GENDER PENSION GAP

Barbieland: A pensions dream

Can practical solutions be implemented to help lessen the impact of the gender pension gap? Or is it all just a Barbieland dream? Natalie Tuck **investigates**

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If only we lived in Barbieland, "where all problems of feminism and equality can be solved" then there would be no need for this feature. Instead, the annual press releases highlighting the gender pension gap are already making their way into the inboxes of pensions journalists as we approach International Women's Day 2024 – which takes place on the 8 March.

The latest figures from the European Insurance and Occupational Pensions Authority (EIOPA) suggest that women's pensions are likely to be about a third less than that of a man in the European Union. Not only that, EIOPA's data also reveals that women in the EU are 10 percentage points less financially confident about retirement than men.

The pace at which the gender pension gap is narrowing is also rather slow. Data from the European Parliament reveals that between the years 2010 and 2017 the average EU gender pension gap did not vary significantly, showing a slight decrease in the later years, moving from 40.8 per cent to 35.7 per cent.

There are three main factors that cause the gender pension gap, summarises Mercer Germany partner, Graham Pearce: "First is the difference in earnings. Plus, the fact that women are more likely to either work for a smaller employer, or be in a form of employment that's less likely to have a pension plan attached to it.

"The third factor is that women are still much more likely to take time out of their careers (part time or full time) to care for relatives, whether that's children or, increasingly, the older generation who also need looking after."

All these factors contribute to women having lower lifetime earnings than men, and pensions – apart from basic pensions that are offered in some countries – are intrinsically tied to earnings. Speaking about Sweden's income-based pension, Swedish Pensions Agency analyst, Kristin Kirs, says: "As long as there is the connection between income and pension and women have lower earnings than men then there will be a gender pension gap."

"In Sweden there are calculations that say it will take about 100 years before the gender pay gap is closed, or the gender earnings gap. It means that income-based pensions will be gender equal 40 years after that. If we want gender-equal pensions sooner than that then we need to do something within the pensions system," Kirs explains.

In 2021, the OECD, in its *Towards improved retirement savings outcomes for women* report, stated that there are "ways to design retirement savings arrangements that mitigate their effects on the gender pension gap". The report said that while pension systems cannot address all drivers themselves, such as those stemming from the labour market, the design of pension systems and products should at least account for and accommodate gender differences.

Spousal support

But what do those changes look like? One option is the introduction of survivors' protection within pensions. A report by the Swedish Pensions Agency published in February 2023 deemed this to be the most appropriate solution for the country's income-based pension.

Such a protection is already available within the premium pension in Sweden. The way this would work is that when a person applies for a pension, they could choose survivors' protection. The pension is then calculated for two lives instead of one and both spouses' ages are taken into account. It would, of course, lower the pension amount but ensure that a pension would continue to be paid to the widower, Kirs explains.

"The survivors' protection has several advantages, because introducing survivors' protection would be financed within couples, not by the taxpayers or other pension savers (because they would take a lower pension). It would probably lower the gender pension gap significantly and not violate the lifetime income principal," she says.

This lifetime income principal is critical to pensions, and Kirs stresses that the more the pension system is adjusted to level out gender pension differences, the less connection between work and pension there is, which comes with other negative labour market impacts.

Of course, there is no one-size-fits-all when it comes to pensions in Europe. Take the UK, for example, which introduced the 'pension freedom' reforms back in 2015, allowing people to choose what they wish to do with their pension in the decumulation phase. This, tied in with the shift from defined benefit (DB) to defined contribution (DC) pensions, could negatively impact widows. That's because in the traditional DB pensions, spousal protection was commonly built in, but with DC pots the individual has to plan for that themselves. If it is not built into an annuity, or they opt for drawdown and the money runs out, then there will be nothing for the person left behind.

"The trouble is, with choice comes responsibility. The outcome is much more dependent on the individual decisions of members," Pearce says, adding that it's about making sure people are "absolutely aware of the consequences when they're making choices that don't just impact their retirement income, but also the money their spouse or partner will receive. Sometimes, people end up making choices that increase their own benefits but leave their spouse with no entitlement at all".

There are also other ways spouses can support each other with pension savings, as set out by the OECD. "One way to compensate for the periods that women spend off work without contributing to the funded pension system is to allow spouses to contribute to each other's retirement savings plans," the OECD's report states.

In Europe, this is seen in the Czech Republic and Latvia, where anyone can contribute to an individual's voluntary personal pension plan, including the individual's spouse. The husband, wife or civil partner can also contribute to a spouse's retirement savings plan, usually a personal plan, in Hungary, Lithuania, Spain and the UK.

Another idea is to allow couples to split or transfer their accrued pension rights and assets between themselves during the accumulation phase, which is seen in Iceland, the Netherlands and Sweden.

In Iceland, pension fund members can decide that up to one-half of their retirement pension rights accrue to their spouse or former spouse. The problem is that uptake of such schemes is low. The OECD found that in 2019 the number of contracts with a mutual split agreement was just 73, compared to more than 200,000 members in the occupational pension system.

In Sweden, where the option is available within the premium pension – and has been suggested by the Swedish Pensions Agency for the income pension – there is also "very low interest", Kirs says. "It is only about 1.2 per cent of the couples that transfer premium pension entitlement. The reason that we suggested it is because voluntary survivors' protection would not protect divorced women so this is an alternative to protect them but the interest would probably not be that high," she adds.

Access to pensions

Another simple solution is improving access to pension schemes for women. A report by Now Pensions found that in the UK there are around 100,000 more young female workers than young male workers currently locked out of auto-enrolment due to their age and earnings.

As a result, the pension provider is campaigning for the reduction of the auto-enrolment age threshold to 18, as well as the removal of the lower earnings limit for auto-enrolment. The Department for Work and Pensions (DWP) is expected to publish a consultation this year on the regulations under the Auto Enrolment Extension Act, which would see these measures implemented.

Now Pensions also thinks the government should look to introduce measures that address the issue of multiple jobholders. For example, the removal of the £10,000 auto-enrolment earnings trigger would enable women with multiple low-paid jobs to start saving for their pensions immediately.

Pension dashboard

When it comes to the regulator, EIOPA is pushing the creation of a pension dashboard as a step to closing the gender pension gap. Its chair, Petra Hielkema, went as far to say that the gender pension gap cannot be closed without the introduction of a pension dashboard, at its last Annual Conference. "Two years ago EIOPA gave its advice to the commission on building a pension dashboard and a pension tracking system… we cannot close the pension gap, raise the awareness that is needed without measuring it," she said.

Pearce agrees that "more transparency will help because the more information people can access about what they're entitled to, the better". However, he says it will "only help to some extent, because there's a lot of information available at the moment that many people don't necessarily take the time to understand".

Thinking outside of the box

When it comes to saving for a pension, Pension Research and Consulting founder and managing director, Seda Peksevim, believes that behavioural and technological tools could help reduce the gender gap in pensions.

Whilst not widely seen in Europe, apart from a scheme in Spain that was funded by the European Commission, countries such as Mexico and Australia are utilising behavioural economics to help people boost their pension savings.

The platforms work in the following way; when a person goes to a shop to buy something, a predetermined percentage of their spend on certain goods is automatically transferred to their retirement savings account. "I think these tools can be particularly effective in reducing the gender gap in pensions in European countries," Peksevim says, adding that Australia is utilising such tools to help reduce its own gender pension gap.

In Mexico, the Miles for Retirement platform, which uses this system, takes those savings and invests them into lifecycle funds, which are converted into annuities at retirement. "It's like a fourth pillar of pensions in Mexico," Peksevim notes.

"These platforms are also open to self-employed people. They are not linked to formal employment, social security systems or third pillar private pension systems. One of the main reasons why women cannot have a formal pension plan in emerging market countries is because, generally, they prefer to work in part-time or informal jobs – and self-employment. So, if these platforms are also open to self-employed people, you don't need to work in a formal way, these can particularly contribute to the retirement savings of women, self-employed people and people with low incomes," Peksevim says.

Peksevim quotes research from Australia, which found that the average user of the Boost Your Super consumption platform can save an additional AUD 400 annually. "If you compound this with a 5 per cent annual yield and adjust it for inflation, that could boost your retirement savings by roughly AUD 65,000," Peksevim says.

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