



# Workplace Savings

## An Isio blog

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## Why are pension benefits linked to pay?

**Who's this for? Pensions Managers, Reward Managers and HRDs**

Within DC schemes, we have seen the traditional matched contribution design being taken up by typically older, well paid and disproportionately male employees. Whilst those receiving the minimum employer contributions are disproportionately younger, lower paid, female and part time employees. So what we actually have, at best, is something akin to an age-related design.

This doesn't feel like a benefit system designed by an inclusive employer. However, employers and advisers flock to it, as that's what the competitor or sector benchmarking tells us.

**Is it time to challenge whether this is the right thing to do?**

Linked to this, the gender pensions gap is increasingly receiving more air time, and rightly so. But how are we ever going to address this in a world where there is still, on the whole, a gender pay gap alongside a pension benefit that is also linked to pay? This means that the pension system is just gearing up the effects of the gender pay gap.

We also must not forget the role of State Pensions and the inequalities that continue to exist in that system. The effects are still being felt today. DWP's own analysis\* in 2016 on changes to introduce the 'new State Pension' showed that in 2021 median gross State Pension income for females is expected to be around 82% of that received by males. The changes introduced by the new State Pension mean this income disparity is expected to be removed by the early 2040s (which is still about 30 years earlier than the previous system).

**Considering the inequality in State and occupational pension provision, shouldn't we be looking to do our bit to help accelerate this change?**

We are increasingly working with employers to understand how inclusive their designs are. Evidence from one client showed that young workers were opting out of their DB scheme. After investigating further this was due to employee contributions being prohibitive, standing in the way of their short to medium term financial goals.

**So what could we do to offer a more inclusive pension design?**

How about a non-contributory scheme for employees that removes the barriers to entry? Or perhaps targeting a flat-rate pension for all employees that provides a decent income in retirement, regardless of their level of income. The 'living pension' and PLSA Retirement Living Standards could be helpful reference points for establishing the level of target benefit.

As employers, advisers and providers, we should all be playing our part to challenge the status quo and deliver a more inclusive pension system. So tell me again – why are pension benefits linked to pay?

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\*Impact of New State Pension (nSP) on an Individual's Pension Entitlement – Longer Term Effects of nSP, DWP, January 2016