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Care credits in the British pension system: how do they work and are they enough?

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Abstract

The paper is a brief outline of the first stage of a comparative research project in the role and adequacy of care credits in the British and German pension systems. The provision of care credits has been an essential part of pension reforms around Europe, which significantly changes the prospects of carers to accumulate adequate pension contributions through their life course. But although the policy significance of care credits is due to rise in line with an increasing demand for eldercare, our understanding of this measure in the context of welfare protection more broadly remains limited. Care credits in pension systems, whether they are provided for child care or for the care of adult dependants, can operate, firstly, as a compensatory mechanism for those who devote significant amounts of time to caring for dependants; and secondly, as a vehicle for promoting greater gender equality in pension protection, given that the majority of caring is still undertaken by women. This paper discusses the function and adequacy of care credits in the British pension system in three parts. First, the paper considers the concept of care credits as a compensatory mechanism and its contribution to the promotion of greater gender equality in welfare provision. The second part of the paper turns to the British context, discussing the emergence of care credits in the pension system and the importance of the concept in the British system of welfare protection. The third and final part of the paper considers the recent reforms in the pension entitlement structure, including the abolition of the Home Responsibilities Protection and the conversion of existing contributions into qualifying credits towards a Basic state pension.

Introduction

There is a broad literature documenting the gradual transformation of pension provision into a policy problem (see for example Banks and Emmerson 2000; Barr 2002), however only a small part of this literature considers the reasons why pension provision is a problem for women in particular (Ginn and Arber 1993; Ginn, Daly et al. 2001). Pension provision has always been a problem for women in that pensions were not designed with them directly in mind, rather women were intended to be *indirect* beneficiaries of the pension system through the marital bond to their husbands (Thane 2000). Traditionally designed pension systems have been challenged by changes in men's and women's partnership, family and work patterns, however the design of entitlement in pension systems has continued to be problematic (Ginn and Arber 1996; Leitner 2001). This is because typical male working patterns, which tend to be full-time, continuous and with increasing incomes throughout the working life, are still the reference point for the calculation of pension entitlements, thereby overlooking the gender differences in work and care duties (Lewis 1998; Jenson and Sineau 2001). And it is this continuous 'mirroring' of, and failure to address, the differences and inequalities in the division of paid/unpaid labour, that ultimately constitutes the pension problem from a gender perspective.

Although women's participation rates in the labour market have increased significantly since the mid-1970s, certain important differences in the nature of men's and women's participation patterns have remained unaltered (SPC 2000; OECD 2002). For instance, men tend to have continuous working records until retirement, while women tend to interrupt their working lives in order to care for dependants (Ginn, Street et al. 2001). More women than men also tend to work part-time, which impacts on their earnings throughout the life course and on their pension contributions (Luckhaus 1997; Ginn and Arber 1998). Across the EU-25 in 2005, and notwithstanding country variations, only 7 per cent of all working men were in part-time employment compared to one in three women (Eurostat LFS 2nd Quarter 2005). In addition, part-time work is concentrated among relatively low-paid occupational sectors, such as health provision, education and service provision, and female part-time workers are more likely to spend their whole working life in this type of employment, while men tend to work part-time either at the beginning or at the very

end of their working life (Laczko and Phillipson 1991; EFILWC 2003). Finally, the impact of women's employment patterns on pension accumulation is also affected by a gendered pay gap that in 2005 still stood at 15% on average for the EU-27 (Eurostat 2005).

Gender differences in employment patterns are only part of the complex challenge that faces modern pension systems. Population ageing and the resultant increase in the cost of pension provision are an integral part of the pressure that has demanded the recalibration of pension systems (SPC 2000), and these phenomena too have distinct gender implications. Women across Europe tend to live longer than men, thereby constituting the majority of older people but also the majority of older people facing the risk of poverty (European Commission 2006; Zaidi, Grech et al. 2006). On the other hand, cost-reducing strategies that target rising state pension expenditures are also more likely to disadvantage women than men, because women tend to be more reliant on statutory pension provision due to their tendency to have irregular ties with the labour market (Luckhaus 1997; Ginn 2004).

As part of their efforts to adjust to changing demographic, social and economic circumstances, European pension systems have responded with reform packages that combine various adjustments, such as the tightening of eligibility criteria, the changing balance of elements comprising the pension income, the expansion of people's working lives and others (Holzmann, Orenstein et al. 2003). Pension reforms across the European Union have increasingly included the provision of care credits towards the carer's pension contributions in the public pension system in recognition of their caring work. Care credits take the form of an amount of time in months/years that is 'credited' to the carer's employment and contributions record as if the carer were employed in the labour market. Theoretically, such amounts of time can be credited to a carer's pension contributions irrespective of whether the care is provided to underage children, elderly persons, or sick or disabled persons. In practice, however, the concept of care credits has been applied to the provision of childcare to a much greater extent than other types of care (Vlachantoni forthcoming).

Care credits as a compensatory mechanism

The provision of care credits is an inherently gendered issue of social policy. This is because historically most of the care has been provided by female family members, and this has not changed even as more women have entered the labour market (Bubeck 1995; EFILWC 1995; Jenson 1997). Far from a greater equalisation of caring obligations between men and women, there is evidence that labour market changes have led to a 'modernisation' of the division of paid and unpaid labour (Orloff 2002), whereby women combine the bulk of unpaid work with work in the labour market, while men's contribution to unpaid and/or care work has largely remained the same (Gershuny, Godwin et al. 1994; OECD 2002). Consequently, unless labour markets are able to cater for care providers, and pension systems to compensate carers with alternative ways of building up pension entitlements, caring for dependants -be it children, disabled or elderly persons, indirectly contributes to gender inequalities in the accumulation of lifetime and retirement income (Luckhaus and Ward 1997; Ginn 2002).

Care credits can be understood as an example of compensation within a system of pension provision that is inextricably linked with contributions to the paid labour market -what is termed 'gainful employment' in the policy literature, and which is consequently prone to producing gender inequalities in terms of pension accumulation prospects. As a mechanism of compensation within pension systems, care credits are a concept with multi-faceted policy significance. Firstly, like other mechanisms of compensating for time spent outside gainful employment, such as credits for time spent completing military service, care credits recognise the diversity in the individual life course, particularly with regard to work and care patterns. However, and unlike the recognition of military service that is compulsory for men in some countries, care credits also serve to recognise the individual right to make choices throughout the life course for which individuals are not, directly or indirectly, penalised by the welfare state. Such recognition of diversity is particularly important for women whose care and employment patterns are often incompatible with eligibility advantages in social security systems. Secondly, care credits ensure the valorisation of unpaid care work in the context of social insurance, thereby attaching a symbolic value in policy terms to the act of caring for dependants (Jenson 1997). Thirdly, care credits ensure the

valorisation of unpaid care work not just in principle, but also in practice by attaching a temporal value to the credit contribution to the carer's record of employment.

Finally, care credits function as a vehicle for promoting greater gender equality in terms of pension accumulation, because across the developed world the majority of care work still tends to be undertaken by women.

As part of efforts to adjust modern pension systems to changing demographic, social and economic circumstances, care credits represent a significant step forward in the promotion of gender equality within pension systems. Traditionally designed pension systems around Europe have since the mid-20th century reflected the gender differences in employment patterns and in wages, in addition to the unequal division of unpaid and care labour in the private sphere (Whiteford 1996; Ginn 2003). As a result, the pension problem for women began to surface in Europe when more and more women started to receive a pension in their own right as a result of labour market participation (Ginn, Daly et al. 2001). The adverse effects of women's typical working patterns can be mitigated, or compensated for, in several ways, reflecting the application of substantive equality that takes men's and women's differences into account. The application of substantive equality can be distinguished from the application of formal equality whereby the same rule applies to all cases irrespective of their differences. One such mechanism is the calculation of the pension income according to the best income years of employment rather than the last, which does not advantage men over women (Rake 1999). Similarly, the pension accumulation prospects of part-time workers are not compromised when the latter are permitted to 'buy' additional pension contributions (for example in France and Germany), or when they are not penalised for transferring their pension rights from one sector to another (for example in Germany and Denmark)(European Commission 2006). However, the provision of care credits in pension systems remains the most important compensatory mechanism of pension accumulation for carers.

Care credits in the British pension system

The consideration of gender in the policy design of pension protection in Britain dates back to the late-19th and early 20th century, although the concept of care credits only entered the system in the late 1970s. The prevalence of relative poverty among older

women at the time favoured the establishment of fixed, non-contributory pensions over a Bismarckian-type contributory system that would leave most low-earning workers and poor people excluded. Thane notes that ‘after a succession of official enquiries the British government concluded that the clinching argument against a German-style social insurance pension was that the majority of the neediest older people were women, and very few women could afford to pay regular, adequate insurance contributions’ (Thane 2006: 79). Indeed, and until 1948 when contributions were introduced to the system, three-quarters of pensioners were female, largely due to the set retirement age of 70. In 1929 pension entitlement to widows of insured men was set at age 55, and in 1940, owing partly to a campaign by the National Spinsters’ Pensions Association, the pensionable age for all women was reduced to 60. The Beveridge Report of 1942 was fundamentally based on the principle of national insurance, which essentially granted employed women the right to equal pensions for equal contributions, but rendered marriage as the only secure way to adequate pensions for unemployed women. ‘The greatest problem [of this system] [...] was not the treatment of unmarried, separated, and divorced women, or the presumed dependence of most women on a male ‘breadwinner’, problematic though these were, but the very low level of pension payments, lower even than Beveridge had envisaged’ (Thane 2006: 85-6). As a result, the prevalence of poverty among older women and their dependence on national assistance –also introduced in 1948, continued into the post-war era of the British pension system.

The concept of care credits was introduced in the British pension system in 1978 with the introduction of the Home Responsibility Protection (HRP). As with the pension system established in the late 19th century, the driving rationale for the HRP introduction was women’s higher risk of poverty as a result of irregular or inadequate working records, which were often due to women caring for dependent persons. When first introduced, the HRP reduced the number of qualifying years –or years paying National Insurance contributions- for the Full Basic Pension up to a minimum of 20 years. The assumption then by policy-makers was that most women would indeed manage to complete 20 years of insurance contributions, which, combined with the HRP, would ensure an adequate income in later life. This arrangement also included policy assumptions about a certain degree of stability in marriage rates and about women’s role and responsibilities within the household. However, in the intervening

period since the late 1970s, these assumptions have been subject to societal change, reflected in increasing labour market participation rates for women –in both full-time and part-time work, increasing divorce rates and partnership dissolution and also increasing rates of women living alone in old age –partly due to their relatively higher life expectancy compared to men.

Care credits following the recent pension reforms

The provision of care credits in the British pension system has changed considerably with the 2007 pension reform, following the government’s analysis of pension protection in Britain from a women’s perspective and an earlier White Paper (DWP 2005; DWP 2006). The 2007 and 2008 reforms set out to provide “an equality of opportunity” for both men and women to accumulate state pension entitlement in addition to entitlement to occupational and private sources of pension income. The 2007 Pensions Act changed the status of credits provision in the British pension system in three ways:

- 1) it reduced the number of qualifying years required for the Basic State Pension for women from 39 to 30 years (with effect from April 2010)
- 2) it replaced the HRP with a system of weekly credits for childcare for children up to the age of 12 and for care of at least 20 hours per week for severely disabled people
- 3) it introduced credits towards the State Second Pension for those with long-term disabilities and for carers of children up to the age of 12 (with effect from April 2010)

These reforms to the care credits regime, combined with the effect of the rest of reforms introduced in 2007, are expected by the government to entitle approximately 75% of women to the Basic State Pension by 2010 and over 90% of women by 2025. But although these reforms go further in recognising the act of caring undertaken primarily by women, their significance is nevertheless undermined by, firstly, the relatively low value of the Basic State Pension; secondly, the expected increase in the demand for the care of older people; and thirdly, the assumption that women’s

participation rates in the labour market will either remain at the current level or increase in the future.

Conclusion

The provision of care credits in pension systems is an important compensatory measure for the time spent by carers outside the labour market and by extension not in a position to contribute to their pension record. Although gender considerations have been an integral part of policy debates on the structure of pension provision since the late 19th century in Britain, the concept of care credits was only introduced in the British system in the late 1970s in the form of the Home Responsibilities Protection. But how important has this measure been in contributing to carers' pension adequacy, and how has its role changed over the last three decades or so against the background of societal change? The next phase of this part of the project is to empirically investigate the role and adequacy of care credits in the British pension system using longitudinal data from the British Household Panel Study since the late 1970s. This phase of the study will further explore changes since the late 1970s in the use of the HRP in order to qualify for the Basic State Pension, changes in the socio-economic position of carers who made use of the HRP since it was introduced, as well as changes in the employment patterns of users of the HRP for the purpose of qualifying for the Basic State Pension.

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