



# Ethnicity and occupational pension membership in the UK

Athina Vlachantoni, Zhixin Frank Feng, Maria Evandrou and Jane Falkingham

Reflecting a relatively low-value Basic State Pension, occupational pensions have historically been a key aspect of pension protection within Britain. Existing research shows that minority ethnic groups are less likely to benefit from such pensions and are more likely to face poverty in later life, as a result of the interaction of their labour market participation and pension membership patterns. Using data from the UK Household Longitudinal Study (Understanding Society), this research 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.

## Key Points

- Among all persons aged 25-SPA, being a woman, married, in one's 40s or 50s, with a Degree or higher qualification and owning one's home, are associated with a higher likelihood of being a member of an employer pension scheme.
- Coming from an ethnic minority reduces one's chances of working for an employer who offers a pension scheme, while, once an individual is working for an employer who offers a pension scheme, the effect of ethnicity on being a member of that scheme is lower except for Pakistanis who are significantly less likely to be members of an employer's pension scheme than the White British.
- When the determinants of being a member of an employer's pension scheme were analysed separately for men and for women, the only difference was that ethnicity was significant for women, but not for men.
- Ethnicity remains a strong determinant of a working-age person's chances of being a member in an occupational pension scheme, controlling for other key demographic and socio-economic characteristics.

## Introduction

Existing research has provided evidence of the differentials between ethnic groups in the UK in terms of labour market participation, which, for some ethnic groups, has led to a disadvantage in terms of pension protection. However, the lack of

adequate data on ethnic minorities has so far prevented the direct comparison of different ethnic groups, as well as their comparison to the White British group. The research summarised here provides clear evidence that after controlling for key demographic, health and socio-economic characteristics, ethnicity remains

a strong determinant of one's pension protection prospects through being in paid work, being an employee and working for an employer who offers a pension scheme. Such analysis contributes to a body of work aimed at improving our understanding of the circumstances of future

### Why are ethnic groups disadvantaged in terms of pension protection?

#### 1. *Low labour market participation*

Individuals from most ethnic minority groups are less likely than White British individuals to be in paid employment, and there are significant gender differences in particular groups. For example, about one-third of Bangladeshi, Pakistani and Black Caribbean men aged between 25-64 were unemployed compared to 15 per cent of White men, and more than 80 per cent of Bangladeshi and Pakistani women in the same age group are unemployed compared to 30 per cent of White women. When in paid work, individuals from certain ethnic minority groups are more likely to work part-time or to be self-employed, and to have lower earnings than their White counterparts. For example, about 28 per cent of Indians of working age were in a managerial or professional group compared to 14 per cent of Pakistanis and 11 per cent of Bangladeshis. Low labour market participation is a barrier for ethnic groups to be able to participate in occupational pension schemes.

#### 2. *Ethnic minorities are less likely to participate in an occupational pension scheme than the White majority*

Differentials between ethnic minority groups and the White majority relating to the level and nature of participation in the labour market can result in differentials in terms of occupational pension membership. Existing research shows that Pakistani and Bangladeshi individuals are less likely than White individuals to contribute to, or to be aware of, an employer's pension scheme. At the same time, individuals from the Indian, Pakistani, black Caribbean, Black African, Bangladeshi and Chinese groups have limited knowledge of pensions.

cohorts of individuals from minority ethnic groups. It is also important for policy making in this area, for example, on how to improve the opportunities for individuals from ethnic groups to participate in occupational pension schemes.

### The study

The research aims to improve our understanding of such differentials, and this paper reports on analysis of the association between ethnicity and a working-age individual's chances of being a member of an occupational pension scheme. In trying to unravel this association, the analysis also focuses on analysing the association between ethnicity and the three preceding stages of being in paid work (or not); being an employee (or self-employed); and working as an employee for an employer who offers a pension scheme (or not). The study involves the secondary analysis of the first wave of the UK Household Longitudinal Study, which is a large and nationally representative dataset. 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 to the State Pension Age (60 for women, 65 for men), totalling 30,427 respondents, of whom 4,996 came from the five ethnic groups above.

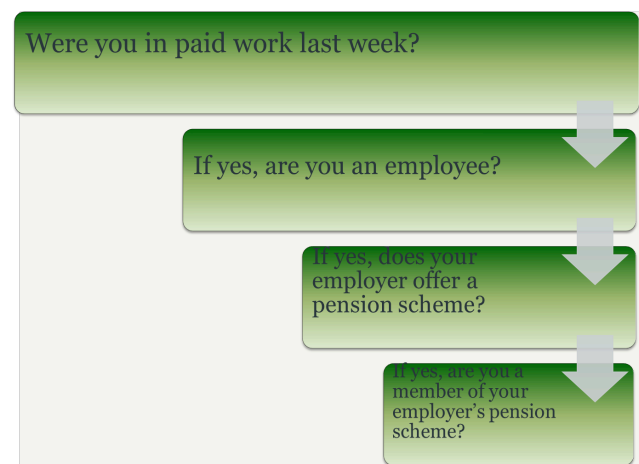


Figure 1 Sequence determining whether an individual can be a member of an employer's pension scheme

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### Ethnic differences in employment patterns from descriptive analysis

Figures 2 to 5 show the descriptive analysis for ethnic differences in employment patterns in the study. Individuals from ethnic minorities accumulate a disadvantage in terms of their employment patterns and pension protection at every step. For example, Pakistani and Bangladeshi individuals are more likely to be out of paid work than other ethnic minority groups or the White majority population; while Polish individuals are more likely to be in paid employment than the White majority (Figure 2).

Once in paid employment, Pakistani, Bangladeshi individuals are more likely to be self-employed than employees, which has direct implications for their job security, earnings and pension prospects (Figure 3).

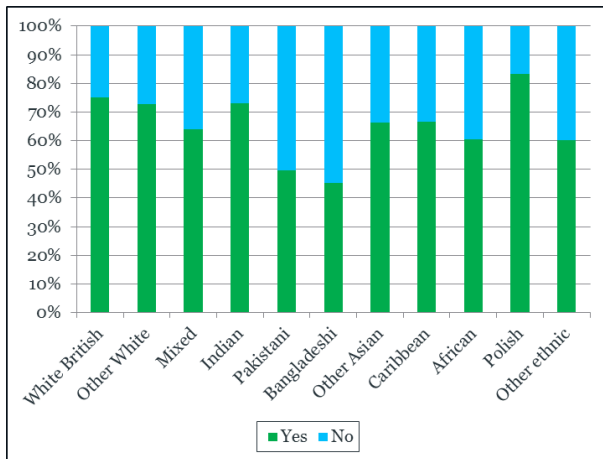


Figure 2: Were you in paid employment?

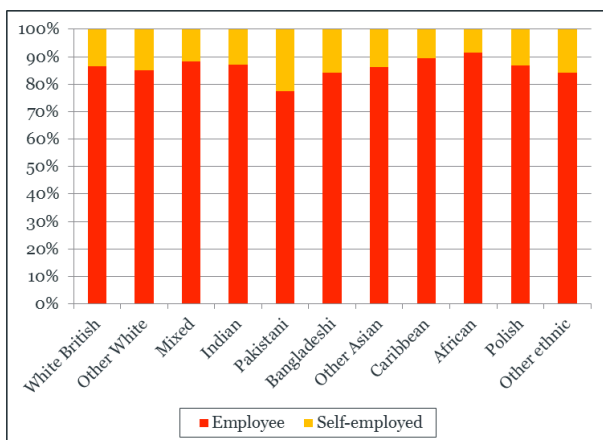


Figure 3: Are you an employee or self-employed?

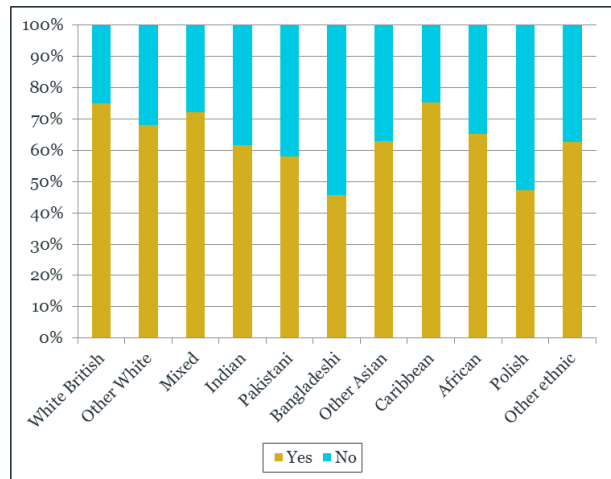


Figure 4: Does your employer have a pension scheme?

Among all employees, Indian, Pakistani, Bangladeshi and Polish persons were more likely to be working for an employer who does not offer an occupational pension scheme (Figure 4).

Finally, even when their employer offered such a scheme, Pakistani, Bangladeshi and African individuals were less likely than all other groups to be members of such a scheme (Figure 5).

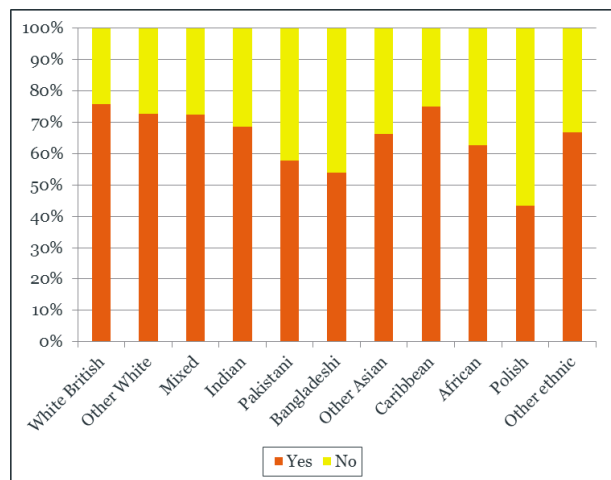


Figure 5: Are you a member of this scheme?

### Results from the multivariate analysis

#### 1. Determinants of being in paid employment

Being under the age of 50, with high educational qualifications and owning one's home with a mortgage are strongly associated with 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

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are also positively associated with being in paid work, while the analysis shows the negative impact on being in paid work of caring for someone in the household or having children. 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.

### 2. *Determinants of being an employee*

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 Pakistani individuals being less likely than White British individuals to be employees, whereas the Indian, Caribbean and African groups are more likely to be employees than the White British.

### 3. *Determinants of working for an employer who offers a pension scheme*

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 classification 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.

### 4. *Determinants of being a member of one's employer's pension scheme*

Older age, being female and being married are associated strongly with one's odds of belonging to their employer's pension scheme. 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, except for Caribbean individuals who are more likely than the White majority to be a member of such a scheme.

### **Policy implications**

The results in this paper suggest 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. Government policy, which aims to roll out the auto-enrolment scheme to smaller companies by 2018, will go some way towards ensuring that future cohorts of individuals from BME groups enter retirement with stronger pension protection, however facilitating the pension protection of self-employed workers should also be part of the future policy agenda.

For more information please contact: [A.Vlachantoni@soton.ac.uk](mailto:A.Vlachantoni@soton.ac.uk)

Centre for Research on Ageing

Building 58

Faculty of Social and Human Sciences

University of Southampton

SO17 1BJ

Office: +44(0)2 380 598940

[www.southampton.ac.uk/ageing](http://www.southampton.ac.uk/ageing)