Gender differences in pension outcomes

2021 Global Pension Index
Special Chapter

The financial wellbeing of an individual in retirement will depend on several factors including the health and aged care systems, levels of home ownership as well as the overall pension arrangements. The pension system is a core component and the existence of any gender differences within the system is worthy of investigation and understanding.

Gender differences in pension outcomes

As highlighted in Chapter 2 of the Mercer CFA Institute Global Pension Index Report, most pension systems require or encourage the provision of financial support to older individuals from several sources including government-funded pensions, taxation support, private pensions as well as other financial resources. Yet, as illustrated below, the total pension outcomes in every system around the world provide higher retirement income for males than females.

Before investigating the reasons for this disparity, it is helpful to recognise the two broad types of pension design which impact the pensions received in retirement.

The first is the Bismarckian social insurance arrangements where the resulting pension for each individual is linked to the number of years of contributions paid during the working years. There may also be a minimum pension (subject to residency requirements) and/or a formula which may favour those with lower incomes. These arrangements predominantly adopt a pay-as-you-go approach with contributions paid to the government to support the retirement pensions currently in payment.

The second is the Beveridgean multi-pillar approach where the government pays to all qualified individuals a flat rate pension, which may be universal or subject to a means test. A second pillar, normally operated in the private sector and funded by regular contributions, provides benefits which are directly related to past contributions, investment returns and/or periods of service.

Of course, many pension systems represent a mixture of both approaches but it is useful to recognise these contrasting starting points when considering the different pension outcomes received by men and women.

In essence, the pure Bismarckian approach provides pensions that are strongly linked to previous employment and earnings whereas the State pension provided under the Beveridgean approach is independent from previous employment.

The origins of the Bismarckian approach as well as the second pillar within the Beveridgean approach have been developed over many decades on the basis of a "normal life course" which inevitably defines what is normal or standard. As Kuitto et al (2021) point out, this assumption in many societies represents a highly gendered outcome as "it is oriented upon a male-dominated biography of continuous full-time employment". Hinrichs (2021) goes further and notes it is "based on the expectation of long-term continuous covered employment providing a living wage and performed up to the normal retirement age."

Such assumptions no longer represent reality for many individuals in the workforce, male or female. Flexible, non-standard work patterns are increasing around the world with increasing mobility and greater digitization, which has been accentuated by the COVID-19 pandemic. However the shortcomings of these underlying assumptions in pension design affects many females who have shorter careers and/or care-related breaks which reduce their lifetime incomes.

However, before exploring ways to improve pension outcomes for females, let's explore the underlying causes of the differences in the gender pension gaps around the world.

A global comparison

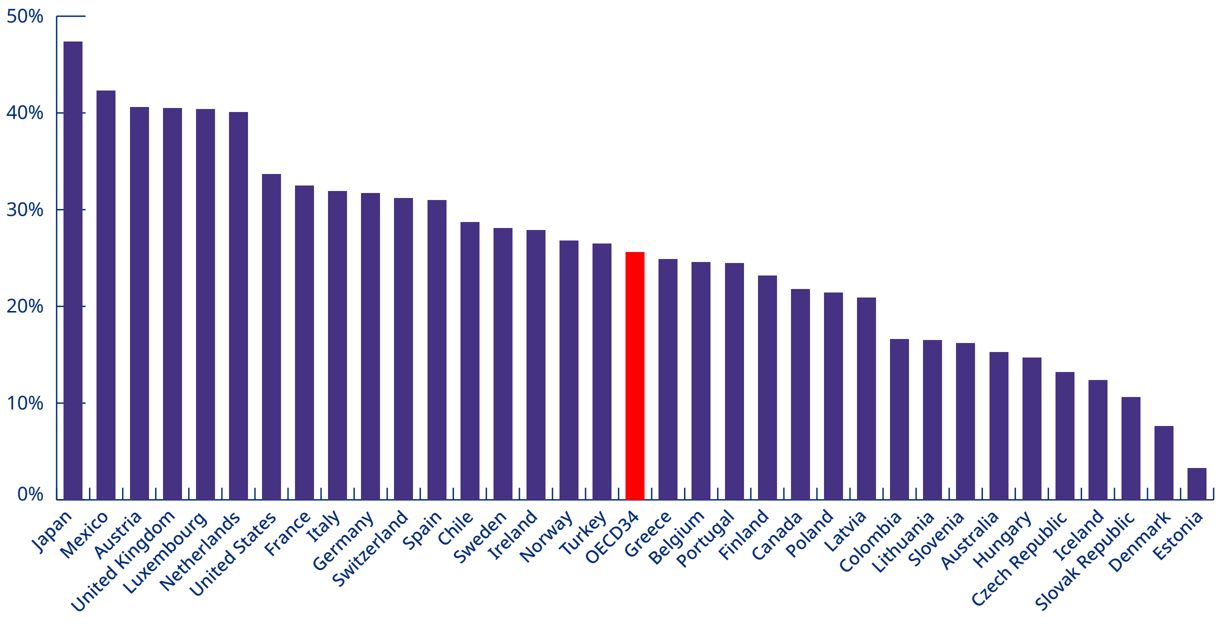
A gender pension gap exists in every retirement income system around the world.

The gap is defined as the difference between the average male pension and the average female pension, expressed as a percentage of the average male pension.

That is, the calculation is based on those who are currently receiving a pension. Hence, if there is no difference in the current pensions, the gap is zero whereas if the average male pension is double that of the average female pension, the gap is 50 per cent.

Figure 3 shows the gender pension gap for most OECD countries and was published in March 2021 by the OECD to coincide with International Women's Day. It shows the range is very broad with Japan having a gap of almost 50 per cent whereas Estonia's gap is less than 5 per cent.

Figure 3: Gender gap in pensions in selected OECD countries



Source: OECD (2021), Figure 1.1

Given this range, an important question is the effects that employment and/or the design of the overall pension system (for example, private or public, pay-as-you-go or funded) may have on these results.

Table 5 highlights some of these characteristics for the four countries at the top and the bottom of the chart. Not surprisingly, the level of poverty among older women is higher than among older men in each of these countries. Some other observations are:

- The historical gender wage gap is often a major factor (for example, in Japan) but, surprisingly, it is not a universally dominant factor as countries with similar historical wage gaps are at either end of the chart.
- Differences in the historical employment rates have had an impact (for example, in Mexico and Japan) but countries with broadly similar employment rates for men and women (for example, Denmark and the UK) have quite different gender pension gaps.
- It could be suggested that different types of pension systems have an impact. Yet, Austria and the Slovak Republic, both of which rely very heavily on their public pension systems, have very different results. Hence the actual benefit design within such systems also influences the gender pension gap.

Table 5:
Comparison of employment history, pension systems and gender pension gap for various countries

System	Gender Pension Gap	Income Poverty Rates for those aged over 65		Gender Wage Gap in 2000	Employment rates in 2000		Proportion of first-year retirement income that is publicly funded
		Men	Women		Men	Women	Total
Estonia	3.3%	21.4%	42.8%	25.0%	59.4%	50.6%	41.2%
Slovak Republic	7.6%	2.6%	5.5%	20.4%	55.3%	42.8%	100.0%
Denmark	10.6%	2.1%	3.7%	10.8%	68.4%	57.0%	31.9%
Czech Republic	12.4%	1.4%	6.9%	16.9%	64.7%	46.2%	100.0%
United Kingdom	40.5%	12.5%	17.7%	26.3%	66.9%	52.4%	42.6%
Austria	40.6%	5.9%	11.0%	23.1%	66.6%	47.1%	100.0%
Mexico	42.3%	23.3%	25.9%	16.7%	80.0%	37.6%	7.4%
Japan	47.4%	16.2%	22.3%	33.9%	72.6%	47.1%	57.3%

Sources: OECD (2019a), OECD (2020a), OECD (2021)

This brief global review highlights there is no single cause of the gender pension gap. It is much more complicated and is the result of a broad range of influences, from both within and beyond each pension system. It is therefore appropriate to broaden the discussion and ask: “what are the major causes of the gap around the world?”

The many causes of the gender pension gap

The many causes of the gender pension gap can be broadly grouped into issues related to:

1. employment,

2. pension design, and

3. socio-cultural.

Employment issues

As noted earlier, there is a direct relationship between employment patterns and the resulting pensions in most systems. Hence, on average, women's pensions are lower for the following reasons:

- A shorter career due to, on average, a slightly later start in the labour force and earlier retirement, which may relate to having an older partner.
- More part-time work which might be a choice but is often present to cover the requirements of the carer role.
- The long-term effects that reduced employment for a number of years have on the promotion opportunities and hence lifetime earnings for some women. This lack of job progression has a compounding effect on pay and the subsequent pension.
- Periods out of the workforce for caring responsibilities. For example, in the early 2000s, an average of 48 per cent of women aged 15-64 were working in OECD countries compared to 69 per cent of men[8]. The OECD study shows that the majority of the gender pension gap occurs between the ages of 25 and 44.
- Lower average salaries for full-time workers with the gender wage gap in the OECD being 13 per cent in 2018. This outcome is partly due to a lower average wage in female-dominated industries than in male-dominated industries. As Schuller notes: "In a nutshell, finance, engineering and the private sector generally pay better than care services, teaching, and the public sector, where women are far more frequently to be found."[9]
- Some examples where women get paid less than men for doing the same job – known as the 'unaccountable' pay gaps.

Given these historic and current differences in employment, it is not surprising that, on average, male pensions from employment-based pension arrangements, whether paid from social insurance or occupational-based pension schemes, are higher than female pensions.

Pension design issues

Although the major cause of the gender pension gap is employment-related, there are also several design features in pension systems around the world which aggravate the issue. These include:

- Eligibility restrictions in some pension arrangements which require a minimum income or a minimum number of hours to be worked. It is interesting to note that 23 per cent of employed women and 13 per cent of employed men[10] in the UK do not meet the minimum income requirement to join a pension plan.
- Contributions or the accrual of pension benefits may not be required during periods of paid maternity or parental leave. Even where contributions are paid during these periods of leave, the earnings base used to calculate these contributions may be lower than the full salary.
- The absence of any pension credit while caring for young children in most systems. However there are examples where credits occur including:
  - in Canada where pension credits are given for the period you are the primary caregiver for a dependent child under the age of seven
  - in Finland where pensions accrue linked to the parental allowance (up to the child's age of three) and the child home care allowance thereafter
  - in Germany where the first three years of the child's life are treated in the statutory pension insurance as if the mother or father had earned the average income during this period
  - in the UK where National Insurance credits are available if you are a registered parent for a child under 12
- The absence of survivor's benefits when pensions are paid which affects more women than men due to their longer life expectancy and that, based on statistical data, wives are typically younger than their husbands.
- The lack of indexation of pensions during retirement which have a more significant impact on women due to their longer life expectancy.
- The gradual replacement of defined benefit pension schemes, where the same lifetime pension was payable to men and women, with defined contribution arrangements where the same accumulated benefit may generate a smaller lifetime income for women because, on average, they live longer than men.

[7] OECD (2021), p20,
[8] Schuller (2017), p54,
[9] OECD (2021), p27
[10] Ibid, p40

- A programmed withdrawal arrangement means that the income is more likely to run out for women due to their longer life expectancy.
- The use of gender-specific mortality tables will lead to smaller annuities or pensions for women due to their lower mortality rates.

It is also worth noting that the World Bank (2018) reported that in 2017, 66 per cent of males aged 15 and over who were in the labour force saved for old age during the last 12 months compared to 60 per cent of females.

Socio-cultural issues

In addition to employment-related and pension design issues that generate the gender pension gap, there are several features or characteristics within many societies and cultures which restrict the opportunity to reduce the gap. These include:

- The absence of affordable and appropriate quality child care which restrict the work opportunities for parents (often women), including the lack of government-supported child care options.
- The impact of child care costs on voluntary pension contributions as these costs are sometimes paid directly by women rather than shared between both parents.
- Lower levels of financial literacy amongst some women[11] also affect their financial decisions.
- Communication and other campaigns from pension funds often ignore needs that are specific to women and use language that does not appeal to women .
- Pension rights accrued during a partnership are not normally split evenly on divorce or separation which can lead to many women having lower pension benefits than their former partner.
- Gender stereotyping can lead to educational differences (for example, in mathematics and the sciences) and an expectation that women do more unpaid family work.
- Variations in working patterns in some societies which reflect cultural differences or preferences.

In summary, the causes of the gender pension gap are mixed and varied. No two countries are the same, yet, in every pension system there is a range of employment-related, pension design and socio-cultural issues which mean there is a significant difference between the average level of retirement income received by men and women.

It should also be noted that in addition to the noted causes, the COVID-19 pandemic has affected the retirement savings of females to a greater extent than males due to its significant impact on part-time and casual workers, as well as its effect on some female-dominated industries such as hospitality and tourism.

Given the variety of causes, there is not a single solution. Rather, the issue needs to be tackled from several perspectives including employment differences, pension design and cultural issues that are present in most societies.

[11] Ibid, p40

A case study of two A-grade pension systems

Interestingly, two of the top three systems in the 2021 Mercer CFA Institute Global Pension Index, namely the Netherlands and Denmark, are placed 29th and 3rd respectively in Figure 3 (page 19).

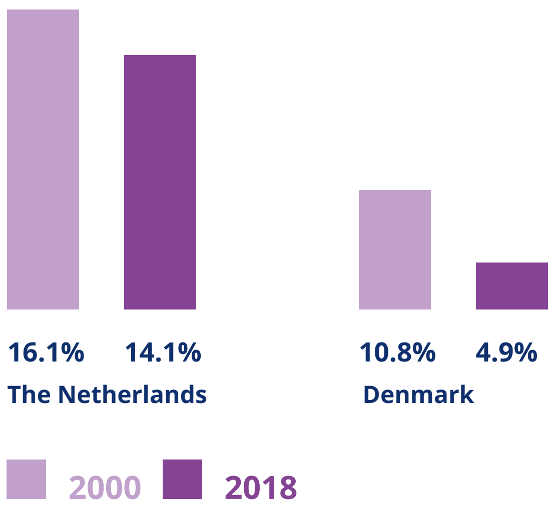
Before exploring this difference, it is worth noting that both countries have very low levels of poverty amongst older age groups. In fact, they have the second and third lowest rates amongst OECD countries, only beaten by Iceland as shown in OECD (2019a). However, the significant difference in the gender pension gap between these two systems requires further analysis to understand the causes of this outcome.

One of the reasons for the disparity is that the Netherlands have a very high level of part-time employment with 37 per cent of their employment being part-time compared to 19 per cent in Denmark.[12] In fact, 58 per cent of employed women in the Netherlands work part-time compared to the OECD average of 25 per cent.[13] This means that the average working hours for women in 2019 was 25-hours compared to 33-hours for men, which means lower earnings and hence lower pensions. This difference may reflect, at least in part, a cultural difference between these two countries.

However, the reported gender pension gaps do not reflect current employment arrangements. Rather, the current pensions in payment are caused by salary differences of 10, 20 and 30 years ago. For example, in the Netherlands in 2000, 57 per cent of women worked part-time compared to just 13 per cent of men according to OECD (2021). This was the largest difference for OECD countries and represented an outlier, even in 2000. It takes decades to remove the impact of employment differences on pensions in payment.

The gender pay gap has also been an important cause. In 2000 the gap was 16.1 per cent in the Netherlands and 10.8 per cent in Denmark. By 2018, these figures had reduced to 14.1 per cent and 4.9 per cent respectively.

Gender pay gap



There are three other reasons that have also influenced these contrasting results:

1. While both countries have a universal base pension, Denmark has an income-tested supplementary pension worth up to 17 per cent of the average wage which helps reduce the gender pension gap due to its income testing.

2. In contrast to the Danish system, which is defined contribution, the Netherlands currently has a defined benefit system where the pension benefit design includes a benefit offset to allow for the universal pension. This carve-out means the positive effect that a universal pension could have to reduce the gender pension gap does not exist.

3. In Denmark, women have a slightly higher average pension contribution than men, when expressed as a percentage of the salary, (11.2 per cent compared to 10.8 per cent) according to Fuglsbjerg et al (2020).

[12] Source: https://data.oecd.org/emp/part-time-employment-rate.htm#indicator-chart
[13] Source: http://www.oecd.org/netherlands/PAG2019-NLD.pdf

Recommendations

Recommendations to reduce the gender pension gap

There are two distinct but related problems in tackling the gender pension gap

The first desired outcome is to reduce, and preferably remove, poverty amongst the aged which is highest amongst women. Ebbinghaus (2021) suggests that to reduce severe poverty amongst the retired population, a minimum income is needed; namely a sufficient basic, guaranteed or minimum pension while Mohring (2021) notes that basic or minimum pensions tend to mitigate the relationship between employment history and retirement income.

The recent Retirement Income Review in Australia made a similar conclusion when it observed that:

"Income inequality between women and men is lower in retirement than in working life, particularly for lower and middle income earners. This is due to the (means-tested) Age Pension, which women are more likely to receive, and for longer, than men."[14]

These comments highlight the importance of the interaction between the various pillars within a retirement income system.

The second desired outcome, which relates to the particular objectives of any retirement income system, is to reduce the inequality that is primarily caused by differences in employment and hence in the amount of contributions paid towards a retirement pension.

Of course, a basic or minimum pension will not, in itself, remove the pension inequality between males and females. Indeed the OECD (2021) recognised that closing the gender pension gap poses a particular challenge given the close link to employment and income patterns. However, notwithstanding this difficulty, inaction is not appropriate.

[14] Australian Government the Treasury (2020), Retirement Income Review, Final Report, p257.

It is therefore recommended that the following actions should be taken to improve pension outcomes for women around the world:

Actions by employers

- Encourage more flexible workplaces which will enable individuals to have more flexible working hours.
- Remove the range of distinctions that exist between part-time and full-time employees.
- Ensure that parental leave may be taken by either parent.
- Ensure improved gender balance at all levels within an organisation.

Actions within the pension industry

- Remove all eligibility restrictions for individuals to join employment-related pension arrangements. Such restrictions may be related to their level of income, the number of hours worked or a required period of service.
- Introduce pension credits for carers so that those who are caring for young children or ageing relatives are not penalised in their retirement years.
- Remove any gender-based annuity rates which, after all, do not exist in defined benefit pension schemes.
- Require all pensions to have some form of indexation, even if it is not at the full inflation rate.
- Improve their forms of communication and recognise that both men and women are decision-makers in respect of pensions.
- Introduce publicly available models and calculators to show the impact of different working arrangements and career gaps on future retirement pensions.

Actions by governments

- Provide affordable quality childcare which is likely to encourage women to return to the workforce earlier.
- Provide greater flexibility for pension contributions recognising that employment patterns over a working career can vary considerably. This flexibility should include mechanisms for individuals to “catch up” in respect of their pension contributions following periods out of the workforce due to caring, illness or unemployment.
- Require that pension contributions continue during periods of paid parental leave and carers leave.
- Permit pension contributions into the pension account of a spouse or partner.
- Ensure that pension rights accrued during a partnership are taken into account on divorce or separation.
- Ensure that there is no difference in the retirement ages for men and women.

Most of these changes can occur in the government-financed social insurance arrangements within the Bismarckian model as well as in the second pillar pension arrangements under the Beveridge model, with appropriate legislation and some government support. Now is the time to take action to reduce the gender pension gap in the future.

To view the Mercer CFA Institute Global Pension Index report go to www.mercer.com/globalpensionindex

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