Towards Improved Retirement Savings Outcomes for Women

Labour market inequalities are well-known to be the main drivers of the gender pension gap. This publication focuses on helping governments find solutions for retirement savings arrangements that do not further exacerbate these inequalities. This study first analyses why the gender pension gap exists and sheds light on some of the behavioural and cultural factors that contribute to these inequalities. Country case studies assess how demographics, labour markets and other factors may affect gaps in pension coverage, assets and entitlements. The study then explores how the design of retirement savings plans affects men and women differently. Finally, it provides policy options to improve retirement savings outcomes for women and to help close the gender pension gap.
Governments need to address the gender gap in retirement savings arrangements

The gender pension gap, or the difference in retirement income that men and women receive, averages 26% across OECD countries. This percentage clearly signals gender inequality, despite efforts by governments in recent decades to reduce the gender gap in pension systems. The growing role of retirement savings arrangements within pension systems calls for a deeper analysis of their contribution to this gender pension gap.

Closing the gender pension gap for retirement savings arrangements poses a particular challenge as the income from these arrangements is closely linked to employment and income patterns. This link means that gender differences with respect to labour market participation and gender wage gaps, which are further reinforced by women’s disproportionate role as caretakers, directly contribute to the gender pension gap. These labour market differences affect every stage of preparing financially for retirement, from access to and participation in retirement savings arrangements, to the level of contributions made throughout an individual’s career, through to the level of income received in retirement. The design of retirement savings arrangements alone cannot correct all labour market differences. Nevertheless, their design should strive to reduce the impact that these factors have on the retirement income of women or, at the very least, ensure that inequalities are not exacerbated.

Progress has been made over the last two decades in reducing the gender differences that have been driving the gender pension gap. Women have joined the labour force in increasing numbers and the gender pay gap has decreased by 5 percentage points. These trends have been bolstered by more and more women completing higher education and by changing societal attitudes about the role of women as homemakers and caretakers. Increased employment and higher wages have flowed directly through to improved retirement savings and entitlements for women.

There is, however, still a long way to go before reaching the goal of gender parity and the COVID-19 crisis is threatening this progress, particularly in light of the adverse impacts the pandemic is having on women. Women are more likely to be employed in the most affected sectors, such as hospitality, tourism and retail. They are also more likely to hold part-time work, positions which are more vulnerable to lay-offs. Furthermore, women have shouldered the brunt of educating their children during school closures, in addition to other caretaker responsibilities. These responsibilities have led many women to reduce their working hours or withdraw from employment, thereby reducing their ability to contribute to their retirement savings plans. Women’s retirement income is also more likely to be negatively impacted by the indirect effects of COVID-19, such as the potential increase in divorce rates following lockdown measures or policies that have allowed individuals to withdraw their retirement savings earlier than intended.

This makes it even more urgent that policy makers take measures to address the gender pension gap and to ensure that progress made to date is not reversed. While the situation calls for measures beyond the pension system to help women
overcome barriers to working and address pay gaps, attention still needs to be paid to the design of retirement savings arrangements to ensure that it does not exacerbate gender inequalities in retirement. This report sheds some light on the drivers of the gender pension gap and provides concrete policy options that governments can consider for the design of retirement savings arrangements to help further the progress made to date to reduce the gender pension gap.
The gender pension gap observed today is mainly the result of past work history differences between men and women. Differences in labour market participation, part-time employment, wages, and career length translate into different pension outcomes down the road. The transmission mechanism from the labour market to the pension system is direct with retirement savings arrangements, which depend upon individuals putting aside part of their earnings to finance their retirement. Given the growing importance of these arrangements in the provision of retirement income, policy settings should at least ensure that their design does not increase the gap, putting women at a further disadvantage.

This publication provides governments with guidelines to ensure that retirement savings arrangements do not exacerbate inequalities between men and women stemming from labour market or other factors. The study first presents evidence of the gender pension gap in retirement savings arrangements in selected OECD countries. It then explores the literature to shed light on some of the behavioural and cultural factors that contribute to these inequalities. Country case studies then look into the question of what explains the gender gap in pension coverage, assets and entitlements in some OECD countries, with a focus on unpacking drivers other than labour market factors. The study then analyses the rules and parameters of retirement savings arrangements using a gender lens. Finally, it provides policy options to improve retirement savings outcomes for women and to help close the gender pension gap.

Key findings

On average in the OECD area, combining public and private sources, women aged 65 and older receive 26% less income than men from the pension system.

Part of this gap originates from retirement savings arrangements, as women participate less in retirement savings plans and build up lower pension assets and entitlements, in particular from the ages of 25 to 44, which may correspond to the impact of the first career break for parenting (Figure 1).

Beyond labour market drivers, behavioural and cultural elements, as well as societal interactions, may influence the decisions taken by men and women in a way that contributes to the gender gap in retirement savings arrangements. Compared to men, women are often found to be more risk averse and have lower levels of financial literacy overall, which may influence their attitude towards savings. Marital choices may also affect retirement incomes, as couples may be able to mutualise their pension savings. Gender stereotyping could also encourage women to opt for solutions that are more conservative than what their actual risk preferences imply. Moreover, communication campaigns may fail to take into account certain needs specific to women, such as how to compensate for the decrease in salary and contributions during parental leave.
Country case studies demonstrate that while labour market inequalities are important drivers of the gender pension gap, aspects related to the design of retirement savings arrangements also explain much of the gap. They show that factors such as pension eligibility rules can lead to significant differences in pension plan coverage from workplaces. The studies also exhibit evidence of behavioural biases, particularly when it comes to personal pension plans that may lead women to save less than men.

The design of retirement savings plans is not always gender neutral. Women are disadvantaged compared to men when:

- Eligibility criteria based on working hours or earnings restrict plan access;
- Contributions or pension right accruals stop during periods of maternity and parental leave;
- Conservative investment strategies are used for the default option;
- Pension rights and assets are not split automatically between ex-spouses upon separation;
- Retirement benefits are not indexed;
- Pay-out options with survivor benefits are not available.

Figure 1. Average amount of assets in retirement savings plans by gender and age group

Note: This average is calculated over the following countries: Austria, Belgium, Estonia, Finland, France, Germany, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, the Netherlands, Poland, Portugal, the Slovak Republic and Slovenia.
Policy guidelines

There are ways to design retirement savings arrangements that mitigate their effects on the gender pension gap. It cannot address the drivers themselves in all cases, particularly those stemming from the labour market. However, the design of these arrangements should at least account for and address factors that can lead to women being ineligible for coverage or less likely to participate, lower and less frequent contributions, lower returns, unfair treatment upon divorce or widowhood, and lower retirement income. As such, retirement savings arrangements should aim to be gender neutral.

The following policy guidelines would contribute to reducing the gender pension gap:

- **Promote women’s access to retirement saving arrangements** by increasing the availability of such arrangements in industries predominantly employing women and relaxing eligibility requirements.

- **Encourage women’s participation in retirement savings arrangements** through hard or soft compulsion, financial incentives to join, and financial education initiatives tailored specifically to women.

- **Improve the level and frequency of women’s contributions to retirement savings arrangements** with contributions from employers or spouses, financial incentives that target groups with large female representation (e.g. low-income groups), subsidies for maternity and caretaking, contribution limits that can be carried forward, and targeted communication to educate women on the importance of regular contributions.

- **Adapt the design of retirement savings arrangements to the career patterns of women** by allowing more flexibility with respect to contributions, improving the portability of plans, and adapting the fee structures to small account balances.

- **Improve investment returns on women’s retirement savings** by implementing non-conservative default investment options and offering objective assessments of their risk tolerance to inform their investment decisions.

- **Increase women’s own retirement benefit entitlements** by allowing spouses to share their pension rights with each other, facilitating the split of retirement benefit entitlements upon divorce, and increasing women’s awareness of any option to share their former spouse’s benefits.

- **Increase the level of retirement income that women receive** by equalising retirement ages between genders, calculating lifetime retirement income based on unisex mortality tables where feasible, providing a subsidy directly to women, promoting pay-out options with survivor benefits, and encouraging the availability of pay-out solutions that increase payments over time.
Labour market inequalities are well-known to be the main drivers of the gender pension gap. This publication focuses on helping governments find solutions for retirement savings arrangements that do not further exacerbate these inequalities. This study first analyses why the gender pension gap exists and sheds light on some of the behavioural and cultural factors that contribute to these inequalities. Country case studies assess how demographics, labour markets and other factors may affect gaps in pension coverage, assets and entitlements. The study then explores how the design of retirement savings plans affects men and women differently. Finally, it provides policy options to improve retirement savings outcomes for women and to help close the gender pension gap.