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Capital at risk



**Just don't mention the
pension: the ethnicity
pensions gap**



Contents



How big is the ethnicity pensions gap now and what are the crunch points? As we emerge from the other side of the pandemic and face a cost-of-living crisis, new research from Legal & General Investment Management (LGIM) aims to quantify the gap, understand its drivers, and search for ways we might begin to tackle it.



Foreword

The uncertainty of the past few years has exacerbated financial, social and health inequalities across British society. There has been a renewed focus on who is being impacted differently, first by the pandemic and now by the cost-of-living crisis.

Ethnicity remains one of the main fault lines for inequality. In efforts to identify and eliminate structural privilege, we've seen moves to recognise the importance of equity as well as equal opportunity in education, state provision and at work.

In the world of pensions, we know that disadvantage can extend beyond the workplace and into retirement. LGIM has long advocated for fair opportunities and outcomes for people of all ethnic backgrounds through our [engagement with companies](#), including on the issues of a fair living wage, pension contributions, financial wellbeing training, equity ownership, and [representation on boards](#).

In late 2022, we conducted research to address the issue of ethnic inequality in retirement savings, with a sample size of over 4,000 UK adults. In part one of this report, we investigate the size of today's ethnicity pensions gap and its key causes. In part two, we examine ways to minimise inequality in retirement.

The findings are stark. With minority pension pots averaging less than half the size of their white British peers, there is a long way to go. Our results reinforce the view that perceptions have a direct result on future outcomes. Therefore, it is as important to address minority communities' perceptions about pensions as the material realities on the ground.

Before conducting this research, we had anticipated that the already substantial ethnicity pensions gap would have been intensified by the events of the past few years and we sought to find out where the particular pressures are along the retirement savings journey. Our previous work on the gender pensions gap has identified the key pressure points of maternity leave, parenthood, menopause and divorce. While our results are statistically valid for British minority ethnicities, we recognise that, with a variety of groups represented, there can be no 'one size fits all' solution. Instead, we believe that by identifying some of the main drivers – such as low incomes – we can take practical action to improve retirement outcomes for everyone.



Rita Butler-Jones,
Head of DC

Methodology:

We partnered with Humankind Research and Tapestry Research to conduct a 20-minute online survey among 2,018 nationally representative UK adults with quotas set on age, gender, location and ethnicity. Minority ethnicity participants included both British and non-British nationals. We then boosted our sample with 2,000 additional minority ethnic respondents:

- Fieldwork was conducted between November 2022 and December 2022
- In accordance with data from the Office of National Statistics, participants came from the following backgrounds, as included in the 2021 UK census: Asian or Asian British (Indian, Pakistani, Bangladeshi, Chinese, Other Asian background), Black, Black British, Caribbean or African (Caribbean, African, Other Black background), White (White British (English, Scottish, Northern Irish, Welsh or British), Irish, Gypsy or Irish Traveller, Roma, Any other white background), Mixed or multiple ethnic groups (White and Black Caribbean, White and Black African, White and Indian, White and Pakistani, White and Bangladeshi, White and Chinese, White and other Asian background, Other mixed or multiple ethnicity background), Other ethnic group (Arab, Any other ethnic group)
- The boosted sample provided us the ability to obtain more detailed and accurate findings from minority ethnic participants, given the relatively low incidence of the relevant ethnicities in a nationally representative sample of the UK. Some groups were boosted further, for example, given the large number of people of Polish background living in the UK, we included a larger population of this group
- We attained a robust base of each ethnicity in isolation (minimum 100 in each of the detailed groups)
- The data was the weighted at a higher level (Black, Asian, mixed) to represent the census proportions of each group

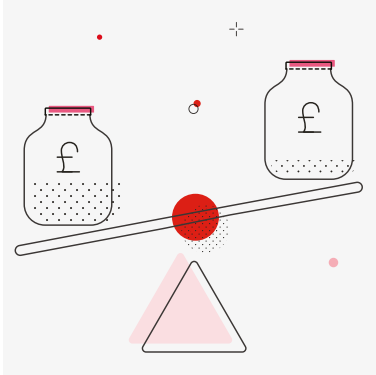
We made the decision to aggregate our quantitative findings from each of our minority ethnic groups into just one group, in order to provide a clearer picture of the broad disparity between white British people and minority ethnic groups within this country:

- Our aggregated approach gave us a larger data set, as many individual minority ethnic groups could not be reflected at a statistically significant level
- Rather than surveying a single 'white' group, the specificity of surveying 'white British people' alongside other white categories means that white groups whose experiences may differ substantially from those of white British people have their perspectives distinctly represented

Our qualitative data rounds out some of the common experiences of groups within this survey. Zeroing in on some of the key areas we identified in the quantitative research, such as affordability, trust and pensions knowledge, researchers conducted six 90-minute focus groups with 30 to 50-year-olds from the following ethnic groups: Black Africans, Black Caribbeans, Polish, Chinese, South Asian Females, South Asian Males.

- Interviewees were drawn from different locations across the UK. All were aged 30 to 50 and had lived in the UK for at least two years
- All were employed with a mix of employment types. None were self-employed or unemployed
- There was a mixture of those with/without a pension
- Our researchers aimed to have 50% in each group earning between £6,240-£10,000 annually (per job). The other 50% earned no more than £50,000 annually
- All contributed less than 10% into their pensions (if they had a pension at all)

Key Findings



Minority ethnicities in Britain are under-pensioned versus their white British counterparts.

At £52,333, the average minority ethnic person's pension pot is less than half the size of the average white British person's £114,941. The median minority ethnic pot of £13,000 is less than a third the size of a white British person's £44,000¹, and nearly seven in 10 of minority respondents have no pension pot at all.

¹ This optional question had the following sample size: white British – 404, minority ethnicities – 303.



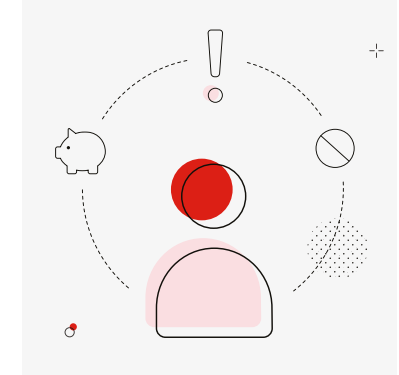
The key reason preventing minority ethnicities from investing into a pension is not having enough spare income.

COVID-19 and the cost-of-living crisis exacerbated this financial stress: over half of minority ethnicities say the pandemic impacted their finances, versus 37% of white British people.



There is a strong interest in saving and investing for retirement, but a mistrust in workplace pensions abounds.

For some minority ethnic participants, pensions are perceived as riskier than alternatives such as cash and property: nearly four times as many people from a minority ethnic background say what is stopping them paying into their pension is that they don't want to take a risk with their money. Some fear that the very structure of their pension is corruptible.



Around half of all our total group of respondents worry about not having enough in retirement.

However, 43% of minority ethnicities think they may have to access their pension early to support themselves, compared with just a third (34%) of white British people.

Part One – Measuring the gap

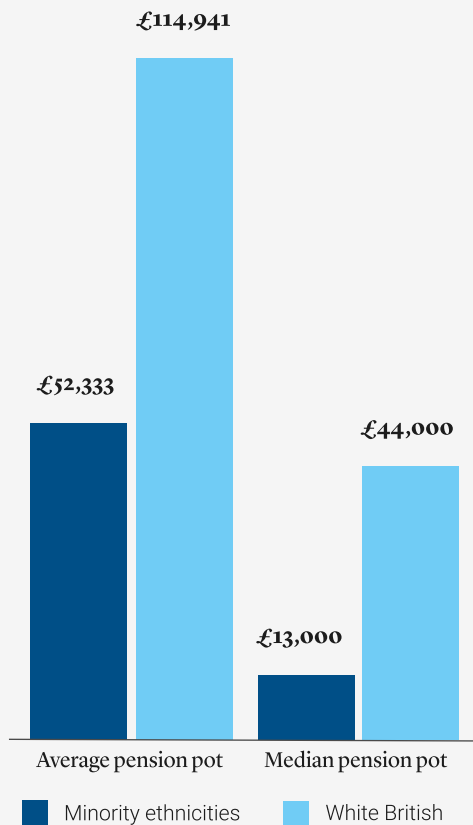
Minority ethnicities in Britain are under-pensioned. The average minority ethnic saver has a pension pot of £52,333, just 46% the size of their white British counterpart's £114,941. At £13,000 the median minority ethnic pot is less than a third (30%) the size of the median white British person's £44,000². It's not just a size issue. 69% of our minority ethnic respondents didn't have a pension pot at all, versus 44% of white British people.

² This optional question had the following sample size: White British – 404, ethnic minority – 303.

There is also a gap in the perceived usefulness of a pension. 40% of minority ethnic respondents agree with the statement 'there are other, more rewarding ways to save for retirement than a pension' versus 25% of white British people.

So, why does this gap exist – in perceptions about a pension's benefits, as well as its size in reality?

The extent of the pensions gap



Minority ethnicities include both British and non-British nationals.
Source: LGIM and Tapestry, December 2022. For illustrative purposes only.



The COVID and cost-of-living conundrums

From our research the key reason preventing minority ethnicities from investing into a pension is a lack of disposable income.

We found that people from minority ethnic backgrounds are more likely to have a lower income and not to qualify for the £10,000 auto-enrolment threshold. Half of those from minority ethnic backgrounds worry about not being adequately prepared, and half are concerned about running out of money in retirement. Many wonder if a pension will be enough to survive on when present-day financial insecurity is so high:

"Retirement feels... unattainable... people around me in their 70s are still working, still grafting. It's not like the retirement stories of old. I don't feel privileged enough to think about retirement."

African, Male

Some 43% fear having to access their pot early to support themselves, compared with just a third (34%) of white British people:

"You just don't know what is going to happen."

African, Female

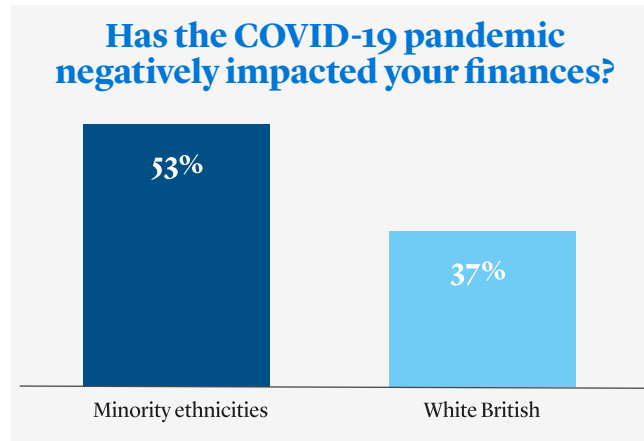
Just don't mention the pension: the ethnicity pensions gap

Our findings suggest that recent events – the COVID pandemic and the cost-of-living crisis – have hit lower-paid minority ethnic respondents harder. Currently, 20% of minority ethnicities state the cost-of-living crisis is preventing them from paying into a pension, versus 13% of white British people. Seven in 10 respondents from minority ethnic backgrounds express concern about rising interest rates, versus six in 10 white Britons (61%). For one woman:

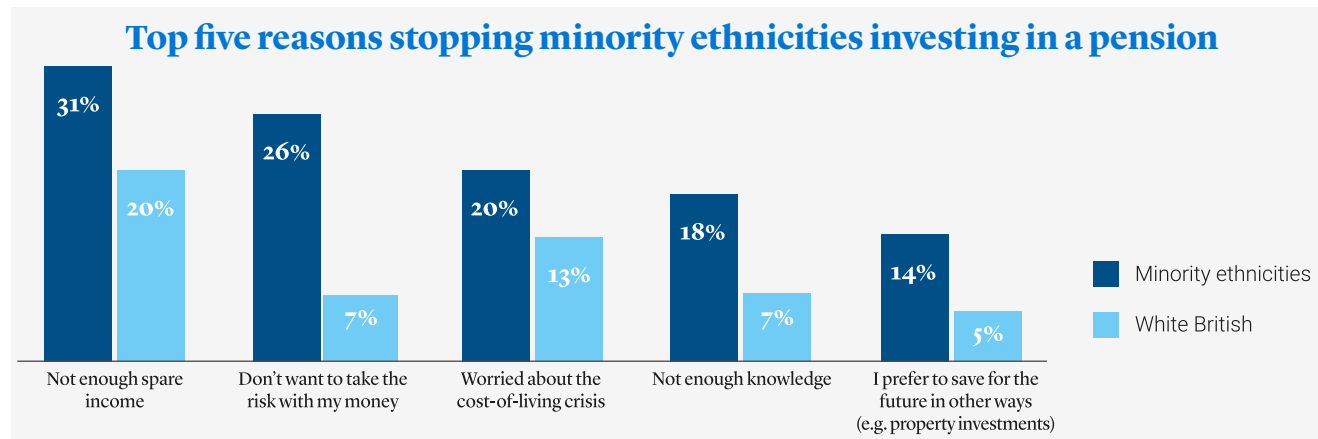
“COVID changed my perspective in life. I was out of work for three years, it showed me that I need to have back up money for security.”

Chinese, female

The ‘ethnicity pay gap’ makes it all the more concerning that many miss out on one of the most tax-efficient ways to save for their future



Minority ethnicities include both British and non-British nationals. Source: LGIM and Tapestry, December 2022. For illustrative purposes only.



Minority ethnicities include both British and non-British nationals.

Source: LGIM and Tapestry, December 2022. For illustrative purposes only. Other reasons, in descending order of preference, were: 'I don't see the need', 'I don't know how to do it without further help', 'Don't think I have access to one', 'Doesn't conform to mine or my families' values', 'I've never really thought about it', 'Want to have more disposable income now', 'I'm too young to worry about them', 'My partner is already paying enough into one', 'Lack of confidence in managing my money', 'Negative portrayal in the media', 'I don't know what it is', 'Lack of trust in pension providers', 'They're not for people like me', 'No-one close to me has one', 'Nervous to commit financially', 'Goes against my cultural practices or beliefs', 'I don't understand the language used for them', 'Other' reason.



State expectations? Mistrust and misconception

Underpinning the numerical disparity appears to be a lack of trust and even fear about workplace pensions, with over a quarter (26%) 'not wanting to take a risk with (their) money' versus just 7% of white British respondents. Some worry that there will be no way to access their money in the future, or that the retirement age will rise too far:

"I associate pensions with not getting your money. It scares me. I think of it as something you potentially pay into but where you don't get your money back at the end...I think they'll keep putting the age up... You might be dead by then."

Caribbean, Female

These concerns are compounded by a lack of pensions knowledge. 18% of ethnic minority respondents said a lack of pensions knowledge was the reason they weren't invested in a pension, although it was evident across all groups we surveyed. We heard a variety of misconceptions about workplace pensions, for example about an artificially high employee contributions level, with one Caribbean male citing 15%. Pensions are frequently associated with risk rather than the potential for security, with some respondents expressing fears that their employer will keep the money:

"It's not knowing if employers actually put the money away properly. What happens if your employer shuts down the company? That worries me."

Chinese, Female

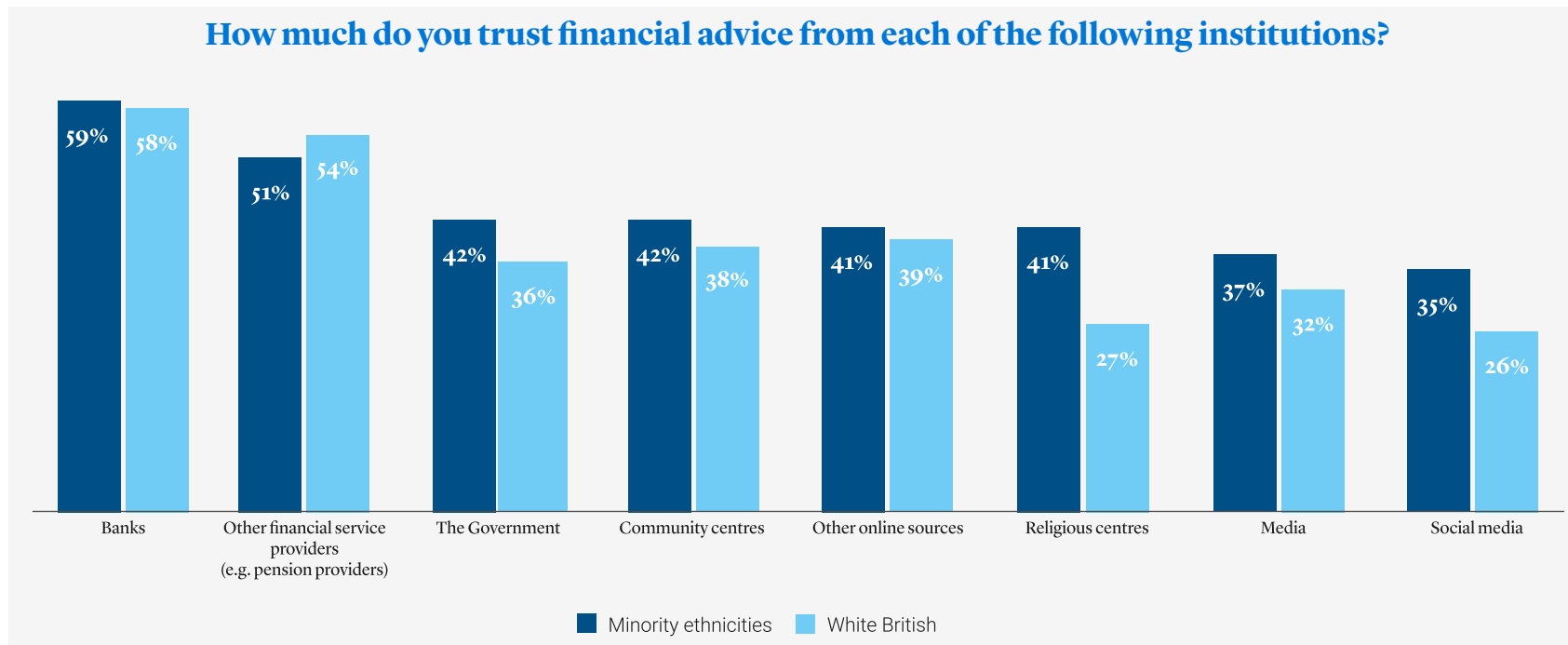
For some, such fears were based upon misgivings about either the British Establishment or the state in their country of origin. For Tomasz, 48, who opted out of his workplace scheme:

"There are several moments in history that show such systems cannot be trusted. Like in America in 2008 when people lost their pension money overnight in the financial crash. And I was raised in communist Poland where the state could just seize your money without warning. So I have a deep distrust for the state and for organisations that manage your money."

Polish, Male

Drilling down into different groups' levels of institutional trust reveals a chequered picture. However, while we found lack of trust in pension structures, this did not necessarily equate to a general apprehension about financial institutions and government advice overall. Our quantitative study revealed that minority ethnic respondents in aggregate are more likely to trust the government, community, and religious centres for financial advice than white British people, and equally likely to trust banks and financial service providers.





Minority ethnicities include both British and non-British nationals. Source: LGIM and Tapestry, December 2022. For illustrative purposes only.

Minority ethnicities are also more likely to trust the media (37% versus 32%) and social media (35% versus 26%) for financial advice. The flip side of this is that minority ethnicities are more likely than white British people to shy away from pensions due to media exposure (nearly one-third (31%) versus one in five) which has played a part in fuelling misconceptions:

"I think pensions were a good idea around 10 years ago. However, with so many scandals and pension pots being stolen or mishandled, it is difficult to feel truly positive for the future."

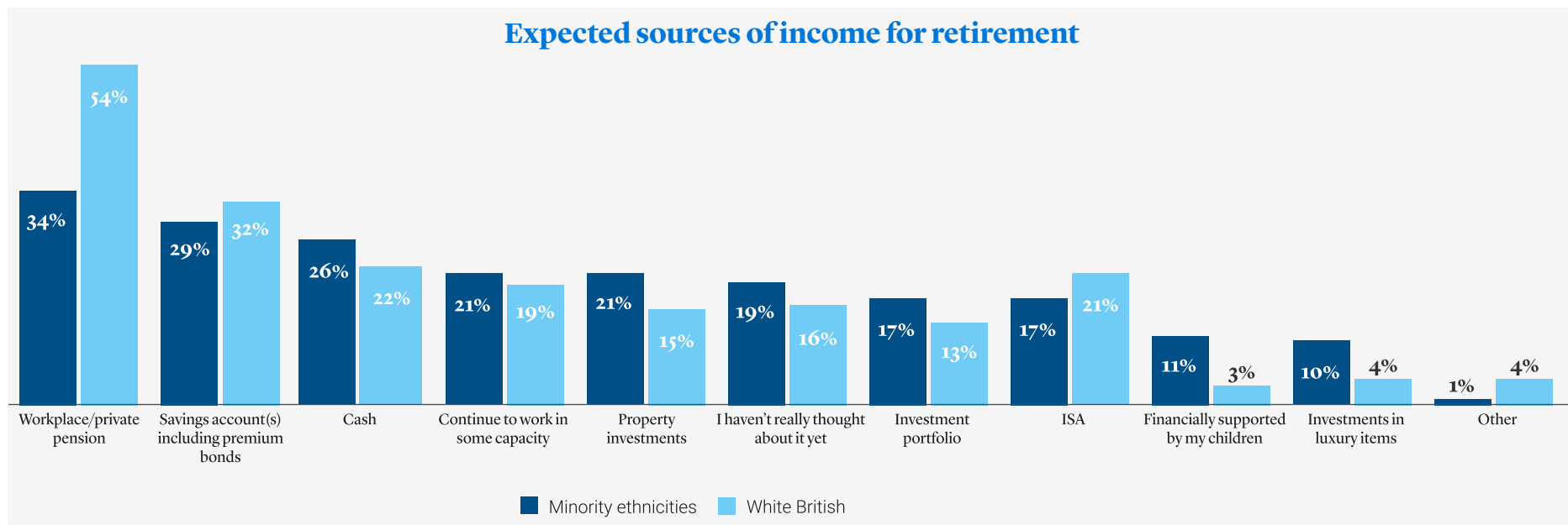
African, Female

Making positive stories about pensions more prominent in everyday media may be an important way to increase pensions engagement, as well as providing easier access to pensions advice through trusted sources of information.

Giving pensions a mention

Minority ethnic respondents are nearly three times as likely than white British people to say that they prefer to save for the future in other ways (14%). Part of what drives the reluctance to use pensions is a greater comfort with other sources of later-life support among minority ethnic respondents.

Approaches to retirement may be predicated on a variety of different expectations about the roles of family and institutions as a person ages. For example, we found that minority ethnic participants are more likely to expect their children's financial support in retirement (11% versus 3% of white British people).



Minority ethnicities include both British and non-British nationals. Source: LGIM and Tapestry, December 2022. For illustrative purposes only.

We also found that the lack of interest in DC pensions is not driven by a lack of knowledge about retirement savings and investments overall. On average, our minority ethnic British respondents have more money in savings and investments (excluding their pensions) than white British people³. And, while minority ethnic groups are less likely to be saving for retirement through a pension or an ISA, this isn't true of any form of financial product – including cash, property or an investment portfolio.

The ambivalence towards DC pensions from some minority ethnic participants may be less about a lack of trust in financial institutions and more a matter of familiarity and ease of access. ISAs and DC pensions

are not universal in every country and culture. They may not get as much media exposure or be perceived as relevant as other forms of investment. In the words of one Indian male: "it does all sound very white and British."

Equally, minority ethnic – and white British – attitudes to pensions in this survey often mirrored those we have seen in previous years' research on the broad UK population. Within every group, some respondents felt out of touch with pensions, or were not excited by them, which underlines the need to make the messaging about and delivery of pensions more relevant:

"Pensions are so alien and so boring. I'm visual. I need to see things."

Caribbean, female

Mind the gender gap

For those with caring responsibilities, which disproportionately fall to women, the ethnicity pension gap may be compounded by gender inequalities. Nearly half (47%) of minority ethnic respondents have taken time out of work to fulfil caring responsibilities, including maternity leave, versus 41% of white British respondents. Yet, during this time, both employer and employee ceased to contribute to a pension in over a third of cases (35%, versus 30% of white British people). Employers and providers must ensure that carers don't fall behind, by supporting those who may be doubly affected by the gender and ethnicity pension gaps.

³ £78,883 versus £63,656

Part Two – Closing the gap

The significant ethnicity pensions gap has been exacerbated by factors ranging from lower income and lack of familiarity and knowledge to the cost-of-living crisis and the gender pensions gap itself. What can providers, employers and the government do about it?



Creating a level playing field

Nearly three in 10 (27%) of those from minority backgrounds who have increased pension payments over the last year did so because they are more anxious about the future. It's clear that industry stakeholders can do more to allay employees' fears about financing their retirement.

Legal & General chairs the Pensions Equity Group, a coalition of industry bodies dedicated to considering how to make pensions fairer for all. Having called for a lowering of the auto-enrolment age, we were heartened to see the government back legislation to give ministers powers to lower the age at which employers must put workers into a scheme from 22 to 18. The bill also lays

the groundwork for removing the 'lower earnings limit' that allows companies to make no pension contributions on the first £6,240 of an employee's earnings. This should pave the way for a better deal for lower earners, and, we hope, begin to start tackling some of the issues we've highlighted.

Some women from minority ethnic backgrounds face the intersectional issues of ethnicity and gender. Some of our [previous recommendations](#) in our gender pensions gap research apply here too, such as ensuring contributions continue through maternity leave.

Pay equality incoming: our investment stewardship activity

Income inequality is a broad societal issue, and our Investment Stewardship team has been focusing on employee pay in their engagements with companies since 2016. While we expect all companies to pay employees the legal national living wage as a minimum, we encourage employers to pay the real living wage as set by the Living Wage Foundation. We expect companies to disclose whether they pay the real living wage to UK employees and whether they are an accredited living wage payer. We also examine what steps are being taken to ensure their suppliers are paying or working towards paying their workers a living wage. Additionally, we seek to establish whether companies are offering all employees the opportunity to work for a minimum of 15 hours a week and what other benefits are in place to alleviate financial hardship. LGIM may take voting action against companies that fail to provide greater transparency on these policies by 2025.

Finally, we ask companies to increase the non-contributory element of pension provisions where possible.

We believe there's a [clear business case for racial equity audits](#) and in our shareholder voting, we aim to support resolutions that improve transparency around identifying inequalities in areas such as race and gender. This clarity would also help shareholders to assess what actions companies are taking to address these inequalities.

Communication, communication, communication

A consistent finding over many Legal & General surveys has been the need for broader, more accessible communications about pensions. The results of this study support previous years' conclusions: 71% of minority ethnic respondents want their pension provider to help them understand more about how their pension is invested.

Pensions knowledge is power. In the past year, nearly one fifth (19%) of minority ethnic respondents have increased payments into their pension pot. Over one in five (21%) of this group took this step because they 'understand pensions better', demonstrating the power of effective communication.

What does this mean in practice? Interviewees told us that they find infographics and accessible examples of how pensions work engaging. Dispelling some of the pervasive and damaging pensions myths calls for careful messaging. Once pensions are framed in terms of 'free money from your employer' it makes them a 'no brainer' for study participants. People want to know more about where their money is invested and understand what would happen in certain scenarios, such as in a recession, if their employer went bankrupt or shuts down, and after savers die.

LGIM has also consistently called for better financial education in schools as a lack of knowledge was a key finding in our [2022 auto-enrolment research](#).

Advice line

One of the advice industry's biggest challenges is the 'trust gap', with reams of resources and initiatives dedicated to overcoming it.

Since nearly half (48%) of our minority ethnic respondents say they take financial advice from friends and family, we found that almost as important as what is said, is who is saying it. Many people from minority backgrounds said their children were encouraging them to learn more about pensions, and when it comes to formal advice:

"It's better coming from someone we can empathise with more, a trusted face in the community."

Indian male

It may be that setting up informal partnerships with official sources of information may increase conversations about financial health.

These partnerships can be delivered via community groups or by using the media and social media that participants engage with every day. However, advice could also be given in a more dedicated, professional setting: nearly three in 10 (27%) of those from minority ethnic backgrounds take financial advice from their bank.



Flexing pensions into shape

Minority ethnic respondents are keen to see pension structures reflect people's precarious and changeable financial situations during challenging times. At Legal & General, we believe that providers should lead the charge in making pensions more relevant, particularly when supporting more vulnerable groups such as part-time workers. This is backed up by our findings in this survey. For example, 64% of minority ethnic respondents want to see their providers offer greater flexibility in the ability to make contributions, and 60% want pensions that target their employment type (e.g. the self-employed):

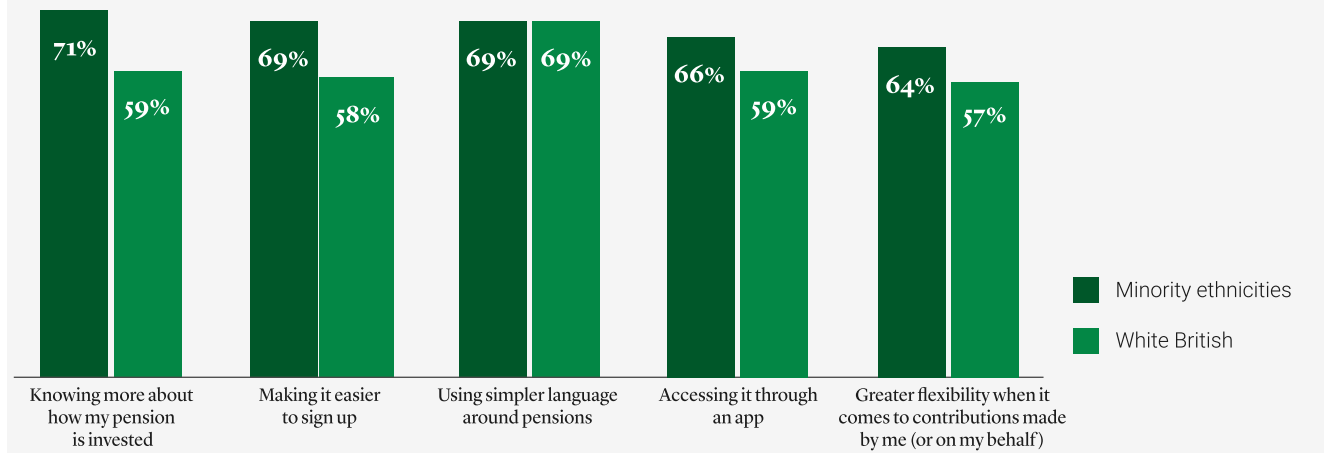
"It should be tailor-made to your circumstances. To dictate it has to be a certain % can put you off. If I could have flexed it to 1% I might have stayed on..."

Indian, Female

Seven in 10 (69%) would like it to be easier to sign up, and using apps and a fully online experience is popular, showing that accessibility is also key to engaging the pension saver base.



Top five actions for financial service providers to make investing in a pension more appealing to minority ethnicities



Minority ethnicities include both British and non-British nationals.

Source: LGIM and Tapestry, December 2022. For illustrative purposes only. Other actions in descending order of preference: 'Pensions that target my employment type (self-employed, part time etc.)', 'Being a fully online experience from start to finish', 'Alternative investment options (e.g. choosing how my pension provider invests my money)', 'Pensions that target my household set-up (e.g. stay at home carer)', 'Partnering with local communities/trusted organisations', 'Offering information in different languages', 'Pensions that target people with different religious beliefs', 'Partnering with religious institutions'



Taking action today for a brighter tomorrow

There is a significant ethnicity pensions gap – 54%, to be exact. The gap exists as much in people's minds as it does in numerical terms, in perceptions of the relevance of pensions to life post-retirement.

We are only beginning to understand the drivers. Yet some of the key factors affecting the gap – pay levels, lack of familiarity and pensions knowledge and expectations of the state's role – have been compounded by instabilities caused by COVID, the cost-of-living crisis and the continuing challenges associated with the gender pensions gap.

While the breadth and depth of the gap may feel disheartening, employers may be encouraged that uptake is increasing over time, and that younger

generations are increasingly aware of the benefits of this savings vehicle.

Waiting years for a generational shift is not an option. Better communication, more adaptable ways of paying pensions, nods in employer contributions towards building equity, and focused policy decisions will ensure the challenges minority ethnicities face in building their retirement pots are tackled sooner rather than later. It's up to all of us to turn that promise into the reality of a better retirement future for everyone.

Contact us

For further information about LGIM, please visit lgim.com or contact your usual LGIM representative



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