

Policy Document 4

Gender, Pensions and Pension Planning



*Nata Duvvury, Centre for Global Women's Studies,
National University of Ireland, Galway*

*Katharina Sarter, Faculty of Business and Society,
University of South Wales.*

*Dinali Wijeratne, Irish Centre for Social Gerontology
National University of Ireland Galway Ireland*

Maja Vehovec, The Institute of Economics, Zagreb, Croatia

1 Introduction

In European states, the population is becoming older and this trend will persist in the future. This aging or greying of society is a reflection of advances in health care that increase life expectancy combined with lower fertility rates. At the same time the growing bulge in the older population has important consequences for pensions systems across Europe.

Central among these challenges is the fiscal sustainability of pension systems. Future labour supply is negatively affected by population ageing, and each country has to find ways of addressing this problem. Pension systems and pension policies are focused on how to maintain public pension expenditure in line with budget limitations and provide decent (adequate) pensions for their citizens at the same time. One common solution is for governments to increase the average age of new pensioners, a measure known as extending working lives, because the goal of any pension reform today is to increase the ratio between contributors and pensioners.

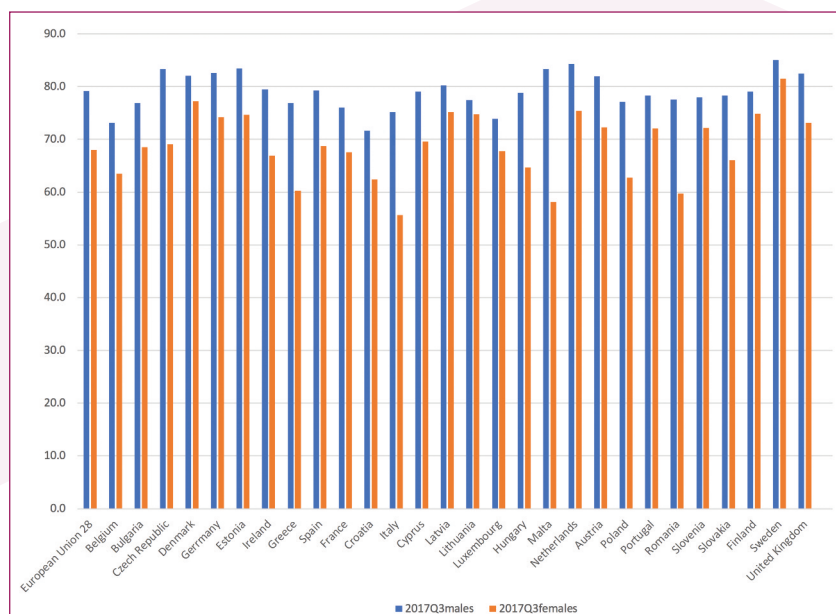
For the individual worker, the level of pension is the result of the duration of one's working life (which is influenced by interruptions due to family obligations, health problems or other reasons), occupation and wage or salary. There is wide acknowledgement that a critical problem across European countries is the gender inequality in pensions that results in increased likelihood of poverty in old age for women.

2 Factors contributing to pension inequality

Several factors contribute to the gap that exists between women and men regarding pension income and pension coverage and the greater risk of women to experience poverty in old age.

In all European countries, women are less likely than men to be in paid employment. While female labour force participation rates strongly differ between the individual member states, they lag behind male labour force participation rates in all member states of the EU (see graph 1). Given the close interconnection between paid employment, entitlements to pension and pension income, the gap in labour market integration leads to gaps in pension coverage and pension income.

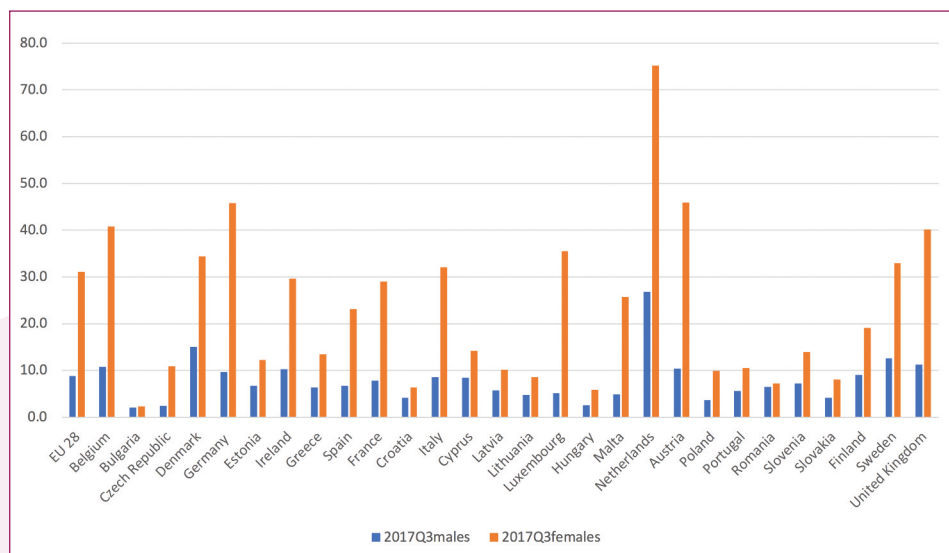
Graph 1: Labour force participation by sex



Source: Eurostat, LFS (2018).

In addition, in most (especially Northern and Western) European countries, a considerable proportion of women is employed in part-time positions (Sarter, 2012, Bettio, et al, 2015) which generate lower income than equivalent full-time positions, contributing to lower contributions to pension systems and eventually to lower pension income (Sarter 2011, Duvvury, et al, 2012, Bettio et al, 2013).

Graph 2: Part-time/ full-time by sex



Source: Eurostat, LFS (2018).

The greater likelihood of women to work in part-time positions is related to care commitments (Loretto and Vickerstaff, 2015); typical working trajectories of men and women strongly diverge over the life course. Men are far more likely to display a constant pattern of engagement in paid employment whereas women are more likely to have disrupted employment trajectories that result in shorter contribution periods and ultimately lower pension income. Furthermore, more often than men, women work in low paid, part-time and/or non-pensionable temporary occupations (Bettio, et al, 2013).

The gender inequality in employment pattern often translates into gender differences in coverage of occupational and private schemes, which are more likely to be used by men and people in higher paid employment (Duvvury, et. al. 2107, Gardiner, Robinson, and Fakhfakh, 2016).

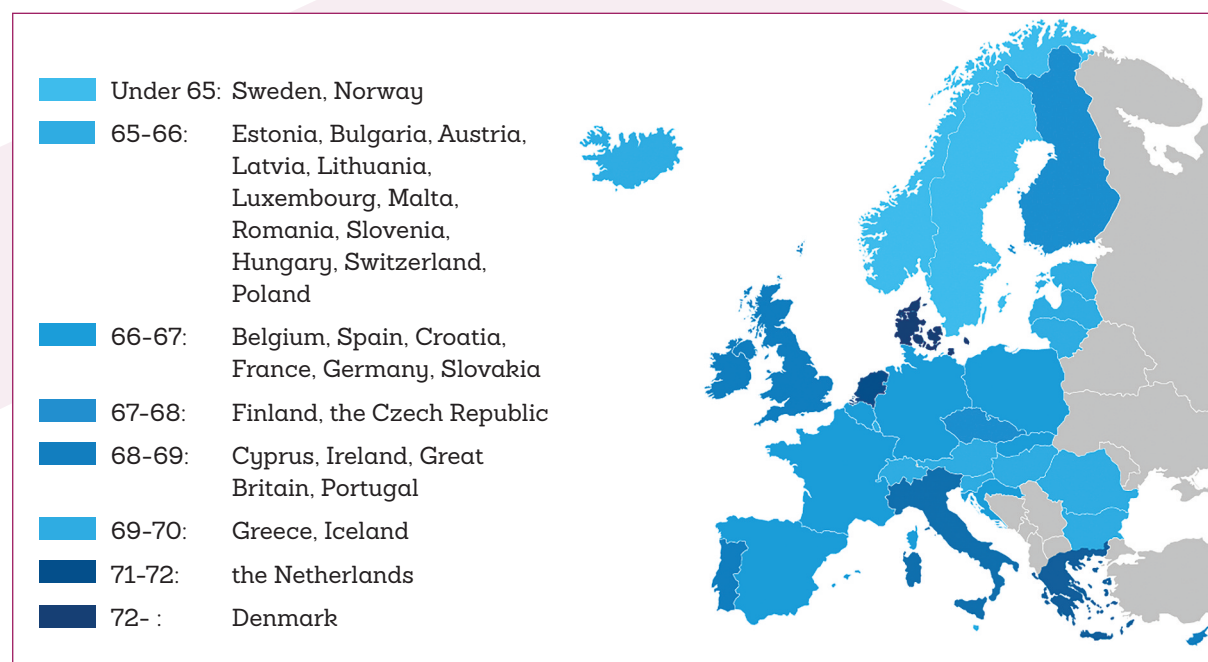
An important factor is the greater lack of knowledge or awareness of pensions or interest in pension planning among women partly influenced by gender norms - for example, there was very little awareness of pensions at early stages in life women in Ireland and UK (Foster et al., 2016, Duvvury, et.al 2017).

3 Policy Trends

To address the 'crisis of financial sustainability' of pension systems resulting from the greying of society, several policy responses have been widely hailed by the European Commission and individual countries. A key response at the both the level of the European Commission and individual countries has been increasing retirement age. For example, mandatory retirement has been increasingly lifted and in more than 30 European countries retirement ages have been increased to beyond 65 or about to be increased to beyond 65. The Finnish Centre for Pensions

projects that by 2050 the mandatory retirement will be increased taking into account trends in life expectancy and will be as high as 72 in Denmark.

Projected Retirement Age in 2050



Source: Finnish Centre for Pensions 'Retirement Ages in Member Countries' etk.fi/en/the-pension-system/international-comparison/retirement-ages

A key dimension of reforms in the pension systems across Europe is the shift to greater individual responsibility for pension outcomes. As most member states move to multi-tier pension systems, the trend is to reduce the share of public PAYG¹ pensions in total provision while expanding the role of occupational and private pension schemes (European Commission, 2010). Shifting choice and responsibility to the individual requires that people understand the information in order to make informed choices. This echoes what women themselves have identified as one key obstacle to undertake pension planning – low pension awareness, lack of information on pension benefits and low financial literacy (Duvvury, et.al, 2012).

Auto enrolment (A-E) (also known as opting-out) is a policy option gaining ground in Western Europe to address the issue of low enrolment of workers in occupational pension schemes. A-E is expected to increase participation in workplace-based pension schemes by overcoming barriers such as 'sluggishness of employees', prejudice and perceived complexity, which discourages opt-in participation (Foster, 2012). The U.K. government recently initiated this policy where employers are required to automatically enrol eligible employees into an occupational pension scheme. Similar legislation is being considered in the U.S. (Munnell et al., 2012) and in Ireland (Ireland, Department of Employment Affairs and Social Protection, 2015). However, auto-enrolment can be a doubtful proposition for women, as their risks will be magnified by the indeterminacy of their caring commitments and future relationship status, which makes it difficult to calculate whether it is worthwhile to spend money on voluntary pension savings. Additionally, women are often in low-paid occupations and are unlikely to be able to afford any significant level of contributions to build a sufficient fund for an adequate pension income. A major disadvantage of an A-E workplace pension schemes for mothers is that, unlike state pensions, these schemes oftentimes offer no credits for episodes of family caring (Ginn and Macintyre, 2013).

¹ PAYG refers to Pay-as-you-go pension scheme in which retirement benefits are financed by contributions levied on current workforce. Most public pension schemes are classified as PAYG.

4 Promising Practice

Expanding pension coverage is vital to the future of pension systems and reducing income poverty in old age. Thereby, it is essential that strategies to expand pension coverage do not exacerbate gender inequality in access or outcome. Examples of promising practice that address some of the underlying dynamics that fuel gender inequality as well as promote effective pension planning include the following:

- **Care credits:** As care commitments oftentimes lead women to reduce their working times or stop working, in some countries, pension systems have integrated features that aim to account for care work in order to tackle the impact care commitments have on pension coverage and pension income. For instance, in France, a certain amount of time relating to childbirth is attributed to the (childbearing) mother and pension entitlements are gathered by child-minding parents if they reduce working hours or stop working (for more information see <http://www.caf.fr/allocataires/droits-et-prestations/s-informer-sur-les-aides/petite-enfance/assurance-vieillesse-du-parent-au-foyer-avpf>)
- **Awareness Campaigns:** Given a lack of awareness, especially among women, policies designed to foster awareness of pension status and the impact of employment choices on individual pension income, may contribute to more pension aware employment choices. To tackle the greater lack of knowledge and awareness that women have regarding pension planning, divergent measures have been taken to increase awareness regarding the pension impact of employment choices and decisions. For instance, §10.2 of the Equal Opportunity Law of the German Federal State of Berlin (Landesgleichstellungsgesetz Berlin) stipulates that employees have to be informed about negative impacts of reducing working time if they apply for a reduction of working time. In other countries, regular updates on achieved and/ or projected pension levels are provided. Hence, in Sweden, all who have earned pension credits receive yearly updates on their pension contributions. For those aged 28 and older, this information also contains projections of pension income (for more information on regular updates on pension contributions and projections in different countries see goo.gl/eiqj2y).
- **Financial Education and Pensions:** The OECD in 2008 recognised importance of financial education in promoting pension savings and adopted recommendations on good practice. In Croatia a broad campaign was undertaken to address the issue of pension and financial literacy, as research indicated nearly 50 per cent of the working population was pension illiterate (Škreblin Kirbiš, Vehovec, & Galić, 2017). Nationwide activities commenced with financial education associations and NGOs to reach different groups of people through various projects related to financial literacy (Vehovec, Rajh, E. & Škreblin Kirbiš, 2015). Elective courses were offered within the educational institutions if schools, teachers, and students volunteered to enrol. Today, in Croatia financial literacy and pension awareness has become ingrained into the society.
- **Improving pension communication:** Stevens and Van Assche (2013) note that although people are not interested in pensions, they nevertheless need timely information so that they can take steps to increase their retirement savings. The work of Maloney and McCarthy (2017) based on a bounded rationality model suggests that pension communication is not understood because it is complicated, requiring

advanced knowledge and computational capacity in order to make decisions that involve risk and uncertainty. They recommend pension communication that is segmented (by categories including gender), individualised (to personal circumstances) and targeted (with numerical savings goals) to help people by limiting information to what is relevant for them.

- **Universal old age benefits:** Universal pension funded out of general tax revenue, the basic pension system in New Zealand, is an important alternative in terms of addressing gender inequality in pensions. New Zealand's superannuation scheme provides a flat universal pension on basis of residency than contributions and thus inherently gender neutral in outcome. Moreover, it has been shown that for the low-income households, the pension has delivered similar standard of living in retirement as during their working life (Collard 2013; Dwyer, 2012). The universal pension is a form of basic income in old age protecting older women and men from falling into poverty.

The New Zealand system underscores that retirement schemes which are tied to individual contributions increase inequality across gender and income generally. This is the fundamental issue that needs to be addressed as more and more pension systems move towards tying pension access to employment.

5 Recommendations

Ensuring sustainability of pension systems requires policies aligned to reflect the changing nature of labour markets, gendered employment patterns, and care work obligations of women². Based on the promising practice, key recommendations include:

1	States must commit to one pillar within the pension system that provides basic universal pension funded out of general revenue to ensure that a basic safety net is provided to all irrespective of work history.
2	Policies to increase pension age must be aligned with employment and wage policies to ensure ability of older women workers to continue in employment and make adequate contributions to PAYG and occupational pension schemes.
3	Policies should be designed to foster pension literacy among women and tackle the greater lack of knowledge that women have regarding pension planning, by increasing their awareness regarding the pension impact from their employment choices and decisions. To address this Governments must commit to regular updates on pension contributions with projections on impacts of employment choices and decisions.
4	To ensure women's future pensions, policies need to reduce the gender pay gap and enable their full participation in the labour market by providing accessible and affordable childcare and other support.
5	Pension coverage must become part of the calculations of costs in contracting out social services where labour force costs tend to be minimized (Benjamin, 2016).

² The recent resolution passed by the European Parliament in April 2017 highlights the need to urgently move address and reduce the gender pensions gap. See European Parliament resolution of 14 June 2017 on the need for an EU strategy to end and prevent the gender pension gap (2016/2061(INI))

References

- Betti G, Bettio F, Georgiadis T and Tinios P (2015) *Unequal Ageing in Europe: Women's Independence and Pensions*, NY: Palgrave Macmillan.
- Bettio F, Tinios, P and Betti G (2013). *The gender gap in pensions in the EU*. Luxembourg: European Commission.
- Benjamin, O (2016). *Gendering Israel's Outsourcing: The Erasure of Employees' Caring Skills* Palgrave MacMillan
- Collard, S (2013) 'Workplace Pension Reform: Lessons from Pension Reform in Australia and New Zealand' *Social Policy & Society* 12:1, 123–134 © Cambridge University Press 2012 doi:10.1017/S1474746412000474
- Duvvury, N, Ni Leime, A and Callan, A (2017) *Erosion of Pension Rights* *European Journal of Cultural and Political Sociology* DOI: 10.1080/23254823.2017.1381034
- Dwyer, M (2012) To what extent do individual superannuation schemes in New Zealand address needs for retirement income in a gender-neutral manner? A report to the Commission for Financial Literacy and Retirement Income <http://www.cflri.org.nz/sites/default/files/docs/RI-Gender-Neutrality-Superannuation-2012.pdf>
- European Commissions (2010). *Private pension schemes: Their role in adequate and sustainable pensions*, Directorate-General for Employment, Social Affairs and Equal Opportunities, European Commission
- Foster, L (2016) 'Young People and Attitudes towards Pension Planning' *Social Policy and Society*, Available on CJO 2015doi:10.1017/S1474746415000627
- Foster, L (2012) 'I Might not Live That Long! A study of Young Women's Pension Planning in the UK' *Social Policy and Administrations* ISSN 0144-5596 Available on DOI: 10.1111/j.1467-9515.2012.00854.x DOI: 10.1111/j.1467-9515.2012.00854.x
- Ginn, J and MacIntyre, K (2013) 'UK pension reforms: Is gender still an issue?' *Social Policy and Society* 12(1): 91–103. DOI: 10.1017/S1474746412000504.
- Ireland. Department of Social Protection (2015) 'Tánaiste announces package of measures aimed at widening pension coverage and improving consumer confidence in pension system' Available at: <http://www.welfare.ie/en/pressoffice/pdf/pr030215.pdf>
- Loretto, W and Vickerstaff, S (2015). *Gender, age and flexible working in later life*. *Work, Employment and Society*, 2015, Vol. 29(2) 233–249)
- Maloney, M. and McCarthy, A (2017) 'Understanding pension communication at the organizational level: insights from bounded rationality theory and implications for HRM' *Human Resource Management Review*, 27, 338–352.
- Munnell, A, Fraenkel, R and Hurwitz, J (2012) 'The Pension Coverage Problem in the Private Sector', *Issues in Brief*, 12–16. Chestnut Hill, MA: Centre for Retirement Research at Boston College.
- Sarter, EK (2012): "Négligence politique ou voie spécifique? Travail et maternité dans l'aire méditerranéenne". In: Arena, F., Cid, R. and Knibiehler, Y. (eds.): *La maternité à l'épreuve du genre. Métamorphoses et permanences de la maternité dans l'aire méditerranéenne*. Rennes: Les Presses de l'Ecole des Hautes Etudes de Santé Publique, 197–204
- Škreblić Kirbiš, I, Vehovec, M, & Galić, Z (2017). Relationship between financial satisfaction and financial literacy: Exploring gender differences. *Društvena istraživanja*, 26(2), 165–185.
- Vehovec, M, Rajh, E, & Škreblić Kirbiš, I (2015). Financial literacy of Croatian citizens. *Privredna kretanja i ekonomska politika*, 24(1 (136)), 53–76.
- Stevens, Y. and Van Assche (2013) *The right to retirement pension information, Synthesis Report*, Directorate-General for Employment, Social Affairs and Inclusion, European Commission.

Acknowledgement

This publication is based upon work from COST Action IS1409, supported by COST (European Cooperation in Science and Technology). <http://genderewl.com/>

COST (European Cooperation in Science and Technology) is a funding agency for research and innovation networks. Our Actions help connect research initiatives across Europe and enable scientists to grow their ideas by sharing them with their peers. This boosts their research, career and innovation.

Recommended citation: Duvvury, N., Sarter, K., Wijeratne, D., and Vehovec, M. 2018. Policy Brief on Gender, Pensions and Pension Planning. COST Action IS1409: Gender and health Impacts of Policies Extending Working Life, Policy Brief 4. Galway. NUI Galway.