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THE GENDER PENSION GAP:

What can we do with what we know?

A white paper commissioned by Federated Hermes, conducted by City Hive to understand the key reasons for the current gender pension gap and what can be done about it.

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Federated Hermes International

INTRODUCTION

It is impossible to envisage financial equality without addressing the gender disparity in savings, investments and pensions. It is equally impossible to enact effective change without understanding more about the causes and motivations of financial attitudes and behaviour.

This is not simply an issue for retail focused investors. Access to finance and investment is central to creating a level playing field for women to participate in the economy, including establishing their own investable businesses. Without this opportunity, we risk losing innovation and diversity of thought and contribution.

For investors, it's increasingly the case that they also consider their contribution to the economy and society, and whether their investment practice is enabling fair access to investing.

City Hive's think tank has prepared this paper based on our industry research and backed up by the insights and recommendations from surveys and interviews conducted with a range of women and men from across the UK, across age groups, communities and ethnicities.

These findings build upon a body of existing research that confirms the existence of the ethnicity and gender pension gaps, that shows that women are unable to access finance and investment as easily, frequently or with the same conditions as men, and demonstrates that women are not represented in investment roles and in senior management.

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REVELATIONS

Addressing the gender pension gap of 40% should be a priority for institutional investors and retail alike, in order not just for the end-client to be served but to be certain that the end-client is well understood and includes women and their various intersectional characteristics, such as class, ethnicity and race.

For institutional investors that are proponents of responsible investing, this falls into the consideration of social issues, and is an opportunity to demonstrate that the investors values run through the organisation's approach.

Advertising and marketing of pensions and investment rarely reflects the diversity of our society. This is a failure across retail and institutional investment and a missed opportunity to engage. People want to see themselves positively and realistically represented and they want to see how they can control their own narrative towards financial security. However, unless this is authentically created by an overhaul of marketing practice, it may fall flat.

Investment needs an image makeover. It looks like an elite pastime to achieve travel, sport or other leisure goals (think of the guy on his carbon-fibre bike riding up the mountain). It's interpreted as for those who already have money, or a paternalistic attempt to introduce western values into global cultures. It could instead present the opportunity to achieve meaningful goals of financial security or access to education, or to enable grassroots success.

The communication around pensions, savings and investment is still filled with jargon and perceived to be deliberately confusing. Retail investors need clarity on the benefits and the costs as individuals. Meanwhile institutional investors are hiding behind the alphabet soup of ESG terminology that is obscuring attempts to hold them to account.

The view of women as being less likely to make risky investment is likely based on reduced ability to rebuild capital (including in the case of high-debt incursions), increased perceived and actual responsibility for dependents and from having fewer assets, in addition to societal barriers and views of typical female preferences and behaviour. This inevitably contributes to investment and pensions being less of a priority.

More relatable role models could create a connection for underserved groups to financial products and behaviours, demonstrating positive financial behaviours with realistic trajectories.

There is untapped potential both in terms of the capital that is not being directly marketed to due to the existing and tired marketing approaches, but also due to the failure of investors to invest in female led and owned businesses.

Gaps related to both gender and ethnicity in pension savings[1] have been identified by several pieces of existing research. The gaps in the funding available to retired women (which widen when looking at ethnic minorities) are driven by significant structural factors, including the sectors and types of work that women tend to do, or gaps in their employment due to caring responsibilities. The gender and ethnicity pay gaps that result lead to lower contributions over a lifetime of lower paid or part time work, resulting in a smaller pension pot.

This has been only partly addressed by the requirement for gender pay gap reporting for firms[2] with over 250 employees, which puts the focus on an often poorly understood single data point for a firm that can be dismissed as down to 'a lack of senior women' and not the causes. It does little to direct resources and attention to the reasons for the disparity in numbers of women in certain roles or with significant seniority.

The overall percentage difference in pension income for pensioners in the UK who belong to an ethnic minority group compared to pensioners of a White ethnicity – was 24.4% in 2017-18, or £3,350 a year, according to the People's Pension.

This rises to 51.4% gap between a female pensioner from an ethnic minority group and a male pensioner from white ethnic groups.

There is a strong underlying socio-economic driver in the total gap; essentially, women and ethnic minorities are less likely to hold the positions with the highest remuneration or the most structured pension contributions.

The introduction of the government's auto-enrolment scheme is also not a panacea. It has an earnings threshold that only applies to a single role meaning those on multiple part-time jobs do not qualify. The self-employed are often not covered, even though they may be in particularly precarious employment without access to workplace benefits.

In fact, the existing pensions, savings and investment industries do not reflect a changing population in changing times. They service an outdated type of individual or family unit, and do not reflect the ways that many people now work, through choice or necessity. And yet, entrenched social factors are critical to understanding the full picture. Recent research has hypothesised that traditional gendered exposure to different types of household expenses (groceries versus big ticket purchases, for example) can drive differences in financial behaviour.

It led to women having distorted beliefs about future economic conditions such as interest and inflation rates,[3] that the researchers viewed as a risk to savings and investment behaviour that could widen gender pension gaps.

In addition, representation is an issue both in the leadership of organisations and visibility in public life. Women and ethnic minorities are less likely to be represented in positions of authority and leadership in financial organisations. Research by the Bridge Group[4] of eight financial services organisations showed that 43% of senior roles were occupied by white males from independent or selective schools. The Women Count 2021 report notes that 70% of FTSE350 companies have no women on the main board,[5] and that men hold 89% of the roles that are the lead in to CEO positions.

The Bridge Group research also showed that those from non-professional backgrounds (designated as the type of work parents(s) were undertaking at age 14) took much longer to rise through the ranks – at 25% slower, with no connection to performance.

For these sectors, it means that representatives from less affluent socio-economic backgrounds and those from non-white backgrounds were less likely to be in leadership, therefore less likely to influence product structure, offering or outreach.

1. For example, Measuring the Ethnicity Pensions Gap, The People's Pension, https://thepeoplespension.co.uk/info/wp-content/uploads/sites/3/2020/01/Measuring-the-ethnicity-pensions-gap.pdf
2. The gender pay gap is the difference between the average (mean or median) earnings of men and women across a workforce. https://www.gov.uk/government/collections/gender-pay-gap-reporting
3. https://www.nber.org/system/files/working_papers/w26837/w26837.pdf
4. Who Gets Ahead and How?, The Bridge Group, https://www.thebridgegroup.org.uk/news/ser-in-finance
5. https://execpipeline.com/wp-content/uploads/2021/07/Women-Count-2021-Report.pdf

WHAT IS THE RISK?

Business is leaving potential money on the table by failing to provide the conditions for women to thrive, whilst outsourcing the cost of care largely to women, at the expense of their careers. Building on an emerging professional or higher income population will help create a new class of investors, as long as they are identified and engaged with. That means we must optimise both female and ethnic minority talent, as intersectional impact of ethnicity compounds the investment and pensions gap. Benefits of up to £92bn[6] have been suggested from closing the gender pay gap through increased (formal) participation of women in the economy. The 2017 MacGregor-Smith Review into Race at Work estimated a £24bn[7] productivity boost to the UK economy by addressing inclusion.

The number of women in the workforce has increased in recent decades[8] and has risen across sector and skill-level. However, the impact of Covid-19 is likely to have pushed some women back out of the formal workplace[9] which is likely to have a significant existing impact on savings and a future effect on earnings and pensions – the FCA Financial Lives Survey 2020 (published in February 2021)[10] showed across the board many had stopped paying pension contributions during 2020.

It also showed roughly equal proportions of men and women reporting increased indebtedness and inability to meet daily financial needs. However, women exhibited higher propensity to have financial vulnerabilities, and had lower amounts of savings, assets and pensions. On average, across all brackets women reported having £30,000 in investable assets, compared to £47,000 for men. An astonishing 46% of women surveyed either did not know or did not have a pension in accumulation, compared to 38% of men.

The report demonstrated that there are large groups across the country that are unbanked (1.2 million), that have been refused financial products (3.1 million) and that do not have a pension (9.6 million). It also showed that Black adults were less likely to hold savings (70% vs 79%) or investment (25% vs 35%) than White adults[11]. Women were more likely than men to hold a high-cost credit product (13% vs 8%), which was also more likely to be accessed by those on lower incomes or unemployed. This creates a cycle of increasing costs related to being poor. The market isn't servicing these people effectively.

Product Marketing

An internet search of the term 'investor' from May 2021 brought up images of men – almost overwhelmingly white – standing by graphs, looking at numbers, talking to other men and shaking hands.

You have to scroll a long way to see a woman in the stock photo – and you have to go past a primary school aged boy dressed up as an investor to do so. To see a black man, you have to scroll more than 50 images, and you only get the back of his head, out of focus. It took a lengthy time to find a black woman – as a cartoon.

So, when an entire industry is ignoring the existence of your community, it's hardly a surprise that levels of trust are lower and the likelihood of using those products and services will be lower. Most adverts target and centre men, and a particular set of men who have achieved financial security and have disposable income to spend on leisure – because they are a known quantity (a clear Ideal Customer Profile). When women are the target of advertising, it can be tone deaf; examples include pink-themed materials, or savings and investment being targeted towards goals like saving for a wedding. This happens when there is no diversity in the development and decision-making process.

More positive examples of inclusion have been seen from building societies such as Nationwide and Halifax, for putting non-white people and women generally as central to campaigns, without directly referring to these characteristics. Treating them, if you will, as everyday customers needing access to mainstream products. This is important for investors to take on board; the market is poorly understood by the broader population in many localities. We can expect some changes over time with the shift to defined contribution pensions and advent of auto-enrolment (the comparative knowledge of the average consumer in Australia is useful, where there is more engagement from pension providers and from consumers).

Despite these portrayals, the informal ways that people manage money are much less individualistic, and our research has not found significant gender differences between the types of activities that men and women are seeking in retirement. For women with the income available to invest, advertising that acknowledged that women are just as likely to be considering spending on things such as leisure and assets such as cars, would be welcome. Advertising that speaks to community or family might be more appealing and inclusive, meaning we could move away from the tired divisions in advertising that focus on sporting hobbies and consumer goods for men, and investment in family and home for women.

6. Billions to gain if UK improves female employment and closes gender pay gap, PwC, https://www.pwc.co.uk/press-room/press-releases/billions-to-gain-if-uk-improves-female-employment-and-closes-gender-pay-gap.html
7. Race in the Workplace: the Macgregor Smith Review https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/594336/race-in-workplace-mcgregor-smith-review.pdf
8. Labour Market Overview, 2021 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/july2021
9. https://wbg.org.uk/analysis/uk-policy-briefings/spring-budget-2021-women-and-employment-during-covid-19
10. Financial Lives Survey, Financial Conduct Authority, https://www.fca.org.uk/publication/research/financial-lives-survey-2020.pdf
11. Financial Lives Survey, Financial Conduct Authority, https://www.fca.org.uk/publication/research/financial-lives-survey-2020.pdf

Changing behaviours and products

There is an emerging risk to women's finance from the repositioning of consumer debt as 'empowerment' in spending. Retail-focused buy now, pay later (BNPL) products such as Klarna, Clearpay and Laybuy are being marketed as an every-day convenience to women as key users of online shopping platforms, often offered for clothing or lifestyle goods. The marketing focus is on flexibility, and to support a newer type of consumer behaviour in buying several types, sizes or versions of a product for home delivery, with the intention of returning unsuitable ones. This behaviour is different to other short-term financing options such as paying a high interest rate to purchase household goods (such as the Brighthouse model) or pay-day loans. Its newness is poorly understood by traditional finance providers, and cases are already emerging where mortgage lenders are denying credit lines due to a consumer history of using BNPL[12], as they imply an inability to manage cash flow or impact affordability criteria, when in fact they may be used mainly for credit flexibility. This ability for new products of this kind to have an unforeseen impact on credit lines could limit access to financial products for large groups with significant purchases or outgoings.

There is little evidence that the investment and savings industry is looking at these trends, with its tendency to focus on high-net worth or easy targets – which means everyone talking to the same market segment and leaving other opportunities to languish. These gaps have been partly filled by informal activities, by niche areas like pure ethical investing and more recently the advent of retail disruptor platforms. This covers those such as Moneyhub, which syncs accounts through one access point, as well as Pensions Bee, Nutmeg or Smart that are transforming access to pensions through platform products, and the Big Exchange (social purpose) or Moonfare (private equity) that are transforming access to new categories of products for retail investors.

This is a precursor that the institutional market should be mindful of, because of the appealing nature of the choice and flexibility on offer, and the emerging ability for technology to meet an emerging desire for access. One example servicing the institutional market is the technology platform AlphaSwap, which is designed to be an inclusive platform for sharing investment ideas alongside selected data. This is servicing an emerging need for better access to information – and not just any data, but data that has been assessed to be useful in some way.

Of course, such platforms have to build trust and capacity. But while the market is focusing on its traditional core customers, the narrative is being changed by bloggers, financial influencers and other social media formats. Unsurprisingly, while older people are more likely to talk to IFAs, younger people engage more often with online forums. Both these areas present opportunities to investment managers to engage with broader communities by thinking about the information and how it is offered.

And it's not just the technology that is enabling platforms, but the opportunity for collaboration to present something new in product terms that taps into a market sentiment, as demonstrated by the example of the Big Exchange. Networks that provide access to investment capital, perhaps in a similar model to how crowd investing has developed, could provide access to capital to under-served communities; which includes all women (due to the low rates of capital offered[13] as well as the low percentage of women VCs).

If women are unable to access VC, it will ultimately continue and exacerbate the lack of representation and participation that we can see today. We can't expect diversity to grow in companies where the culture has not included them from the start, and we should consider the biases that mean that companies that are either run by women, or even just have some women in leadership are offered less money, on worse terms, and with higher performance expectations.

Failure to do this will mean the lofty goals of the 2019 Alison Rose Review[14] to double the number of female entrepreneurs by 2030 will be extremely difficult to meet, and other measures of diversity in business leadership will be impacted due to a rapidly emptying talent pipeline.

12. See, for example, https://www.refinery29.com/en-gb/2021/07/10580038/buy-now-pay-later-mortgage-eligibility
13. All-female teams being offered less than 1% of venture capital finance in the UK, https://www.british-business-bank.co.uk/uk-vc-female-founders-report/ and 2.3% in the US, https://hbr.org/2021/02/women-led-startups-received-just-2-3-of-vc-funding-in-2020
14. https://www.gov.uk/government/publications/the-alison-rose-review-of-female-entrepreneurship

City Hive created a set of beliefs based on our research and in-depth interviews over the course of several years that should underpin changes that need to be made to make the industry more accessible and inclusive.

A range of aspects were covered, including:

- **Where is financial advice and information sought?**
- **Where would be the recommended place to get financial advice and information?**
- **What activities are being undertaken to plan financially for the future?**
- **What has influenced financial attitudes and behaviours?**
- **How is finance talked about in communities?**
- **What would make a difference to financial behaviours?**
- **How is retirement viewed and does this match the reality of pension accumulation?**
- **What are the barriers to participation in investment or savings activity?**

- People avoid talking about pensions because it reminds them of their mortality. They understand the abstract need for action, but often put it off. They believe they still have time to act. They may even understand that acting sooner will mean a bigger pot or security. Even small administrative barriers can exacerbate inaction.

- Gendered behaviours in the home and society are almost unavoidable, and they create expectations and practices that translate into different attitudes and behaviour. While it sounds like a generalisation, such an outcome means that men are more likely to be undertaking investment-related activity, with women more likely to be saving.

- It may of course be the case that investment, despite its long-term advantages, may need to be pushed down the priority list to meet immediate needs. However, whether these are fairly balanced across genders is another question. For women in particular, priority is given to day-to-day outgoings, including debt-servicing, housing and food costs. This is exacerbated by costs related to childcare and other caring responsibilities that are usually measured against a woman's contribution to the household.

- People do see retirement as a time for leisure, hobbies and supporting younger family, but (perhaps because of aversion to talking about pensions) they don't know how much money they will be retiring on – despite expecting to draw a pension for many years.

Spending priorities and pressures

Twice as many women surveyed – almost 30% - said they needed to put spare money towards household expenses compared to men.

23% of women prioritised debt repayment, compared to 15% of men.

15% of women said they had no spare money, compared to none of the male respondents.

KNOWLEDGE AND ENGAGEMENT

Industry has created a wealth of information on finance and products, but this is only helpful if several conditions are met; that people are aware of it, are able to access it and they know what to do with it in relation to themselves. Rarely are all three conditions met.

We see three primary areas of disengagement from mainstream products: a) narrow marketing of products; b) a potential imbalance in spending on where people are seeking advice – the last place people are looking is television or radio, for example and c) a lack of relatable role models. Product use came from necessity and due to a lack of choice – for example, needing a mortgage to buy a house.

Financial education should be addressed at an early age, for example by supporting educational materials being brought into schools that help to develop financial literacy and an understanding of the importance of autonomous financial security. Gaps in financial education begin at a young age according to the sophistication and level of knowledge among family and friends. If these groups don't talk about money or don't have experience of the finance and investment industries, younger people often only stumble across them by accident. To create long-term changes in behaviour, early intervention is needed that is either directly relevant to lifestyle or offers a clear pathway to financial security.

OUR FINDINGS

- Family, friends and community play the strongest role in shaping views and experiences of money that carries through adult life, even when official or regulated information is available.
- A lack of financial expertise or exposure to investment in the family home can mean that subsequent generations will not be taught how to manage their finances in a long-term and sustainable way.
- If childhood includes insecurity about money or lack of access to goods and services, it creates and embeds short-termist behaviours and practice that aim to enable access to cash, which may impede long-term saving and investment.
- Some may develop a savings habit as a proxy for security, but struggle to transition to cultivating investment practice as this implies unacceptable risk.
- Despite the democratising efforts of platforms, one of the barriers to participation is a belief that investment requires a certain level of income. The longer it is delayed, however, can lead to an ever-widening wealth gap.

To many, investing is something you do when you have money and this can be a psychological barrier against starting. The reality for many, and the driving force behind auto-enrolment pensions, is that most financial obligations are much more immediate than saving for retirement. For some communities, there may be a cultural expectation that younger family members will ensure elders are looked after into retirement. Others prefer to invest in assets such as property, which offer security in a more tangible way.

WHAT IS TO BE DONE?

This paper has sought to understand the role and impact investment firms have in attracting increased and sustained participation from women that are in a position to save, invest and create sustainable wealth. In short, more is more. By unlocking potential and productivity, the breadth and range of customers will increase.

But this is one facet of a much bigger conversation to be had about ensuring equality in service and access – meeting all kinds of regulatory obligations to provide for all customers and provide choice for all customers, to support the stability of the financial system and an effective marketplace, and to enable sustainable growth. Because we also know that this isn't merely a financial consideration, it's a social one. Investors have a duty to service beneficiaries – but also a duty to ensure equality of access and opportunity to potential and emerging beneficiaries. This is not yet being done, and should be addressed by looking at the investments being made, the products offered product, planning and communication.

For investors this means understanding the wider impact of actions on society and seeking out stories and perspectives to ensure every possible beneficiary is being considered. This means accepting and addressing the shortcomings and biases in the information available and sought, the lenses used and the bits of the picture that are being missed. The pandemic exposed a significant divide between the minority, office workers, and those in what became front-line or essential services – and yet the mental health conversation has focused on the former, while the conditions and job precarity of the latter were arguably more striking. This type of gap already exists in the investment industry, that is focusing on a minority and failing to account properly for the vast majority of the workforce.

Industry needs to work harder on more nuanced and targeted products, communication and advice. This includes addressing a market gap around how advice is provided. The investment industry is only starting to digest the importance of disaggregating data to understand differences between and across groups – the intersections such as age, ethnicity or even location – London vs regions, urban or rural. The recency of this changing understanding is visible in the FCA's Financial Lives Survey.

The 2017 report (published June 2018) looked at attitudes to finance across the population, but there was only one reference to Black ethnicity in the entire report. This changed in the most recent report, with data disaggregated by ethnicity peppered through - but not in relation to pensions. Even in the 2020 report, several key areas of finance, such as having a mortgage, are disaggregated only by age and not gender. This is despite a quote from a self-employed woman worried about getting mortgage approval because of the barriers associated with her type of income. We are seeing more efforts to collect this type of disaggregated data to get a better understanding, but the data must also be used to create better products and services.

More effective due diligence on the companies that are invested in is also necessary, from a responsible investment perspective that also covers inclusion and intersectional issues. Diversity metrics, only tell one part of the story alongside how people are able to succeed, and how open corporate culture is to success that might change and influence what that culture is.

Increasing participation and representation will require a combination of measures, with the policy response critical in doing more to support lower income earners. Interventions to introduce financial literacy and clear pathways to financial security for younger populations will also help to normalise conversations away from a focus on retirement and unwelcome thoughts of old age, to creating wealth to provide security and attain goals.

Our conclusions from almost every conversation have led to the importance of role models, whether it be to showcase the role of different financial instruments or to demonstrate good financial behaviours that were relevant to people at different stages of their lives. In particular, showing younger role models or those that had embedded good habits when young, was seen as important.

This isn't just a job for government; in fact industry can play a faster and more targeted role that will help create aspirations that everyone feels connected with, that will foster changes in behaviour to embed that muscle memory for savings and investment.

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