

PROTECTING WOMEN'S INCOME SECURITY IN OLD AGE

TOWARD GENDER-RESPONSIVE PENSION SYSTEMS

SUMMARY

Ageing has a female face. Women not only live longer than men but are also less likely to enjoy income security and economic independence in old age. Because of a lifetime of economic disadvantage, older women end up with lower incomes and less access to land, housing and other assets that would help them maintain an adequate standard of living. In addition, pension systems grossly fail to produce equal outcomes for women. In most countries, women are less likely than men to receive a pension at all or they have lower benefits. Gendered labour market and life course patterns lie at the roots of women's disadvantage in old age, but their impact can be magnified or mitigated by specific features of pension system design. This brief takes a closer look at these features and shows how pension systems can be transformed to reduce gender gaps and protect women's income security in old age.

Minding the gap

Over the first half of the current century, the global population 60 years or over is projected to more than double, reaching 2 billion by 2050. About two thirds of the world's older people live in the developing world, and by 2050 this share will have risen to nearly 80 per cent. The fact that population ageing has a markedly female face is often forgotten, and policies have been slow to respond to the rights and needs of older women. Women not only live longer than men but also face greater economic hardship in old age. In urban China, for example, poverty rates among older women are three to four times higher than among older men.¹ Old-age pensions can make a huge difference, but pension systems currently do not guarantee income security for most of the world's older people and conspicuously fail to produce equal outcomes for women and men.

In most countries, women are less likely than men to receive a pension or they have lower benefits

Globally, about half of people above the statutory retirement age receive an old-age pension. Yet, in most countries for which data are available, recipients are more likely to be men than women. In a number of countries in Latin America and the Caribbean, including the Dominican Republic and El Salvador, women's old-age coverage is less than half of the already low coverage of men. The Plurinational State of Bolivia is a notable exception owing to the introduction of a universal non-contributory

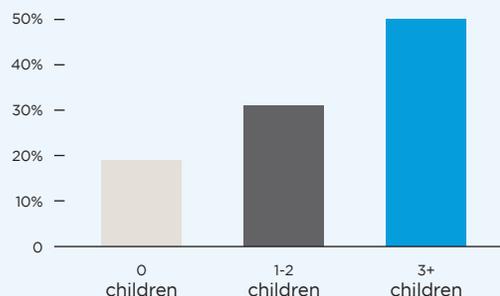
pension scheme. This is also the case of Botswana, Lesotho and Mauritius. In most other countries in sub-Saharan Africa, pension coverage is low for men and almost insignificant for women. The largest gender gaps in coverage are found in Egypt and Jordan, where men are 7-8 times more likely to receive a pension than women.²

But even in countries where women enjoy broad access to pensions, their benefit levels are often only a fraction of men's. Across the European Union (EU), the value of women's pensions lags behind men's by 40 per cent.³ Care responsibilities

FIGURE 1

In France, the gender gap in pension benefits is larger for women with children

Gender gaps in pensions (relative to average pensions of men) (%)



Source: UN Women 2015.

are a major contributor to these gender gaps (see Figure 1),⁴ which undermine not only gender equality but also women's right to an adequate standard of living. In Bulgaria, Cyprus and the United Kingdom, for example, women's mean annual pension income is equal to or below the poverty line.⁵

Understanding the causes

Gender pension gaps are the result of wider inequalities that affect women throughout their lives. During their working years, women participate less in the labour market, earn lower wages and interrupt their careers more often than men to care for dependents. Women are also over-represented in informal and precarious work. Particularly in pension systems based on regular pay-roll contributions, this translates into disadvantages in old age because women have usually contributed less (and less frequently) than men. But different pension schemes privilege male life course and employment patterns to different degrees, showing that pension system design matters and can be harnessed to redress (rather than reproduce) pre-existing inequalities.

The stronger the link between contributions and entitlements, the more women are penalized

The shift from social security-based schemes to individual savings accounts—a key feature of pension reforms implemented throughout the 1990s—illustrates that strong links between individual contributions and pension entitlements can impose heavy penalties on women. Over the past decades, at least 26 countries, mainly in Latin America, Central and Eastern Europe and Central Asia, have increased their reliance on individual savings accounts, many of them privately managed. These schemes do not base benefits on past earnings but on the contributions individuals have accumulated over their working life. Pension entitlements thus directly reflect women's and men's different contributory capacity, effectively penalizing older women for the previous inequalities they experienced as workers and carers.

Tighter eligibility rules also exacerbate women's disadvantage in contributory schemes. In Argentina, Chile and Peru, for example, the number of years of contributions required to obtain a minimum pension—referred to as the 'vesting period'—has been raised significantly. Because women usually contribute fewer years than men, long vesting periods can prevent them from accessing a pension in their own name, especially if there are no adequate mechanisms in place to compensate for employment interruptions due to unpaid care work.

Where individual savings schemes take into account gender difference in life expectancy, women have to spread an already

lower amount of pension savings over a longer period of time, reducing their pension's monthly value. This is the case in Chile, where the application of gender-differentiated actuarial tables is one of the factors that reduces women's pensions vis-à-vis men's.

Recent developments in European pension systems threaten to erode women's entitlements even without a full shift to individual savings schemes. France, Greece, Ireland, Italy and Spain, for example, have tightened eligibility rules, strengthening the link between contributions and earnings, which penalizes those with less continuous labour force participation and lower earnings.⁶

Earlier retirement can hurt women

Many countries have traditionally set the retirement age for women up to five years earlier than men's. Despite a trend towards parity, differences persist in many countries. Yet, mandatory earlier retirement for women constitutes clear discrimination on the basis of age and sex.⁷ The extent to which this affects women's pension outcomes depends on the broader features of the pension system. If benefits are calculated as a percentage of past earnings without considering years of contribution, entitlements are not affected; however, if years of contributions and benefits are tightly linked, earlier retirement reduces women's pension vis-à-vis men's.⁸ As pension reforms continue to strengthen this link, raising and equalizing women's retirement age becomes necessary to avoid eroding their entitlements. Where legal retirement ages for women remain lower, they should be optional rather than mandatory to protect older women's right to continue working and accumulating pension benefits where they choose to do so.⁹

Inadequate pension entitlements may force women to keep working well beyond the legal retirement age

Because the factors that shape women's pension outcomes are multiple and diverse, equalizing the legal retirement age will usually not be enough to guarantee women's income security in old age. In fact, many older women (and men) stay in the labour market precisely because they struggle to obtain a sufficient pension to maintain an adequate standard of living. In 10 out of 34 Organisation for Economic Co-operation and Development (OECD) countries, women retire later than the legally prescribed retirement age. In Chile and Republic of Korea, the difference between women's legal and effective retirement age is as much as 10 years.¹⁰ In sub-Saharan Africa, where poverty rates are high and pension coverage is low, high

proportions of older women and men have no choice but to continue working to make a living.

Women suffer disproportionately from the depreciation of pension benefits over time

Where pensions are not regularly adjusted to inflation or wage increases, pensioners may struggle to maintain living standards when the cost of living rises. Since women live longer than men, they face higher risks of the value of their pensions depreciating.

Taking action

There is no magic bullet for overcoming gender gaps in old-age pensions. A package of measures is needed to address their root causes over the life course—particularly with regards to gender inequalities in work and care—as well as to compensate for potential gender gaps and old-age income insecurity. The remainder of this brief shows how pension systems can be transformed to deliver better outcomes for women.

Non-contributory pensions reduce gender gaps in pension coverage

Some countries have tried to extend contributory pension schemes to informal workers by establishing mandatory contributions for the self-employed or putting in place parallel voluntary saving schemes. Especially in lower-income countries, however, these efforts have rarely been enough to close coverage gaps because most informal workers cannot afford even the minimum contributions required.¹¹ This is especially true for women, who tend to be at the bottom of the informal employment pyramid in terms of status and earnings.¹² Extending contributory schemes also fails to provide an alternative for women who are not considered ‘workers’ at all because they engage in unpaid care and domestic work. Closing coverage gaps in old-age pensions will therefore require a significant expansion of non-contributory (or ‘social’) pensions financed directly by governments. Countries such as the Plurinational State of Bolivia, Botswana, Brazil and Chile have reduced gender gaps in coverage by making pensions widely available, including to those who have spent most of their working lives in informal employment or unpaid care. Evidence shows that women benefit disproportionately from the introduction of such schemes.¹³

Women are most effectively reached by universal schemes

Social pensions that are either offered to all (universal) or exclude those in receipt of other pensions (pension-tested) are most effective for reaching women. They bolster women’s economic autonomy, strengthen their voice and agency within

households and raise their social status. In contrast, means-tested pensions often require that household—rather than individual—income fall below a certain threshold. They hence exclude women who live in households above this threshold even if they have no personal income. In effect, they assume that income from cohabiting spouses or other family members will be shared fairly, which is not always the case. Where means-testing is chosen, income thresholds should be adjusted to reflect the number of older people in the household, as is the case in South Africa, and ensure that all eligible older people receive a social pension in their own name. Other barriers that can impede women’s access—including lower levels of literacy, lack of information or identification documents and distance to facilities where applicants need to register or collect their benefits—also need to be addressed.

Adequate benefit levels are needed to keep older women out of poverty

The generosity of non-contributory pensions varies enormously. In Bangladesh and India, social pensions offer benefits of around \$3 per month—corresponding to only 22 per cent of the \$1.25 PPP poverty line.¹⁴ Mauritius’ social pension, in comparison, amounts to \$118 per month or about five times the \$1.25 PPP poverty line, which is still quite modest. To the extent that women rely more heavily on non-contributory pensions than men, the adequacy of these benefits is of major concern from a gender equality perspective. The adequacy also needs to be maintained over time through proper indexation. In Brazil, for example, pensions rise in line with the minimum wage, which is indexed to inflation and GDP growth. Recent minimum wage increases therefore had important knock-on effects on the well-being of pensioners.¹⁵

Gender-biased rules and requirements in contributory schemes can be removed

While non-contributory benefits can play an important role in improving coverage for women, gender-responsive pension reform should also aim to improve women’s status in contributory pension pillars. Harmful rules such as long vesting periods and gender-differentiated actuarial tables can be removed. Argentina, for example, reduced contributory requirements in the mid-2000s, thereby increasing access by about 2 million people and reducing the gender gap in coverage. And gender-differentiated life tables have been banned via court rulings in the EU and United States.¹⁶

Credits that compensate for time spent on unpaid care improve women’s pensions

In addition, gender-responsive pension reform can include compensatory measures tackling some of the challenges

women face. To address the adverse impact on pension entitlements of time dedicated to taking care of others, most European pension systems now offer care-related contribution credits. These have shown limited but positive impacts on the value of women's pensions. Without them, mothers' replacement rates (i.e., pension benefits as a percentage of pre-retirement income) would decrease by 3 to 7 percentage points in a number of EU and OECD countries.¹⁷ Contribution credits

have also been adopted in some Latin American countries. In the Plurinational State of Bolivia, for example, mothers now benefit from a contributory credit equivalent to one year of contributions per child.

Taking action to increase women's income security in old age is now more urgent than ever. Gender-responsive pension reform can be an important lever for achieving this goal by improving women's access to old-age pensions, ensuring their adequacy and reducing gender gaps in benefit levels.

RECOMMENDATIONS

- **Expand non-contributory social pensions that provide basic income security for all regardless of individual labour market trajectories or contributory records**
- **Privilege universal schemes, which are the most effective way to reach women as individuals**
- **Pending the introduction of universal schemes, choose pension-testing over means-testing to bolster women's economic autonomy**
- **Ensure that the benefit levels of social pensions are at least high enough to keep older women out of poverty**
- **Avoid punishing short or interrupted labour market histories by ensuring that the requirements to access minimum contributory pensions allow for the incorporation of most women**
- **Compensate for time dedicated to childrearing or other unpaid care work through adequate contribution credits**
- **Pool longevity risks broadly and avoid penalizing women for higher life expectancy, including by eliminating the use of gender-specific actuarial tables**
- **Regularly adjust benefit levels to inflation or wage increases to avoid the gradual loss of purchasing power, which affects women disproportionately**

The policy brief series synthesizes research findings, analysis and policy recommendations on gender equality and women's rights in an accessible format. This brief was produced by Silke Staab, Research Specialist at the Research and Data section. To see the full bibliography visit: <http://goo.gl/plKrXZ>

FURTHER READING

Arza, C. 2015. "The Gender Dimensions of Pension Systems." UN Women Discussion Paper No. 1. UN Women, New York.

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UN Women. 2015. *Progress of the World's Women 2015–2016: Transforming Economies, Realizing Rights*. New York: UN Women.

ENDNOTES

¹ UNFPA 2007.

² For a full list of countries with available data on gender gaps in pension coverage, see UN Women 2015, Annex 5.

³ European Commission 2015.

⁴ European Commission 2013.

⁵ Ibid. Table 1.1, p. 36.

⁶ UN Women 2015.

⁷ UN CEDAW 2010.

⁸ Arza 2015.

⁹ UN CEDAW 2010.

¹⁰ Includes Estonia, Israel, Japan, Mexico, New Zealand, Portugal, Turkey and the United Kingdom. See OECD 2013.

¹¹ Vlachtoni and Falkingham 2012.

¹² UN Women 2015.

¹³ Ibid.

¹⁴ HelpAge International 2015.

¹⁵ Berg 2009.

¹⁶ Expert Group 2011; Dion 2007.

¹⁷ Measured as a rate of previous earnings, with between 3 and 15 years of career interruption. See D'Addio 2012.