



# Neighbourhood effects and pension protection amongst ethnic minorities in England and Wales

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Ethnic minorities are concentrated in particular geographical areas in England and Wales. Neighbourhood effects, such as the concentration of individuals from particular ethnic groups and levels of local deprivation, can impact upon the labour market performance of ethnic minorities and thus impact upon individuals' pension protection. Using data from the UK Household Longitudinal Study (Understanding Society), linked with a range of neighbourhood characteristics from the 2011 UK Census, this research sheds light on the relationship between neighbourhood effects (own-ethnic-group concentration (enclave) and deprivation) and pension protection among individuals from ethnic minority groups compared to the White British majority population.

## Key Points

- The level of concentration of own-ethnic-group individuals is significantly negatively correlated with key indicators associated with pension protection such as being in paid employment, being an employee, and working for an employer who offers a pension scheme. However, the concentration of one's own ethnic group has no significant effect on the likelihood of being a member of an employer's pension scheme after controlling for other factors.
- Living in a deprived neighbourhood is negatively correlated with one's likelihood to be in paid employment or being an employee. Furthermore, individuals are less likely to be members of an employer's pension scheme if they live in highly deprived neighbourhoods.
- Ethnicity remains a strong determinant of a working-age person's chances of being a member in an occupational scheme, controlling for other key demographic and socio-economic characteristics.

## Introduction

Previous research has shown that ethnic minority groups are unevenly concentrated across England and Wales and that high ethnic minority concentration is associated with high deprivation in that area. Existing research has also explored the

relationship between neighbourhood effects and labour market outcomes amongst ethnic minority groups. However, it is unknown whether the neighbourhood effect extends to also affecting pension protection among the ethnic minority groups, and in particular the opportunity to take part

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in an employer's pension scheme. The aim of this paper is to fill that gap, and to shed light on the relationship between neighbourhood effects and pension protection among individuals from ethnic minority groups compared to the White British majority population. In terms of neighbourhood effects, this paper focuses on two key variables to represent the characteristics of the neighbourhood:

- a) own-ethnic-group concentration (providing a measure of enclave) and
- b) deprived neighbourhoods (a measure of poverty in the neighbourhood).

### Neighbourhood effects and labour market performance for ethnic minority groups

An enclave refers to individual residents from the same ethnic background concentrated within a specific geographical location.

#### *Advantages of enclave for ethnic minority groups*

Firms with a higher proportion of customers from ethnic minorities have a higher probability of hiring an ethnic minority worker in order to facilitate more contact with customers. At the same time, individuals from ethnic minorities have a higher probability of finding a job in areas with a large number of neighbours belonging to the same ethnicity compared to individuals from ethnic minorities residing in areas with fewer neighbours of the same ethnicity.

#### *Disadvantages of enclave for ethnic minority groups*

Ethnic minorities living in their enclave may consider it less of a necessity to improve their social interaction with the native majority population, which may in turn result in the former not improving their social capital and job finding networks. The 'spatial mismatch hypotheses' notes that since jobs decentralise to the suburbs or beyond, ethnic minorities who live in racially segregated areas, often in the centre of towns, are more likely to be poorly connected to major centres of employment, and their spatial access to jobs may worsen.

Deprivation is a measure of poverty in the neighbourhood. Higher deprivation of the neighbourhood is correlated with poorer labour

market performance of the individuals living in that neighbourhood. Ethnic minorities are more likely to be in low-paid employment and face a higher risk of lower occupational returns in high deprived areas.

### The study

Regarding pension membership, although the decision of whether to join a pension scheme is ultimately one of individual choice, the opportunities to participate in a scheme are also determined by an individual's labour market participation and performance. Such decision may also be affected by the geographic context in which decisions are made with regard to pensions. In this paper, we explore the determinants of employer's pension membership among ethnic minorities in England and Wales, investigating the role of both neighbourhood effects (enclave and deprivation) and individual characteristics. This study involves the secondary analysis of the large and nationally representative dataset UK Household Longitudinal Study (Understanding Society), linked with a range of neighbourhood characteristics from the 2011 UK Census. It includes an Ethnic Minority Boost Sample, designed to provide at least 1,000 individuals from five ethnic groups: Indian, Pakistani, Bangladeshi, Caribbean and African. The analytical sample for this paper includes all adults aged between 25 and one year below the State Pension Age (SPA) (for males it is 64 and for females it is 59), totalling 26,917 respondents with complete data, of whom 4,916 came from the five ethnic groups above. The respondents' home addresses were then linked to data from the 2011 Census in order to allow for the inclusion of neighbourhood effects in the analysis.

Figure 1 shows the sequence of data construction in the dataset determining whether an individual can be a member of an employer's pension scheme. Whether one is a member of an employer's pension scheme depends on whether their employer runs a pension scheme; whether one works for an employer who offers a pension scheme depends on whether they are an employee (rather than self-employed), and finally one needs to be in paid work in order to be an employee.

The ethnic groups in this study include: White British, Other white, Mixed, Indian, Pakistani, Bangladeshi, Other Asian, Caribbean, African, Polish and Other ethnic.

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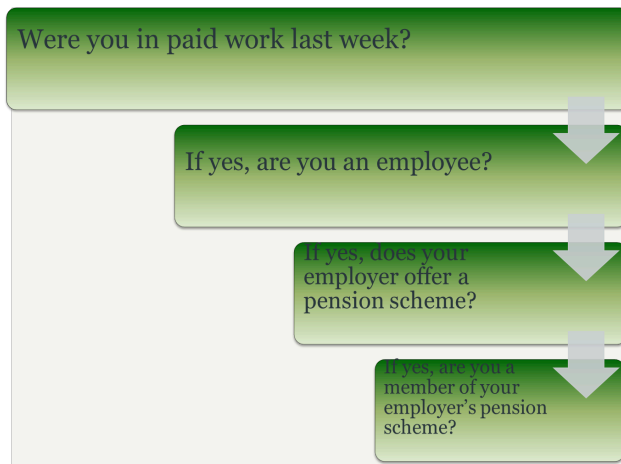


Figure 1 Sequence determining whether an individual can be a member of an employer's pension scheme

### Results from the multilevel logistic regression models

Table 1 summarizes the neighbourhood effects on four sequence determinations on whether an individual can be a member of an employer's pension scheme.

#### 1. *Being in paid employment*

*Neighbourhood effects:* Individuals from ethnic minorities who are resident in neighbourhoods with a higher concentration of own-ethnic-group persons present lower odds of being in paid employment. People in higher deprivation areas are less likely to be in paid employment.

*Individual effects:* Apart from Polish individuals, all ethnic minority groups are less likely to be in paid employment than the White British. Female and single never married individuals are less likely to be in paid employment than those who are male and married. Individuals with lower educational qualifications are less likely to be in paid employment, while owning one's home with a mortgage or renting a house from one's employer increases the likelihood of being in employment. The report of excellent, good or very good health and no report of a long-standing illness are also positively associated with being in paid work, and the analysis also shows the negative impact of caring for someone in the household or having children.

#### 2. *Being an employee*

*Neighbourhood effects:* Individuals from ethnic minorities living in higher ethnic concentration neighbourhoods are less likely to be employees, and areas with a higher level of deprivation area are positively associated with individuals' odds of being an employee.

*Individual effects:* Individuals of Pakistani heritage are less likely to be employees than the White British group; while Indian, Caribbean and African persons are significantly more likely to be employees than the White British. Young age, being female, widowed, renting one's home from a Local Authority or Housing Association, compared with owning outright, are all positively associated with being an employee. Individuals with no qualifications are significantly less likely to be employees than those who have a degree. One's migration history is also an important determinant of being an employee, with first and second generation migrants being less likely to be employees than non-migrants.

#### 3. *Employer offers scheme*

*Neighbourhood effects:* Individuals from ethnic minorities living in higher ethnic concentration neighbourhoods are less likely to work for an employer who offers a pension scheme. There is no significant effect of the level of neighbourhood deprivation on an individual's chances of working for an employer who runs a pension scheme.

*Individual effects:* Indian, Pakistani, Bangladeshi, other Asian and other ethnic persons are significantly less likely to work for an employer who offers a pension scheme than the White British group. There is a non-linear trajectory of the impact of age on working for an employer who runs a pension scheme. Among those aged below 50 years, the odds ratios of working for an employer who offers a pension scheme increase with the age group; for those aged above 50, there is a decreasing trend of working for an employer who offers a pension scheme. Having a lower socio-economic status is negatively associated with one's odds of working for an employer offering a pension scheme, for example having educational qualifications lower than a Degree, renting one's

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home from a Local Authority/ Housing Association or privately, and belonging to a lower NS-SEC class.

### 4. *Being a member of employer's scheme*

*Neighbourhood effects:* No significant differences are found for individuals from ethnic minorities living in enclave areas. Areas with a higher level of deprivation are negatively associated with one's odds of being a member of an employer's pension scheme.

*Individual effects:* Pakistani, Bangladeshi and Polish individuals are significantly less likely to be members of a pension scheme than the White British group. Older age and being married are associated strongly with one's odds of belonging to their employer's pension scheme. Lower socio-economic status is negatively associated with one's odds of being a member of an employer's pension scheme, such as having educational qualifications

lower than a Degree, renting one's home from a Local Authority/Housing Association or privately, and belonging to a lower occupational social class.

### Policy implications

Support with finding and accessing job information, and incentives to seek work outside their enclave, would be useful for BME groups. The government could also support financial subsidies for BME groups which allow them to pay for their transport from living areas to the working place. Finally, providing guidance on the importance of pension protection and policies to encourage more employees to make financial provisions for their retirement could also be considered. Other findings show that younger individuals and those who earn less are less likely to believe that planning for the future is important. Encouraging people to make deliberate pension plans earlier can facilitate better retirement income prospects.

Table 1 Multilevel logistic regression models (Odds ratios) of neighbourhood effects on four sequence determinations on being a member of an employer's pension scheme

	In paid employment†	Being an employee††	Employer offers scheme†††	Member of employer's scheme†††
<b>Enclave (ref: 0~5%)</b>				
6%~19%	0.88*	0.89	0.81**	1.18
20%~60%	0.84**	0.75**	0.62***	0.97
>60%	0.75*	0.65*	0.46***	0.9
White British	-	-	-	-
<b>Deprivation</b>	<b>0.93***</b>	<b>1.23***</b>	<b>0.98</b>	<b>0.88***</b>

\*\*\*  $p < 0.01$ , \*\* $p < 0.05$ , \*  $p < 0.1$

†Controlled individual characteristics: age, gender, marital status, education, house tenure, ethnic groups, migration history, self-rated health, Long-Standing Limiting Illness, Cares for handicapped, and have children aged less than 5.

†† Controlled individual characteristics are similar as previous model without self-rated health, Long-Standing Limiting Illness, Cares for handicapped, and have children aged less than 5.

††† Controlled individual characteristics are based on "Being an employee" model and entered 'five class NS-SEC'.

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