

Summary

- Women face a 35 per cent pension gap compared to men, largely due to career breaks for maternity leave, childcare, and elder care.
- Re-entering full-time employment is harder after this, leading to a further reduction in pension contributions.
- This can cause missed promotions, limited professional development, missed matched contributions, threshold issues, and fragmented contributions.
- Experts stress the need for better workplace policies, auto-enrolment (AE) expansion, better parental leave, and governmental intervention.



Paying the price

In our latest contribution to *Pensions Age's* year-long diversity, equity and inclusion (DEI) focus, Paige Perrin explores how career breaks continue to impact women's long-term financial security in retirement

The average difference between men's and women's private pensions is 35 per cent – a direct result of career breaks, caregiving, and the gender pay gap.

Career breaks for maternity leave, childcare, care for elder relatives and health issues disproportionately impact women, leading to lower pension contributions, reduced employer matches, and missed pension investment growth.

According to Scottish Widows' *2024 Women and Retirement Report*, the current average gap in pension savings at retirement shows women trailing men by about £100,000.

This financial disparity translates into a persistent gender pensions gap, with women expected to receive 30 per cent less in overall projected retirement income than men. Worryingly, two-fifths

of women (42 per cent) are currently on track to face poverty in retirement, compared to just over a third (35 per cent) of men.

With an ageing population and increasing pension inequality, the gender pensions gap demands urgent attention from the industry.

Causes

Pensions Policy Institute deputy director, Suzy Morrissey, suggests several factors influence the gender pension gap, with the most "significant" being the difference in labour market participation, which alone makes up 33 per cent of the gender pensions gap.

Building on this, Phoenix Insights director, Catherine Foot, explains that the gap is "fundamentally" driven by women's distinct employment patterns

compared to men. "The gender pension gap is not a story of pensions engagement or pensions confidence. It is strongly driven by women's different experiences of employment," she notes.

Aegon head of public affairs and Pension Equity Group policy co-chair, Kate Smith, adds that the gap reflects longstanding life opportunities and structural expectations, such as the belief that women should primarily raise children and care for elderly relatives.

Scottish Widows managing director, Jackie Leiper, warns: "We are still a long way from where we need to be. Without drastic action, the gender gap will take another 20 years to close, and there is a very real risk that we won't see pension parity for many generations to come."

These career interruptions not only lead to missed employer contributions but also stifle salary progression and long-term investment growth.

Impact

A multitude of reasons contribute to career breaks. Maternity leave is often the starting point, with Smith explaining that the divergence in pension savings begins in women's 30s. Over half of women experience 'noteworthy'

employment gaps due to maternity leave.

Once that leave ends, many face the challenging decision of whether to return to work full time, part time, or whether to stay at home with the children full time.

“The gender pay gap means that women will be the lower earner in many families and this may reinforce the decision that women will become the carers,” Morrissey says.

Abrdn Investments head of UK and EMEA, Mandy Rawlinson, explains: “When they do return to work, many women come back on reduced hours in order to balance societal needs.”

She says this reduced engagement results in lower pension contributions and less benefit from compounding returns. Rawlinson stresses that “this is very far from being just a ‘mother’ issue – it is a female issue”.

Rawlinson says that when looking for solutions for the gender pensions gap, the impact of specific issues, such as lower pay and often long career breaks to look after children, cannot be overlooked.

Beyond childcare, women also often care for elder relatives or adult children who require support. Morrissey points out that “strong cultural norms” present women as caregivers and many women want to take time away from paid work to care for family members.

This then plays into the fact that, as Smith says, women are more than twice as likely to work in part-time roles due to dependants. The impact of part-time jobs is that women again will receive a lower or no pension from these roles, even if they work multiple part-time jobs.

“There are all sorts of reasons why women go part time, not just childcare costs. They can be caring for other relatives, they could be caring for a partner, they could be caring for elderly parents, or dependent children as they get older. This part-time work makes it difficult for women to work to their skill level and to stay in work,” Foot explains.

This feeds into the idea that lower-

paid jobs, being self-employed and part-time work can, as PensionBee chief business officer, Lisa Picardo, says, “significantly” reduce pension contributions and long-term financial security if not carefully managed.

PensionBee figures revealed that every year out of paid work lowers retirement savings by approximately £5,000 and working part time reduces it by around £2,000 annually.

Smith says there are substantial impacts to working part-time as, generally, part-time roles could be paid less pro rata, and have less progression, by choice or otherwise.

She explains that women might refuse a promotion or a higher paying role or not increase their hours if offered as they feel with other responsibilities (looking after the home, children or relatives) they need to minimise in another area, which is often their careers.

“We are still a long way from where we need to be. Without drastic action, the gender gap will take another 20 years to close, and there is a very real risk that we won’t see pension parity for many generations to come”

Solutions

Having examined the various factors, ranging from maternity leave and part-time work to societal expectations that contribute to the gender pensions gap, it is important to explore how industry and policy interventions can help narrow this gap.

Arguably, one of the most effective strategies is the expansion of auto-enrolment (AE).

Morrissey explains: “Government

policies can help support recognition of unpaid work and access to workplace retirement savings schemes.”

Currently, two million of the 13 million female employees in the UK do not meet the eligibility criteria for AE, with 1.2 million women earning below the financial threshold.

“If amendments were made to the threshold rules, more women would be eligible for AE into workplace pensions and would have more retirement savings for later life,” Morrissey says.

Rawlinson supports extending AE, especially for those in part-time or lower-paid roles, arguing that it “would allow more women to start saving earlier”.

Foot believes the second phase of the government’s pension review focused on adequacy must integrate gender considerations to close the gap.

Beyond AE, arguably improving workplace policies is crucial. Foot recommends that employers auto-enrol employees annually, not just every three years as required, to recapture those returning from career breaks.

Additionally, flexible working arrangements, which have expanded post-pandemic, are beneficial.

“The good thing is the flexibility of the workplace supports women to work more, and we are seeing that. There is a lot of female participation. That does help with having a family and caring for relatives,” Smith says.

Foot argues that it is principally about what employers can do to enhance inclusive employment by retaining women workers, offering good-quality, part-time work, and ensuring opportunities match skill levels.

Morrissey says employers should also assess whether their work culture and leave policies support both men and women equally in taking on caregiving responsibilities. By doing so, they can help shift societal expectations and create a more balanced division of care.

To further support women, Foot suggests that workplace policies should

include both unpaid and paid carers leave, as well as occupational health policies for menopause, fertility-related conditions, miscarriage, and endometriosis.

Employers also need to ensure that women in senior positions receive proper support, as career interruptions due to caregiving responsibilities often prevent them from advancing.

Recognising the importance of leadership, Rawlinson emphasises: “We need to nurture and grow senior female leaders and remain focused on the pipeline of women into senior positions.”

Picardo argues that equal pay for equal work is crucial in closing the gender pension gap. “Employers should also audit pay data and ensure equal opportunities for advancement, so women are not held back in their earning potential or career growth,” she says.

In addition to this, Picardo suggests that enhancing parental leave packages and offering shared parental leave can help balance caregiving responsibilities between men and women, ensuring that career breaks do not disproportionately impact women.

A key concern regarding pension contributions is that matching schemes may unintentionally widen the gap. Smith argues that since women’s salaries tend to be lower, their contribution percentages result in lower pension savings. She suggests that employers consider alternative methods, such as adjusting contribution structures to account for pay disparities.

Another proposed solution is for families to maintain private pension



contributions in a woman’s name while she is undertaking unpaid work. Morrissey highlights this as a potential strategy to prevent long-term pension disadvantages.

Policy interventions can also help bridge the gender pension gap. Expanding state pension credits for unpaid carers and introducing more flexible pension schemes that adjust for career gaps are important steps.

“Providers and employers should be actively seeking to engage women in their workplace pension and recognising the desire for information and support,” Foot emphasises.

On a broader level, government reforms, such as extending childcare funding beyond the point where parental leave ends, Picardo says, are key in enabling both men and women to balance their earning potential with caregiving responsibilities.

Meanwhile, Foot suggests employers could also continue paying pension contributions while workers are on maternity or parental leave.

A significant factor contributing to the gender pension gap is the lack of financial literacy. Digital tools and easily accessible information could also help women better understand the long-term impact of career gaps on their pensions.

“Urgent action must be taken, and we must empower more women to take control of their money through life and into retirement, with education, support, and innovative ways to engage with their money,” Leiper continues.

Interactive Investor senior manager, Camilla Esmund, highlights this issue: “Frustratingly, there is still a clear lack of financial capability in the UK. There is a desperate need to give people the financial tools and literacy to build financial resilience and make the most of their often-limited financial resources.”

By improving financial education and providing better guidance on pension planning, women can make more informed decisions and take proactive steps toward securing their retirement.

Recognising that the industry’s current approach exacerbates the problem, Foot argues: “Until the industry stops treating career breaks as a women’s issue and starts designing pensions for real-life working patterns, this gap will never close.”

“We all have a responsibility to call out the enormous challenges women still face every single day due to societal imbalance,” Rawlinson says.

While there seem to be multiple solutions to the gender pensions gap, challenges remain in ensuring that governmental policy and action from the industry are put in place that will not only narrow the gap but also encourage savers to understand their pension better and the true impact that pension pauses can have on their future financial security in retirement.

 Written by Paige Perrin

