

Correcting gender inequality in pensions The experience of five European countries

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Gender inequality in pensions was scarcely an issue in the past, since most women shared their husbands' income during retirement and qualified for survivors' pensions as widows. The increase in divorce and non-marital unions challenges the effectiveness of that system. A growing number of women (separated, divorced or never married) will live alone after retirement and their incomes will depend more closely on their own earned pension entitlements. Carole Bonnet and Marco Geraci compare the avenues explored by five European countries to ensure that women obtain adequate pension rights.

It has always been more difficult for women than men to accrue individual pension rights. Women's lower rate of participation in the workforce, linked partly to their still dominant role in domestic tasks and child-rearing, means they accrue lower pension entitlements than men. However, until recently, because wives shared resources with their husbands during marriage and received a survivor's pension – which involves paying the surviving spouse a portion of the deceased person's pension – if they were widowed, women's average standard of living was quite close to that of men, although they were at greater risk of poverty [1] [2].

The effectiveness of this system is being challenged by changing trends in marriage and couple formation, making it more important for women to accrue individual pension rights. What can be done to ensure that these rights are adequate? The avenues explored by five European countries – Germany, Italy, the UK, Sweden and France – are examined below.

◆ Large gender gaps in pensions across all countries

The average woman's pension entitlement, i.e. the rights she has accrued personally, including family rights, is

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equivalent to between 48% (in France) and 68% (in Sweden) of the average man's pension entitlement (Table). The survivor's entitlement raises that percentage and narrows the gap between countries, to a range of between 62% (in France) and 79% (in Sweden). Focusing on the youngest retirees only, women's entitlements are even closer to those of men. In France and Sweden, for example, own pension entitlements of women aged 65-69 are equivalent to 50% (in 2004) and 77% (in 2007) respectively of men's.

It is sometimes argued that, although the pension gap is unfavourable to women, they receive a pension for longer than men because they have a longer life expectancy. But the principle of non-differentiation between individuals by life expectancy is a cornerstone of public pension systems, which are based on the pooling of life risk. It is therefore pertinent to examine gender inequality in pensions and income without taking into account the redistributive effects induced by gaps in life expectancy.

◆ Persistent inequality in the labour market

The majority of women, including mothers of small children, now work, except in Italy, although the gap with other countries is rapidly closing (Figure 1). However, in most of the countries under review, the pattern

Table – Gender gaps in pensions in Europe, all retirees

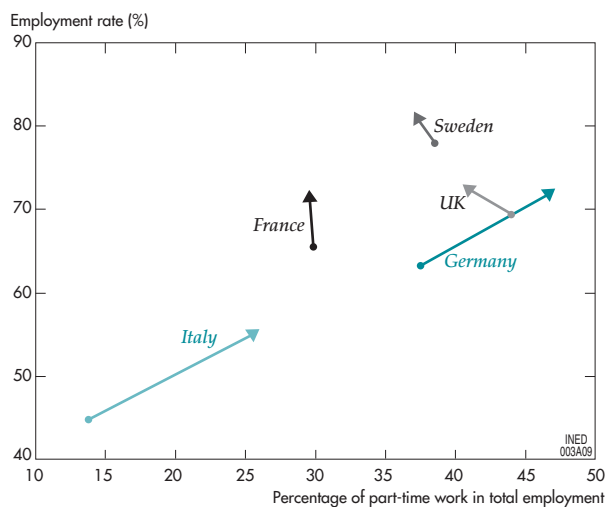
	Germany (2007)	France (2004)	Italy (2006)	Sweden (2006)	UK (2006)	
					singles	couples
Own rights	52 %	48 %	54 %	68 %	86 %	41 %
Own rights + survivor's pension	72 %	62 %	69 %	79 %	-	-

Interpretation: in France, in 2004, the average woman's own pension amounted to 48% of the average man's pension. The average woman's total pension, including the survivor's pension, was equivalent to 62% of that of the average man.

Source: *Retraites: droits familiaux et conjugués*, 6th report of the Conseil d'orientation des retraites [1].

(C. Bonnet and M. Geraci, *Population & Societies* no. 453, INED, February 2009)

Figure 1 - Female employment and share of part-time work between 1997 and 2007 in five European countries



Population: individuals aged 25-59.

Note: in Sweden, the female employment rate rose from 78% to 82% between 1997 and 2007, while the percentage of working women in part-time work was 36% in 2007, down from 38% in 1997.

Source: Eurostat.

(C. Bonnet and M. Geraci, *Population & Societies* no. 453, INED, February 2009)

of women's employment differs from men's, with a lower rate of workforce participation, a higher frequency of part-time work, and lower pay, although there are differences between countries.

Part-time work has increased in most countries and is now at high levels (Figure 1), especially in the countries where women's workforce participation is the highest (around 40% of working women work part time). Part-time hours are relatively long in Sweden, 63% of full-time hours on average, compared with only 44% in the UK. Gaps in pay, for various reasons (work time, occupational segregation and discontinuous careers) persist and impact pension entitlements.

The increase in female employment suggests a shift away from the traditional breadwinner model. However, the division of domestic work between the spouses remains highly unequal and continues to affect women's careers, in terms of type of employment, length of career and pay levels. Women's work has also developed in an environment of slowing growth, rising unemployment

and involuntary part-time work, especially for women [3]. Although higher female employment will narrow the gap between men's and women's pensions, it will certainly not eliminate the disparity over the medium term. The gap between men's and women's own pension rights could still be as high as 20% in Sweden for the cohorts born in 1965-1969 (excluding private retirement saving schemes) and around 30% in France.

◆ Several approaches to improving gender equality

There are several coexisting approaches aimed at improving gender equality in retirement. The first – historical – approach is to grant women the status of beneficiary as wives and then widows and pay them a survivor's pension after the death of their husband, which achieves some gender equality in living standard. The second approach focuses on the accrual of individual rights by women instead of the current survivors' benefits, whose role will decrease as conjugal behaviour become more diverse. There are two variants of the system based on individual rights. The first addresses the issue of equality before retirement within the framework of the labour market, through policies of wage equality and support for the work-family balance. In this version of the individualist model, special pension provisions for women are unnecessary since the model is based on equal participation and treatment of both sexes on the labour market (1). This variant is supported both by some feminists (who do not want the disparities of treatment that affect women to be reinforced by compensation mechanisms) and by supporters of a more cost-cutting approach (who see in it a way to reduce compensation mechanisms). The second variant takes persistent inequalities into account. It views the disparities between men and women on the labour market as stemming largely from the uneven division of domestic and paid work between the spouses, chiefly as a result of child-rearing. Consequently, the

(1) In line with the principle of gender equality, some gender-specific mechanisms were changed, such as the extra year of contributions added to the insured period for civil servants in 2003.

fact that child-rearing (or caring for a spouse or a dependent parent), an activity that benefits society, leads to a disadvantage not only on the labour market but also in retirement, can be seen as an injustice that calls for appropriate compensatory measures.

◆ Available instruments

Several instruments are available to loosen the link between contributions and benefits:

- Universal pensions (for all residents, such as those in the Scandinavian countries, particularly Sweden), which are the same for everyone. If pensions are to remain sufficiently high, cost is nevertheless an obstacle [4];
- Minimum pensions (such as the basic state pension in the UK and the *minimum contributif* in France), which play an important role in raising pensions under certain conditions. However, minimum pensions only narrow the gaps between men and women, and a situation where the majority of women continue to be eligible for the minimum pension may be viewed as far from ideal;
- Pension calculation rules, which can be designed to favour short or discontinuous careers, typical of women (calculating pensions on the basis of the best years, awarding entitlements for periods of part-time work, etc.). However, the reforms of the 1990s in the countries under review, which link pensions more closely to contributions, make it harder to intervene in this way;
- Last, rights granted without additional contributions, with a view to compensating for periods spent raising children or performing tasks outside the labour market considered beneficial to society.

In the past 20 years, there have been major changes to entitlements accrued as a spouse (survivors' pensions) or parent (family rights), reflecting a slow transition from a model based on the principle of eligible beneficiaries to a model based on the individual.

◆ The decline of survivors' pensions and the emergence of split pension rights between spouses

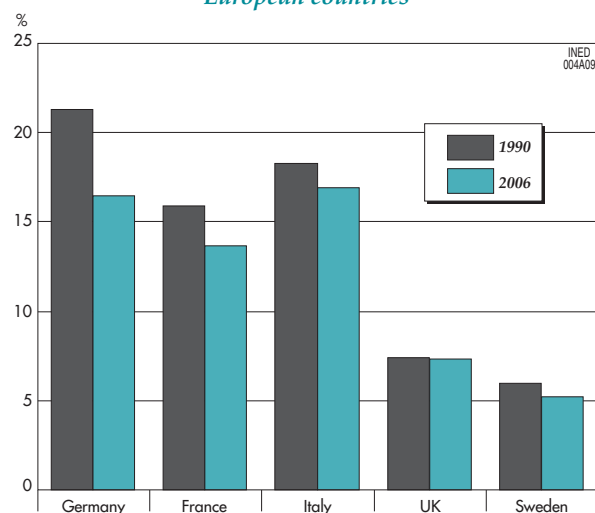
Survivor's pension mechanisms have gradually been limited (Italy and Germany) (2) or abolished (Sweden). The trend in all the countries is towards abolishing rights for surviving spouses who are not near retirement age (3) and, except in France, toughening the conditions of entitlement for others.

Survivors' pensions accounted for 14% of total pension expenditure in France in 2006, or a little more than

(2) Even if the survivor's pension has been extended to unions other than marriage.

(3) Except for surviving spouses with dependent children, for whom temporary pensions can be granted.

Figure 2 - Spending on survivors' pensions as a percentage of total pension expenditure between 1990 and 2006 in five European countries



The data for France in 1990 were adjusted to reflect a change in the data collection method for spending on survivors' pensions in 2002 (*Comptes de la Protection sociale*).

Source: Eurostat.

(C. Bonnet and M. Geraci, *Population & Societies* no. 453, INED, February 2009)

€30 billion. Germany and Italy spend even more on survivors' pensions, although that expenditure is falling (Figure 2).

A new type of spousal entitlement, which does not exist in France, appeared in Germany in the mid-1970s, and later in the UK: splitting pension rights between spouses. While the conditions differ between countries, the principle is the same. The mechanism pools the pension rights accrued by the husband and wife during the union and splits them equally between both spouses. The pension rights are usually split in the event of divorce, which makes it possible to individualize the rights acquired during the union. This mechanism is intended to remedy both the low level of women's own rights and the dependency on husbands that underpins survivors' pensions. But when the rights are split evenly, unlike a survivor's pension, no additional rights are created. The rights accrued within each couple are simply reallocated. We might consider other ways of splitting rights, with a higher splitting rates, at no additional cost to the pension system [1].

◆ Developing family retirement benefits

Aimed at offsetting the impact of children on careers and, subsequently, on pension entitlements, or at granting more pension rights to contributors who have had children, family benefits are developing in all five countries.

In Italy, Germany and the UK, family rights are limited and were initially only open to parents, mostly mothers, who did not work. In Sweden, there was no such mechanism, since everyone was eligible for the

universal pension. But the trend in those four countries is towards the development of family rights with fairly similar characteristics [1]:

- In most cases, even parents who continue to work are now entitled to family retirement benefits, reflecting the fact that the birth of children does not necessarily involve withdrawal from the labour force, since there are other ways, such as part-time work, of achieving a work-family balance;
- Family rights are subject to a minimum contribution period, which is consistent with the policy of encouraging people to keep working during periods of child-rearing and, more generally, the accrual of own rights over the working career;
- In Italy, Germany and Sweden, the couple can choose which spouse will benefit from family rights, a way of encouraging more balanced sharing of child-rearing between the spouses.

France is in a unique position: it is more generous than the other countries in the sample, and for many years several mechanisms have co-existed. There is no minimum contribution period and benefits are cumulative. Working mothers in the private sector receive an extra two insured years per child, whether or not they stopped working.

The *assurance vieillesse des parents au foyer* (AVPF) – “old-age insurance for non-working parents” – enables parents, on certain conditions, to earn entitlements for periods of inactivity or periods of reduced work due to children. The mechanism, open to both parents, is mostly used by mothers. There is also a 10% bonus on pensions (the rate may differ depending on the scheme) for all contributors who have had three or more children. The aim of the latter mechanism is to give more rights to contributors who have had children, while the first two aim mainly to top up the pension of women who have cut short their careers to raise children. The increase in women’s workforce participation, resulting in longer contribution periods, is likely to prompt a review of those mechanisms [1]. Indeed, if the aim is still to offset the impact of children on careers, the mechanisms should be adjusted to compensate for the other potential effects of childbearing, such as a shift to part-time work or a lower pace of wage rises.

◆ The impact of family rights in the countries studied

The impact of family rights is harder to evaluate than that of survivor’s pensions. Simulation exercises based on various assumptions would have to be conducted to

(4) A flat-rate pension under the basic scheme (equivalent to around 15% of the average wage) plus a pension that is partly contributions-related (SSP, public scheme). Within the SSP, when the insured period falls below a certain threshold, the entitlement is raised to the threshold. The sum of the two pensions is equivalent to around 40% of the average wage.

determine individuals’ pension levels in the absence of family rights. Family rights amounted to 7.2% of total pension expenditure in France in 2006, or a little more than €15 billion [1], equivalent to half the amounts paid in family benefits in the same year. In 2006, almost 21% of total pension expenditure was spent on rights granted to individuals in their capacity as parents or spouses.

On an individual scale, the three main family rights in France accounted for more than one-quarter of the own pensions of all retired women from the 1934-1938 cohorts. In the other countries under review, evaluations of the impact of family rights mechanisms based on available case studies indicate a low impact in Italy and in Sweden. For the sample of mothers considered in the simulations, family rights accounted for between 5% and 7% of pensions ([5], [6]). In Germany, for the mothers who will benefit fully from the mechanisms developed recently, family rights could make up around 20% of their pensions [6]. The UK is a special case because although the mechanisms compensate for long periods of pension contributions, the real impact on pension levels seems limited, owing to the structure of the pension system (4).

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ABSTRACT

Owing to their lower workforce participation, women earn smaller pensions than men. Changes in conjugal behaviour and other factors mean that a growing number of women who are not widows will live alone during retirement. Their incomes will therefore depend more closely on their own accrued pension rights. In order to correct the gender gap in pensions, five European countries – Germany, Italy, the UK, Sweden and France – seem to be restricting the conditions for survivors’ pensions while developing mechanisms to boost women’s own rights, such as pension splitting and, more importantly, caring credits, to compensate for the impact of children on women’s careers.