

What would women's pensions look like if there wasn't a gender pay gap?

The economic case for gender-inclusive, paid parental leave



Introduction

“Women are penalised by this whole culture that expects them to stay at home with the child.” Claire, 32

PensionBee’s vision is a world where everyone can look forward to a happy retirement. For this to happen, we all need good health, financial freedom, and social inclusion.

Currently, an obstacle to achieving this financial freedom for all is a gender pension gap of [up to almost 60%](#). Bold action is required to challenge this so that women can enjoy similar levels of wealth in retirement as men. This is particularly important as women tend to live longer and often bear their own care costs¹.

Introduced in 2012, Auto-Enrolment has helped more than 10 million workers participate in the pension savings system. The policy has assisted in reducing the gap between the proportion of women saving compared to men, with substantially higher rates of participation amongst both genders².

However, a severe gender pension gap persists. Two major drivers of this are the gender pay gap and an unequal number of annual paid working hours³. Women are more likely to cut down on paid employment to take responsibility for a larger share of unpaid caregiving and housework⁴. The prohibitive costs of professional childcare services pressure families to choose one parent, typically the mother, to leave or reduce paid employment to care for children⁵.

Too often the onus is placed on women to close the gender pension gap, by changing their behaviour. This is not fair or effective. Policy interventions are required to support increased male participation in care responsibilities, freeing up more of women’s time to participate in paid employment.

By modelling potential policy interventions, PensionBee has found that the most effective way to close the gender pension gap is for men and women to work equal hours, at equal pay. To achieve this, employers must offer gender-inclusive parental

¹ [“Women Face 20% Higher Health-Care Costs in Retirement, Survey Finds,” The Wall Street Journal](#)

² [“Auto-enrolment fundamentally changed the gender gap,” Institute of Fiscal Policy \(IFS\)](#)

³ [“Understanding the gender pension gap”, Institute for Fiscal Studies \(IFS\)](#)

⁴ [“Women four times more likely than men to leave paid work after childbirth, even when they earn more,” The Telegraph](#)

⁵ [“Women won’t benefit from flexible working until childcare costs fall,” Independent](#)

leave. This allows anyone who becomes a new parent to take an equal amount of paid leave and all new parents, regardless of gender, can receive this.

Key insights

1. **Enabling women to work more paid hours is the most effective way to close the gender pension gap.** This requires men to share more equally in unpaid care work, and employers to offer gender inclusive paid parental leave.
2. **It is possible to close the gender pension gap and increase women's pension pots by more than a third if men and women work equal hours at equal pay.**
3. **If men took responsibility for an equal share of unpaid care work, women could increase their pots by more than £106,000.** Overall, a couple could enjoy more than £70,000 (10%) in extra pension savings, with a combined pot of £812,827 at age 64.

“When my sons were born, I had four days of paid leave. Being offered only four days was not helpful. My twins were in intensive care for six weeks. I had to keep working and balance everything else that was going on. It was extremely difficult at the start, going from zero to twins in one go. It would have been helpful if my employers offered paid parental leave.” Pete, 46

“My youngest child is five and at school, which is when the government suggests you go back to work. I’ve now missed five years of employment. A man who has been at work during these five years can tell his manager what he has done, and they will raise his pay and give him a bonus. I haven’t had that opportunity, although I’m more than capable of doing the same jobs, I’m still going to be below him. This means I can’t contribute as much to my pension.

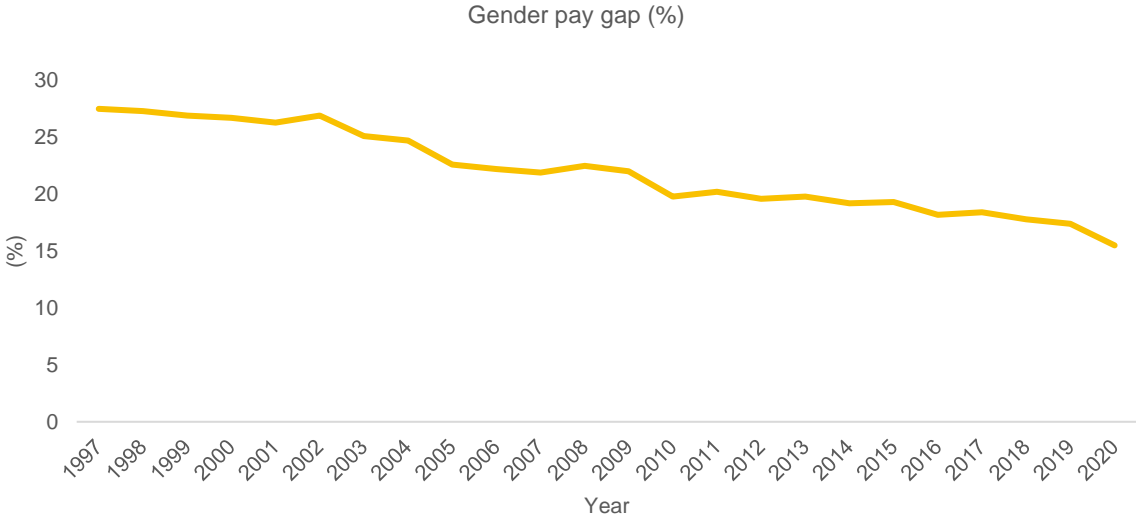
You could say that it was my choice to stay off with my children. But the reason I did that was because of the cost of childcare. It was £2,000 a month!” Claire, 32

Gender pay gap

“It comes down to salaries, you have two people doing the same job, and the man will always get the higher salary. We’ve been struggling with this problem for a long time and are still struggling.” Angela, 52

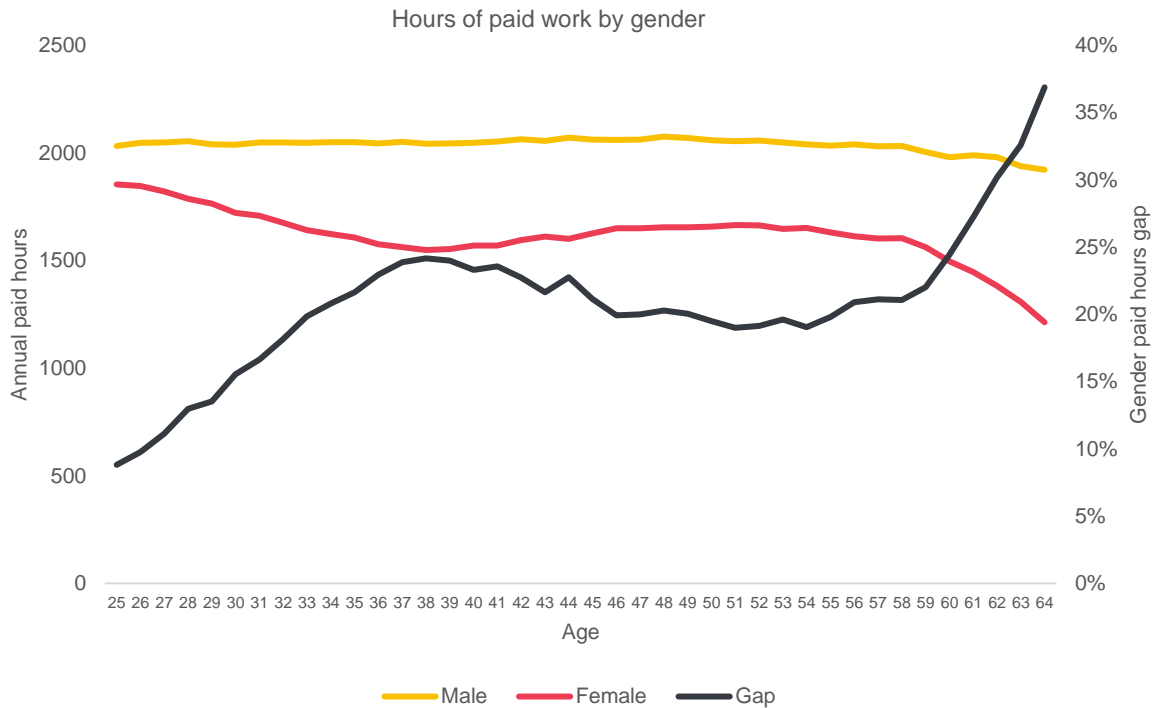
Ultimately, the gender pension gap is driven by the gender pay gap and the fact that women tend to work fewer paid hours than men. As women earn less, they have less to save. Over time, small differences can compound as investments grow, leaving men with significantly larger pension pots.

The Office of National Statistics (ONS) reported a 16% gender pay gap amongst UK workers in 2020. This is slightly less than the 20% gap recorded in 2010, and the 27% gap in 2000. Whilst the reduction in the gender pay gap is positive, progress is slow, and the gap has not even been halved in the past twenty years. This is despite the introduction of mandatory gender pay gap reporting regulations in 2017, for businesses with more than 250 employees.



Source: [Gender Pay Gap in the UK: 2020, Office of National Statistics \(ONS\)](#)

Gender “paid hours” gap



Source: [Gender differences in commute time and pay, 2002-2018, Office of National Statistics \(ONS\)](#)

This difference in paid working hours first presents itself in a woman’s late 20s to early 30s, the time when mothers typically tend to have their first child⁶.

The average cost of sending children under two to nursery full-time currently stands at £263 a week, in the UK⁷. This can be prohibitive to working mothers, and there are strong calls for the government to address the high cost of childcare so that women can more easily participate in paid employment⁸.

Women also tend to work less paid hours in later lives. According to the Centre for Ageing Better, there are three times more women aged 50-64 working part-time than men. This is thought to be driven primarily by caring responsibilities, as women are in fact more likely to say they would prefer a full-time job, than their male counterparts⁹.

⁶ ["Have kids, settle down." UK Parliament](#)

⁷ ["Average childcare costs," Money Advice Service](#)

⁸ ["Women won't benefit from flexible working until childcare costs fall," Independent](#)

⁹ ["Work and State of Ageing in 2020," Centre for Ageing Better](#)

Gender pension gap

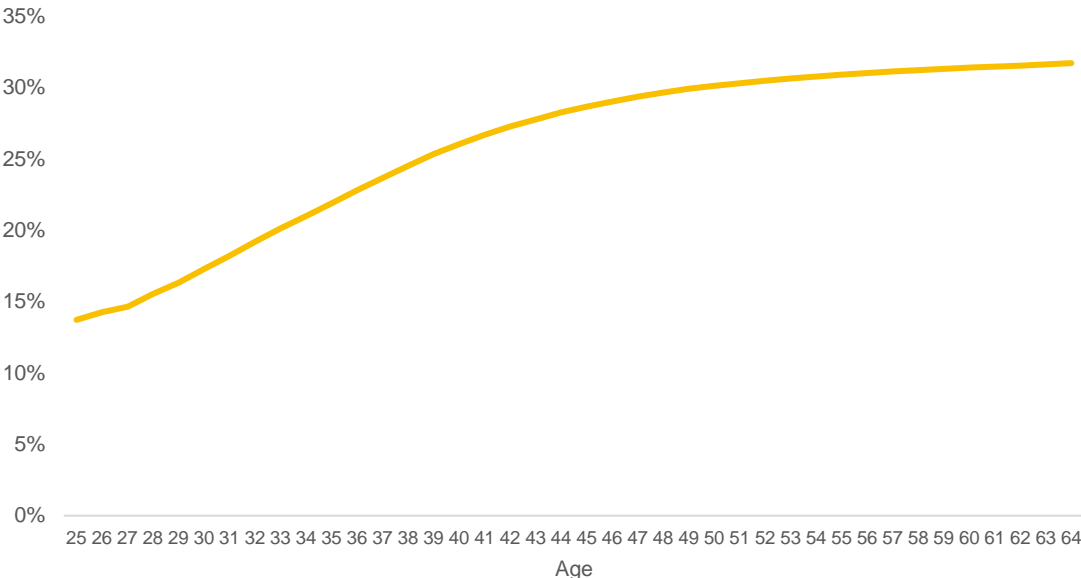
“I see the gender pension gap a lot through my work as I deal with debt advice and insolvencies. We very often see women approaching or around retirement age struggle to make ends meet because their pensions are that much lower and don't provide them with a reasonable standard of living. That is reflective of the fact that they might have worked part-time or have had lower-paid jobs.” Jayne, 62

ONS earnings data from 2002 to 2018 reveals that women tend to work shorter paid hours, at a lower rate per hour, than men.

From age 16 to 64, on average men work 37 paid hours per week, while women work 30 paid hours per week. Men's median hourly pay is £13.73 while women receive £11.10. Over time, this leave women with smaller pension pots.

This data, modelled with assumptions of annual pension contributions of 8%, with a growth of 7%, and an all-in annual management fee of 0.5%, reveals a 32% gender pension gap by the time a saver turns 64.

Gender pension gap (%)



Source: PensionBee analysis, using data from [Gender differences in commute time and pay, 2002-2018, Office of National Statistics \(ONS\)](#)

However, recent PensionBee analysis of customer pots found a larger national gender pension gap of 38%. This gap only widens with age, as female savers aged fifty and over experience a 46% gap. The gap is most pronounced in Northern Ireland, where men’s pots are 57% larger than those of women¹⁰.

“Women usually use their money for children if they have them, the household, and other caring responsibilities. We generally earn less as well. If you’re taking a percentage away from that every month, you’ve got less to put towards your basic needs. And then women have to make that choice. Am I going to put money towards my basic needs, family, and caring responsibilities, or am I going to put it towards my future? That can be very difficult.” Lisa, 35

¹⁰ [“Pension Landscape,” PensionBee](#)

Intervention models

PensionBee modelled various scenarios to understand the potential impact of interventions on pension pot sizes at age 64.

Scenario 1: Workers of different genders are paid equally, but women continue to work less paid hours (women's current hours).

Scenario 2: Men and women work equal hours, but women continue to be paid less per hour (women's current hourly pay).

Scenario 3: Women work equal paid hours as men except from age 27 to 39, which this analysis takes to be typical childbearing and childcare intensive years.

From age 27 to 39, women work their current, reduced hours, at their current hourly pay. When they return to full-time paid work at age 40, they are paid less than men due to lower progression, as a result of part-time work in the previous period.

Before age 27, women receive equal pay to men for working equal hours.

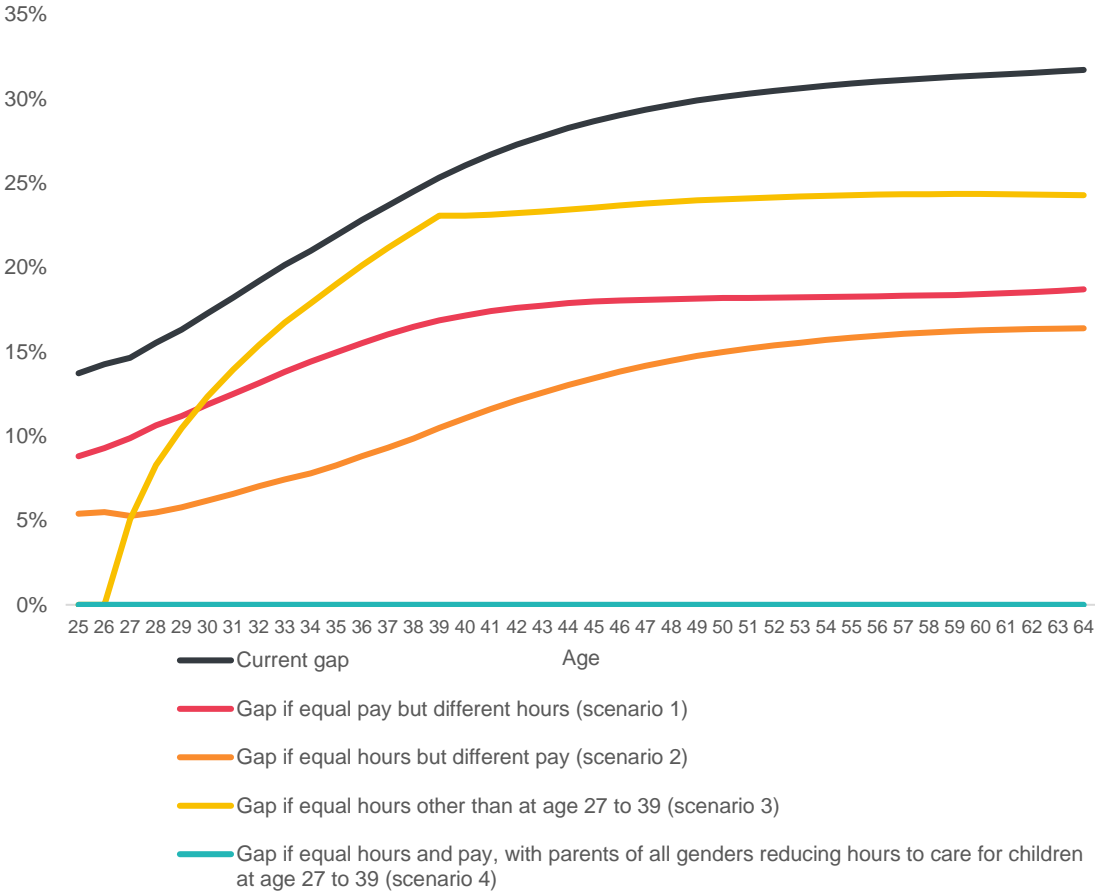
Scenario 4: Men and women work equal hours at equal hourly pay. This would involve them both working fewer hours to share childcare temporarily from age 27 to 39. Both men and women would return to paid work at full hours and be paid equivalent to the current paid hours and wage for men aged 40 and over.

Whilst all four interventions reduce the gender pension gap, the models illustrate that enabling women to work more paid hours closes the gap most significantly. Scenario 4 is the most effective solution, where women work equal hours to men at equal pay. With all parents, regardless of gender, temporarily reducing paid working time to care for children from age 27 to 39, and then returning to paid work full-time.

Both parents taking equal leave for childcare responsibilities enables women to continue progressing at a similar rate to men and increases women's participation in paid employment over the long-term.

This intervention brings down the gender pension gap to 0% and increases women's pots by 35% at age 64. The result would leave men working only an hour less than they currently do per week, whilst women would be able to work for an additional seven paid hours per week.

Gender pension gap intervention models



Source: PensionBee analysis¹¹, using data from [Gender differences in commute time and pay, 2002-2018, Office of National Statistics \(ONS\)](#)

¹¹ Pension pot sizes at modelling using assumptions of 8% annual contributions on annual salaries, with a 7% growth rate and annual management fees of 0.5%. Pension contributions made from ages 25 to 64. Annual salaries and hours in paid employment calculated by PensionBee using median hourly pay and weekly earnings by gender and age from [Gender differences in commute time and pay, 2002-2018, Office of National Statistics \(ONS\)](#)

Scenario 4 (equal hours at equal pay) in detail

	Men		Women		Overall		% Change in pot size		
	Annual paid hours	Pot size at 64 (£)	Annual paid hours	Pot size at 64 (£)	Gap at 64	Pot size at 64 (£)			
Current	2,038	439,581	1,615	300,130	32%	739,712	Men	Women	Overall
Scenario 4	1,975	406,414	1,975	406,414	0%	812,827	-8%	35%	10%
Difference	-63	-33,168	360	106,283	-32%	73,116			

Source: PensionBee analysis, using data from [Gender differences in commute time and pay, 2002-2018, Office of National Statistics \(ONS\)](#)

If men and women were to work the same hours, at an average of their current hours, with men working less during their late twenties to thirties, and late fifties to early sixties, the gender pension gap could be eliminated.

This would enable women to increase their pots by more than £106,000, whilst men's pots would decrease by only around £33,000. Overall, a couple could enjoy more than £70,000 in extra pension savings, with a combined pot of £812,827.

Employers can reduce the gender pay and pension gaps through supportive, gender-inclusive paid parental leave packages. This would help employees share care responsibilities from the very beginning of their roles as parents.

The government's existing shared parental leave policy (introduced in 2015) is heavily criticised, and has a reported take-up rate of only 2%¹². The policy does not offer adequate financial support¹³, as without paid parental leave from their employers, men's weekly income would drop to the statutory minimum of £151.97. This could be even lower if they were to participate in the shared parental leave scheme¹⁴. Take up amongst men in Sweden is much higher at 90%, where parents are offered 90 days of non-transferrable leave, at 80% of their salary (capped to a limit of 1006 SEK a day)¹⁵.

Currently, in the UK, there is a lack of transparency around the parental support offered by major employers. This makes it difficult for employees to navigate the jobs

¹² ["It was seen as weird": why are so few men taking shared parental leave?" The Guardian](#)

¹³ ["Shared parental leave: scrap 'deeply flawed policy' say campaigners," The Guardian](#)

¹⁴ ["Shared Parental Leave and Pay," UK government](#)

¹⁵ ["Maternity & Paternity Leave in Sweden," Your Living City](#)

market and select an employer that offers adequate support. There are strong calls for major employers to disclose parental leave and pay packages to address this significant issue¹⁶.

PensionBee provides easily accessible information about its [parental leave policy](#), which includes 110 days on full pay to all new parents regardless of gender, via the [Careers page on its website](#). PensionBee is committed to the [Association of British Insurer's \(ABI\) initiative](#) to increase transparency around parental leave policies and pay in the insurance and the long-term savings industry.

Employers must act now by providing supportive parental leave packages to all new parents, regardless of gender, and transparent, easily accessible information on parental leave and pay policies.

“Under the current system, I didn’t want to take time off when my baby was born because I didn’t want to reduce the amount of time my wife was able to take. My salary would have also dropped by £1,000 a week. If my employers had offered six months paid leave for all new parents, I would have taken it, you’d be crazy not to. I didn’t get offered anything. Even a month would have been so helpful. Currently, dads can’t support their families enough. I have a friend whose baby is being fed through a tube until she’s five months old, and he hasn’t been able to take any time off. Too often the mum is left to do it all alone.” David, 41

¹⁶ [“Top UK employers urged to disclose parental leave and pay,” Personnel Today](#)