

Ready for Retirement?

Pensions and Bangladeshi
Self-employment

Runnymede: Intelligence for a Multi- ethnic Britain

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Abbreviations in this report

- BSP – Basic State Pension
- NI – National Insurance
- NICs – National Insurance Contributions
- NEST – National Employment Savings Trust
- ONS – The Office for National Statistics
- S2P – State Second Pension
- SPA – State Pension Age

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Executive Summary

Many Black and minority ethnic (BME) people in the UK are in low income self-employment, facing particular challenges to saving and contributing to a decent pension and enjoying a retirement free from poverty. This report looks at the relationship between BME self-employment and pensions, illustrating key issues with examples from our research among Bangladeshi and other BME communities. It examines the level and type of pension provision people have and the particular barriers to pensions they face, in light of recent government reforms to pensions. These reforms have been in response to an ageing population, lower annuities offered by company pension schemes and the fact that people are less likely to prioritize personal saving than in the past. Automatic enrolment of employees into workplace pension schemes and changes to the state pension age are central features of these reforms.

Ethnicity, self-employment and pensions reform

People from all ethnic backgrounds experience pensioner poverty. Runnymede's interest in pensions stems from a concern over the well-being of BME people, who are particularly likely to experience pensioner poverty as well as income poverty during their working lives.

People in all BME communities experience disadvantage in the labour market, affecting their ability to make adequate pension provision. For example, men and women from all BME backgrounds are less likely to be employed and more likely to be unemployed than White people. For example, in 2007:

- 17% of Bangladeshi men were unemployed, compared to 5% of White men;
- 19% of Bangladeshi women were unemployed, compared to 4% of White women.

Black and minority ethnic people continue to face barriers to employment, including discrimination and low levels of human capital. Some people respond by entering self-employment. Rates of self-employment are highest among Pakistani and Bangladeshi people – 26% and 16% respectively.

However, self-employed people face barriers to saving into a pension. Many run businesses in the hospitality and catering industry, in which business failure rates are high and income often low. Crucially, self-employed people do not receive the benefits of a workplace pension scheme and are unable to contribute to and receive the state second pension (S2P). Also, they are less likely to have a private pension, often seeing their business as a pension asset, which is a high risk strategy for retirement income.

Levels of pensions and savings are relatively low among BME people. While 32% of White households have no savings at all, this figure is 60% for Asian or Asian British households and 63% for Black or Black British households. Similarly, BME people are less likely to have a private pension – 2005/6 figures show that 39% of BME people have a private pension compared to 53% of White people. Also, BME people are less likely to build up entitlements to S2P than the wider population. Rates of home ownership are also lower, particularly among Bangladeshi people.

Aside from labour market considerations, other factors contribute to people having low levels of pensions. These include:

- migration status, including the stage in life at which someone moves to the UK;
- family size and expectations of family care in retirement;
- language, distrust of financial institutions and other barriers to financial capability; and
- religion, such as the desire among some Muslims to avoid interest.

The policy context for these findings includes recent reforms to pensions policy. These include:

- increasing the State Pension Age (SPA) for men and women from 65 to 68 between 2024 and 2046;
- automatic enrolment of employees into a workplace pension scheme, including a minimum employer contribution of 3% and a 1% contribution in the form of tax relief; and
- the introduction of the National Employment Savings Trust (NEST), a new pension savings vehicle that employers can offer to employees.

Recommendations

1. Recognizing that the seeds of pensioner poverty are sown during working-life

It is clearly important to improve the pensions system in order to reduce pensioner poverty. It is, however, equally important to recognize that pensioner poverty is directly linked to labour market disadvantage throughout people's working lives. Improvements to the employment position of BME people will enable them to make adequate provision for their own retirement.

Government needs to continue to work to reduce ethnic inequalities in terms of employment, earnings and income. We welcome the Equality Act but its impact will rest on its successful implementation.

Government must continue to work to reduce ethnic inequalities in health, education and housing, which contribute to employment disadvantage and therefore to pensioner poverty.

Pensions information from central and local government, as well as Money Guidance, needs to be made available in ways appropriate to BME people. This includes translating information into appropriate languages and taking account of cultural issues, such as the reluctance among Muslim women to receive face-to-face advice in a one-to-one setting with a male adviser. Community centres and charities are potentially valuable partners in this process.

Policymakers should look at the potential to publicize pensions information and signpost to Money Guidance via alternative financial institutions, such as remittance companies, community development finance institutions, credit unions, microfinance organizations and tax/financial advisers, as well as GP surgeries.

Such information could be more feasibly translated into relevant languages where there are concentrations of people from particular communities using these organizations.

2. Improving financial awareness and capability

There is potential for the government's financial capability agenda, including the new Money Guidance service, to address the low financial capability around pensions among some people and to improve access to information.

We recommend that the Consumer Financial Education Body (CFEB) engages with community centres serving BME communities in order to improve financial capability around pensions. This could include providing information directly, increasing capacity for staff to inform people about money issues or signposting people to sources of advice and guidance, such as Money Guidance or the Pensions Advisory Service.

While Money Guidance is prohibited from recommending particular products, it should draw people's attention to NEST as a simple pension scheme that self-employed people are able to opt into.

It has been suggested that the government's review of auto-enrolment may result in the abandonment of NEST. This is a cause for concern and we hope that any replacement will have similar properties, in terms of being a low cost, high quality, simple pension scheme.

3. Access to State Second Pension (S2P)

Lack of access to S2P is an important reason why many BME self-employed people have low levels of pensions.

We recommend that the issue of extending S2P to self-employed people be looked at again.

The extension of S2P may be deemed unviable or unfair. In this case the problem still needs a solution and alternative arrangements need to be developed.

These could include alternative top-up arrangements or other tax-related policies to ensure that everyone has fair access to decent pension provision when they retire.

We also note the recommendation of the National Association of Pension Funds (NAPF) for a new 'State Foundation Pension', which would combine Basic State Pension (BSP) and S2P.

1. Introduction – Poverty, Self-employment and Pensions Reform

Many Bangladeshi people in the UK are self-employed, owning small businesses in industries such as catering and private transport hire. This report looks at the relationship between self-employed Bangladeshi people and pensions, examining the level and type of pension provision they have and the particular barriers to provision they face in light of recent government reforms to pensions. By looking at the particular experiences of Bangladeshi people the report highlights issues that apply to other Black and minority ethnic people.

1.1 Pensioner poverty

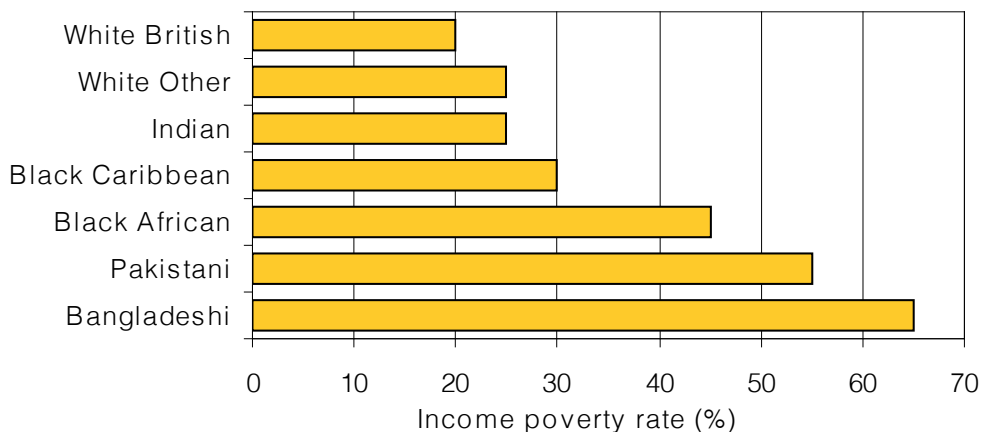
The issue of pensioner poverty has received increasing attention over the last few years, with concerns that the number of older people with insufficient income in retirement is set to grow in future. A number of issues are causing this concern. The ageing of the population means that the ratio of pensioners to people in work is set to increase significantly over the next forty years. The number of people at State Pension Age (SPA) and above for every 1000 people of working age is set to rise from 310 in 2008 to 495 by 2051, were SPA to stay at current levels (ONS, 2010a). This is already leading to pressures on government expenditure on pensions, especially in this time of spending cuts. Other important causes include

the lower level of annuities now offered by many company pension schemes and the fact that people are less likely to prioritize personal saving than in the past. A recent DWP survey found that half of those aged 25 and 34 are not saving for retirement (Adams, 2010). These pressures led the previous government to make significant reforms to pensions policy. While some see reform of the pensions system as the key to reducing pensioner poverty, others insist that addressing disadvantage and poverty throughout a person's working life is more important (see Miles, 2002: 2).

Runnymede's interest in pensions reform stems from a concern over the well-being of BME people above retirement age, especially the incidence of poverty among BME pensioners. ONS figures show considerable progress in reducing the number of pensioners living in poverty: from a level of 2.9 million to 2 million over the period 1998 to 2008 (ONS, 2010b).¹ We welcome this progress in helping more pensioners to enjoy their retirement free of poverty. However, there are still 2 million pensioners living in poverty and there is a danger that as the population ages, pensioner poverty may increase.

¹ These ONS figures define poverty as 60% of equivalized contemporary median income after housing costs.

Figure 1. Income poverty rate by ethnicity, 2002-5



Source: Kenway and Palmer (2007: 11)

1.2 Ethnicity and self-employment

People from all BME backgrounds are at a greater risk of income poverty than White British people, as Figure 1 shows. There is also evidence that BME pensioners are more likely to be poor than White pensioners (Figure 2). While alleviating poverty among pensioners of all backgrounds is important, the principle aim of this report is to highlight the disadvantage faced by BME people, with a particular focus on self-employment. BME communities tend to have younger age structures – data from the 2001 Census show that 17% of White British people were 65 and older compared to 7% of Indians, 4% of Pakistanis and 3% of Bangladeshis (ONS, 2004a). This means that there will be a growing population of older BME people over the coming decades and that there is the risk that pensioner poverty in these communities will be even more of a problem.

We look specifically at self-employment because it is, as the Pension Policy Institute (2009: 1) point out:

... one of the characteristics that could lead some individuals to have lower pension incomes from both the state and private saving.

Levels of self-employment are higher among some BME groups, including Bangladeshi people, than the wider population. Those in self-employment face particular barriers and issues around

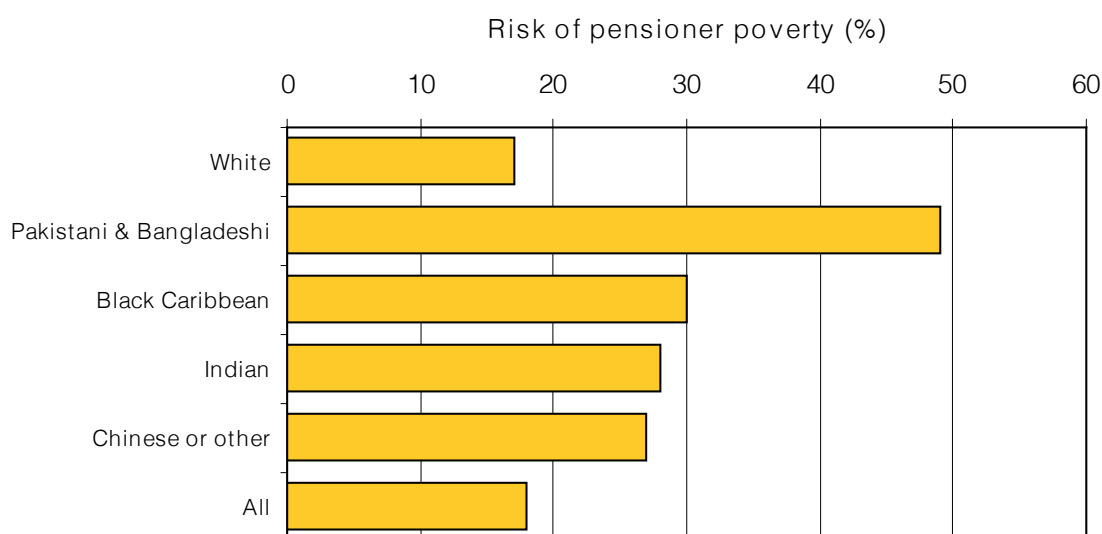
pensions, which are explored in later chapters. So, many BME people face a double challenge of low income and self-employment, both of which increase the risk of pensioner poverty. For this reason it is important to draw attention to how pensions reform will affect self-employed people. The question this report addresses is:

- What factors make it difficult for self-employed BME people to make adequate pension provision, in light of current pensions reform?

Over the last five years we have looked at issues around BME people's ability to save and contribute to pensions and provide an adequate retirement income.

- In 2006 Runnymede responded to the DWP White Paper, *Security in Retirement: Towards a New Pensions System*. This response describes the disadvantaged position of BME people and highlighted the danger that reform could create unequal outcomes in pension provision (Runnymede, 2006).
- In 2007 we responded to the DWP White Paper, *Personal Accounts: A New Way to Save*. This response focuses on issues raised by the introduction of personal pension accounts, such as BME people's ability to access information and save into them (Runnymede, 2007a).

Figure 2. Risk of pensioner poverty by ethnicity, 2007-8



Source: DWP (2009: 140)

- In the same year we also published a briefing paper giving an overview of the likely impact of proposed pension reform on self-employed BME people (Runnymede, 2007b).

In 2008 we also published *Financial Inclusion and Ethnicity* (Khan, 2008), which reviews the evidence of financial exclusion that BME people experience in a range of areas, including savings and pensions.

These publications draw on evidence to argue that many self-employed people of various ethnic backgrounds face significant barriers to access pensions and to save for a decent retirement income. This report reiterates and expands on this core argument. It is primarily a review of the relevant evidence, literature and statistics, supplemented by primary research among Bangladeshi people in London.

1.3 Why look at the Bangladeshi community?

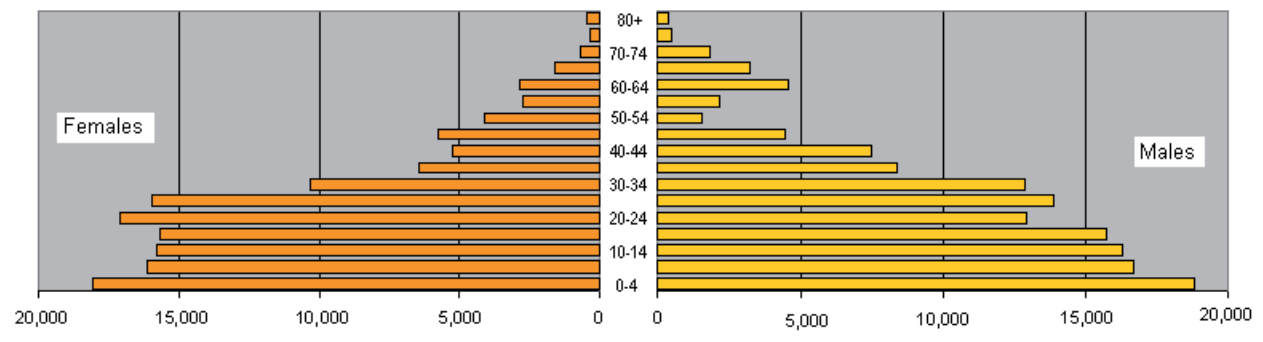
The experience of people from different BME backgrounds is very diverse. In contrast to some groups, such as Indian people, who tend to be in a better socio-economic position, Bangladeshi people experience significant disadvantage in areas such as income and employment. This disadvantage means that pensioner poverty is a particular problem in this community – Figure 2 shows that 49% of Bangladeshi and Pakistani pensioners are at risk of poverty, compared to 17% of White pensioners. On top of this, the Bangladeshi community has a young age profile

(Figure 3). In 2001, 38% of Bangladeshis were under 16 compared to 20% of the White British population (ONS, 2010c). The Bangladeshi population will have aged since 2001 but there are still relatively low numbers of older people. Their particular experiences of pensioner poverty are therefore poorly understood and this report aims to improve this understanding in order to address present pensioner poverty but also to pre-empt rising poverty as the community ages.

Significant migration from Bangladesh to the UK has taken place since the 1950s and 1960s, with an increase during the 1970s. Most people (mainly men) came from the Sylhet region of Bangladesh, speaking Sylheti. The majority worked in low income jobs in factories, mainly in the textile industry, before moving into the restaurant trade in which most people work today. Most of the Bangladeshi community live in London. We carried out a number of interviews with Bangladeshi people in London, including people working in and attending community centres, in order to gain some insight into the community.

While focusing on Bangladeshi people, many of the issues discussed are relevant to other BME groups, particularly Pakistani and Chinese people, many of whom are in low-income self-employment. Therefore, much of the discussion refers to BME people generally. Section 1 provides an overview of the pensions reform measures contained in the Pension Acts of 2007 and 2008. Section 2 describes the disadvantaged position of BME people in the labour market, focusing on self-employment. We argue that self-employed

Figure 3. 'Asian or Asian British: Bangladeshi' by age and sex. England and Wales, 2001



Source: ONS (2010c)

BME people face particular barriers to pension provision. Section 3 describes the disadvantaged position of BME people in terms of levels of pensions and savings. Section 4 highlights other factors that put BME people at risk of pensioner poverty, such as migration status and family structure. Finally, in Section 5 we present our conclusions and recommendations.

1.4 Current pensions reform

Developments and planned changes to pensions policy provide the policy context for this description of the barriers to pensions provision faced by BME self-employed people. The previous government established the Pensions Commission to review pensions policy and propose directions for reform. Its 2004 report identified how increasing life expectancy and low birth rates have contributed to 'produce 30

years of very rapid increase in the dependency ratio' (Pensions Commission, 2004: 1). On top of this, there are an estimated 7 million people in the UK currently under-saving or not saving at all for retirement (DWP, 2006a). These background factors have driven recent reform. There have been a number of White Papers and Acts of Parliament covering a wide range of reforms. It is a complex and extensive policy landscape – Boxes 1 and 2 highlight the headline changes detailed in the Pensions Act 2007 and 2008.

The reforms affect multiple areas of pension provision, including state, workplace and other private pensions. They aim to increase pension coverage and entitlements generally but also to:

... [enable] and [encourage] more people to build up a private pension income to supplement the money received from their basic State Pension.

(DWP, 2010a)

Box 1. The Pensions Act 2007 – Reforms focus on state pension

<i>Changes to Basic State Pension (BSP)</i>
<ul style="list-style-type: none"> • Reductions in the number of qualifying years needed to receive a full BSP from 39/44 (women/men) to 30 for both • Linking annual cost of living increases in BSP with earnings rather than prices • Changing contribution conditions in such a way as to enable everyone to build up some entitlement • Enabling those caring for children and severely disabled people to build contributions to BSP through weekly credits
<i>State Second Pension (S2P)</i>
<ul style="list-style-type: none"> • The introduction of National Insurance credits for those with long-term disabilities and caring responsibilities
<i>State Pension Age (SPA)</i>
<ul style="list-style-type: none"> • Gradually increasing SPA to 68 for men and women, between 2024 and 2046

Source: DWP (2010b)

Box 2. The Pensions Act 2008 – Reforms focus on workplace pension provision

<i>Auto-enrolment</i>
<ul style="list-style-type: none"> • In order to increase private pension provision, employers from 2012 will have to automatically enroll eligible workers into workplace pension schemes (including NEST, below). This means that employees not wishing to take part have to actively decide to opt-out, thereby increasing pension coverage.
<ul style="list-style-type: none"> • Employers will be required to make a minimum contribution of 3% to workplace schemes. This will add to the 4% employee contribution and 1% in the form of government tax relief.
<i>NEST</i>
<ul style="list-style-type: none"> • 2012 will see the introduction of a new employer savings vehicle, NEST (National Employment Savings Trust), previously called Personal Accounts. This is aimed at mainly low and median earners (£5,035–33,500) who currently don't have access to a good quality workplace pension.

Source: DWP (2010a)

The following elements of the pensions system, and the ways in which they are being reformed, relate to self-employed people:

- Like the wider public, self-employed people contribute to and receive BSP. The number of yearly NI contributions required to receive a full BSP, the level it is set at and the way it is indexed are therefore relevant.
- Increased access to S2P does not include allowing access to self-employed people.
- Self-employed people will not be auto-enrolled into workplace schemes, such as NEST. They can, however, voluntarily opt into NEST, although not having an employer means that they will not benefit from the 3% employer contribution.

It is beyond the scope of this short report to fully analyse the potential impact of these reforms on

BME self-employed people. We do, however, relate our analysis to some specific elements of reform, such as the fact that self-employed people cannot access S2P and will not benefit as much from schemes where employers contribute to workplace schemes. The new coalition government, which took office in May 2010, has been reviewing these reforms and may bring in new policies or abandon existing ones.

Section summary

- BME people are more at risk of income poverty and pensioner poverty than the wider population.
- In light of this, the report addresses the following question – What factors make it difficult for self-employed BME people to make adequate pension provision, in light of current pensions reform?

2. Labour Market Disadvantage, Self-Employment and Pensions

Any discussion of pensioner poverty and the adequacy of pensions needs to start with a discussion of people's experiences in the labour market. Indeed, as noted above, some argue (such as Miles, 2002) that pensioner poverty is much more closely related to poverty during a person's working life than the pensions system itself.

In Runnymede's briefing paper on the 2007 Pensions Bill, we noted that in the area of pensions reform:

... there has been little reflection on the needs of Black and minority ethnic (BME) citizens, despite the fact that they already suffer social and economic exclusion and are more likely to live in poverty.

(Runnymede, 2007b: 1)

This section describes some key aspects of BME people's experiences in the labour market, including self-employment, and how these present challenges to building adequate pension provision through:

- saving – into private pensions;
- contributing – to state pensions through National Insurance Contributions (NICs).

2.1 Employment, unemployment and discrimination

The picture of BME labour market participation is a complex one. Some groups fare significantly better or worse than others and differences in gender are also significant. Men from all BME backgrounds are less likely to be employed and more likely to be unemployed than White men, as Table 1 shows. The data presented in Tables 1 and 2 obscure important factors such as earnings, part-time work and age structure. However, a lack of employment has obvious implications for pensions because those not in employment (both men and women):

- are less likely to have disposable income to put towards private pensions;

- do not have access to employer pension schemes, including employer contributions.

Bangladeshi men are notable for having a particularly low rate of employment (60% compared to a 79% average) and high rate of unemployment (17% compared to 6% average). They also experience less consistent employment, moving in and out of employment over time.

There is an important gender dimension to employment. The employment rate for women is lower than that for men (70% against 79%), as Table 2 shows. Also, women are much more likely than men to be inactive (26% against 16%). Caring responsibilities, traditional gender roles and continuing discrimination against women may account for these disparities. In terms of ethnicity the situation is similar to that for men – women from all BME groups are less likely to be employed and more likely to be inactive than White women. Pakistani and Bangladeshi women have significantly low levels of employment – 25%

Table 1. Male employment, inactivity and unemployment by ethnicity

<i>Ethnic group</i>	<i>Employed (%)</i>	<i>Inactive (%)</i>	<i>Un-employed (%)</i>
White	80	16	5
Indian	78	16	8
Black Caribbean	69	19	15
Black African	69	19	15
Mixed	67	21	15
Pakistani	66	25	11
Chinese	63	32	*
Bangladeshi	60	28	17
Great Britain	79	16	6

Source: Khan (2008: 16) Table adapted from DCLG, 2007: 157

*Unemployment figures for Chinese group not shown due to small number.

Table 2. Female employment, inactivity and unemployment by ethnicity

<i>Ethnic group</i>	<i>Employed (%)</i>	<i>Inactive (%)</i>	<i>Un-employed (%)</i>
White	72	24	4
Mixed	65	28	10
Black Caribbean	65	27	11
Indian	61	33	8
Black African	56	36	13
Chinese	56	39	*
Pakistani	25	68	22
Bangladeshi	23	72	19
Great Britain	70	26	5

Source: Khan (2008: 16) Table adapted from DCLG, 2007: 157

*Unemployment figures for Chinese group not shown due to small number.

and 23% respectively, compared to a national average of 70%. This partly reflects the fact that women in many Pakistani and Bangladeshi families do not work but instead look after the home and family (i.e. 'inactivity'). However, the high rates of unemployment – 22% and 19% among Pakistani and Bangladeshi women respectively compared to an average of 5% – mean that even where women are seeking a job, they have difficulty getting one. Their low rates of employment have consequences in terms of their ability to build up pension entitlements for themselves. It is likely that many women in this situation will rely on support from their husbands or wider family for retirement income and of course welfare benefits. Gender inequalities in pensions are a major issue and one which we have insufficient space to address fully in this report.

Given our focus on self-employment, there is insufficient space to fully address all aspects of labour market disadvantage. It is, however, worth briefly mentioning a number of further issues. In Runnymede's 2007 response to the DWP's Personal Accounts White Paper we drew attention to the prevalence of in-work poverty among BME people.

Although the high proportion of [BME] groups living in income poverty is largely due to lack of work, [BME] groups also

experience rates of in-work poverty higher than those of White households, and these are notably high among Bangladeshi and Pakistani households.

(Runnymede, 2007a: 5)

Those experiencing in-work poverty are less likely to have disposable income to put towards pensions. Indeed, a Bangladeshi accountant we spoke to stressed that most people in the Bangladeshi community are simply too poor to be saving. A recent DWP report (DWP, 2006c) identifies and explores in great depth the range of factors that influence employment disadvantage for these groups. These include low levels of human capital (education and skills) as well as structural economic changes.

Kamal², a Bangladeshi man working in an advice charity, described how a lack of pension provision in the Bangladeshi community is closely linked to unemployment and low income.

Kamal: The most important thing, I am realising now, is that we should pursue people to buy insurances. You know, for looking after their old age. If a young boy of 18 or 20 starts, he will pay about 50 pence a day and he can look forward to something. Remind me please on this, this is something I want to do for people.

Interviewer: That's something you want to encourage people to do – think about the future? But it's not something that happens a lot at the minute, partly because of a lack of jobs and income and things like that, is that right?

Kamal: Yeah, it is.

Direct discrimination continues to disadvantage BME people in their attempts to gain employment. Recent DWP research shows that racial discrimination still occurs in recruitment practices:

In line with techniques used in several countries, the test involved submitting matched job applications from White and ethnic minority applicants to each of 987 vacancies advertised between October 2008 and May 2009. Ethnic identity was conveyed in the applications using names found to be widely associated with the ethnic groups included in the study, and these were randomly assigned to the applications. Differences between the ethnic groups in the proportion of positive responses from employers can therefore be attributed to discrimination.

(DWP, 2010c)

² All participants' names have been changed.

The research concludes that direct discrimination on the basis of ethnicity continues to this day. This is a key explanatory factor for the disadvantage that BME people experience. Continuing discrimination reduces the labour market options of BME people, pushing many into self-employment.

2.2 Reasons why people enter self-employment

Another DWP study (2006b) highlights some of the reasons why people from various BME backgrounds enter self-employment. These include a desire for independence and autonomy and for flexible work that can fit more easily around other commitments, such as family and caring responsibilities. These considerations are likely to motivate people regardless of their ethnic background. Other factors relate more explicitly to ethnicity.

In the literature, the reasons for entering self-employment are often conceptualized in terms of push and pull factors (Clark and Drinkwater, 2007: 18). Push factors include the barriers to finding paid employment (even of low quality and pay) in the labour market. These can be understood in terms of:

- human capital: not speaking English, low educational attainment, low levels of skills or experience, foreign qualifications/experience not being valued by UK employers and limited social networks make it difficult to gain paid employment; and
- discrimination: as mentioned above, employers continue to discriminate on the basis of ethnicity.

These barriers are faced by British-born BME people and recent migrants alike. However, recent migrants are more likely to be self-employed than British-born people (Clark and Drinkwater, 2007: 28). This is because they experience these deficits in human capital, which are overcome the longer a community lives in a country and develops skills and social networks. Another explanation for this is the theory that 'immigrants often hail from countries with higher self-employed proportions of all workers' (Fairchild, 2007: 7) and that this experience gives people the human capital to enter self-employment rather than employment. However, even highly-skilled migrants who did not originally intend to go into self-employment are often 'pushed' into doing so, as explained in a DWP study into discrimination:

Talking about their entry into self-employment, several of the men mentioned the struggle they had finding good quality work when they first arrived in the UK. Self-employment was not always their first choice but had become a way of making the best of a difficult situation.

(DWP, 2006b: 23)

The move to self-employment is often a pragmatic one, as opposed to being the result of a strong desire to be self-employed. This is not confined to migrants – many UK-born BME people move into self-employment for the same reason. The Pensions Commission's second report recognizes that self-employment is not always people's first choice:

But the self-employed also include many people who move between self-employment and employment, and whose periods of self-employment are determined by the labour market contracts offered to them as much as by any positive entrepreneurial choice. There are some signs that this category of the self-employed may be growing, particularly among young men.

(Pensions Commission, 2005: 278)

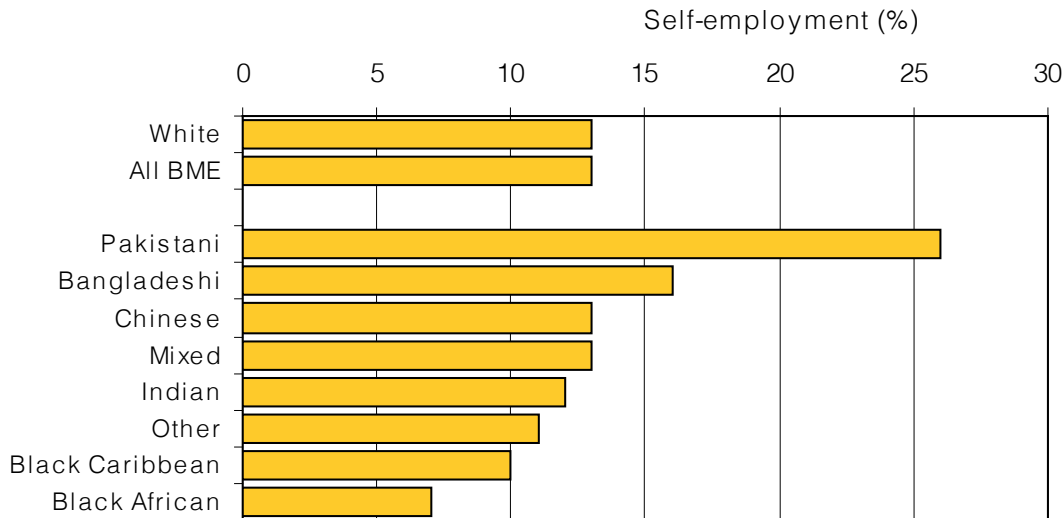
The key point is that many BME people, including migrants, face barriers that lead to them entering into self-employment, which provides serious challenges and barriers to making good pension provisions.

2.3 Levels of BME self-employment

Self-employment is by no means the preserve of BME people, although it is often associated with people who have migrated to the UK. White and all BME groups, taken together, report the same level of self-employment (13%), as Figure 4 shows. Self-employment among White people is higher than that for Indian, Black Caribbean and Black African people and equal to that for Chinese people and people in the 'Mixed' category. Pakistani (26%) and Bangladeshi (16%) people have the highest rates of self-employment.

Other data including gender add detail to the picture, with men more likely than women to be self-employed. According to the Pensions Policy Institute, '18% of ethnic minority men are self-employed compared to 7% of ethnic minority women.' (Steventon and Sanchez, 2008: 35). This gender disparity is similar to that of the working population as a whole. Parsing self-employment data separated by gender and for each ethnic

Figure 4. Proportion of working population in self-employment by ethnicity, 2007



Source: Steventon and Sanchez (2008: 35)

group reveals significant variations. For example, 2001 Census data show self-employment among Chinese men to be as high as 28% (Kenway and Palmer, 2007: 10-11). These data show self-employment as a proportion of the working population and are therefore likely to mask differences in rates of unemployment and inactivity.

Many self-employed people run very successful businesses, receiving a high income during their working lives and into retirement. However, Runnymede's Pensions Bill Briefing Paper shows that there is a link between full-time self-employment and low income.

Research using data from the British Household Panel Survey found that when other factors such as age, occupation, employment sector etc. were controlled for, a self-employed person had over three-times the chance of falling into the poorest tenth of the overall household income distribution than did an employee.

(Runnymede, 2007b: 4)

The briefing paper shows that not only is a self-employed person at high risk of having a low income, but also that there is an ethnic penalty – evidence suggests that BME entrepreneurs earn substantially less than White entrepreneurs (Runnymede, 2007b: 4). This means that many BME self-employed people are less likely to have disposable income to put towards private pensions. Indeed, self-employment is associated with income uncertainty, which makes it difficult to save and means that people work longer hours (Parker, Belghitar and Barmby, 2005: C190–C207).

2.4 Self-employment, industry and business failure

As well as the rates of self-employment, it is important to consider the industry of self-employment. Different industries exhibit varying rates of business failure, which affect a person's or family's income and financial stability. The industry in which someone is self-employed and the rate of business failure of that industry impact significantly on different BME groups. Figure 5 shows self-employment industry by ethnicity and Table 3 shows the business failure rates of different industries. Self-employed White people are most likely to work in the construction industry – the failure rate of the building and construction industry is just below the average, at 5%. In contrast, the majority of self-employed Chinese and Bangladeshi people, as well as a significant proportion of Indian and Pakistani people, work in the distribution, hotel and catering industry. Table 3 shows that failure rates in the hospitality and catering sector is 15.5% – this is very high in comparison to the failure rate of the economy as a whole, 5.2%. Also, the hotel and catering industry is known for its relatively low levels of pay (Runnymede, 2007a: 5) (although obviously business owners receive better pay than employees). A significant proportion of self-employed Pakistani, Bangladeshi and Black African people are in the transport industry. Those running taxi companies fall into this category and the failure rate for private hire transport is 7.5%, again higher than average.

The risk associated with owning a business often means that people need to invest a lot of their money into their business. The Policy Research Institute on Ageing and Ethnicity argue that self-employment can mask household income deficits (PRIAE, 2007), with a business acting as a 'black hole' into which household income disappears. This makes it difficult for people to save. Business failure means that people lose their source of income, as well as the money invested, again reducing their ability to save.

People often eschew saving into a private pension, instead seeing their business as a sellable pension asset (although many want to pass it on to family members). However, a business 'would need to be of substantial value to provide for a decent annuity' (DWP, 2006b: 25). This is therefore a highly risky strategy that can lead to having a lower retirement income than expected, as Tom McPhail of independent financial adviser Hargreaves Lansdown explained in a recent article on TimesOnline:

What self-employed people often say is that the business is their pension or that they will keep working into their senior years. But there is no guarantee that they will be able to sell the business when the time comes and most people eventually reach a point at which they are unwilling, or unable, to work anymore.
(TimesOnline, 2007)

In the context of a business acting as an asset to fund retirement, the concentration of BME people in industries with high rates of failure takes on

Table 3. Failure rates of different industries

Industry	Failure rate (%)
Hospitality and catering	15.5
Manufacturing	11.0
Private hire transport	7.5
Building and construction	5.0
The economy as a whole	5.2

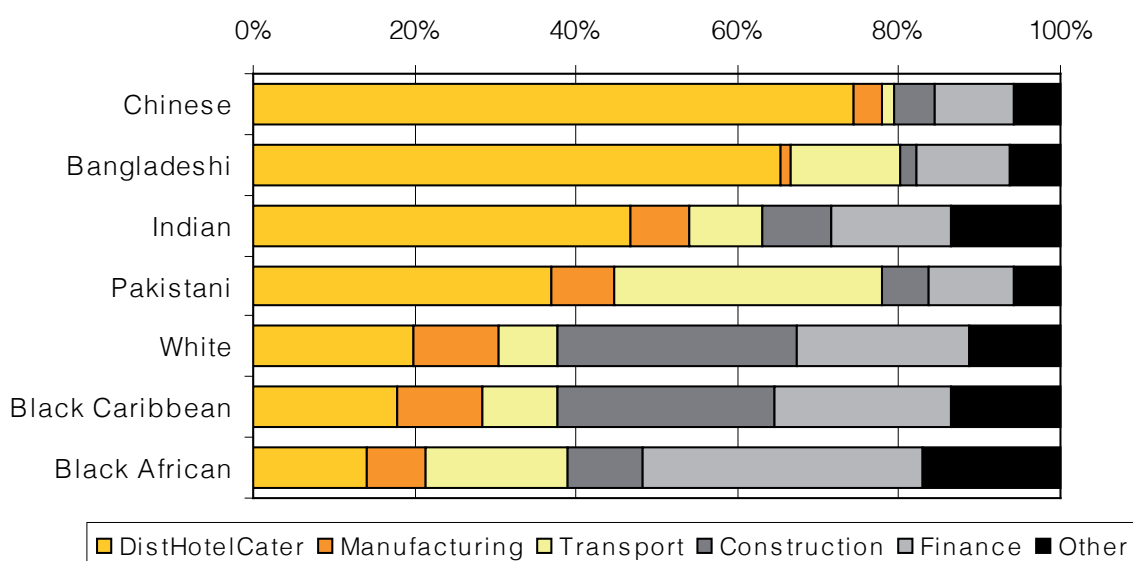
Source: smallbusiness.co.uk (2010)

greater salience. Indeed, Hasan, who works in a community centre supporting mainly Bangladeshi people, described how a lack of knowledge about pensions, combined with business failure, have led some people in that community into a parlous situation.

I know people who owned businesses that have gone bankrupt and because they don't know about pensions they are left with nothing. Because they are not employed by someone else they have no protection.

We also spoke to Kamal, a Bangladeshi man working in a different community advice centre, who suggested that many people in the Bangladeshi community want to own a business and that this leads to some of the debt that people experience.

Figure 5. Industry of self-employment by ethnicity (males), 2001



Source: Clark and Drinkwater (2006)

Interviewer: What kind of things would [Bangladeshi people] save for? What would the reasons for their savings be?

Kamal: It's a historical or a cultural appreciation for Bangladeshis, they all want to do business. All of them, money or not (laughs!), they will try for it so that's why maybe you find lots of people in debt.

People whose business has failed, or has not been hugely successful, and who have not saved into a private pension are therefore likely to be reliant on Basic State Pension in retirement. Indeed, there are concerns that the present level of a full BSP – £97.65 a week in 2010-2011 (Direct.gov.uk, 2010) – is insufficient and leaves people in poverty.

2.5 Self-employment and workplace pensions

If and when the recent reforms are fully implemented, employees will be auto-enrolled into workplace pension schemes which will receive minimum employer contributions. Because auto-enrolment means that people who would otherwise not get around to setting up a private pension scheme (due to inertia) are given one, the lack of auto-enrolment for self-employed people means that they are less likely to have such a scheme. Language and cultural barriers can make it particularly difficult for some BME people. The fact that self-employed people do not receive employer contributions means that they need to save more into such schemes to get the same returns. In short, self-employed people face additional challenges to private pension provision in comparison to employees.

2.6 Self-employment and state pensions

In terms of access to state pensions, the second report of the Pensions Commission highlights the fact that self-employed people are unable to contribute to the State Second Pension (S2P) – they can only accrue rights to Basic State Pension (Pensions Commission, 2005: 278). Self-employed people therefore receive a lower state pension income than those able to top-up BSP with S2P. Missing out on this top-up can mean a significantly lower level of pension. They are therefore in particular need of having a private pension, which, as we show in Section 3, they are less likely to have.

Many new, small businesses evolve gradually, often from small, informal beginnings. We spoke to

Sally, an employee of a tax advice charity whose client base includes a high proportion of people born overseas. She told us that the low income and insecure nature of some businesses mean that owners do not always register as self-employed when they should.

What we've found is that people often start self-employment and don't really recognize they're in it, earning so little amount of money that in some senses they make a judgment, 'I can't afford to pay tax' or 'it's not appropriate yet than I sign on to become registered'. I think that goes across all ethnicities.

The people Sally describes are often isolated, with weak links to formal channels such as tax and business registration services. As a result, they have a poor understanding of how to contribute to state and other pensions, including the formalities of making National Insurance contributions. She also pointed out that many people from overseas fall foul of complex tax laws, particularly where these rules are different from those in their home country. This has a bearing on people's ability to understand how National Insurance works and therefore to make contributions to state pensions.

The degree to which people can speak English, as well as their level of education and confidence, affect their ability to formalize their business and make NICs in the appropriate way. Tamima works in a community centre supporting Bangladeshi people in self-employment. She told us that many of those who come to the community centre are recent migrants with low levels of education who speak relatively little English and find the formalities of self-employment and registration intimidating.

2.7 Health inequalities and working past SPA

In Runnymede's response to the DWP *Proposals for Pension Reform* White Paper, we noted that:

... self-employed people are more likely to work after state pension age...and the over-representation of minority ethnic groups in self-employment may mean that they are among those who will work later.

(Runnymede, 2006: 13)

Many BME people, particularly Bangladeshi and Pakistani people, experience worse health

outcomes than the wider population.³ This is an important factor inhibiting people's ability to work and save. It may also increase the level of income needed in retirement, in order to pay for additional health-related costs. Previous Runnymede research into BME people's experiences of and attitudes towards money advice services draws attention to health inequalities and how poor health inhibits the performance of daily activities.

Data from the 2001 Census shows that Pakistani and Bangladeshi people are much more likely than White British people to suffer a long-term illness or disability that restricts daily activities, further damaging people's employment and income prospects.

(Mawhinney, 2010: 22)

Indeed, Salway (2004) highlights how long-term limiting illness is a major cause of low income among Bangladeshis and that this can affect people as young as 35. This resonates with what Rupa, a Bangladeshi woman volunteering in a community centre, told us:

Interviewer: You mentioned that quite often people get a loan that they can pay back and then something happens and they are unable to pay it back, so does that happen quite a lot? Is that through people losing jobs?

Rupa: I think it is now due to losing jobs, or if they're just generally ill, for example, and there are a lot of people in the community who are quite ill.

While the planned increases to SPA detailed in the 2007 Pensions Act (which may be accelerated under the new government) make sense in light of overall increases in life expectancy, government should be aware of health inequalities and how they affect BME people's ability to work into later life and therefore save and make NI contributions. This is significant in light of the findings of a recent survey carried out by Research Plus on behalf of the insurer Prudential – 9% of people over 45 are currently putting off retirement until later in life and 7% are deciding to work later into life in order to build up a bigger pension fund. Further, 'one in four who have put off retiring fear they may never be able to afford to give up work completely' (Telegraph.co.uk, 2010).

³ For an example of evidence and debates around BME health inequalities, see the Parliamentary Office of Science and Technology's Postnote: Ethnicity and Health, available at: <http://www.parliament.uk/documents/upload/postpn276.pdf>

The fact that Bangladeshi people experience higher than average long-term limiting illness and would therefore prefer not to work may mean:

- that they are unable to work later into life like other self-employed people and therefore are less able to build additional pension provision; or
- that they work past retirement age despite poor health.

Either way, this represents an unenviable position. In the former situation, people are at risk of pensioner poverty in terms of income. In the latter situation, a person may have sufficient income but be working despite ill health and have less time for leisure or family – these are important threats to pensioners' quality of life. Indeed, there is a link between retirement income and life expectancy. A recent study by pension analysts Club Vita shows that those who have more income in retirement live longer.

Nick Flint, chief executive of Club Vita, claimed that men retiring on a salary of more than £35,000 a year typically live four years longer than those earning below £15,000 a year.

(Butterworth, 2009)

This reinforces our argument that the quality of life people have in retirement relates as much to their experience during their working lives as to the structure of the pensions system.

Section summary

- BME people experience various labour market disadvantages – lower rates of employment, low income, job discrimination, self-employment in industries with high rates of business failure, ill health – which inhibit their ability to make pension provisions.
- Self-employed people are at risk of low income and so have less ability to save into pensions.
- Self-employed people often see their business as a pension asset, which is a risky strategy.
- Self-employed people do not receive the benefits of a workplace pensions scheme and are unable to contribute to S2P.

3. Levels of Pensions and Savings

BME people tend to have lower levels of savings and pensions than the wider population. This section presents data showing the different ways in which many BME people have insufficient pension provision.

3.1 Savings

BME people are more likely than White people to have no savings at all, as Table 4 shows. Sixty-three per cent of Black or Black British people and 60% of Asian or Asian British people have no savings, in comparison with an average of 33%. This overall low rate of saving is of concern both for the individuals and for the wider UK economy.

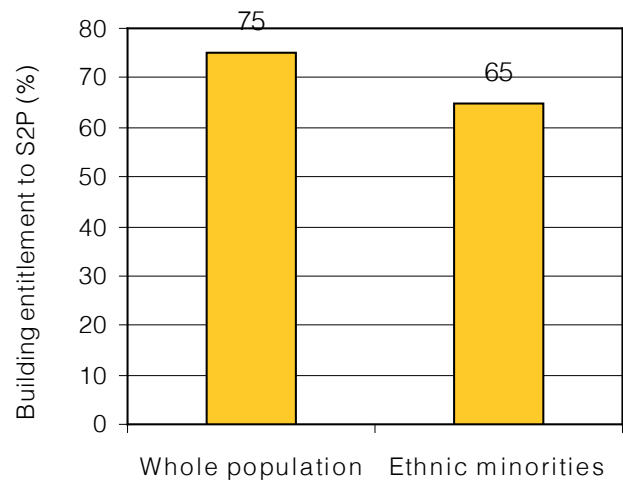
There is no straightforward way of raising the level of people's savings. In our previous research into asset-holding (Khan, 2009), we argued that government should view asset-building policies as an essential element of improving people's financial well-being. However, the new government has recently announced the scrapping of two key policy initiatives designed to increase the levels of saving and asset-holding. The first of these is Child Trust Funds, which are tax-incentivized savings accounts designed to give children some capital to draw on when they are 18. Families are encouraged to save on top of government contributions of at least £500 per child. The Saving Gateway is a matched saving scheme aimed at those on lower incomes where the government adds 50 pence for every £1 saved. We would urge the government to develop a clear strategy for

enabling people on low incomes - who are often good at saving when given the right infrastructure - to increase their level of savings.

3.2 Pensions

An analysis of the Family Resources Survey conducted by Steventon and Sanchez (2008: 59) found that ethnic minority people are less likely to build up entitlement to State Second Pension (S2P). Sixty-five per cent of ethnic minorities are able to do so in comparison to 75% of the wider population (Figure 6). As noted above, self-employed people currently have no access to S2P and this will continue to be the case after

Figure 6. Proportion building up entitlement to S2P by ethnicity, 2005-6



Source: Steventon and Sanchez (2008: 59)

Table 4. Savings by ethnicity

<i>Ethnic group</i>	<i>No savings (%)</i>	<i>Less than £1,500 (%)</i>	<i>£1,500 to £10,000 (%)</i>	<i>£10,000 to £20,000 (%)</i>	<i>£20,000 or more (%)</i>
Black or Black British	63	18	15	-	-
Asian or Asian British	60	15	16	5	5
Other ethnic groups	50	18	19	-	-
Mixed	46	25	-	-	-
White	32	21	26	9	13
All households	33	20	25	8	13

Source: Khan (2009: 15)

current reforms are implemented. The fact that self-employed people cannot access S2P (and therefore top-up their state pension) means that it is especially important for self-employed people to save into a private pension to ensure a decent standard of living once they retire.

The same analysis shows that among those in work, ethnic minority people are less likely to have a private pension than White people (Figure 7). While the data is not limited to self-employed people, the fact that BME people are less likely to have a private pension is particularly relevant, given that self-employed BME people do not have access to S2P.

It is worth noting, however, that ethnic minority people in work aged 60-64 are more likely to have a private pension. There could be several reasons for this. People in this age group will include many who have traditionally worked in the public sector. For example, the high pension rates for Caribbean and Indian people shown in Table 5 can be partly explained by the larger proportion of older people within these communities and the historical tendency of people in these communities to work in public sector industries, such as transport and nursing. These jobs would have provided access to generous public sector pensions. High pension rates among Caribbean and Indian people may slip as employment in these communities diversifies. At the same time, Bangladeshis make up a small proportion of the current older age cohorts of 'ethnic minorities', so the figure may

Table 5. Pension rate

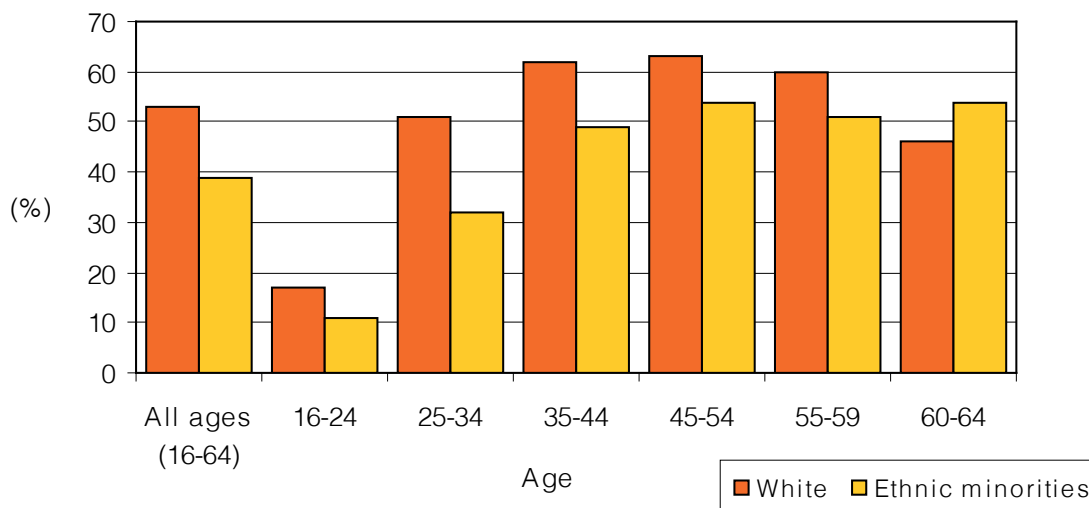
<i>Ethnic group</i>	<i>Pension (%)</i>
Caribbean	29
White GB / Ireland	28
Indian	22
African	20
Pakistani	14
Chinese	13
Bangladeshi	12

Source: Khan (2008: 40)

under-report poorer pension provision within this community. Furthermore, the figures are for those in work and so mask the lack of pensions among the many people who are unemployed or inactive.

When the proportion of people with a private pension is broken down by ethnic group, as in Table 5, it is clear that pension rates are particularly low among Pakistani, Chinese and Bangladeshi people. Bearing in mind the fact that a younger age profile will skew these figures, they are nonetheless consistent with the argument that these groups are at particular risk of income poverty in retirement. Given that self-employment rates are high among Bangladeshi, Pakistani and Chinese people, the data lend support to the idea that people in self-

Figure 7. Proportion of employees and the self-employed with current private pension provision, 2005-6



Source: Steventon and Sanchez (2008: 42)

Table 6. The impact of self-employment on likelihood of having a private pension

A. Pensions Commission 2nd report - % with a private pension		B. Times research - % with a private pension	
<i>Employees</i>	<i>Self-employed</i>	<i>Self-employed men</i>	<i>Self-employed women</i>
56	38	47	33

Source A: Pensions Commission (2005: 278); **Source B:** TimesOnline (2007)

employment may face particular barriers to having a pension and adequate retirement income.

Self-employed people are less likely than employees to have a private pension, as the data from various sources in Table 6 show. Gender is again an important factor, with the data in column B showing that among self-employed people, women are even less likely than men to have a private pension. Some people without private pensions make alternative provision for retirement, such as the sale of a business (as discussed above) or investment in property.

Rates of home ownership are low among all BME communities, including those with the highest rates of self-employment, particularly among Bangladeshi people (Figure 8). BME people are more likely to live in more deprived areas – this is particularly true for Bangladeshi and Pakistani people.

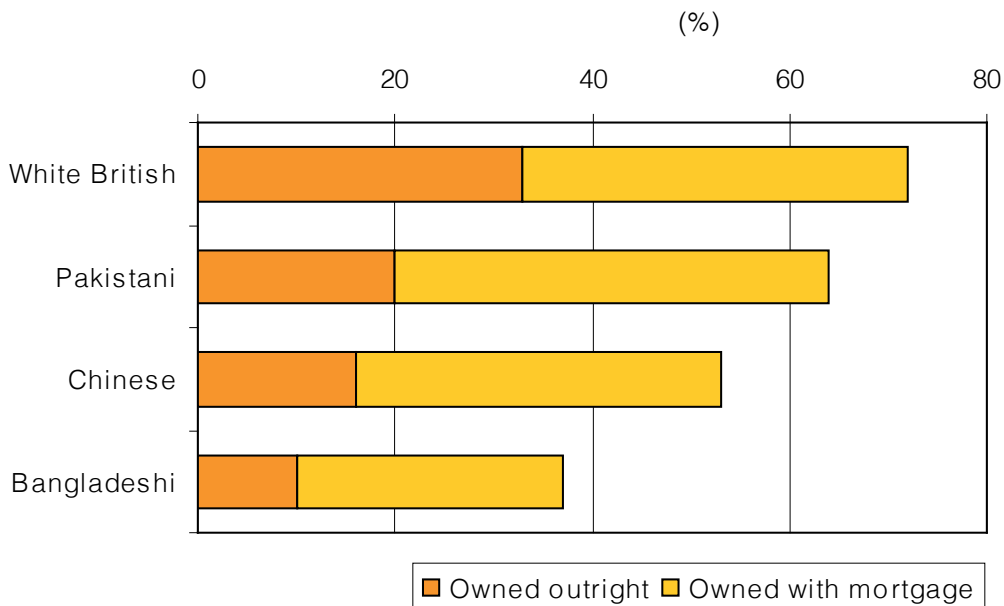
The Bangladeshi and Pakistani groups were the most likely to live in deprived areas, making up four times as high a proportion of the population in the most deprived local areas as they did for England as a whole.

(Tinsley and Jacobs, 2006: 19)

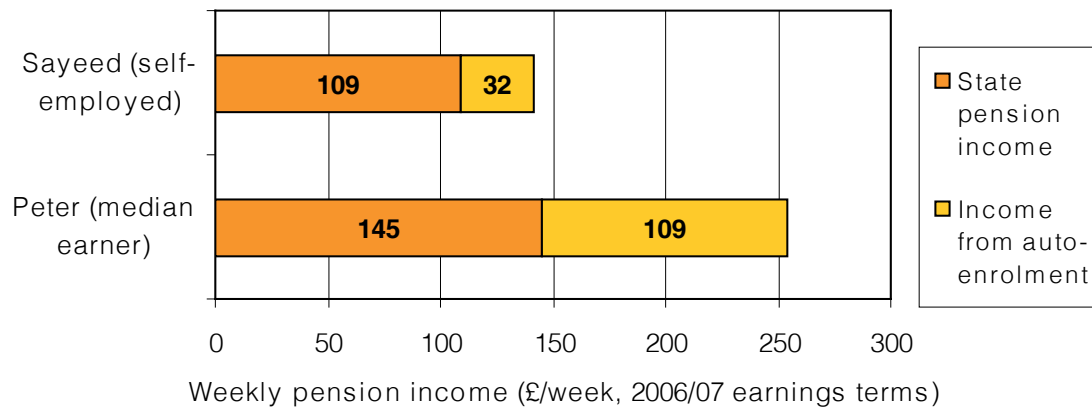
Property values are lower and less likely to rise in these areas. For these reasons, even those who own properties can be less confident that they will provide a secure pension asset. Many BME self-employed people are therefore less able to make up for their lack of private pension through owning property.

A Pensions Policy Institute (PPI) report models the link between self-employment and lower pension income using hypothetical case studies (Figure 9). Sayeed, a self-employed person (who was employed full-time until aged 40 when he became self-employed), receives £141 per week.

Figure 8. Home ownership by ethnicity, 2007



Source: ONS (2009: 149)

Figure 9. Hypothetical case studies of pension income

Source: PPI (2009: 3)

In contrast, Peter, a median-earning employee, receives £254 per week. PPI attributes this difference of £113 pension income per week mainly to self-employment.

Section summary

- Overall, BME people are less likely than White people to have a private pension.
- BME people are more likely to have no savings at all than White people.
- BME people are less likely to build up entitlements to S2P than the wider population.
- BME people, particularly Bangladeshi people, are less likely than White British people to own property.

4. Other Factors Behind Low Levels of Pensions and Savings

This section describes a number of considerations beyond labour market factors that affect BME people's ability to make pension provision.

4.1 Migration status, age and family

While labour market disadvantage affects the ability of people from all ethnic backgrounds to save and contribute towards pensions, there are also barriers relating to migration status, age and family. A person's migration status – the stage in life at which they come to the UK, their intention to settle or return – affects their ability to work, save and contribute. Researchers suggest that while people may come to the UK with the intention of one day returning to their country of origin, many end up staying indefinitely – this was termed the 'myth of return' by Muhammad Anwar 30 years ago (Anwar, 1979). The birth of children and grandchildren often prompts a change of heart for those who may have once intended to return to their country of birth, a point that arose in our discussions with a number of older Bangladeshi men. Having explained how many older men return to Bangladesh, Rana (through a translator) described his uncertainty over whether to do the same or to stay and be close to his family, which has settled in the UK.

Interviewer: So, Rana, you might like to move home to Bangladesh?

Translator: Still he is thinking because he has family members here, son and grandsons, so he has fallen in love with them, so he could go alone but he would feel lonely.

Those who have come to the UK under the assumption that they will eventually return are unlikely to have pictured living in the UK into retirement. As a consequence, many will have made little to no provision in the form of pensions or savings.

Similarly, a person moving multiple times between their country of origin and the UK may be self-employed for multiple periods of varying length. People who do this and then stay in the UK for

retirement will have broken national insurance contribution records. Indeed, they may even not decide where they will settle for retirement until they are close to, or beyond, SPA. This reality is reflected in the Pensions Commission recommendation that the pensions system include more people with interrupted work histories (PPI, 2006: 2).

The age at which someone migrates to the UK is also important. As of 6 April 2010 (under The Pensions Act 2007) the number of yearly NICs required to qualify for a full BSP has fallen from 44/39 (men/women) to 30 (for men and women). This will make it easier for people to build sufficient contributions. However, those who migrate to the UK in their late 30s or older will still be unable to build maximal contributions before reaching SPA. Having insufficient contributions by SPA is one reason why people may work into later life. Indeed, self-employment may offer more scope for people to work longer and build contributions, than being employed and at some point forced to retire. However, the high levels of long-term limiting illness experienced by BME people, including Bangladeshis, make this difficult for many people.

Many BME families are larger than average. This is particularly true among Asian families – 2001 Census data show the average size of a Bangladeshi household to be 4.5, with the figure for Pakistani households being 4.1 and a national average of approximately 2.4 (ONS, 2004b). Indeed, levels of dependency are highest among BME people, with 74% of Bangladeshi households containing at least one dependent child compared to 28% of White British households (ONS, 2004b). Self-employed people in these communities, often the sole earner in the family, will have to make their limited income provide for a larger number of people. Saving is therefore trumped by more pressing priorities and so is often not done. This is often a perfectly rational choice, given the immediate demands for necessities over long-term security.

The recent National Equality Panel report shows that men and women in the 16–19 and 20–24 age groups are at highest risk of being unemployed

(National Equality Panel, 2010: 111–112). Youth unemployment means that many parents continue to financially support their children for longer, reducing their ability to save. This will be the case for many Bangladeshi, Pakistani, Black Caribbean and Black African families, as these communities experience the highest rates of unemployment.

A report to the UK Remittance Task Force describes the large amounts of money being sent to overseas relatives and friends by many BME families.

The UK market is estimated at around £3 billion of outbound payments per year. The money goes to the Asian sub-continent, the Caribbean, Africa, China and Eastern Europe.

(Isaacs, 2008: 9)

Families remitting money often do so despite having low incomes, further reducing the amount of disposable income for saving (Runnymede, 2006: 10).

Much of the wider literature discusses how BME older people rely on their adult children to take care of them in retirement. The expectation of this support on the part of older people is one reason why some may feel less pressured to look into retirement planning in a serious way and make appropriate plans. Traditionally, there is a strong expectation in the Bangladeshi community of this kind of family care. This is changing as more people in this community are born and brought up in the UK and live less in accordance with traditional norms. Indeed, we spoke to a Bangladeshi man working in a community centre with older Bangladeshi people. He explained that, traditionally, the daughter-in-law would not work but move in with her husband and family and help to look after his parents. Now it is more common that both members of a couple work and this means an increase in the number of older people not being looked after by their children in the near future. Given this change, the next generation of older Bangladeshi people faces an increased risk of pensioner poverty.

4.2 Financial capability and language

The area of pensions is widely acknowledged as complex. Many BME people lack access to understandable information and advice on pensions. For example, Hasan, who works in a community centre supporting Bangladeshi people, told us that ‘there is a real need for this

information in this community’. A lack of knowledge and confidence, or ‘financial capability’, inhibits people’s ability to save or contribute to pensions.

Language is clearly an important issue. Those who speak no or limited English are much less able to access and understand information on benefit entitlements or indeed the different types of pensions available and how to save or contribute to them. For example, Pension Credit, which is a minimum income guarantee for those over 60, is an important source of retirement income for many people who have been unable to save during their working life. Yet, ‘more than £5 billion of means-tested benefits go unclaimed by older people every year’, according to Age UK (2010). This is partly because many people are daunted by the number of benefits available and the complexity of claiming them. Recent migrants from non English-speaking countries that are very culturally different from the UK (such as Bangladesh) and older BME people who are socially isolated and do not speak English are more likely to find the process of applying for benefits or setting up a private pension particularly difficult. The fact that pensions information contains what most people interpret as financial jargon makes it doubly difficult for people.

Many people living in ethnically concentrated communities are culturally isolated and in need of pensions information. Our correspondence with the Pensions Advisory Service drew attention to the fact that there is demand for information in the Asian community but also a reluctance to engage with the free service on offer:

One of our volunteer advisers joined her local Asian social group. When it was known that she was a pensions expert, she was inundated with queries from fellow members. When she suggested that they approach our service, she found they were reluctant to do so. Reasons given included language difficulties, reading difficulties, trust, a reluctance to engage outside their ethnic community, particularly by women, and a desire to address these issues through a face-to-face service.

The above quote identifies a number of key factors that inhibit or prevent some BME people from accessing pensions advice services:

- Language/reading difficulties;
- Reluctance to engage outside the community;
- Issues of distrust;

- A desire to address issues through a face-to-face service.

This chimes with our previous research into people's exclusion from sources of money advice (Mawhinney, 2010). In terms of language and a reluctance to engage outside the community, Tamima, a young Bangladeshi woman, pointed out how many Bangladeshi people seek financial advice informally from family and friends before going to banks or advice organizations.

I think they'll approach their family and friends first and if they can't help then I think they go to banks or charitable events, if they see that they're not getting help with what they're asking for.

People who receive information and advice in this informal way face the risk that such advice will be incomplete or inaccurate. This is more likely where the person giving advice is relatively new to the UK or unfamiliar with the intricacies of the pensions system in the UK. Similarly, people often seek advice from community intermediaries, such as community centres. Such centres give information and support but are often under-resourced and do not always give accurate or complete information. Our previous research revealed that some less professional community centres do not offer confidential support and that some people may avoid using them for fear of being seen to have money problems by others in the community. Consider the comments of James, a Chinese man who holds a senior position at a race equality body:

Even though they have debt they will not tell anyone. I think, for one reason, the Chinese welfare association, they don't have the kind of confidentiality within the community... you go there and you attend certain things and the next thing everyone knows. That's why it puts the people off.

A reluctance to engage outside of one's community is related to language but also to exclusion from wider society, such as when people face job discrimination. As one of our interviewees, Hasan, explained, some self-employed people have businesses that primarily serve their own community and they depend on family members who have better English abilities:

A lot of Bengali business owners are illiterate. They rely on their sons and daughters who can speak, read and write in English.

This reliance on family members has an obvious impact in terms of people's ability to access and

understand complex information about state and private pensions.

Our report, *Financial Inclusion and Ethnicity* (Khan, 2008), analyses data from the Ipsos-MORI Financial Services dataset, commissioned by Runnymede. The survey included questions on saving and planning for retirement and shows how (dis)trust plays an important role in pension provision:

Somewhat worryingly, BME groups were more likely to assume that government would provide for them in their old age, but are also less likely to trust pension schemes.

(Khan, 2008: 40)

This partly explains the fact that most BME groups were less likely to report having a pension. Our report into experiences of money advice uses excerpts from interviews with Bangladeshi, Chinese and Black Caribbean people to illustrate the generalized distrust of banks and other financial institutions that many people feel. For some, this was based on a feeling that banks put their own interests over those of the customer, a feeling shared by many in the wider population. Other experiences and attitudes from the report relating to ethnicity include:

- Hostility – people reported facing impatience and hostility from bank staff. This was the case for people who speak English as a first language but with strong accents, e.g. Caribbean. Such negative experiences led to people excluding themselves from banks, using them as little as possible.
- Suspicion – some people felt that bank staff showed prejudice against BME people by being overly suspicious of them. This was exemplified by a Black Caribbean man who told us that he felt he had to be excessively prepared before he went to conduct business in his bank.

The same dataset shows that, in comparison with the White population, all BME groups show lower financial awareness. Awareness in this context is based on a person's ability to identify financial products and is a key element of financial capability. Bangladeshis showed financial awareness of 56% of that of the White population (Table 7). This was one of the most robust findings in the data and suggests a lack of information and understanding of financial products (including pensions) among many BME people. It should be emphasized that the data in this table are relative

Table 7. Financial awareness by ethnicity

<i>Ethnic group</i>	<i>Financial awareness, 100 scaled to White GB/Ireland</i>
White GB/Ireland	100
Caribbean	69
Indian	64
Pakistani	61
Bangladeshi	56
Chinese	56
African	55

Source: Khan (2008: 43)

to the White population, which itself may not have a particularly high level of financial awareness.

This lower level of financial awareness is linked to exclusion from advice services and the lack of information already discussed. Indeed, research by Ethnos Research and Consultancy for the FSA argues that perceived discrimination by financial institutions against poorer and BME households may be one of a number of factors contributing to lower financial capability (FSA, 2005: 62). Indeed, Clark and Drinkwater (2007:18) point to research showing racial differences in access to start-up capital from banks (Parker, 2004), which may be an indication of discrimination on the grounds of ethnicity.

This discussion is relevant insofar as lower financial capability is one reason for a lack of saving or provision for retirement. The government's new Money Guidance service, which gives free and impartial information and support on a range of money issues including planning for the future, aims to improve people's financial capability. Drawing on our research into BME people's experiences of money advice, we set out in Section 5 our recommendations for how to improve capability around pensions.

4.3 Religion

From our conversations with Bangladeshi Muslims, it is clear that religion affects how some people manage their finances. Sharia law prohibits Muslims from receiving interest (usury). This means that many who try to follow this teaching avoid investment in saving or pension products that are based on interest. Instead, many choose to invest in gold, often in the form of jewellery or coins, and commodities, such as oil. Sharia also mandates charitable giving (zakat). This means that many

people on low incomes give money to support people in need, further stretching their budget and displacing the possibility of saving.

Some Muslims who are unwilling to take interest avoid the mainstream banking system altogether. We spoke to some Black Caribbean Muslims who had a strong desire to function outside the system. One man suggested that many Muslims share this desire:

Hakim: I think the great majority, not just in the Caribbean community but the great majority of Muslims in general, don't trust banks because in our religion, you know, we don't believe in taking interest or paying interest and the whole banking system is set up on that.

In contrast, other participants suggested that those who would ideally like to use Sharia-compliant banking are willing to use mainstream banks. This is partly due to the infancy of the Islamic banking sector. Other Muslims see Islamic banking institutions in the UK as not truly Islamic.

An unwillingness to think about the future affects people of all ethnic backgrounds when it comes to planning for retirement. Shema, a Bangladeshi woman working with older Bangladeshi people suggested that this attitude is quite common while hinting that there may be some link between Islam and not planning for the future.

I think generally people just, not [exactly] live for the moment, but it's like 'Whatever I'm earning I'll spend' and I think that's probably due to the culture in Bangladesh, which is very similar, very much like that as well. I'm probably making an assumption but it would probably do with the religion as well because a lot of the time people are told to reflect about death and about several other things and people think tomorrow is not guaranteed for you, a lot of people think 'What is the point of saving?' Because as Muslims you're supposed to take every day as your last day, really. So that may have some kind of an impact on attitudes towards saving.

Shema also suggested that people who have come to the UK from Bangladesh more recently are less likely to have an attitude of saving for the future than people who have been brought up here.

I understand the importance of saving, of putting money aside in a gradual way...so this is the kind of mentality I have and I think many people in this country think like that whereas the Bengalis, especially the elders, don't think like that, it's a completely different attitude.

Attitudes towards saving for retirement are likely to change gradually as more Bangladeshis are born and brought up in the UK and fare better in the labour market. It is worth pointing out, though, that many self-employed people are more recent migrants, experiencing the barriers to the labour market discussed above. Also, the level of self-employment among Bangladeshi people isn't reducing in the same way that it did for earlier Indian and Caribbean migrants.

Recent DWP research into work, saving and retirement among ethnic minorities found that fatalistic views about saving were associated with low income and a lack of work:

People in these kinds of situations tended to express rather fatalistic views, or see pensions as irrelevant to them as they did not see their income in retirement as something over which they had control. Similar attitudes and views have been found in other research with low income groups.

(DWP, 2006b: 59)

It is difficult to assess whether such views are more common among Muslims or Bangladeshis than

other people. However, low income, avoidance of interest and an expectation of family support in older age are all factors that seem to overlap with a lack of pension provision. Yet an unwillingness to plan is not limited to people for whom these are relevant. For example, Tamima, a well-educated Bangladeshi woman who moved to the UK ten years ago and who runs a small media business, told us that she doesn't know about pensions and will sort it out later in life.

Section summary

- Pension provision is affected by a person's migration status, such as the stage in life at which they move to the UK.
- It is also affected by factors relating to age and family, such as family size and expectations of family care in retirement.
- Language barriers, a reluctance to engage outside of the community and distrust of financial institutions mean many people have low financial capability around pensions.
- Some Muslims wish to avoid interest and so invest in particular ways.

5. Conclusions and Recommendations

This report has thus far offered some explanations for why BME and self-employed people experience low levels of pensions and savings and are at risk of pensioner poverty. It is important to frame this analysis within the context of specific pensions reforms. Box 3 outlines some of the headline reforms to pensions, indicating their likely impact on self-employed people.

Despite these reforms, BME self-employed people will continue to be at particular risk of pensioner poverty. Below are our headline conclusions and recommendations for how BME self-employed people could enjoy improved access to pensions.

5.1 Recognizing that the seeds of pensioner poverty are sown during working-life

At the very start of this report we pointed out that pensioner poverty can be attributed to:

- the structure of the pensions system; and/or
- disadvantage and poverty during a person's working life.

We have highlighted points of concern relating to the pensions system. However, it is equally important to recognize that pensioner poverty is directly linked to labour market disadvantage throughout people's working lives and that improving people's position in terms of employment is as important as changing the structure of the pensions system.

Self-employment does not equate to disadvantage – it gives many people a decent income during working life and throughout retirement. However, many BME people become self-employed as a response to discrimination and lack of opportunity, working in industries with high rates of business failure. Therefore, efforts to reduce inequalities in employment need to be maintained. As we have said in previous publications, only quite major changes in the employment position of

Box 3. Impact of pension reforms on self-employed people

<i>Reform</i>	<i>Impact on self-employed people</i>
<ul style="list-style-type: none"> • Requirement that employers automatically enrol employees into a workplace pension scheme and make minimum contributions to that scheme. 	<ul style="list-style-type: none"> • Self-employed people do not have an employer and therefore will not benefit from auto-enrolment or employer contributions.
<ul style="list-style-type: none"> • Introduction of NEST, a low cost, high quality, defined-contribution private pension scheme.* Employers can enrol employees into NEST to comply with the requirement to provide a workplace scheme and make contributions. 	<ul style="list-style-type: none"> • Self-employed people will not be auto-enrolled into a workplace pension but will be able to opt into NEST. By not being auto-enrolled they are less likely to access NEST. Those who do opt into it will not receive the 3% employer contribution. • Many BME self-employed people face additional barriers to pensions, such as language, and so are particularly unlikely to opt into NEST.
<ul style="list-style-type: none"> • Introduction of NI credits to S2P for people with long-term disabilities and caring responsibilities. 	<ul style="list-style-type: none"> • While access to S2P has been improved, self-employed people are still unable to contribute to their pension in this way.
<ul style="list-style-type: none"> • Reduction of the number of annual NICs required for a full BSP to 30, for both men and women. 	<ul style="list-style-type: none"> • This will make it easier for people, including those in self-employment, to contribute to a full BSP.

*A defined-contribution pension scheme is one that provides retirement benefits based on the build-up of a 'pot' of money, accumulated through the investment of contributions paid by both the employee and the employer (pensionsadvisoryservice.org.uk, 2010).

BME people will enable them to make adequate provision for their own retirement.

Government needs to continue to work to reduce ethnic inequalities in terms of employment, earnings and income. We welcome the Equality Act but its impact will rest on its successful implementation.

Government must continue to work to reduce ethnic inequalities in health, education and housing, which contribute to employment disadvantage and therefore to pensioner poverty. Plans to accelerate the increase in SPA and the possibility of eventually raising it above 68 are of particular concern given ethnic inequalities in health.

5.2 Improving financial awareness and capability

We have shown that a lack of awareness and capability around pensions, including a lack of accessible information, is a major barrier for many BME people who are relatively new to the UK and who do not speak or read English well. There is potential for the government's financial capability agenda, including the new Money Guidance service, to address this. Indeed, enabling people to plan for retirement is one of the central aims of Money Guidance (Thoresen, 2008: 8).

In our report into money advice we argue that the Consumer Financial Education Body (CFEB), which has been set up to oversee financial capability, should engage with community centres that serve hard-to-reach BME communities in order to improve understanding of financial issues. It is important that centres supporting new migrants are equipped to inform people about how the pensions system works, including how to contribute to state pensions. Indeed, we have shown that there is often unmet demand for this information and support.

We recommend that CFEB engages with community centres serving BME communities in order to improve financial capability around pensions. This engagement could include providing information directly, increasing capacity for staff to inform people about money issues or signposting people to sources of advice and guidance, such as Money Guidance or the Pensions Advisory Service.

While Money Guidance is prohibited from recommending particular products, it should draw people's attention to NEST as a simple pension scheme that self-employed people are able to opt into.

It has been suggested that the coalition government's review of auto-enrolment may result in the abandonment of NEST (Timmins, 2010). This is a cause for concern and we hope that any replacement will have similar properties, in terms of being a low cost, high quality, simple pension scheme.

Pensions information from central and local government, as well as Money Guidance, needs to be made available in ways appropriate to BME people in order to properly address the lack of pension provision.⁴ This includes translating information into appropriate languages and taking account of cultural issues, such as the reluctance among Muslim women to receive face-to-face advice in a one-to-one setting with a male adviser. Community centres and charities are potentially valuable partners in this process.

The provision of information and signposting to Money Guidance could potentially be done via a range of other organizations and institutions in order to reach disadvantaged self-employed people, such as recent migrants.

Policymakers should look at the potential to publicize pensions information and signpost to Money Guidance via alternative financial institutions, such as remittance companies, community development finance institutions, credit unions, microfinance organizations and tax/financial advisers, as well as GP surgeries.

Such information could be more feasibly translated into relevant languages where there are concentrations of people from particular communities using these organizations.

It is not just the responsibility of the government to provide information and support to people around pensions. Community centres and business owners need to engage with information and advice services in order to improve capability in this area and help people to maximize their pensions.

⁴ We echo what the Policy Research Institute on Ageing and Ethnicity (PRIAE, 2007) has said in terms of the need for accessible information.

5.3 Access to State Second Pension (S2P)

Self-employed people are not able to access S2P. This contributes to the lower level of pension income that many self-employed people receive.

Many BME self-employed people also have no private pension provision. As a result, they are dependent on BSP and/or family support (which is declining over time) unless their business is very successful.

We recognize that the issue of allowing self-employed people to access S2P is complex. Indeed, the final Pensions Commission (2006) report highlights the difficulties of developing a contributory system that would be fair. However, lack of access to S2P, combined with the lower level of access to private pensions, means that many BME self-employed people are disadvantaged in terms of pensions and at risk of pensioner poverty.

We therefore recommend that the issue of extending S2P to self-employed people be looked at again.

The extension of S2P may be deemed unviable or unfair. In this case the problem still needs a solution – therefore alternative arrangements need to be developed to cover the consequential likelihood that self-employed people will have less pension provision than their employed counterparts.

Alternative arrangements could include new top-up arrangements or other tax-related policies to ensure that everyone has fair access to decent pension provision when they retire.

We also note the recommendation from the National Association of Pension Funds for a new 'State Foundation Pension', which would combine BSP and S2P.

This would be worth £8,000 a year, around a third of pre-retirement income for someone on median earnings. It would give pensioners an additional £25 a week in income and take around 2 million pensioners out of means testing.

(NAPF, 2010: 5)

Such a development may help widen access to sufficient state pensions for self-employed people.

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This publication is part of the Runnymede Financial Inclusion Programme. The aim of the programme is to raise awareness and increase knowledge of the ways in which BME people are financially excluded and to influence policy in government, financial institutions and other organizations and through conducting high quality, in-depth research.

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