and the use of financial products, since Muslim *Sharia* law proscribes the use of interest-bearing products and mandates charitable giving. The extent to which this directly influences savings behaviour is, however, difficult to assess, and there is little research on this issue. Herbert and Kempson (1996) found evidence of pragmatism among Muslims on low incomes who needed to borrow, and recent work for the Financial Services Authority (Personal finance Research Centre, 2005) suggests that the degree of religiosity, rather than simple religious affiliation, needs to be measured in any future surveys on such matters. Barnes and Taylor's (forthcoming) research on minority ethnic pension decisions also discusses attitudes to these issues, but as a qualitative study is unable to comment on their prevalence.

1.4.1. Impact of language and cultural issues on future pension provision
The impact of these circumstances on future pension provision will depend partly on the extent to which existing trends among ethnic minorities remain stable and partly on the extent to which social security policy adapts to make provision for these varying domestic and social circumstances. As well as reforms to the pension system itself, this might, for instance, include making changes to the wider benefit system to mitigate the considerable economic disadvantage experienced by large families, as one recent report argues (Bradshaw et al., 2006).

Section 2. The Pensions Commission's Proposals & Recommendations

The Pensions Commission discusses the options of a two-tier versus universal state pension system, and makes a strong case for the former, on the basis of both cost and administrative efficiency. The idea of creating an enhanced state pension (ESP), set at a level high enough to avoid means-testing among the majority of current and future pensioners, is discussed but rejected as being too expensive, creating dead weight among better-off pensioners who are already well provided for, and reducing the incentives to voluntary provision.

2.1 Reform of the State Pension System

The Pensions Commission's suggested reforms to the state pension systems are aimed at focusing tax/NI systems on ensuring the most generous flat-rate state pension provision possible, moving earnings-related provision to the new NPSS, while seeking to improve the position of those with interrupted paid-work records. Its preferred option consists of:

- Building on the current two-tier system and recent reforms to accelerate the evolution of the State Second Pension (S2P) into a flat-rate provision by freezing the Upper Earnings Limit for contributions to S2P entitlement.
- Indexing the state pension to average earnings growth, starting from 2010 or 2011, funded by a gradual increase in state pension age in line with rising life expectancy, to age 66 in 2030 and age 68 by 2050.
- Limiting the spread of means-testing by freezing the maximum level of Savings Credit payments within Pension Credit.
- Basing future accruals to the state pension on an individual and universal (i.e. residency) basis, and improving carer credits within S2P.
- Ideally, introducing a universal state pension for pensioners aged over 75.

2.2 Creation of a National Pension Savings Scheme

The creation of this scheme has the twofold aim of strongly encouraging individuals and their employers to provide for a pension which will deliver at least a minimum base of earnings-replacement, and of enabling all people to have the opportunity to save for a pension at low cost. Its specific recommendations are for:

- All employees to be automatically enrolled into funded pension saving (but with the right to opt out) into either high-quality employer pension schemes or a newly created National Pension Savings Scheme (NPSS).
- Minimum default contributions to be set at about 8% of earnings above the Primary Threshold and below the Upper Earnings Limit, of which 4% to be paid out of

individual post-tax earnings, 1% from tax relief and 3% from compulsory matched employer contributions.

- Contributions to be collected via PAYE or a newly created Pension Payment System, and be held in individual accounts.
- Additional Voluntary Contributions above the default level by both employees and employers to be encouraged; and allowing access to the NPSS for the self-employed on a voluntary basis.

2.3 The Pensions White Paper

The Pensions White Paper 'Security in Retirement: Towards a new pension system' was published on 25 May 2006. It adopts many of the Pensions Commission's recommendations: e.g. raising the state pension age, introducing personal accounts (incorporating the main features of NPSS, but allowing for multiple providers), making the S2P flat-rate over time, and restoring the link between the state pension and average earnings (subject to affordability). It does not, however, pick up on the notion of residence-based pension provision, or the extension of S2P to the self-employed. Instead it proposes a reduction in the contribution period to 30 years, elimination of the requirement for a minimum period of paid work, and an improved system of weekly tax credits for those caring for children and disabled people.

Section 3. What These Proposals Imply for Minority Ethnic Communities

This section of the paper considers the extent to which the Pensions Commission and Pensions White Paper proposals are likely to meet their aims in respect of minority ethnic pensioners.

3.1 An improved position for those with interrupted work records – contributions or residence as routes to qualifying for BSP and S2P

Current contributions conditions mean that those coming to the UK during their working lives, and those who spend long periods economically inactive (e.g. as carers), are unable to achieve a full basic state pension. At present, even those who qualify for Home Responsibilities Protection (HRP) because they are caring for children younger than 16 still require a minimum period of paid employment in order to qualify for a pension, and credits for S2P are available only where a child is under 6, and at a flat rate.

The White Paper adopts the option set out in Figure 5.30 of the Pensions Commission report: (1) it proposes changing HRP from a policy that reduces the number of qualifying years to a system of tax credits; and (2) introduces a similar tax credit for those who spend at least 20 hours per week caring for someone who is disabled. It proposes to streamline the rules, making credits for BSP and S2P available to those with a child below 12 years of age.[2] Pakistani and Bangladeshi women, whose labour market participation rates are notably low, would be major beneficiaries of this change, although such provision may also be relevant to younger minority ethnic women in future. For instance, Somali women, although forming a smaller group, and with a younger age profile, also tend to have low employment rates and large families.

[2] This represents a reduction in provision for BSP, and an increase in S2P.

However, even if changes are made allowing credits, as well as reducing the number of qualifying years, a recent PPI report (PPI, 2006a) makes clear that over 2 million people a year are likely to remain outside the scope of this provision, and thus will not automatically qualify for a full pension. A universal pension based on residence therefore remains the most effective way of ensuring full BSP coverage for women and others with interrupted work records. Its impact on those entering the UK during their working life is, however, dependent on the qualifying period adopted.

While the Pensions Commission proposed moving future accruals to BSP to a long-term residence base, and suggested the introduction of universal BSP for those aged 75 and over, the White Paper did not take up these suggestions. This factor is likely to increase the numbers of future, as well as current, BME pensioners eligible for means-tested benefits.

3.2 Working life goes on until later ages

A key element of the Pensions Commission proposals is that people need to remain in work for longer, and that the state pension age should rise to 68 by 2050. This suggestion *has* been adopted by the White Paper. The distributional consequences of such a change are highly dependent on access to employment opportunities, and on the value of (and eligibility conditions for) earnings-replacement benefits for those who are not employed in the years immediately prior to state pension age.

3.2.1 Financial advantages for those who can work on

The financial advantages of working longer, by deferring a pension claim and thereby increasing the value of state and other retirement pensions, are generally poorly understood and are currently under-used. The options both of increasing the publicity about this, and of increasing flexibility by allowing people to defer a proportion of their pension entitlement, have merit. However, the ability to take advantage of deferral is constrained by the availability of employment opportunities, and it may therefore be of limited relevance to some people from minority ethnic groups.

There is little hard evidence on the capacity or willingness of older people to work for longer, and none that specifically considers ethnicity – around 10% of people remain in paid employment after state pension age (ONS, 2005), but most do so for only a few years. Much depends on the availability of opportunities to work beyond a given age, as well the social and economic incentives to do so. Self-employed people are more likely to work after state pension age, as are single and divorced people, and women seeking to coincide their retirement with a partner, and the over-representation of minority ethnic groups in self-employment may mean that they are among those who will work later (Smeaton and McKay, 2003; Humphrey et al., 2003, Barnes and Taylor, forthcoming). Both those with high returns from paid employment and those facing economic hardship have a strong motivation to work for longer, but those in the latter group have fewer opportunities to remain in or re-enter paid work, and they gain less by doing so (Barnes et al., 2004, Smeaton and McKay, 2003, Parry and Taylor, 2005).

3.2.2 A risk of increased hardship for those who can't work on?

Because of early exits from the labour market, some minority ethnic groups face long periods of *de facto* retirement. Support between the age of 50 and state pension age is therefore a key issue for this group, and increases in the age at which basic state pension, S2P or Guarantee Credit can be claimed may cause hardship, and increase reliance on other means-tested

benefits. Older people from minority ethnic communities frequently face multiple forms of disadvantage with respect to employment. Both age and race discrimination remain widespread, and levels of human capital are also lower in this age cohort (Barnes et al., 2005). A greater propensity to ill-health, as noted above, may reduce still further the chances of working. Compared with white men of 50–64, Black African and Caribbean men are a third more likely, and Indian, Pakistani and Bangladeshi men are two-thirds more likely, to be out of work (Phillipson and Smith, 2005; Nazroo, 2003, 2004). Berthoud's (2003) quantitative analysis of the combined risk factors for non-employment (including both unemployment and economic inactivity) found that fewer than 20% of Bangladeshi and Pakistani people with poor qualifications and aged over 50 were in work.

As the Pensions Commission report acknowledges, there are significant inequalities in life expectancy by socio-economic class arising both from income inequalities and differential exposure to risk, e.g. in manual work, although there is no evidence of an additional effect of ethnicity. While the option of making the Guarantee Credit available at an earlier age than the State Pension Age (as discussed in Chapter 8 of the report) offsets these differences in mortality rates to some degree, it does little to address inequalities in health, and the consequences of ill-health for labour market activity in the years preceding retirement. Those leaving the labour market due to ill-health in their 50s potentially face many years on a much reduced level of income, as now, and increasing the age at which State Pension age can be claimed may simply extend the time spent on a low income prior to retirement. It remains to be seen to what extent the proposed changes to Incapacity Benefit and policies for older workers such as New Deal 50+ (DWP, 2006) will increase employment rates among older people from minority ethnic groups.

While one might hope and expect the employment situation of people from ethnic minorities to improve over time, and there is evidence of a considerable degree of educational achievement and social mobility among young people from minority ethnic backgrounds (Loury et al., 2005, Platt, 2005), the extent of labour market disadvantage still being experienced by younger minority ethnic adults suggests that inequality in the labour market is likely to remain an issue for some time to come (Phillipson and Smith, 2005).

3.3 Reducing the extent of means-testing

The proposed reforms would increase the level of BSP, by linking it with average earnings and improving cover in both BSP and S2P for those with interrupted work histories, and reduce the scope of Pension Credit, thus reducing the extent of means-testing. However, means-tested benefits are likely to remain an important source of income for many minority ethnic pensioners, because of their disadvantaged income profile during their working lives. The Pensions Commission estimated that 39% of pensioners would still be eligible for Pension Credit in 2005, falling to 33% in 2050; but the PPI estimates this at 50%, falling to 45% over the same period (PPI, May 2006). This is particularly significant for minority ethnic groups, since their lack of other pension income means they are more likely to be eligible for Pension Credit, but their take-up of means-tested benefits is known to be low (Barnard and Pettigrew, 2003).

Moreover, as discussed above, because of the over-representation of ethnic minorities among those making early exits from the labour market, any increase in the age at which BSP and S2P can be claimed may increase the number of years spent on means-tested benefits in the run-up to retirement.

3.4 Potential impact of personal accounts

The introduction of personal accounts aims to encourage individuals and their employers to save into a pension scheme offering at least some level of earnings replacement. It would undoubtedly increase access to earnings-related pension provision among ethnic minorities who currently lack this, and would increase take-up among those people from minority ethnic groups for whom inertia and lack of information, rather than low incomes, are the barriers to pensions saving.

However, continued inequality in the labour market remains a major barrier to many people from minority ethnic groups being able to invest in making adequate private pension provision (including personal accounts), whether as a result of longer periods of unemployment and economic inactivity, lower earnings and/or early exits from the labour market. Employers may also actively discourage people from joining personal accounts. Although there is a strong policy emphasis on reducing ethnic differentials in employment, the long-standing nature of these trends suggests that change may be slow in coming. This means that there is a greater reliance on the basic state pension, S2P and means-tested benefits. These are likely to remain the primary determinant of retirement incomes for ethnic minorities with low incomes for the foreseeable future.

The Pensions Commission has identified self-employed people as one of the groups facing the most severe degree of pension under-provision, and therefore recommends that self-employed people should be allowed voluntary access to personal accounts. While this is welcome, self-employed people will not be able to benefit from 'matched' contributions in the same way as those working for an employer. It is also likely that the self-employed, particularly those engaged in low-income self-employment, will be less likely to take up such provision than employees, who are automatically enrolled, as has been widely acknowledged in responses to the proposals.

Because of their limited capacity to make additional savings, whether into private pensions or personal accounts, low-income groups would be major potential beneficiaries of an enhanced state pension (ESP). To reject this policy option, as is proposed both by the Pensions Commission and the White Paper, would seriously limit the benefits of the proposed reforms for minority ethnic communities. The PPI (2006) point out that for the 49% of the working-age population who have earnings below £10,000 (and those with interrupted work histories), a universal flat-rate system would be of greater value than a lower flat-rate pension plus an earnings-related component, although both would cost the same.

Section 4. Overall Conclusions

The White Paper's proposed reforms offer improved coverage for those with interrupted work histories, particularly for those involved in child-rearing and other forms of care-giving, and will reduce the spread of means-testing to some extent. The expectation that people will work for longer may prove problematic for those in poor health, and those facing multiple disadvantage in the labour market, who may still leave the labour market in their 50s and will face the prospect of a longer wait before being allowed to claim retirement benefits.

Among proposals which have been adopted in the White Paper, those that will specifically benefit the BME pensioners of the future include:

1. Reducing the contributions base from its current level of 44 years for men (39 for women) to 30 for all, and abolishing the minimum requirement for engagement in paid work
2. Allowing earnings from more than one job to be aggregated, for contributions purposes, bringing more people within the scope of National Insurance
3. Changing the Home Responsibilities Protection (HRP) to a system of weekly tax credits for BSP and S2P
4. Individualisation of benefit in place of dependency on 'breadwinner' entitlement
5. Linking increases in state pensions with average earnings rather than prices

The proposed changes to S2P are welcome, and the changes to HRP would considerably improve the position of those women who spend many years raising families or caring for elderly relatives. Adoption of a 30-year contribution period, as proposed in the White Paper, would make a significant difference both to carers and to others with an interrupted work record, but will not ensure complete pensions coverage. Individualised benefits will also considerably improve the financial autonomy of retired BME women in future, by providing them with an independent source of income.

In terms of BSP, restoring the link with average earnings rather than prices would also help to alleviate poverty and reduce reliance on means-testing. However, the rejection of a flat-rate universal state pension would mean that many minority ethnic pensioners are likely to continue to rely on means-tested benefits. While the creation of personal accounts would extend the opportunity of making private pension provision to people who do not currently have access to an occupational scheme, and provide a modest level of employer contribution, it is likely to have a limited impact on the majority of minority ethnic people of working age. This is because their disadvantaged economic position allows them to save only a modest amount, if anything, from their earnings. Only quite major changes in the employment position of ethnic minorities will enable them to make adequate provision for their own retirement.

Among proposals which have not been adopted, those that could potentially benefit future BME pensioners include:

1. A flat-rate pension for all, rather than a two-tier structure with an earnings-related component
2. Access to S2P for the self-employed
3. Depending on the residence criteria adopted (this would need to be conditional, e.g. 10 of the last 20 years, rather than a set period, or make allowance for particular situations, e.g. for forced migration), universal entitlement based on residence rather than contributions
4. Entitlement to claim the state pension (BSP) earlier than the State Second Pension (S2P) could benefit low-paid workers or those with health problems but would be offset by loss of means-tested benefits for some

The over-representation of BME groups in low-paid work, including low-income self-employment, means that they are disadvantaged by any element of pension provision tied to individual earnings. Although S2P is set to become flat rate over time, there is still an earnings threshold. Moreover, the decision not to extend S2P to the self-employed, a group which is unlikely to take up personal accounts, means that there is likely to be little improvement in their pension position.

The Pensions Commission's proposals to move to a universal basis for entitlement to BSP, based on residence rather than contributions, would be of significant benefit to people from minority ethnic groups with interrupted work histories. Although some will benefit from the proposed provision for carers, many experience multiple or prolonged periods of unemployment which will not qualify them for anything beyond BSP. For as long as BME groups continue to experience disadvantage in the labour market, contributory pensions reflect this disadvantage. For those who come to the UK as adults, however, any potential advantages to be derived from residence-based provision would be dependent on the period of residence adopted.

While there is some merit in the possibility of being able to claim BSP before the S2P, as proposed by the Pensions Commission (and which the White Paper proposes to keep under review), thus reducing potential inequities caused by increases in the state pension age, this will be of doubtful practical benefit to those on the lowest incomes, for whom this income will simply be deducted from their means-tested benefits.

This paper has demonstrated that although some of the proposed changes to the pensions system will benefit Britain's BME communities, they fail to address those inequalities that arise specifically from the disadvantaged employment situation and low incomes of minority ethnic communities. These issues require further consideration as part of the pension reform process.

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