

Legal & General calls for urgent action as UK gender pension gap makes slow progress

- Data from 2021 shows the gender pension gap is 16% at the beginning of women's careers, reaching 55% at the point of retirement, a minor change from 2020
- Average pension pot of a woman at retirement (£12,000) found to be less than half that of a man (£26,000) at the same retirement stage
- L&G commits to taking action to understand and tackle its own gender pensions gap, help employers and members do the same and pushes for collaboration between schemes and providers to drive change

London, 24 June 2022 - Urgent action needs to be taken to address the UK's gender pension gap, as new research of more than 4.5 million savers in the UK shows that it has barely changed since 2020, and in some age groups and sectors has deteriorated further.

Women are left with smaller pension pots at every stage of their career, with the situation worsening significantly as they approach retirement. The research, which analyses data from more than 4.5 million members across L&G's defined contribution (DC) pension scheme clients, shows that women are always at a financial disadvantage, even at the start of their careers.

The initial gap of 16% widens as women reach their forties, accelerating to 31% as the impact of career breaks and unequal caring responsibilities begin to take effect. By the time people can take their tax-free cash at 55, the gap is over 50% and deteriorates further to 55% by retirement.

Women's gender pension gap vs. men's pensions, across age groups		
	2021	2020
20s	16%	17%
30s	17%	17%
40s	31%	34%
50s	51%	51%
Retirement	55%	56%

This new data for 2021 shows the gender pensions gap has decreased marginally across age ranges, but by only one percentage point for the start and end of women's careers. On the current trajectory, women will still be retiring with vastly smaller pension pot sizes than men for many decades to come.

Retirement prospects still diverge starkly

L&G also analysed the size of the pension pots of more than 50,000 Britons who retired in 2021 and the picture remains just as stark as those yet to retire. On average, the size of a man's pension pot at the point of retirement was £26,000 compared with just £12,000 for a woman. Whilst retirees are likely to have more than one pension pot from different employers, the gap is expected to be broadly similar for all pots.

Why there is an issue in the first place

There are many reasons identified for the gap, including the fact that women are still paid less and are less likely to be in senior leadership positions, resulting in lower pay and lower pension contributions. They are more likely to take career breaks for childcare or as an unpaid carer and are more likely to work part time or reduced hours, as well as self-identifying as having lower fiscal confidence.

The high cost of childcare in the UK* is a barrier to women returning to work after maternity leave, or returning full time, and the means test on benefits can be a driver for capping hours, particularly in certain industries. In addition, 900,000 women in the UK retire early each year due to Menopause, meaning women are leaving the workforce at the exact time when their earning potential is likely at its highest.

Reflecting on the challenges facing women who are saving for their retirement, Katharine Photiou, Commercial Director of Workplace Savings at Legal & General said: *“There are many factors that have led us to this point but very few solutions offered. It’s time women stop being penalised for things outside of their control, like the high cost of childcare, or being paid less than their male counterparts.*

“We know that women feel significantly less confident, and are more likely to struggle on knowing where to start, when it comes to making financial decisions. Industry and government must therefore work together to ensure education and engagement around savings and investments increase. For example, too few know about the flexibility that couples have in being able to contribute to their partners’ pension while they are on parental leave. This is something that can significantly reduce a women’s pension shortfall.”

L&G actively involved in exploring solutions with government and industry

Like the gender pay gap, the pensions gap is a structural and societal problem that will take time to solve. L&G recognises that urgent action needs to be taken now and is calling for all companies and DC pension providers to publicly disclose their own gender pensions gap, so that all stakeholders can understand the issue and work to fix it.

To do so, L&G has reviewed its own gender pension gap and will monitor it annually to ensure it is making progress, by reviewing internal support, processes and policies to make changes such as better support for menopause and a review of paternity and shared parental leave. Current analysis shows that there is a 60% gender pension gap for L&G retirees at the point of retirement with an average gap of 32% for current savers.

In addition to disclosing its own gender pension gap, L&G is committed to raising the profile of the gender pension gap across the companies it invests in and will continue collating data in order to include it in its stewardship activities going forward, as well as working with regulators, trade bodies and other providers on longer term solutions.

Going further, L&G has created a working group with 14 of its largest clients with 535,000 members and assets of over £7 billion, to help them tackle inequality in their own pension schemes by the end of 2022 and plans to expand this group further in 2023. In addition to promoting greater collaboration between schemes and providers, L&G has also committed to equipping all defined contribution clients and their underlying 4.5 million members with the tools they need to help address the gender pensions gap.

In terms of regulatory reform, L&G submitted a number of recommendations to the Work & Pensions Select Committee in January 2022 as part of the Pension Freedoms Consultation, including:

- Reducing the eligibility age for auto-enrolment to 18 and basing auto-enrolment pension contributions on the first £1 of earnings by removing the £10,000 eligibility trigger.
- Allowing greater flexibility for couples to pay into each other’s pensions, as well as considering an increasing the maximum allowed.
- Encouraging pay and job progression for part-time workers and examine whether eligibility to means-tested benefits acts as a barrier to women seeking to increase their income and savings ability.
- Promoting the inclusion of pensions in divorce proceedings.
- Prioritising the provision of suitable and affordable childcare to encourage women to work more hours.

Commenting on the need for cross-industry solutions to the gender pension gap, Stuart Murphy, Co-Head of Defined Contribution at Legal & General said: *“These figures demonstrate the glacial pace of change on the gender pension gap, as well as the need for greater cross-industry collaboration between government, employers, pension fund providers and members to address the scale of the challenge.*

“In our view encouraging full disclosure to highlight the scale of the issue is an important starting point. We are calling for full disclosure from companies and DC pensions providers to publicly share their gender pension gap so that we can better identify and fix this problem.

“We are also making a call for regulators and law makers to look at reform; including dropping the minimum age of auto-enrolment, abolishing the auto-enrolment minimum salary threshold and provide further support to help families with childcare costs.”

-ENDS-

Key Risk Warnings

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Reference to a particular security is on a historic basis and does not mean that the security is currently held or will be held within an LGIM portfolio and is for illustrative purposes only. The above information does not constitute a recommendation to buy or sell any security.

Notes to editors

The analysis is based on LGIM's proprietary data on c4.5 million defined contribution members as at 1 April 2022, but does not take into account any other pension provision the customers may have elsewhere.

*Childcare costs in the UK second highest costs globally according to the World Economic Forum as a percentage of a couples average earnings: <https://www.weforum.org/agenda/2019/04/these-countries-have-the-most-expensive-childcare/>

About Legal & General

Established in 1836, Legal & General is one of the UK's leading financial services groups and a major global investor, with over £1.4 trillion in total assets under management* of which a third is international. We also provide powerful asset origination capabilities. Together, these underpin our leading retirement and protection solutions: we are a leading international player in pension risk transfer, in UK and US life insurance, and in UK workplace pensions and retirement income. Through inclusive capitalism, we aim to build a better society by investing in long-term assets that benefit everyone.

* At 31 December 2021

About Legal & General Investment Management

Legal & General Investment Management is one of Europe's largest asset managers and a major global investor, with total assets under management of £1.42 trillion (€1.69 trillion)¹. We work with a wide range of global clients, including pension schemes, sovereign wealth funds, fund distributors and retail investors.

For more than the past 50 years we have built our business through understanding what matters most to our clients and transforming this insight into valuable, accessible investment products and solutions. We provide investment expertise across the full spectrum of asset classes including fixed income, equities, commercial property, and cash. Our capabilities range from index-tracking and active strategies to liquidity management and liability-based risk management solutions.

About Legal & General Retail

As of 1st January 2022, Legal & General Retail Retirement and Legal & General Insurance (our two retail businesses) have been combined into one division, Legal & General Retail, to enable us to better serve the needs of our retail customers.

Legal & General Retail helps protect the lives and futures of our customers; the division covers the savings, protection and retirement needs of our c12 million retail policyholders and workplace members. In 2021, we wrote £957 million of annuity premiums, and issued £848 million of Lifetime Mortgages and Retirement Interest Only Mortgages. Our Workplace pension platform served 4.4 million members, while in the UK we paid out a total of £1,133.8 million in insurance claims.

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¹ LGIM internal data as at 31 December 2021. The AUM disclosed aggregates the assets managed by LGIM in the UK, LGIMA in the US and LGIM Asia in Hong Kong. The AUM includes the value of securities and derivatives positions.