



Challenges in Guaranteeing Adequate Pension Incomes for Women¹

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No pension solution is sustainable without adequate incomes for women!

¹ This Policy Brief is drawn from the author's presentation at the Joint Meeting of the Task Force Monitoring RIS and the Expert Group for the UNECE Conference on Ageing (26-27 February 2007, Vienna).

In response to demographic changes and their social and economic consequences, many European countries had either already reformed or planned to reform their pension systems. They have aimed to forge a consensus so as to attain a sustainable solution to pension challenges of ageing societies. In this process, special attention will have to be paid to the position of women, who interrupt their employment, to rear children or to care for family members and as a result suffer reduction in their pension incomes. It has become plain that no pension solution will be socially sustainable without guaranteeing fair retirement incomes for women. Currently older women fare poorly in terms of pension incomes, and this is mainly attributed to past socio-cultural systems in which women were expected to take full responsibility towards childcare and, subsequently, rely on work and pension contributions of their husbands. Thus, they had to make do with derived rights from their husbands which had resulted in inadequate pension incomes and a greater risk of falling into poverty in old age. However, a lot has changed with respect to labour market participation of women in recent times: women have never been more active in the labour market than now, and it can be expected that a good majority of future older women will have own pension entitlements and pension incomes similar to men. One can also foresee that women's emancipation will be reaching a higher and more desirable level in the future, so much so that they do not have to take on more home responsibility towards childcare than that warranted for biological reasons alone. Only in that case, one could argue that modern-day societal changes will remove any disadvantage that women on average experience in accumulating pension entitlements during the whole of their working life.



Our analyses in this policy brief show that there are also ‘health warnings’ arising from recent changes in the pension policy of some of the European countries, mainly because some pension reforms will be more detrimental to women than men. This is mostly due to the fact that women are still more likely to be low-wage workers, they are more often in part-time employment, and they are also more likely to have more disruptive work histories than men. The caring responsibilities at home still fall more often on women than men, either by their own choice or not. Our analyses also identify good pension policy practices in which pension policy parameters have been changed so as to accommodate women’s atypical employment and to give ‘fair’ pension credits for their contribution to society in bearing and caring for children.

The rising poverty risk for older women

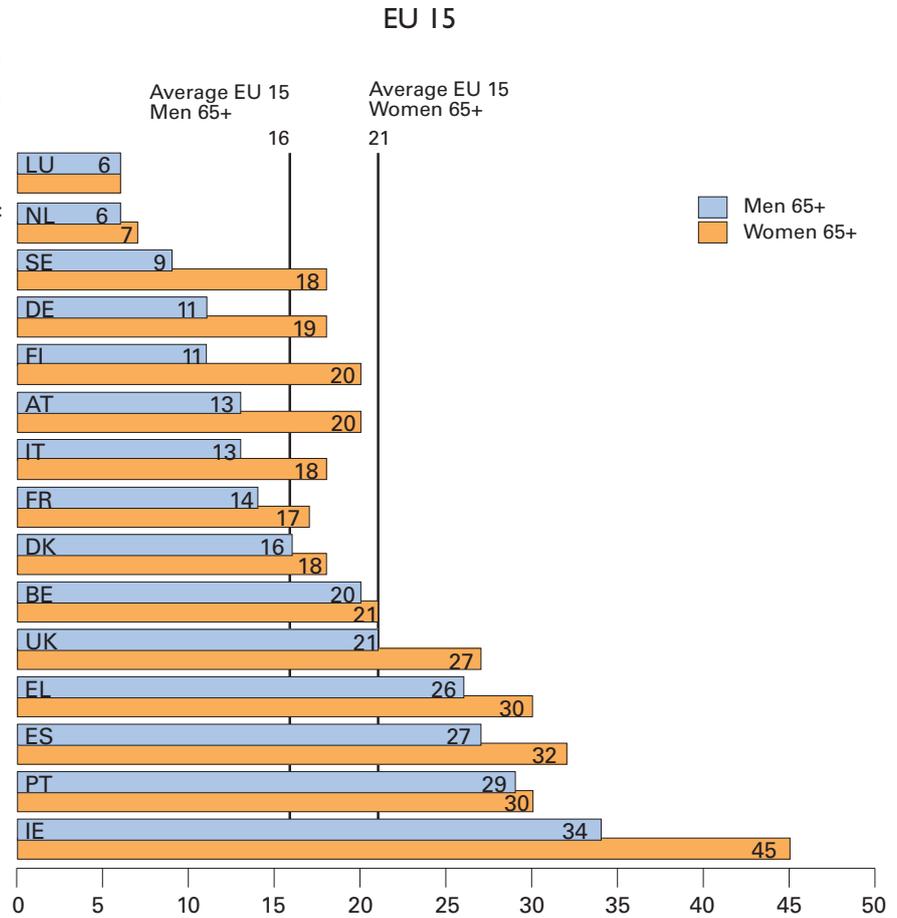
Our research in EU countries highlights the important fact that, currently, older women experience a much higher risk of poverty than older men in the majority of countries. Poverty is measured using income as a measure of personal welfare, as this is consistent with our aim to analyse how pension policy affects older women’s risks of falling in poverty. The choice of the poverty line is taken as 60% of the national median income; thus, we are interested in analysing how older women fare within a single country. It was not possible to take account of housing resources and financial non-pension wealth from the datasets in use; but this is less restricting in view of our objective of linking poverty risk to pension policy parameters alone.

We find that the poverty risk for older women is clearly higher in EU15 (21%) than in the ten new Member States (10%). The gender differentials are notably higher in Sweden, Austria, Germany, Finland and Ireland; also in Latvia, Lithuania, Estonia, Slovenia and Cyprus. In contrast, the Netherlands, Luxembourg, Denmark, Portugal and Slovakia stand out as countries with low poverty differentials (see Figure 1). The question of interest is therefore ‘what explanations can one find for differences in the relative risk of poverty across men and women in different countries?’ We shed some light on this below.

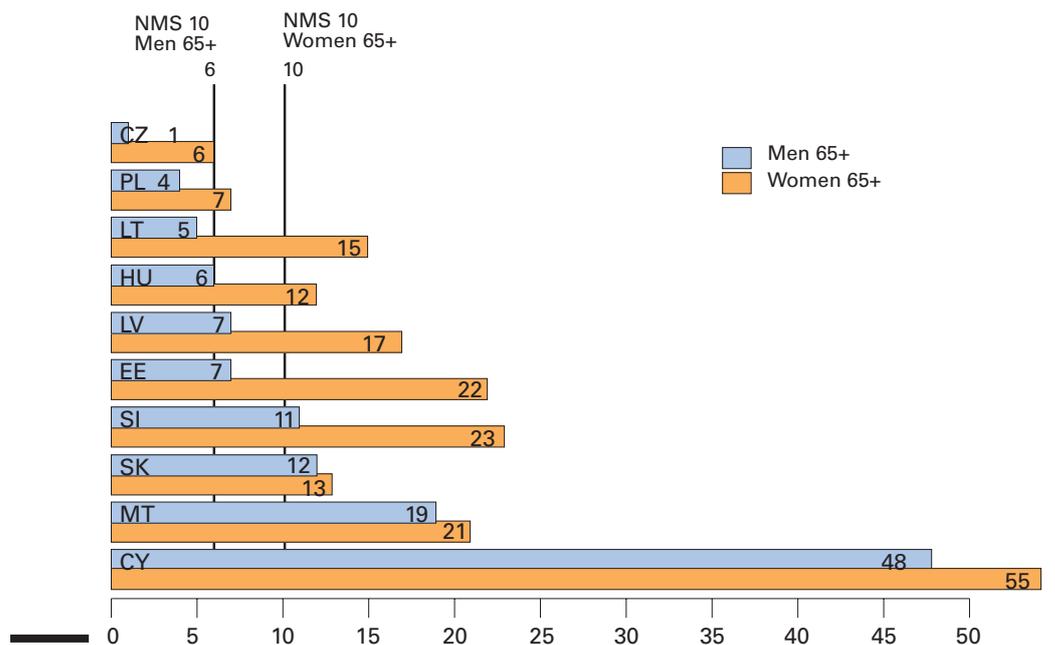


Figure 1
Older women and men
at risk of poverty in
EU countries, 2003

Source:
Eurostat's New Cronos Database



New Member States





When we investigate how different age cohorts of older women fare, we find that in very many countries, women aged 75+ had a much higher poverty risk than women aged 65-74. One out of every three women aged 75+ had experienced a poverty risk in Finland, UK, Greece, Spain, and Portugal, and there is an even higher poverty risk for this subgroup in Ireland (see Figure 2). In view of this evidence, we can deduct that younger cohorts of older women are better-off in these countries, and this is a reflection of the fact that their greater labour market participation, along with a greater recognition of their caring responsibilities in the social protection system, have contributed towards an improvement of their pension incomes. On the other hand, one could also suspect that the greater poverty risk for women aged 75+ is also attributed, at least partly, to the fact that they are more often widows, and widowhood increases the chances of older women falling into poverty.² It could also be expected that the indexing of pensions in line with prices alone also results in the deterioration of older women's incomes relative to the rest of society. Thus, there are reasons to believe that greater income risks amongst women may not entirely be a cohort phenomenon but may also be attributed to the ageing phenomenon.

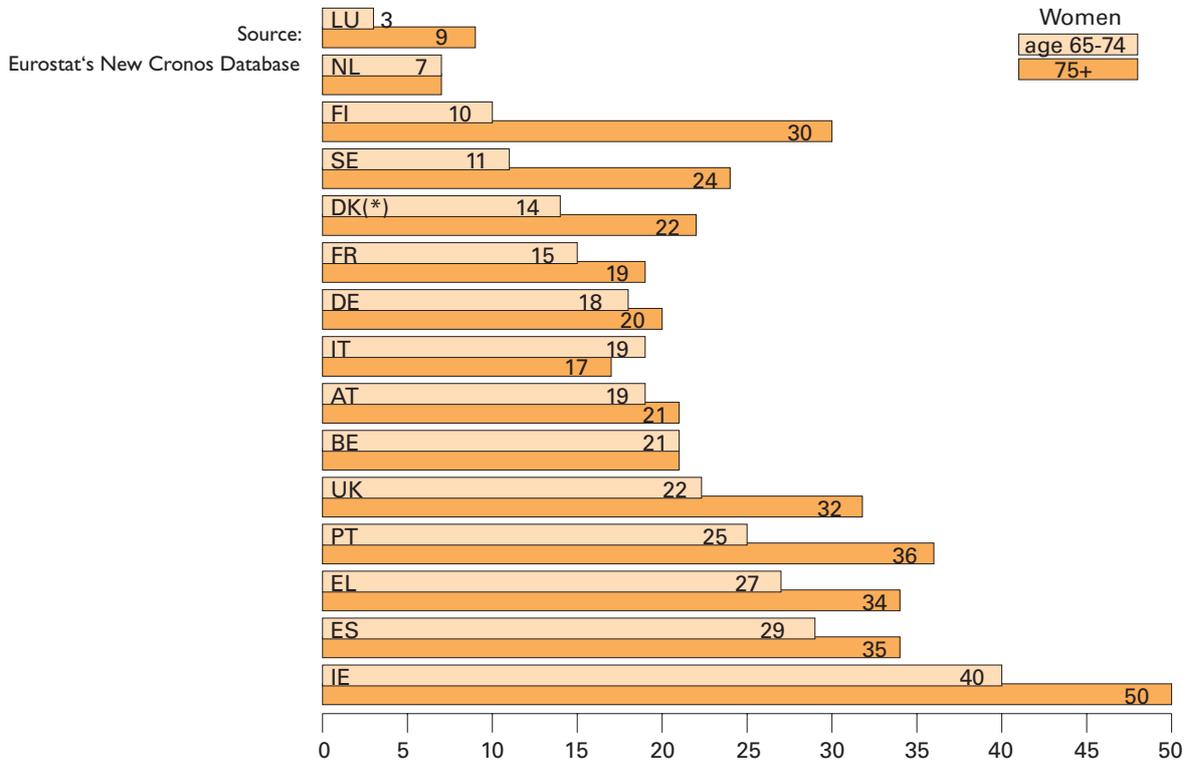
²There is clear evidence that widowhood results in increasing chances of older women falling into poverty (cf. Zaidi and Gustafsson [2007] for Sweden; and Zaidi et al. [2006] for Britain and Germany, and Zaidi and De Vos [2001] for Britain and the Netherlands).



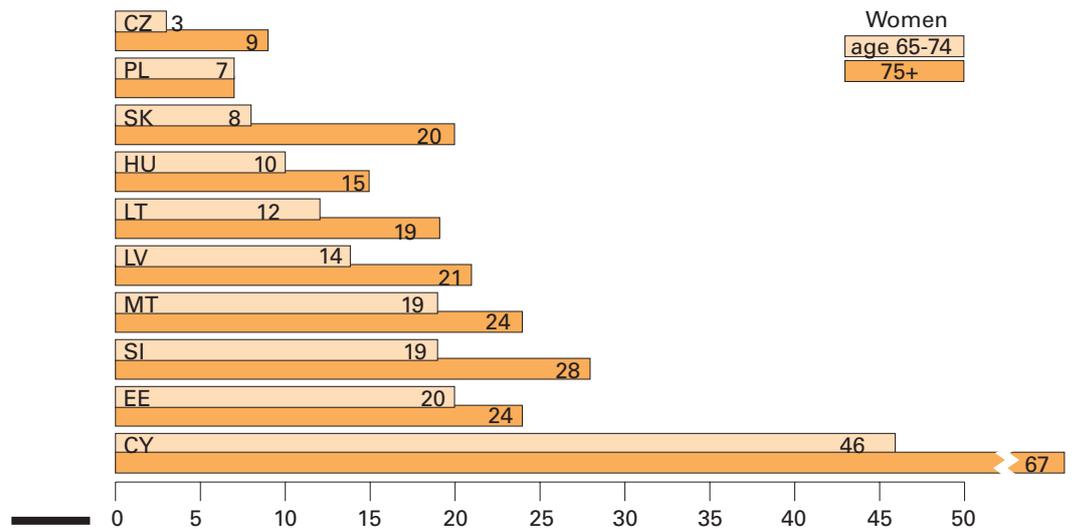
Figure II

Poverty risk for older women,
by age groups

EU 15



New Member States





Who have been the good pupils in the classroom?

On the basis of results for the current generation of older people, we can also identify good practices of pension policy within which women accumulated their pension rights. The Netherlands stands out as the country with the lowest poverty risk for older women, and the poverty risk differentials across the two age cohorts of older women are also minimal. Thus, it is an interesting case-study for us to review the features of their pension policy, which may have contributed to this 'good' outcome.

Amongst the most notable feature of the Dutch system is that they have a universal residence-based basic pension (AOW) system, and these benefits are indexed in line with wages. This attribute of the basic pension system ensures that the minimal pension rights are not linked with labour market participation (but with the residence status alone) and that the value of benefits relative to wages is maintained. The Dutch also have mandatory occupational pensions, but more importantly for older women's incomes, the occupational pension schemes have rather generous survivors' benefits.

Sweden, on the other hand, also has a residence-based basic pension scheme, and it provides a relatively generous pension crediting scheme for mothers. Yet, we observe a relatively higher poverty risk for older women in Sweden. In the same vein, the Eastern European countries also had rather generous defined-benefit public pension schemes, which was good because of its redistribution in favour of women. Yet, we observe high gender differentials in the poverty risks for older people in the Eastern European countries similar to EU-15 countries. This points to the fact that the pension benefits for women in these countries were nonetheless affected by their labour market participation. Thus, in such systems, an important underlying factor for adequate pensions for women will be their labour market participation during their working lives. Moreover, given the fact that a greater number of countries have now linked the pension benefits to a fuller employment and earnings history, the policy solution to enhance women's pensions lies in active labour market policies for women.



What policy options to avoid poverty amongst older women?

- **Greater employment during working lives with the help of active labour market policies for women will be the most effective policy tool in raising women's pensions in the future.**

Women need specialised services to be helped to stay in, or return to, work during and after periods of caring, and this can be achieved through well-targeted ALMPs for women. Measures to improve flexible working hours, training and workplace improvements will contribute to women's greater labour market participation.

Moreover, working careers for older women, through equalisation of pension age, and through work incentives in public pension schemes, should be extended. Measures should also be taken so as to reduce the gender pay gap, which will contribute towards both increasing earnings and employment for women.

- **Better indexation of pension benefits, and also provision of more adequate survivors' benefits, so as to avoid that women slip into poverty while ageing.**

To avoid loss of the relative income position of women pensioners, the pension benefits must be indexed in line with the general rise in living standards. Moreover, in the absence of one's own pension rights, adequate survivors' benefits are to be guaranteed so as to avoid poverty entry for older women on widowhood.

- **Strengthening of the social safety net of pensions (preferably through a minimum pension income guarantee) will be more beneficial to women than to men.**

Although flat rate universal minimum benefits have been seen most effective in improving women's pension incomes, they are against the contribution principles of many countries' existing pension systems. They are also seen to provide disincentives towards work and voluntary savings, especially late in one's working lives when the disincentive signal is much more obvious. However, for the success of such means-tested minimum income guarantee schemes, it is necessary to ease means-testing procedures, so as to avoid social stigma and encourage a greater take-up of these benefits. Other necessary measures should also be taken to avoid or reduce disincentives for greater work and voluntary savings inherent in the provision of a minimum income guarantee. The 'savings element' of the pension credit in the UK will provide some insights how disincentives for greater work and savings could potentially be improved.



- **To recognise the value of caring services offered by women, it is required that the pension crediting for genuine absences from the labour market should be as generous as employment in the formal labour market.**

The pension crediting is to be made more generous in many countries, especially for mothers with caring responsibilities and for carers of disabled or elderly family members (more often women than men).

There are many different models to construct a childcare credit. The choice element revolves around how to compensate, for how long, whether persons have to be fully out of the labour force to be entitled to a childcare credit, and whether the credit can be taken by any of the two parents. The simplest model is to grant a sum (credit) per child, regardless of whether the mother (or father) works or not. More complicated models can also be devised.

Sweden in its new NDC system has adopted a complex model but it offers insights for other countries for its generosity towards caring mothers. In Sweden, childcare 'earnings' will be imputed according to the most favourable of the following three computations:

- o A supplement equal to 75% of average earnings for all covered persons.
- o A supplement up to the individual's own earnings the year prior to child birth.
- o A supplement consisting of a fixed amount, indexed in time to the (covered) wage per capita.

The first model covers those persons who are without earnings prior to childbirth. The second model replaces one's own earnings after childbirth, and it also provides a supplement for those who work less as a result of childbirth. The third model provides an extra supplement after return to work – thus not discriminating against those women (or men) who return shortly after childbirth. For each child, the parent has the right to four years of imputed earnings. It is estimated that an average Swedish woman can expect to have her benefits enhanced by close to 10% from pension credits for childcare years.³

³ More details can be found in E. Palmer (2000) "The Swedish Pension Reform Model: Framework and Issues", Social Protection Paper 0012, Pension Reform Primer. Washington, DC: World Bank.

- **To alter some of the social insurance rules and qualifying conditions to take into account women's atypical employment patterns.**

Greater recognition of atypical employment of women in pension scheme memberships is also essential. Rules and qualifying conditions need to be altered so as to reflect better the value of women's non-la-



bour market contributions and atypical employment patterns to society. One example is the recent change in Belgium to also take into account half-time employment for guaranteeing access to the guaranteed minimum pension: from October 2006, these years will be taken into account pro rata the worked time.

- **It is important to improve pension literacy, and this will be more beneficial for women than for men.**

A better financial education will help women to be able to make informed choices towards absences from the labour market, and also towards private voluntary pension scheme membership. Pension literacy must be improved for all, but especially for women who more often have disruptive work histories due to additional caring responsibilities.

- **Gender-neutral annuity rates must be ensured, as they benefit women more than men.**

It is important that countries legislate gender-neutral annuity rates, so as to ensure equal reward for equal contributions during working lives (NB: this is yet to happen in Poland). The gender-neutral annuity rates can be identified as most beneficial to women, as women live longer than men.

Recent reforms and their likely impact!

It is beyond the scope of this Policy Brief to analyse in full-scale pension reforms and their impact on women's pension incomes. Here we only point to some specific pension policy changes in several countries.

- **Poland and Hungary:**

Greater losses of pension income of women compared to men will occur, due mainly to the curtailment of redistribution inherent in the old system. Moreover, in recent reforms in these two countries, childcare credits have also been devalued for pension purposes. It is therefore likely that, in the absence of a considerable improvement in the employment and earnings situation of women, the pension income situation of future older women will get worse.

- **Sweden:**

Lifetime earnings will determine pension benefits in the future. This may turn out to reduce women's pension incomes, as they more often than



men have a disruptive work history (even in Sweden). In the reformed system, survivors' benefits are set to disappear, thus there will be even more reliance on minimum pension benefits in the future. However, as mentioned above, the crediting for childcare times in Sweden is rather generous, and this will help protect those women's pensions that are out of the labour market for reasons of childcare.

- **Germany:**

The 1992 reforms provide for a 3-year pension credit for each child. The 2001 reforms, on the other hand, upgrade part-time work of mothers (until the child is aged 10), and there is also a bonus for mothers receiving survivors' benefits. These changes point to the fact that the reformed system provides more recognition of women's contribution at home.

- **United Kingdom:**

White Paper proposals reduce the number of qualifying years from 39 to 30 for women. Also, there are more credits available towards BSP and S2P for those not working. It is likely that the indexation of BSP will also be more generous than just inflation. The introduction of the personalised accounts system, at a low management cost, is also likely to improve pension coverage for women.

What can we conclude?

Our analyses show that the most suitable and effective policy action to tackle poverty risks amongst older women is through labour market policies, in the form of the Active Labour Market Policies for Women. Here, the aim is to improve not just women's employment, but also to take measures to improve their earnings. Specialised employment services for older women may be required to add years at the end of their working careers. ALMPs for Women should be accompanied by an improvement in the minimum pension income guarantee. Such benefits are seen as the most effective single pension policy element to reduce poverty amongst older women. Poverty risks for the oldest old women should be specifically targeted, by making survivors' benefits more adequate for all widows, and by improving indexation of state pensions and minimum pensions.

More research should be undertaken to study the impact of generous childcare credits and of the provision of a minimum income guarantee in retirement on women's labour market participation. The jury is still out about whether work disincentives of such schemes are strong also in Continental Europe, but results from the UK, Sweden and the US offer useful insights.



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13. Proportions of women and men above statutory pensionable age receiving an old-age (or survivorsâ€™) pension, by area of residence . 14. Average replacement rates at retirement in public pension schemes in 2010 and projected for 2060, selected European countries.â€” As important as expanding pension coverage is guaranteeing adequate income replacement. Adequacy of pensions is an issue worldwide. Pensioners in most developing countries receive very low benefits. womenâ€™s lower labour force participation, the large number of women who are self-employed, and the fact that women often have shorter and interrupted careers due to child bearing and rearing⁵. This is evident where pension systems in many countries fail to meet the needs of men and women equitably; with contributory pension coverage often significantly lower for women.â€” Policy responses and challenges. The risk of old age poverty is generally more pronounced in less developed countries where social protection coverage is inadequate or absent, and where many older persons rely only on family support.â€” pension levels and guarantee income security for people in old age. For most women reaching retirement age today, however, their situation is still generally worse than that of their male counterparts. â€œWomen are 80 percent more likely than men to be impoverished at age 65 and older, while women between the ages of 75 and 79 are three times more likely than men to be living in poverty,â€” said Diane Oakley, the retirement security instituteâ€™s executive director. Much of that can be traced to a persistent gender gap in retirement income. Men in 2014 received \$17,856 in median pension income, according to the instituteâ€™s study; women had about one-third less, or a