

## **Differentials in pension prospects for minority ethnic groups in the UK**

Vlachantoni, A., Evandrou, M., Falkingham, J. and Feng, Z.

Centre for Research on Ageing and ESRC Centre for Population Change  
Faculty of Social and Human Sciences, University of Southampton

### **Abstract**

Occupational pensions have historically been a key aspect of pension protection within the British pension system, as a result of a relatively low-value basic pension. However existing research indicates that minority ethnic groups are less likely to benefit from such pensions and more likely to face a poverty risk in later life, as a result of the interaction of their patterns of labour market participation and pension membership. Using data from the UK Household Longitudinal Study, this paper explores patterns of employment and the determinants of membership in an employer's pension scheme among working-age individuals from minority ethnic groups and the White British population. The findings show that, after controlling for key demographic, health and socio-economic characteristics, ethnicity remains a strong determinant of one's chances of improving their pension protection prospects through being in paid work, being an employee and working for an employer who offers a pension scheme. However, once an individual is working for an employer who offers a pension scheme, the effect of ethnicity on their odds of being a member of that scheme is lower. In order to maximise the impact of the current government initiative of auto-enrolment, UK government policy needs to facilitate not only the labour market participation of working-age men and women from ethnic minorities, but also their participation as employees.

## **Introduction**

Since the 1940s, when its foundations were laid, the modern British pension system has been characterised by a contributory flat-rate state pension at a relatively low level (approximately 16% of National Average Earnings in 2009) and a relatively small public earnings-related scheme, topped up by means-tested benefits for those on low incomes and by private pensions for those with middle and high incomes (PPI, 2013). Recent policy reforms have sought to close the coverage gap and to contribute to pension adequacy for particular groups of the population, such as those on low incomes. However, concerns exist about the extent to which individuals from particular social groups can or have benefited from such reforms. According to research by the Pensions Policy Institute, individuals from ethnic minorities “have many of the ‘alarm bell’ characteristics that are associated with lower pension incomes” (Steventon and Sanchez, 2009: 1), such as low earnings, breaks in their employment record and a high prevalence of self-employment which may equate with pension insecurity. Such concerns relate to a significant part of the British population, albeit in varying degrees depending on the specific ethnic group. According to the 2011 Census, individuals from Black and Minority Ethnic (BME) groups comprised about 14% of the total population in England and Wales (ONS, 2012a), with the Indian, Pakistani and Black Caribbeans being amongst the largest groups (ONS, 2005). Pension protection may be considered a less pressing policy concern today, as the younger age structure of the BME population means that individuals from BME groups currently make up only around 8% of the population aged 65 and over in England and Wales (ONS, 2011); nevertheless, the BME population is ageing along with the rest of the UK population (Lupton and Power, 2004). Projections by the Runnymede Trust and the Centre for Policy on Ageing show that by 2051, there will be an estimated 3.8 million persons from BME groups aged 65 and over, and 2.8 million persons aged 70 and over (Lievesley, 2010).

## **Data and methodology**

Against this background, this paper aims to improve our understanding of the pension prospects of working-age individuals from BME groups in the UK by examining the differentials faced by individuals from BME groups in terms of being employed and contributing to an employer’s pension scheme. The paper employs wave 1 data (collected between 2009-2011) from the Understanding Society dataset (UK Household Longitudinal Study), which is a longitudinal survey of the members of approximately 40,000 households in the UK. The dataset is ideal for this study, as it includes an Ethnic Minority Boost Sample, designed to provide at least 1,000 individuals from five ethnic groups: Indian, Pakistani, Bangladeshi, Caribbean and African. The analytical sample for this paper includes all adults aged from 25 and SPA, totalling over 30,000 respondents, of whom approximately 5,000 came from the five ethnic groups above.

## **Results**

Bivariate analysis shows that, among men, the Polish (92%) and Indian (86%) groups are more likely to be in paid work than the White British group, while Caribbean men are the least likely (68%). Among women of working age, it is the Polish (79%) followed by the White British (74%) groups that are the most likely to be in paid work, while Pakistani and Bangladeshi are significantly less likely to be in paid work (both 30%). Once they are in work, 80% or more of

men from most ethnic groups work as employees, however that percentage is 70% among Pakistani men. Among women who are in paid work, the percentage who are employees is around or above 90% for most ethnic groups, except for the group of Other Ethnicities, where 84% of women are employees. Once they work as employees, White British men are the most likely to work for an employer who offers a pension scheme (75%), while Pakistani (45%), Polish (49%) and Bangladeshi (54%) men are the least likely. Among women also significant differentials exist, with Caribbean (80%) women being the most likely to work for an employer offering a pension scheme, and Polish (47%) women being the least likely. Finally, among men who work for an employer offering a pension scheme, the White British men (76%) are the most likely to be members of such a scheme, while Polish (43%), Pakistani (60%) and African (61%) men are the least likely. Among women it is the Mixed group (79%) who are the most likely to be members of their employer's pension scheme, while Bangladeshi (46%), Polish (49%) and Pakistani (58%) women are the least likely.

The multivariate analysis consists of binary logistic regressions for the four outcomes illustrated above, which can improve the pension prospects of the working-age population: being in paid work; being an employee; working for an employer who offers a pension scheme; and being a member of one's employer's pension scheme.

The results show that, for both men and women, a combination of demographic, health and socio-economic characteristics are associated with being in paid employment or not, and ethnicity has a strong effect on this relationship. Being under the age of 50, with high educational qualifications and owning one's home with a mortgage are strongly associated with one's chances of being in paid employment, while being female and single never married reduce one's odds of being in paid employment. The report of excellent, good or very good health, and no report of a long-standing illness are also positively associated with being in paid work, and the negative impact of caring for someone in the household or having children (of any age) is also reflected. Among ethnic minority groups, Polish individuals are the only group who are more likely to be in paid work than the White British majority, while all other groups are less likely. For example, the odds of being in paid work among Pakistani and Bangladeshi individuals are 0.3 and 0.4 the odds among White British individuals respectively. When the analysis was ran separately for men and women, the results are broadly similar.

Among those who were in paid work, the results show that young age (between 25-29 years) and being female, are positively associated with being an employee, as are renting one's house from a Local Authority, Housing Association or privately. The impact of ethnicity on being an employee is only strong for some of the groups, with the Pakistani group being less likely than the White British group to be employees, but the Indian, Caribbean and African groups being more likely to be employees. Finally, there is little difference in the effect between being a first- or second-generation migrant on one's odds of being an employee, with the odds of being an employee among either a first- or second generation migrants being 0.76-0.79 the odds among non-migrants. Examining the determinants of being an employee separately for men and women showed that education had a differential effect, with lower-level education (GCSE to A-levels) being associated with higher odds of being an employee compared to having a degree among women, but associated with lower odds to having a degree among men. For both men and for women, being African was associated with higher odds of being an employee compared to being

White British, while being Pakistani was associated with lower odds compared to the reference group only for men. Finally, the negative association between being a migrant (first- or second-generation) and being an employee is only statistically significant among men.

Among all employees, being aged above 30 years and being female are positively associated with one's odds of working for an employer with a pension scheme, while indicators of a lower socio-economic status, such as education which is lower than a Degree, renting one's home, belonging to a lower social classifications and to the lower quintiles of the take-home pay distribution, are negatively associated with such odds. Coming from an ethnic minority group was negatively associated with working for an employer with a pension scheme compared to the White British group, and this effect is statistically significant for the Other White, Indian, Pakistani, Bangladeshi, Other Asian and Other ethnic groups. Finally, second-generation migrants are more likely to work for an employer with a pension scheme than non-migrants, while first-generation migrations are less likely to do so. Once gender was taken into account, the results remained broadly similar.

Finally, older age and being married are associated strongly with one's odds of belonging to their employer's pension scheme, as is being female, although the impact of all demographic and socio-economic determinants is quite similar for men and for women when the analysis is ran separately. Pakistani individuals are 30% less likely to be members of their employer's pension scheme than the White majority, while Caribbeans are 36% more likely than the White majority to be members of such a scheme. As before, indicators of an individual's lower socio-economic status, such as lower education, renting one's home, belonging to the lower social classifications and belonging to the lower quintiles of the take-home pay distribution, are negatively associated with being a member of one's employer's pension scheme. The effect of ethnicity in this step of the analysis is negligible apart from Bangladeshi women whose odds of being members of their employer's pension scheme were 0.48 the odds among White British women, while being a migrant (first- or second-generation) is negatively associated with belonging to the employer's pension scheme compared to being a non-migrant, and this is statistically significant for first-generation migrants among men and women separately.

## **Discussion and conclusion**

The results of this analysis are broadly compatible with existing research which points to minority ethnic groups, and particularly the Pakistani and Bangladeshi groups within the BME population as a whole, as being disadvantaged compared to the White British majority in terms of their pension protection by being less likely to participate in the labour market (Allmark et al, 2010) and being more likely to be self-employed (PPI, 2003). Although previous research has shown that minority ethnic groups are less likely than the White majority to be contributing to an employer's pension scheme (Nesbitt and Neary, 2001), the analysis in this paper contributes to our understanding of the nuance of such finding by showing that ethnicity does not have a significant impact on one's chances of being a member of an employer's scheme, once an individual is working for such an employer. The exception to this rule is that Bangladeshi women who work for an employer offering a pension scheme are less likely than their White counterparts to be members of that scheme.

The strong effect of indicators reflecting higher socio-economic status on one's odds of being employed, being an employee, working for an employer who offers a pension scheme and being a member of that scheme, as shown in this analysis, is also compatible with existing literature. For example, Bryan et al (2011) analysed data from the Wealth and Assets Survey and found that saving among employees is associated with older age, high education, White ethnicity and home ownership. The positive impact of older age on one's odds of being a member of their employer's pension scheme may indicate one's increasing capacity to contribute to an occupational pension scheme as their salary increases over their working life. This finding may also indicate a significant cohort effect, with those in the latter part of their working life having benefited the most from the development of defined benefit pension schemes, while younger cohorts of working men and women experience a decline in their active membership of such schemes. Women's greater likelihood of belonging to their employer's pension scheme compared to men is surprising. However, the gender effect is statistically significant but not strong, and there is evidence in the literature that women's occupational pension membership has been increasing steadily since the late 1990s, while men's has been decreasing, thereby closing the gender gap in this respect (ONS, 2012c).

The results in this paper suggest that even after controlling for other demographic, health and socio-economic variables, ethnicity remains a strong determinant of a working-age individual's chances of establishing the circumstances which can facilitate better pension protection. Such circumstances include being in paid work in the first place, but also being an employee and working for an employer who offers a pension scheme. However, once individuals were working for an employer who offered a pension scheme, the effect of coming from a minority ethnic group was not strong, apart for women from Bangladesh whose odds were lower compared to White British women. Such a finding is important evidence that being in paid work is a crucial step towards better pension prospects for individuals from BME groups, but that this is not enough. Working as an employee, rather as self-employed, and working for an employer who offers a pension scheme, are fundamental facilitators of a working-age individual's pension prospects.

From a policy perspective, the implication of these results is that government policies aimed at facilitating the pension protection of individuals from minority ethnic groups ought to target the 'initial' stages of such cumulative disadvantage, which relate to being in paid work, being an employee and working for an employer who offers a pension scheme. As the bivariate analysis showed, individuals from minority ethnic groups face a disadvantage at each of these stages relative to the White British group, although such disadvantage varies significantly between different ethnic groups. Government policy aims to roll out the auto-enrolment scheme to smaller companies by 2017, and as individuals from specific BME groups tend to work in such companies, this policy will go some way towards ensuring that individuals from BME groups enter retirement with stronger pension protection. However, working towards the pension protection of future cohorts of older people from BME groups, government policy also ought to encourage a greater proportion of men and women from specific groups, such as the Pakistani and Bangladeshi, to enter the labour market in increasingly larger percentages as employees, rather than as self-employed.

## References

- Allmark, P., Salway, S., Crisp, R. and Barley, R. (2010) *Ethnic minority customers of the Pension, Disability and Carers Service: An evidence synthesis*. Department for Work and Pensions Research Report No 684.
- Bryan, M.L., Lloyd, J., Rabet, B. and Taylor, M.P. (2011) *Who saves for retirement?*, London: Institute for Social and Economic Research & Strategic Society Centre.
- Evandrou, M. (2000a) Social inequalities in later life: the socio-economic position of older people from ethnic minority groups in Britain. *Population Trends* 101: 11-18.
- Evandrou, M. (2000b) Ethnic inequalities in health in later life. *Health Statistics Quarterly* 8: 20-28.
- Lievesley, N. (2010) *The future ageing of the ethnic minority population of England and Wales*. London: Runnymede and the Centre for Policy on Ageing.
- Lupton, R. and Power, A. (2004) *Minority Ethnic Groups in Britain*. Case-Brookings census Briefs No. 2. London: Centre for the Analysis of Social Exclusion.
- Nesbitt, S. and Neary, D. (2001) *Ethnic minorities and their pensions decisions*. London: Joseph Rowntree Foundation.
- Office for National Statistics and Department for Work and Pensions (2006) *Focus on Older People* (online at: <http://www.statistics.gov.uk/focuson/olderpeople/> )
- Office for National Statistics (2011) *Population Estimates by Ethnic Group 2002-2009*. Statistical Bulletin.
- Office for National Statistics (2012a) *2011 Census: Key Statistics for England and Wales, March 2011*. Statistical Bulletin.
- Office for National Statistics (2012b) *Chapter 3: Scheme Membership – OPSS Annual Report, 2011*. London: ONS.
- Office for National Statistics (2012c) *Pension Trends, Chapter 7: Private Pension Scheme Membership (2012 Edition)*. London: ONS.
- Pensions Policy Institute (2003) *The Under-pensioned: ethnic minorities*. London: PPI.
- Pensions Policy Institute (2013) *The Pensions Primer: A guide to the UK pensions system*. London: PPI.
- Steventon, A. and Sanchez, C. (2009). *The under-pensioned: disabled people and people from ethnic minorities*. London: PPI.