

Pension Planning for Women

by Arthur Childs Certified Financial Planner^{CM}, Chartered Financial Planner



Introduction

The state pension age for men and women is to be equalised at 66 from 2018 onwards.

The Government is also fast forwarding the increase in the state pension age to age 67 by April 2026.

Women are particularly affected by the changes to the state pension. Those changes have been quite dramatic when you consider that women were still able to retire at age 60 with a state pension until April 2010 but very shortly women will have had to wait a further seven years for their state pension.

Those who will feel these changes most keenly are women who are currently in their 50s.

The problems are compounded, however, because whilst women are generally acknowledged to be better financial planners than men, there does still seem to be a blind spot for many women when it comes to taking control of their own pension provision.

“Women suffer from innate disadvantages compared with men for much of their careers when it comes to saving for retirement. They are less likely to be in full-time employment, have lower average earnings and are more likely to work for smaller organisations, which tend not to give high priority to pension provision.

It is hardly surprising, then, that the sixth *Scottish Widows Women and Pensions* report finds that women still lag behind men in retirement provision.”

Ian Naismith
Head of pension marketing, Scottish Widows

Women need to get serious about pensions

It is a simple fact of life that we all need to take responsibility for building up sufficient income for ourselves for what is referred to as our ‘retirement’.

It has been suggested that someone retiring now can expect to spend 40 per cent of their adult life in retirement!

The Provision of Long Term, Post Retirement Income
A seminar arranged by threesixty services Nov 2010

For women particularly, this time of life can be long lasting (on average women outlive men of the same age by around five years), enjoyable and fulfilling. The proviso is that there is a sufficiently high income to allow for eating out, going to the theatre/shows, holidays and travel to visit children and grandchildren, or whatever is of particular interest to you.

This can be a very active time when you may continue in some form of part-time paid work, become involved in all sorts of organisations, or even start a business.

It should be clear that you cannot rely on the state for the level of income that is required and it is becoming increasingly clear that you cannot rely solely on employer-sponsored pension provision either.

The task of providing a comfortable lifestyle for yourself after the salary cheques have stopped coming in, needs to be seen as one of fairly major proportions.

“At February 2010, there were 12.5 million claimants of State Pension (SP), a rise of 261 thousand on a year earlier. Of these, 38% were male and 62% female.”

Department for Work and Pensions (DWP)
Quarterly Statistical Summary, August 2010

The Gender Pensions Gap

The Association of British Insurers (ABI) published a report in September 2004 based on their research entitled *The Gender Pensions Gap - encouraging women to save for retirement*.

The report concluded that 4.5 million working women were not saving anything towards their retirement and a further 4.5 million working women were not saving enough for their retirement.

“Women planning to retire in 2010 expect to receive an average annual pension of £12,169, while their male counterparts expect to collect an average pension of £19,593 – a pension gender gap of £7,424. The pension income gender gap has widened by £782 since 2009 when the difference between men’s and women’s pensions was £6,642.”

Prudential Class of 2010 Retirement Survey
Published February 2010

The idea of a gender pensions gap has been picked up by various other surveys since the original ABI survey was published and it is clear that the situation for women is getting worse rather than improving.

As well as highlighting women's attitudes towards pension saving, the ABI's report showed that women were specifically disadvantaged compared to men when it comes to pensions:

- 35% of working women did not belong to any kind of pension scheme compared to 25% of men
- even when they did save for a pension, over half of women contributed less than £100 per month
- women were less likely to benefit from employer contributions. Only 9% of women received an employer contribution of more than 5% of wages, compared to 15% of men
- 83% of retired women had a total personal income of less than £1,000 per month compared with just 58% of men.

Women's work and earnings patterns also have a huge impact on their ability to save and their eventual retirement income.



Single Women

Where you are a single woman through choice, or have become one through divorce, separation or widowhood, it should be fairly clear to you that you are in no different a position from a man when it comes to the need to provide for adequate income in later life.

If you are relying on State pension benefits alone to provide adequate income in retirement you could be in for a great disappointment. The ABI research found that 63% of women who are currently retired are relying on State benefits alone.

The Department for Work and Pensions (DWP) is trying to get women from 18 years of age onwards to think seriously about this subject. At the other end of the scale if you have less than ten years to retirement and have made inadequate pension provision to date it is still worth doing something now.

Mind the gap!

“Despite historically high levels of female participation in the labour market, women are still falling behind when it comes to pensions. Recent Government data suggests that women's pensions are around 80% that of men's.

Today's women pensioners receive around £50-£100 a week less on average in private pension income than men. But the problem is likely to persist for generations to come: today's working women are far more likely to be contributing to a private pension than their mothers or grandmothers, but still the gender pensions gap persists.

Around 38% of today's working age women are contributing to a private pension, compared with around 46% of working age men. Only one-third of women part-time workers are members of an employer's pension schemes. And where women are contributing, they contribute less than men. For example, women are far more likely to contribute less than £100 a month to a private pension whilst men predominate in the groups that contribute £200 or more each month to their pension.

There are a number of reasons why women still fare less well from pensions than men:

- Women still earn less than men (the gender pay gap is running at about 80%). The most common reason women cite for not saving more is that they do not have any spare money – women are far more likely to give this as a reason than men.
- Women are still far more likely to take time out of the labour market than men for family caring responsibilities. As a result, they miss out on pension contributions.
- Women are more likely than men to work for employers that do not provide access to a pension (or provide pension contributions). Around 40% of women working part-time say their employer does not have a pension scheme, and 20% of women part-time workers whose employer does have a scheme are ineligible to join that scheme. *[The law has now been changed in this respect so that part-time employees are eligible to join company pension schemes]*
- Women's employment patterns sometimes mean that, even where there is a pension scheme, women miss out on the chance of joining it, eg because they leave before becoming eligible.
- Where women work also has an impact on their pension provision: women are more likely than men to work for employers with fewer than 100 employees, and as the Government's White Paper analysis shows, smaller employers are less likely to offer workplace pensions with an employer contribution than larger employers.”

Joanne Segars, Chief Executive
National Association of Pension Funds, February 2007

Where you are married

Where you are a married woman, or you are otherwise enjoying a long-term relationship with your partner, you may be relying on your husband's or partner's pension to provide for you as well. Whilst this can be true it ignores many of the potential major upheavals in life such as the death of a husband or partner, divorce, separation, redundancy etc.

These are not events that the majority of people in happy long-term relationships may want to consider, but it is better to do so now rather than if, and when, such an event occurs. It is particularly important, if you are in a long-term relationship but are not married, to be certain as to whether you have the same rights as a married woman under your partner's occupation pension scheme.

While this will often be the case it is certainly not a clear-cut situation. For example, on the death of a male employee the trustees of the pension scheme have the discretion as to who will receive the pension fund or income benefits. They will have no difficulty in paying this to the deceased employee's wife but will often use their judgement where a former partner is concerned.

This gets very complicated where there is a child by a previous partner, or a previous partner had a longer relationship with the scheme member than you etc. It is best to be sure of the position now so that if things need formalising they can be.



The death of a husband or partner

Where your husband or partner dies before reaching retirement age, any pension payable to you can be very much reduced over that which would have been paid to you both in retirement.

For example, if your husband or partner is a member of a good occupational pension scheme you would normally receive, on his death before retirement, a pension of 50% of his prospective pension. In rough terms that is likely to be around 25% to 33% of your husband's or partner's income just prior to his death.

If your husband or partner is not a member of an occupational pension scheme but is providing for his own pension through a personal pension plan, the situation can be quite different.

The situation on death before retirement in this case is often that the fund value is returned to you. If the plan has been in force for less than ten years the fund value is unlikely to provide much of a pension for you.

In both of these circumstances, you will be in a much more secure position if you are contributing to your own pension plan. After all, the pension that you receive from your deceased husband's or partner's pension scheme may start to look quite small when you reach your planned retirement age and your own pension can then be used to top it up.

Divorce and separation

Divorce and separation is another subject that we do not like to contemplate, particularly where the relationship is a happy one, but it is foolish in financial planning to ignore these things.

Particularly in the case of divorce, you may now receive some benefit from the fact that your former husband had a pension. However, this will be nowhere near the real value of the income in retirement that you might have anticipated whilst you were together.

The redundancy of a husband or partner

Another modern problem that we have to contend with is the redundancy of a husband or partner, or the failure of his business. In both these events pension contributions naturally cease and any resulting pension would be very much reduced from that which you would otherwise expect.

Tax reasons

Even if all of the other reasons we give in this Guide as to why women should pay more attention to pensions are ignored, there are extremely good tax reasons why it is imperative for married women, and others in a long term relationship, to make provision to receive their own pension income in retirement.

Briefly, under separate taxation you will have your own personal allowance in retirement and income up to this level is totally tax-free to the family. The personal allowance (2011/2012 tax year) is £7,475 a year for anyone earning no more than £100,000 a year (£9,940 once age 65 is attained).

In other words if you can produce a pension (including your State pension benefits) of up to £7,475 a year, in present day values, you will receive as a family every penny of that pension.

On the other hand a husband or partner who already has a pension and who earns a further £7,475 a year in pension would currently pay tax on that increase in pension of £1,495 (ie 20% of £7,475).

Where your husband or partner is going to be a higher rate tax payer in retirement the argument for you to make your own pension planning is even greater. An additional £7,475 of pension paid to your husband or partner would result in £2,990 of tax being paid on that pension (ie 40% of £7,475).

The tax savings potential increases, of course, once you reach age 65 because of the higher personal allowance or 'age allowance'.

Not employed outside the home?

You can still set up your own personal pension plan without any requirement to show earnings for contributions up to £3,600 gross (£2,880 net) in a tax year, which is up to £300 gross (£240 net) a month.

Do you have to use a pension?

Whilst contributing to a personal pension plan has various tax benefits, there are other methods of saving for retirement that you could consider.

You could, for example, invest each month in an **Investment ISA**. This produces a fund where capital growth does not attract income tax or capital gains tax. Once you retire, and provided your fund is big enough, you could draw an income from the fund and you would not be required to declare this income to HM Revenue & Customs or pay any further tax on it.

Where your attitude to risk will allow, you might also like to invest a lump sum of £3,000 or more into a **Venture Capital Trust (VCT)**. These work very much like Investment ISAs but the investment is in smaller unlisted companies and is therefore higher risk.

There are definite advantages of using VCTs for pension planning, however, in that 30% tax relief is given at the outset (providing you are a tax payer) and substantial dividend income can build up over the years which is not taxed in your hands. By investing the minimum amount into different VCTs from time to time a useful, tax efficient income can be built up for later life.

Annuity purchase

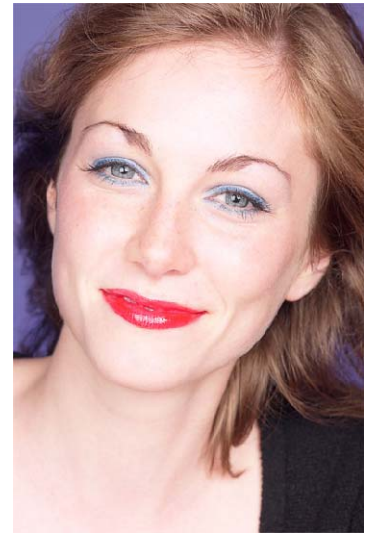
If you build up money in a pension plan the time will come when you want to take the benefits. At present 25% of the fund can be taken as tax free cash and the remainder has to purchase an annuity, that is, a guaranteed income for the rest of your life.

"65% of those retiring could increase their income by purchasing an impaired life annuity. Yet data from Towers Watson (quoted in *Financial Adviser* 23 Sep 2010) suggests that only one in eight people actually buy an enhanced annuity on the basis of ill health."

Just Retirement Limited

If you have a very large fund of, say, £250,000 or more you may not need to purchase an annuity but for the purposes of this guide we will assume that you have a much smaller fund.

Many people waste part of their guaranteed income for life at this stage by simply accepting the annuity being offered to them by the pension company with which they built up their pension fund.



There are two reasons for this:

- They ignore the availability of the Open Market Option. This simply means that they have the right to purchase their annuity on the open market and not just from the company they are currently with. We are happy to advise you on this and to do the shopping around for you. Although we charge a minimum fee of £500 this is effectively reduced to nothing when the pension fund is £50,000 or more. Even with smaller pension funds it can still be in your interests to pay the fee as this will still be reduced by any commission that we receive from the new pensions office and you could have a noticeably increased pension for the rest of your life.
- Even if they do shop around they ignore the availability of an enhanced annuity. It is estimated that 40% of us have a health history or lifestyle which would mean an increase in our annuity payments of possibly 10% or more. We have been able to obtain an increase in excess of 50% in some exceptional cases. We automatically check for this as part of our standard annuity purchase service.

Make sure that you not only consider the use of an open market option for any of your own annuity purchases but that your husband or partner does as well.

Annuity design

Many people do not understand the wide range of designs that are available in annuities today.

Some married men still purchase single life annuities because that gives the highest annual pension – you should talk your husband or partner out of that one! In fact please do get involved in this most important decision.

Even when a husband or partner sets up a joint life and last survivor annuity (ie some level of income continues to be paid while at least one of you is alive) this is typically done on the basis that the annuity drops to 50% of its value if he dies first. However, you can usually have the annuity set up so that there is only a 33% reduction on the death of the husband or even no reduction at all.

I have personally set these up with 100% annuity continuing to the spouse and she is still alive and enjoying the full pension 18 years after her husband died.

Inflation also needs to be considered. Most people purchase level (ie non-increasing) annuities with their private pension funds because the initial annuity is substantially higher. However, if you are, say, 63 when you husband purchases his annuity you might still be receiving that annuity 30 or more years later and even at 2%-3% a year inflation will have dramatically reduced the true value of that pension.

The message here is to take an interest in your husband or partner's pension and to especially be involved when decisions are being made over the type of annuity to be purchased.

Occupational pension schemes

If you find yourself working for an employer who is willing to contribute to a pension scheme on your behalf (and the day is fast approaching when all employers will have to do so) then please do join that scheme and contribute sufficient to get the maximum employer contribution that's on offer.

That would usually be 3% to 6% of your salary but some employers will match your contributions up to 8%. Now that might sound like a scary amount for you to pay but just think about it. You would actually lose 6.4% of your take home pay in exchange for 16% of your gross pay going into a pension plan.

If you are lucky enough to be a member of a 'final salary' pension scheme such as that available to teachers, university lecturers, doctors, nurses, local government employees etc then do check to see whether you are allowed to purchase 'additional years' of scheme membership.

Do let us review your pension planning

Pension planning is one of those things that you can never start early enough. Do ask us to carry out a review for you. We can give you an honest assessment of where you are headed and a plan to improve things, if necessary, while there is still time.



You could look on it in the same way as getting an assessment of your fitness when joining a gym - only without the pain!

Please note that this information does not constitute personal advice and should not be treated as a substitute for specific advice based on your circumstances.

Any information given in this Guide relating to income tax legislation is based on our understanding of legislation and practice in force at the date of this Guide. Whilst we believe our interpretation of current law and practice to be correct in these areas, we cannot be responsible for the effects of any future legislation or any change in interpretation or treatment.

In particular you are warned that levels of tax and tax reliefs and also State Benefits that may have been referred to, are subject to alteration and, in any case, the value of such reliefs and benefits may depend on an individual's circumstances.

For personal advice

If you would like to receive advice on your pension planning or discuss any issue that has been raised by these notes please ask your usual Arch adviser or contact us via one of the following:

Tel: **0845 3700 661**
or **01483 204600** (if local)
Email: **enquiries@arch-fp.co.uk**
Online: **www.arch-fp.co.uk**



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