

Retirement preparations among different ethnic groups

28 February 2023

Executive Summary

To improve retirement prospects for the whole UK society we need a better understanding of ethnic differences in future retirement outcomes and the drivers behind them, so that any appropriate interventions for the government and the industry can be identified and designed.

Robust research on this topic is hampered by the difficulty with obtaining representative data on large samples of ethnic minority groups. In this note we use Phoenix Insights' Longer Lives Index data to explore differences in the retirement expectations and preparations of different ethnic groups. Our aim is to progress the ongoing conversation on the ethnicity savings gap and point to some areas that are worth further exploration.

After controlling for differences in the age and salary distribution of different ethnic groups, we find that:

- Most ethnic minority groups are as likely as **or more likely than white British people to expect to live rent-free in retirement, by either owning their home or living with others**. One exception are the black Caribbean group, who are less likely to expect this. However, there are larger differences **in the proportion who currently own their home**. This suggests that some groups **are at greater risk of unexpected retirement housing costs** if they cannot get on the property ladder before retirement as expected – particularly those of black African, black Caribbean and other white ethnicity.
- Most ethnic minority groups **expect a higher disposable income** (after tax and housing costs) in retirement than the white British group. Despite this, all ethnic minority groups **expect to retire on average 1-2 years earlier** than the white British group.

Many ethnic minority groups are also **less likely to be currently contributing to a private pension**. This suggests that there may be a greater “expectations gap” – i.e. a larger discrepancy between expectations of retirement incomes and how on track individuals are to achieve them - for ethnic minority groups than for the white British group.

- That said, all ethnic minority groups have a greater proportion of people expecting to draw on secondary property wealth in retirement, by selling a second home or using it as a rental property. The role of **wider support networks** in retirement is also greater among ethnic minorities. A greater proportion of the Pakistani, Bangladeshi and Indian ethnic groups in particular expect to **rely financially on their children** and, to a lesser extent, on other family and friends. This may go some way to addressing the apparent expectations gap.

Altogether this points to a picture where ethnic minority groups expect comparable or better retirement outcomes than the white British group, but there is considerable uncertainty over whether this will be realised. Further exploration of these expectations would be valuable to corroborate and dig further into this picture painted by the Longer Lives Index data. In particular, the motivations for current saving behaviour and the expectations of future wealth accumulation of each ethnic group require further unpicking, as do the levels of wider support expected in retirement and the drivers of this support. This further detail is needed to understand whether, and how, policies should be developed to assist different groups with their retirement preparations.

1 Lifelong Loan Entitlement Consultation – <https://www.gov.uk/government/consultations/lifelong-loan-entitlement>

2 Polling on the Lifelong Loan Entitlement – Public First

Introduction

We strive to live in a society where everyone has a decent standard of living in retirement, yet there are striking inequalities in how current pensioners fare. One aspect that has received increased attention in recent years are the differences in average retirement incomes between people in different ethnic groups. For example, white British pensioner families have the highest average gross income (£566 per week) while Asian pensioner families have the lowest (£391 per week).¹

Understanding the drivers of these differences is challenging as many data sources do not have sufficient samples of people from individual ethnic groups to allow for robust analysis. However, it is important to try to understand the extent to which working age people from different ethnic backgrounds are on track for different retirement outcomes, and why, in case interventions by government or industry could help improve future outcomes.

In this note we use the Phoenix Longer Lives Index data to explore differences in the retirement expectations and preparations of different ethnic groups. The Longer lives Index data is derived from a survey of around 17,000 working age adults, with around 3,100 people from a variety of ethnic minority groups. While this dataset is an important new resource on retirement preparation in the UK, we recognise that there are still relatively small samples for individual ethnic minority groups. As such, our aim is to develop the conversation on ethnic differences in retirement prospects and point to some areas that are worth further exploration.²

Throughout this note we **highlight differences between ethnic groups *after* controlling for differences in the age structure and salary distribution of groups**. This means that all the estimated differences in retirement expectations and preparations we present throughout this note appear between people of the same age and salary level, but who are in different ethnic groups.

¹ Asian families in this context includes the Bangladeshi, Chinese, Indian, Pakistani and other Asian ethnic groups that we distinguish in the rest of this report. <https://www.ethnicity-facts-figures.service.gov.uk/work-pay-and-benefits/pay-and-income/pensioner-income/latest>

² In particular, the available sample size of the Bangladeshi group suggests that further corroboration of the results for this ethnic minority presented in this note would be particularly valuable.

Age and employment profile of ethnic groups

Ethnic minority groups are on average younger than the white British population and, with the exception of the other White group, are less likely to be employed.

While we control for differences in the age structure and salary distribution of ethnic groups in our comparison of retirement expectations and preparations, we start by providing some context on the size of different ethnic groups and characteristics like age, employment status and earnings.

Table 1 draws on census data, and shows that the Other white, Indian and black African ethnic groups are the most populous minority groups in England and Wales, while the Chinese and black Caribbean groups are the smallest. With the exception of the black Caribbean group, most ethnic groups are younger on average than the white British group, with significantly larger proportions of their populations aged under 30. For example, 58% of the Pakistani ethnic group are aged under 30, compared to 35% of the white British group. Almost one fifth of British white people are 65 and over, while this proportion is not higher than 10% for any minority group except for Black Caribbean.

Table 1 - Population and age profile by ethnicity group in England and Wales (2019 estimates)

ETHNICITY GROUP	% OF POPULATION	% AGED UNDER 18	% AGED 18 - 29	% AGED 30 - 64	% AGED 65 AND OVER
Bangladeshi	1.0	38.3	23.6	34.5	3.7
Black African	2.3	33.4	20.2	43.9	2.4
Black Caribbean	1.0	20.1	15.9	50	13.9
British White	78.3	20.1	14.7	46.5	18.8
Chinese	0.6	15.7	37.4	41.9	5
Indian	2.8	21.4	22.2	48.3	8.2
Mixed	1.8	49.3	21.7	26	2.9
Other Asian	1.3	25.4	21.1	48.8	4.6
Other white	5.8	16.9	26.7	50.3	6.2
Pakistani	2.3	36.2	22.3	36.9	4.4

Source: Office for National Statistics

<https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/articles/populationestimatesbyethnicgroupandreligionenglandandwales/2019> and UK Government. <https://www.ethnicity-facts-figures.service.gov.uk/uk-population-by-ethnicity/demographics/age-groups/latest>

Note: Mixed includes White/Asian, White/Black African, Mixed White/Black Caribbean and Mixed other

Table 2 – Employment status and median wage by ethnicity group (2011 census)

ETHNICITY GROUP	% EMPLOYED	% SELF EMPLOYED	MEDIAN HOURLY PAY (£)
Bangladeshi	56*	23.2*	10.58
Black African	69*	11.2*	11.50
Black Caribbean	69*	11.2*	12.03
British white	77	14.9	12.49
Chinese	65*	14.6*	15.38
Indian	76	14.7	14.43
Mixed	69	14	12.50
Other Asian	65*	14.6*	11.55
Other white	78	15.2	11.54
Pakistani	56*	23.2*	10.55

Source: UK Government <https://www.ethnicity-facts-figures.service.gov.uk/work-pay-and-benefits> and Office for National Statistics <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/ethnicitypaygapreferencetables>

Note: Employed includes those in paid work as either an employee or self-employed. For the median hourly pay figures Mixed refers to Mixed/ Multiple ethnic groups. The employment and self-employment figures for the following ethnicities groups are pooled: Bangladeshi and Pakistani, Black African and Black Caribbean (Black), Chinese (Other Asian).

Table 2 - shows how rates of employment (as either an employee or self-employed), self-employment, and average pay for employees varies across ethnic groups. The Bangladeshi and Pakistani groups are the ones presenting the lowest employment figures, the highest self-employment proportions and lowest median hourly pay. On average, Indian and Chinese population earn the highest hourly pay, while Other white and British white are more likely to be employed than the rest of ethnic groups.

Housing

Getting on the housing ladder looks to be an area of concern for the black African, black Caribbean and other white ethnic groups in particular.

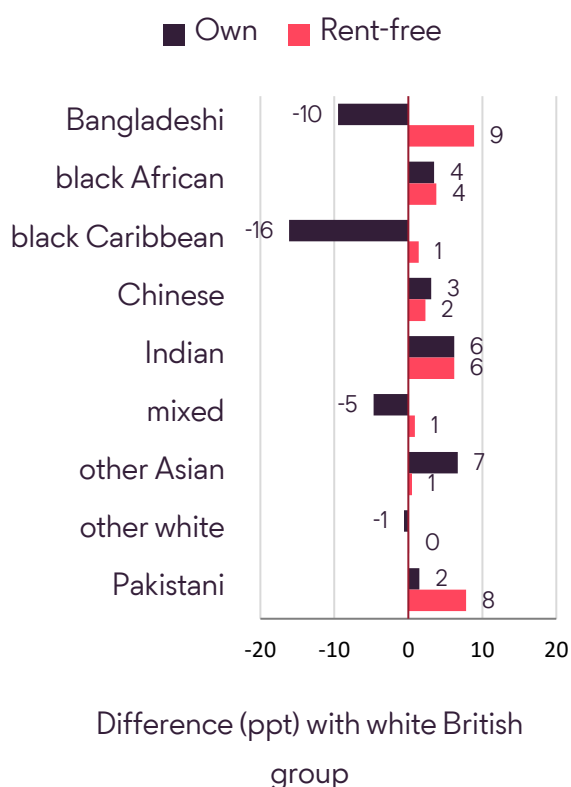
Housing tenure in retirement has a crucial impact on someone's financial situation. Those who own their homes have far lower expenses than those who rent, which means they can enjoy a much higher standard of living from a given income level.

Respondents to the Longer Lives survey were asked about their expected housing situation in retirement. Across the population around 65% of respondents expect to own their own home in retirement, while 6% expect to live with someone else such as family (either with or without making a financial contribution), 16% expect to rent in retirement (either privately or from a housing association or their local authority) and 12% report having no idea.

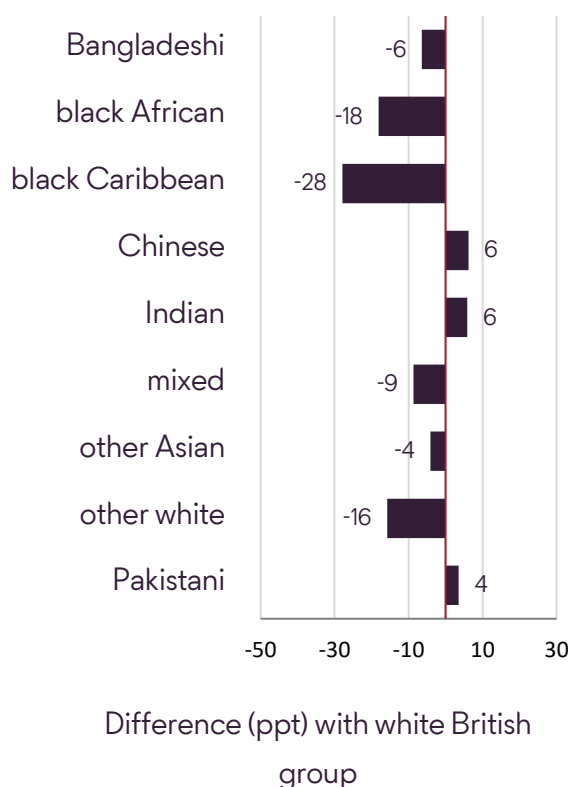
There are only small differences between most ethnic groups in the proportion expecting to own their homes in retirement. The biggest differences are for those of black Caribbean and Bangladeshi ethnicity, where people are on average 16 percentage points and 10 percentage points (respectively) less likely to expect to own in retirement than the white British group. Those of Bangladeshi ethnicity are however around 9 percentage points more likely than white British people to expect to live with someone else in retirement. This is also true of people from the Pakistani ethnic group, and to a slightly lesser extent people from the Indian ethnic group.

There are, however, larger differences between ethnic groups in the proportion who currently own their own housing. In particular, the proportion who currently own their home is lower than among white British people by 28 percentage points for the black Caribbean group, 18 percentage points for the black African group and 16 percentage points for the other white group. This indicates that these groups have more financial preparation for retirement to do - in terms of getting on the housing ladder - than other ethnic groups. If they are not able to secure home ownership before retirement in line with their expectations, they may not be able to afford the standard of living they currently anticipate.

Proportion who expect to own or live with others in retirement
(Population: 65%, 6%)



Proportion who currently own their home
(Population: 59%)



Note: Differences between ethnic groups are estimated after controlling for differences in age and salary expected retirement income

Most ethnic minority groups on average expect a higher retirement income than the white British group, other Asian and other white groups.

Respondents to the Longer Lives Index were asked what disposable income (after taxes and rent) they expect to live on in retirement³. The average amount expected differs across ethnic groups. White British, other Asian and the other white groups all have similar income expectations (as with all the results, this is after controlling for age and salary differences). In contrast, those of other ethnicities expect annual incomes that are around £3,000 to £7,000 higher.

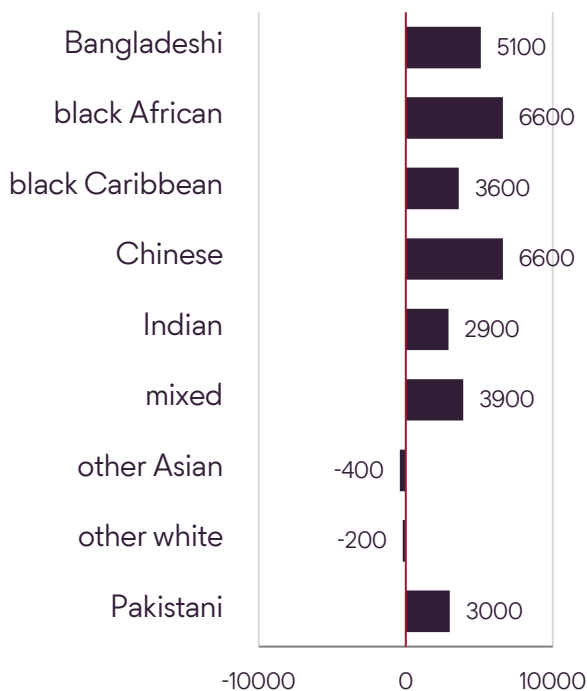
For most ethnic groups, this difference in average expected retirement income is driven by a greater proportion of people expecting high retirement incomes. The Pensions and Lifetime Savings Association publishes a set of Retirement Living Standards, which set out what level of income is needed for a

³ This was specified as their personal disposable income, which might be a share of a household income.

'minimum', 'moderate' or 'comfortable' standard of living in retirement.⁴ Most ethnic groups are very similar in the proportion of people who expect to have less than a minimum income (which is 14% across the population as a whole). However, the proportion expecting a comfortable income level in retirement (27% among the whole population) is noticeably higher among some groups than others – in particular, among the black African, Indian, Pakistani and Bangladeshi ethnic groups, as compared to the black Caribbean, other white, and white British ethnic groups.

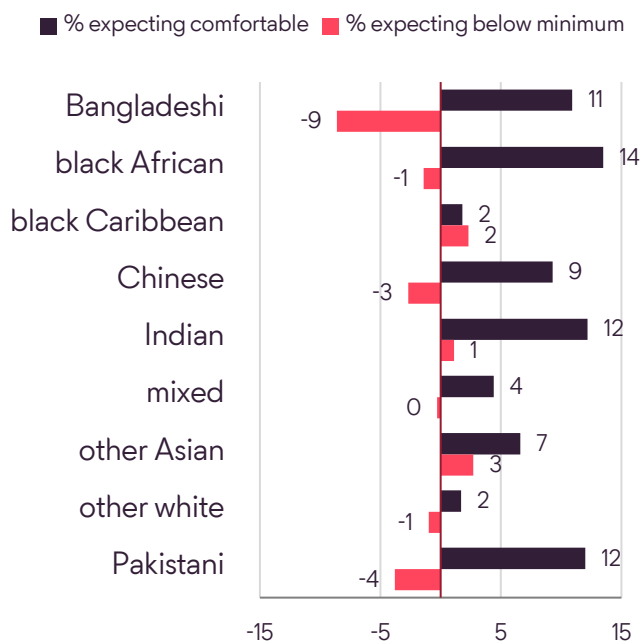
This is an important finding that begs the question whether ethnic minority groups are making greater financial preparations for retirement to support higher retirement incomes than the white British group. We turn to that next, examining how expected retirement ages, pension saving, and other expected retirement resources vary across ethnic groups.

Expected retirement income
(Population: mean £26,000)



Difference (£) with white British group

Proportion expecting comfortable+ or less than minimum income
(Population: 27%, 14%)



Difference (ppt) with white British group

Note: Differences between ethnic groups are estimated after controlling for differences in age and salary.

⁴ The "minimum" standard covers all needs, with some income left over for fun; the "moderate" standard enables more financial security and flexibility; and the "comfortable" standard translates into financial freedom and some luxuries. For a single person living outside London, the living standards based on 2021 prices are around £11,000 for the minimum, around £21,000 for the moderate, and around £34,000 for the comfortable standard. More detail available at: <https://www.retirementlivingstandards.org.uk/>

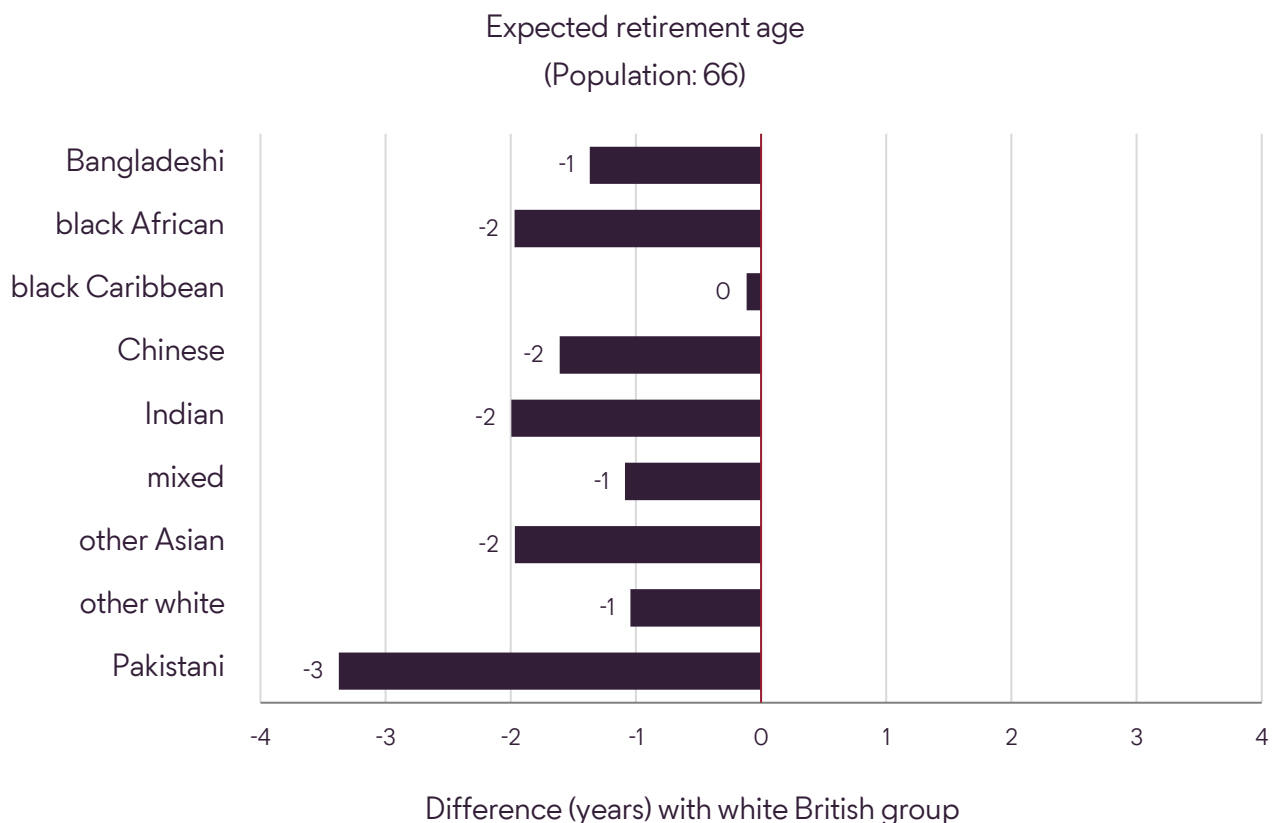
Retirement expectations

Ethnic minority groups on average expect to retire earlier than white British people.

The retirement income someone can afford will depend on how many years they have saved for and how many years of retirement they need to finance. A higher retirement income could be financed by working and saving for longer. The Longer Lives Index asked people when they expect to retire completely.

Virtually all ethnic minority groups expect to retire on average a year or two earlier than the white British group. This implies they would need to save more while working in order to be able to afford the same retirement income as the white British group (and the above analysis showed that on average ethnic minority groups expect a higher retirement income, implying even higher required saving rates).

Respondents were also asked about how confident they are in being able to stay in work until their planned retirement age. Levels of confidence do not differ dramatically between ethnic groups – the average confidence for all the groups is within 1 point (on a 10 point scale).



Note: Differences between ethnic groups are estimated after controlling for differences in age and salary.

Pension saving

Some ethnic minority groups are notably less likely to be contributing to a private pension than others; in particular those of Bangladeshi and Pakistani ethnicity are least likely to be contributing. Our modelling suggests most ethnic minority groups are less likely to be on track for their expected retirement income than the white British group, particularly the Bangladeshi, black Caribbean and Pakistani ethnic groups.

Despite the higher retirement income expectations and earlier planned retirement ages, most ethnic minority groups are no more likely to be currently contributing to a private pension than white British people. The exception is those of Indian ethnicity, who are around 4 percentage points more likely to be saving in a private pension. The lower likelihood to save into a private pension is particularly striking for those of Pakistani and Bangladeshi ethnicity who are around 13 percentage points and 15 percentage points respectively less likely to do it. Those of other Asian, other white, mixed ethnicity and Chinese ethnicity are also less likely to be saving in a private pension but to smaller degrees.⁵ This is suggestive of an 'expectations gap', between expectations of retirement incomes and how on track individuals are to achieve them

For those who are not currently contributing to a defined benefit (DB) pension, we have drawn on previous modelling work to examine explicitly whether or not they look on track to achieve their expected retirement income.⁶ This modelling takes into account people's existing wealth stocks, their likely future pension and non-pension saving (based on their current saving behaviour), and their planned retirement age, and assumes that everyone is entitled to a full state pension. The results indeed illustrate an expectations gap that is worse (for those without a DB pension) among most ethnic minority groups than among the white British group. In particular, the proportion who are not on track for the retirement income they expect is around 20 percentage points lower among the Bangladeshi and black Caribbean ethnic groups, and around 15 percentage points lower among the Pakistani ethnic group, than among the white British group.

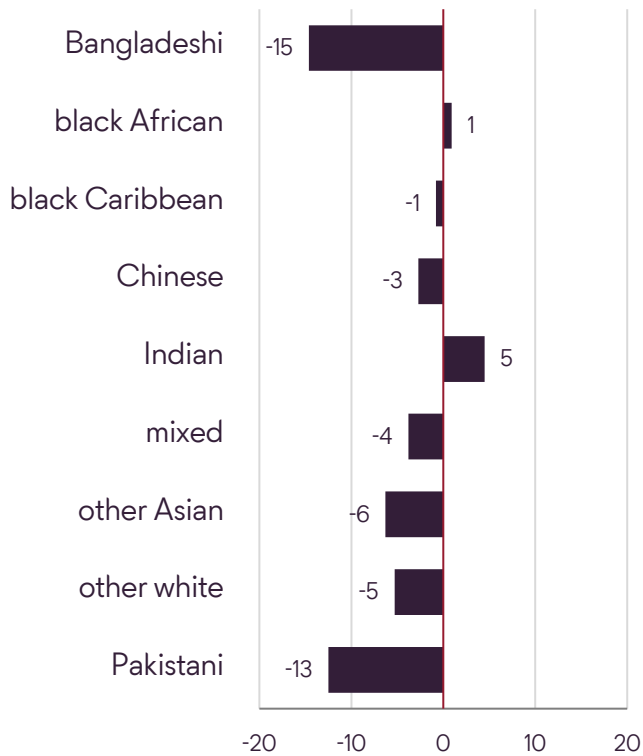
This modelling does not, however, take into account other sources of income in retirement or wider support networks, so we turn to those next.

⁵ This broadly accords with data from the ONS on differences between ethnic groups in the proportion who have any private pension wealth, available here:

<https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/articles/householdwealthbyethnicitygreatbritain/april2016tomarch2018#sources-of-household-wealth> The ONS analysis does not control for the age or salary structure of each group, relates to the whole population (rather than just working age adults), and compares whether any private pension wealth has been accumulated (rather than current contribution behaviour).

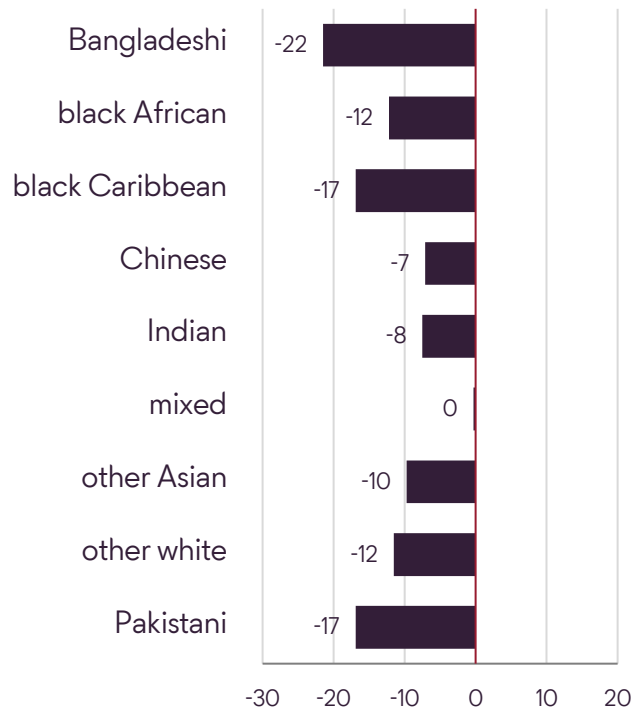
⁶ For more information (see [Great Expectations \(2022\)](#) for details of the modelling approach).

Proportion contributing to a private pension
(Population: 63%)



Difference (£) with white British group

Proportion of non-DB savers "on track" for
expected retirement income
(Population: 48%)



Difference (ppt) with white British group

Note: Differences between ethnic groups are estimated after controlling for differences in age and salary. Proportion of non-DB savers who are "on track" for the retirement income they expect is Frontier Economics modelling (see [Great Expectations \(2022\)](#) for details of the modelling approach).

Retirement income from non-pension sources

All ethnic minority groups are less likely to expect an inheritance to contribute to their retirement funding, but are more likely to expect to draw on second property wealth, than white British people.

If many ethnic minority groups expect a higher retirement income than white British people yet are less likely to be saving in a private pension, are they more likely to be expecting to use other resources in retirement?

For some potential sources of income in retirement this does not seem to be the case. All ethnic minority groups are less likely on average than white British people to expect an inheritance to provide them with resources in their retirement. This is particularly true of black Caribbean, black African and Pakistani groups who are 10-12 percentage points less likely to expect to use an inheritance than white British people. This accords with recent research from the Resolution Foundation that showed that people of

black African, Chinese, Bangladeshi and Pakistani ethnicity on average received little income from inheritances.⁷

In contrast most ethnic minority groups are more likely to expect to draw on other property wealth in retirement (either by selling a second home or rental property, or using buy-to-let investment income). This suggests that second properties play a more important role in the retirement security of ethnic minorities than for white British people, and the future retirement security of many working age ethnic minority households will depend on whether they have succeeded, or will succeed, in securing these assets as planned before retirement.

Most ethnic minority groups are also more likely to expect to draw on savings or investments than white British people. This is particularly true of the Chinese group, who are over 20 percentage points more likely to expect to draw on savings or investments in retirement.

The differences between ethnic groups in terms of where they expect their retirement resources will come from are largely mirrored in differences between groups in their self-reported preparations for retirement. All ethnic groups are more likely than the white British to report that they are buying other property or that they are preparing for retirement by saving or investing.

	PERCENT EXPECTING TO GET INCOME FROM:			
	PRIMARY HOUSING	OTHER PROPERTY	INHERITANCE	SAVINGS / INVESTMENTS
Percentage point difference with White British group:				
Bangladeshi	-4	3	-3	-6.5
black African	-7	9	-11	13.9
black Caribbean	-7	1	-12	-3.8
Chinese	5	6	-5	21.2
Indian	1	7	-8	6.3
mixed	6	6	-4	2.4
other Asian	2	8	-6	12.9
other white	-1	5	-4	6.8
Pakistani	-2	9	-10	-1.7
Population:	20%	10%	19%	24%

⁷ Resolution Foundation (2020) 'A gap that won't close: the distribution of wealth between ethnic groups in Great Britain'.

Note: Differences between ethnic groups are estimated after controlling for differences in age and salary.

Expecting retirement income from other sources
(Population: 20%, 10%, 19%, 24%)



Note: Differences between ethnic groups are estimated after controlling for differences in age and salary.

Wider support networks

Wider support networks are more important for all ethnic minority groups than for white British people; Pakistani, Bangladeshi and Indian ethnic groups in particular are much more likely to expect to rely financially on their children in retirement.

Wider support networks are an important source of retirement security for many households. There are differences across ethnic groups in the proportion expecting to rely financially on others during retirement, and the proportion expecting to support others. This is likely reflecting differences in cultural norms and family structures across ethnicities. In particular, many ethnic minority groups have a greater proportion of multigenerational households compared to the white British.⁸

8

<https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/families/adhocs/12005householdsbyagecompositionandethnicityuk2018Z>

The Pakistani, Bangladeshi and Indian ethnic groups are for example much more likely to expect to rely financially on their children than those of white ethnicity (by 29, 22 and 17 percentage points respectively). They are also more likely to expect to rely on other family and friends, though this is less commonly expected than relying on children.

These ethnic groups are also more likely to be expecting to support children and other family and friends. This suggests that there are greater informal financial flows in general for these ethnic groups, rather than a single direction of intergenerational redistribution that may be more common within families of other ethnic backgrounds.

EXPECTING TO RELY FINANCIALLY ON OTHERS IN OLDER AGE			
	CHILDREN	OTHER FAMILY	FRIENDS
Percentage point difference with white British group:			
Bangladeshi	22	11	8
black African	12	-2	2
black Caribbean	7	4	5
Chinese	4	2	-4
Indian	17	5	3
mixed	11	9	7
other Asian	13	11	3
other white	4	-1	0
Pakistani	29	8	7
Population	14%	13%	8%

EXPECTING TO SUPPORT SOMEONE ELSE DURING OLDER AGE

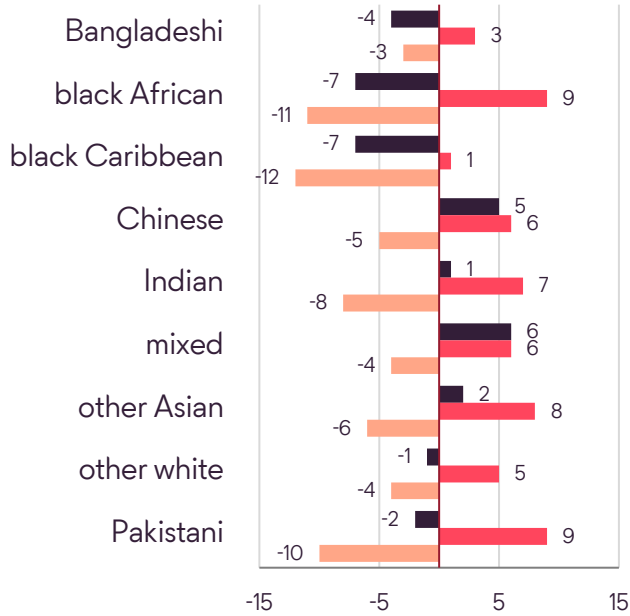
	CHILDREN	OTHER FAMILY	FRIENDS
Percentage point difference with white British group:			
Bangladeshi	2	9	3
black African	12	24	18
black Caribbean	2	5	2
Chinese	-6	2	-3
Indian	15	11	7
mixed	5	9	10
other Asian	12	20	8
other white	3	6	2
Pakistani	13	9	10
Population	34%	19%	9%

Expecting to rely on others
(Population: 20%, 10%, 19%)

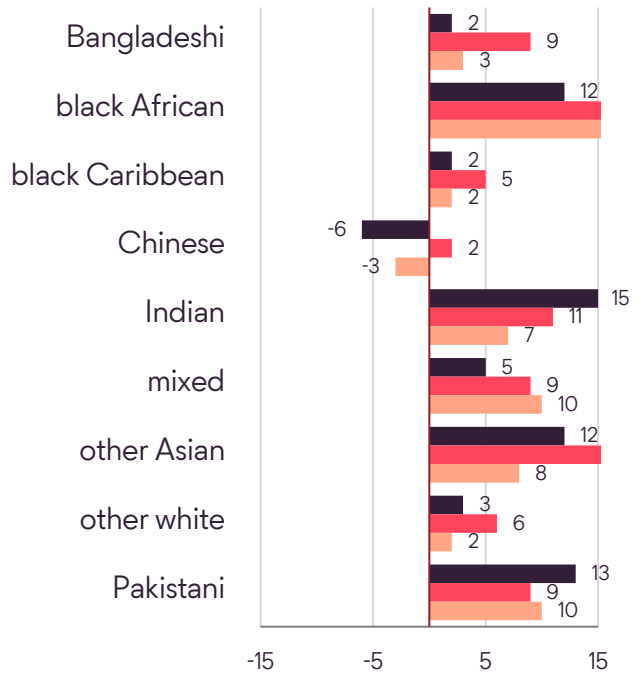
Expecting to support others
(Population: 34%, 19%, 9%)

■ Primary housing ■ Other property ■ Inheritance

■ Children ■ Other family ■ Friends



Difference (ppt) with white British group



Difference (ppt) with white British group

Note: Differences between ethnic groups are estimated after controlling for differences in age and salary.

Conclusions

Ethnic minority groups are no less confident in achieving their expected retirement income than white British people, but an objective assessment of whether all ethnic groups are similarly on track would be valuable.

The Longer Lives Index data paints a somewhat surprising picture on patterns in retirement expectations and preparation across ethnicities. After controlling for age and income differences, virtually all ethnic minority groups expect higher retirement incomes than white British people. Yet they also expect to retire around 1-2 years earlier on average, and often are less likely to be saving in a private pension and to currently own their own home. It is clear that other resources – specifically secondary housing assets – are expected to play a role for many, and that wider support networks are more important among ethnic minority groups than among the white British group. But further analysis is needed to see whether these factors are enough to mean that ethnic minority groups are on track for the retirement income they expect, or at least as on track for it as the rest of the population. Certainly the average confidence of ethnic minority groups in achieving their expected retirement income is no lower – all ethnic minority groups are within 1 point of each other on a 10 point scale, and if anything many ethnic groups are around half a point more confident than the white British group.

Annex

The Phoenix Longer Lives Index was a survey conducted in 2020 of 17,393 people aged 25-75 who were not yet retired. The table sets out the sample sizes for each ethnic group.

ETHNIC GROUP	UNWEIGHTED SAMPLE
White British	14,274
Bangladeshi	87
Black African	267
Black Caribbean	168
Chinese	136
Indian	353
Mixed	451
Other Asian	143
Other white	1,059
Pakistani	214
Other or unknown	241