

Ethnic minorities and their pensions decisions

This study, by Steven Nesbitt and David Neary at the Department of Applied Community Studies, the Manchester Metropolitan University, looked at the ability of Bangladeshi, Pakistani and white men living in Oldham to make informed choices between alternative forms of second tier pensions provision. Attention was given to respondents' levels of knowledge of the alternative types of pension, the values underpinning their ideas on pensions and their expectations for retirement. The study found:

- f** The Bangladeshi and Pakistani respondents had little understanding of how different types of pension provision operated. Some of the white respondents, on the other hand, were very well informed; others lacked an in-depth knowledge but seemed to possess a sufficient grasp of the subject to make appropriate decisions.
- f** Both the Bangladeshi and Pakistani men expressed strong support for an 'intergenerational contract'. Accordingly, they took it for granted that in old age they would be provided with financial support and social care by their grown-up children and this discouraged them from becoming well-informed about second tier pensions.
- f** Language was not as significant a barrier as is often assumed.
- f** Employment status was a powerful determinant of pensions knowledge. Those with permanent secure employment were much better informed than those with broken work histories. This was true of all three groups of men.
- f** Many older Bangladeshi and Pakistani respondents had little or no idea of whether they had contributed to occupational pension schemes during their years of employment. Consequently, they did not know whether they had accrued pension rights remaining with a previous employer's pension scheme.
- f** Low wages and financial responsibilities towards family and community meant that providing for retirement was a very low priority for many respondents. The researchers conclude that, in the absence of compulsion and in the light of continued support for the intergenerational contract, this bodes ill for the success of the stakeholder pension within these communities. However, if workers' responsibility to contribute to a second tier pension is legally enforced, this might weaken the ties that create the cohesion between generations in the Bangladeshi and Pakistani communities and undermine the informal welfare system on which they have come to rely.

Background

Until July 1st 1988 the method by which workers provided for a second tier pension - either the State Earnings-Related Pension Scheme (SERPS) or occupational pension - was chosen by employers. Broadly speaking, approximately half of the workforce was given the choice of either remaining in SERPS or taking out a personal pension plan, while the other half could choose between continuing to contribute to their employer's occupational pension scheme or transferring to a personal pension plan. In April 2001, this decision was made additionally complex by the launch of stakeholder pensions.

The new pension system is based primarily on an open market and relies heavily on the dissemination of information on which potential contributors make their decisions. To the extent that this information is not easily accessible, there are important implications for disadvantaged minority ethnic groups for whom the consequences of making unwise pensions choices are considerable.

This study set out to discover the knowledge of and attitudes towards pensions of Bangladeshi and Pakistani men. To differentiate the lack of knowledge that resulted from ethnicity rather than the general lack of knowledge common throughout Britain, a third group of white British men was interviewed. Each group consisted of two age cohorts - approximately 20-35 and approximately 40-60 - providing an opportunity to uncover any differences in knowledge and attitudes that might be age-related.

To examine their levels of knowledge, respondents were asked a series of questions on the operations of different types of pension provision and presented with a series of hypothetical scenarios outlining the circumstances of fictitious workers and asking what pensions choice would probably be the most advisable. Respondents were not asked about stakeholder pensions as these had not been had not been launched when the interviews were being conducted.

The white respondents

The white respondents in this study were the best informed on the subject of pensions and were the most able to make what were probably reliable pensions decisions. Older men who had been in

continuous, secure, well-paid work were better provided for and better informed on how different types of pensions provision operated than their younger counterparts. They made full use of in-house pensions advisors, studied the pensions literature produced by their employer and their pension fund managers, and were aware of the tax relief and National Insurance rebate. Of the other white respondents, a significant number had an incomplete technical knowledge of how different types of pension provision operated and yet, when presented with a series of hypothetical scenarios, seemed able to make good choices between alternative pensions options.

The Bangladeshi and Pakistani respondents

In stark contrast with the white respondents, both the older and younger Bangladeshi and Pakistani respondents had a generally poor knowledge of how second tier pensions provision operated. It had been thought that the complex literary style that pervades pensions literature would provide a major barrier to understanding this subject, particularly for older Bangladeshi and Pakistani respondents. However, there was a similar lack of knowledge among the younger respondents who had been educated in Britain and for whom literacy was therefore not an obstacle.

The emergence of Bangladeshi and Pakistani communities in Britain

Many Bangladeshi and Pakistani men who came to Britain in the post-war period did not intend to stay here permanently. Rather, they planned to stay for a few years, saving and sending money back home to their families. Hence they probably did not see pensions information as relevant to them.

In time, plans to return to their countries of birth were abandoned and instead their families joined them in Britain. Through processes of family reunification and chain migration, communities were established in which complex ties based on family and personal honour could provide both a drain on resources and an informal safety net. To the extent that these people were prone to the poverty that flows from working in the lowest paid jobs, such a

reliable safety net was welcomed in Pakistani and Bangladeshi communities alike. However, it is a reflection of the success of this traditional welfare system, centred on family and community, that none of the Pakistani or Bangladeshi respondents saw the mainstream state or private welfare systems as preferable alternatives to the Muslim approach.

Accrued pension rights

Most of the older Bangladeshi and Pakistani respondents had worked for several employers since coming to Britain. This was at a time when membership of an employer's occupational pension scheme was automatic if such a scheme was available. However, the majority of these respondents had no idea whether they had contributed to an employer's occupational pensions scheme during this employment. They understood that deductions had been made from their gross wages but, apart from income tax, they had little idea what these consisted of. Given the obscure abbreviations used on wages slips, even those with a basic level of literacy would have struggled to identify any contributions being made to an occupational pension scheme.

Since they tended to work for small concerns it is unlikely that many of the older respondents had accrued pensions rights. A minority of respondents had at some stage worked for large employers; however, they had no idea of whether there might be accrued pension rights remaining with that employer's pension scheme. Even if they had been certain that they had accrued pension rights, industrial decline in the North West meant that many employers had closed down their Oldham factories or even gone into liquidation, leaving many respondents with no idea of how to trace and claim their pension rights. To people who are already poor from years of low wages, the tracing of accrued pension rights could provide a modest but welcome additional income.

Communities founded on Islamic principles

There was quite a widespread perception among Bangladeshi and Pakistani respondents that white people frequently place their elderly relatives in residential care. As a result, both older and younger Bangladeshi and Pakistani respondents believed that

occupational and personal pensions were for English (*sic*) people who could not rely on their children to care for them in old age. As such, this method of provision in old age was seen by respondents as having little relevance to a Muslim community where three-generational households are not uncommon and sons are brought up with an understanding that they will care for their parents in old age.

Family size and labour market position often meant that Bangladeshi and Pakistani respondents could not look forward to either continuous employment or a surplus income that could be invested in retirement pensions provision. Where there is an expectation that children will look after their parents in their old age, there may be a strong case for arguing that it makes good sense for parents to 'invest' in their children rather than in an occupational pension scheme or personal pension plan.

Policy implications

The Bangladeshi and Pakistani respondents' decisions not to make any second tier retirement pension provision were strongly influenced by their reliance on and responsibilities towards an alternative and evidently successful welfare system founded on Islamic principles. This welfare system is embedded in the structures of their families and communities. Consequently, in the absence of legislation that makes second tier pension provision compulsory, stakeholder pensions, which are specifically aimed at low paid workers, are unlikely to succeed in this market.

However, if the responsibility for workers to contribute to a second tier pension is legally enforced, the likely outcome would be to weaken the ties that create the cohesion both between generations and between families in the Bangladeshi and Pakistani communities. To the extent that these communities seem to be providing an effective welfare system, perhaps the state should resist measures that might undermine this cohesion.

About the study

This study employed semi-structured interviews conducted in Oldham by ethnically matched interviewers with 31 Bangladeshi, 26 Pakistani and 32

white British men.

Consideration was given to examining the pensions knowledge of both men and women. However, it was decided that this would result in an unduly complex piece of research. This study relied on comparisons between three main groups of men, each consisting of two age groups, thereby creating a total of six sub-groups of respondents. If women, whose circumstances are quite different to those of men, had been included, there would have been a total of twelve sub-groups producing data that required analysis and comparison. This is quite apart from the problems of access that would almost certainly pertain. With this in mind, it was decided that this research should be confined to men with the possibility of a later study to examine the situation for Bangladeshi, Pakistani and white women.

Interviews were conducted by ethnically matched interviewers and the interview data was augmented with information from discussions with members of the Bangladeshi and Pakistani communities.

How to get further information

For further information contact Steven Nesbitt: s.nesbitt@mmu.ac.uk. As well as the full report from the study, there are also plans to produce a pensions tracing action pack to assist workers and their advisors in tracing and claiming accrued pension rights.

The full report, **Ethnic minorities and their pensions decisions: A qualitative study of Pakistani, Bangladeshi and white men in Oldham** by Steven Nesbitt and David Neary, is published for the Foundation by YPS (ISBN 1 902633 18 0, price £14.95).