

## Correcting Gender Inequality in Pensions: The Experience of Five European Countries<sup>1</sup>

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It has always been more difficult for women than men to accrue individual pension rights, mainly because of their lower rate of participation in the workforce. 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 during retirement was quite close to that of men, although they were at greater risk of poverty (COR, 2008). Gender inequality in pensions was scarcely an issue in the past.

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. The purpose of this short article is to compare the avenues explored by five European countries—Germany, Italy, the U.K., Sweden and France—to guarantee that women obtain adequate pension rights.

### Large gender gaps in pensions across all countries, resulting from persistent inequality in the labour market

The average woman's pension entitlement, i.e. the rights she has accrued personally, including family pension rights,<sup>3</sup> is equivalent to between 48 per cent (in France) and 68 per cent (in Sweden) of the average man's pension entitlement (Table 1). Survivor's entitlement raises that percentage and narrows the gap between countries, to a range of between 62 per cent (in France) and 79 per cent (in Sweden). Focusing on the youngest retirees only, women's entitlements are even closer to those of men.

**Table 1 – Gender gaps in pensions in Europe, all retirees**

	Germany (2007)	France (2004)	Italy (2006)	Sweden (2006)	U.K. (2006)	
					Singles	Couples
<b>Own rights</b>	52 %	48 %	54 %	68 %	86 %	41 %
<b>Own rights + survivor's pension</b>	72 %	62 %	69 %	79 %	-	-

**Note:** 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:** France: DREES, Ministère de l'Emploi; Italy: INPS; Germany: Deutsche Rentenversicherung; Sweden: Försäkringskassan; U.K.: Department of Work and Pension.

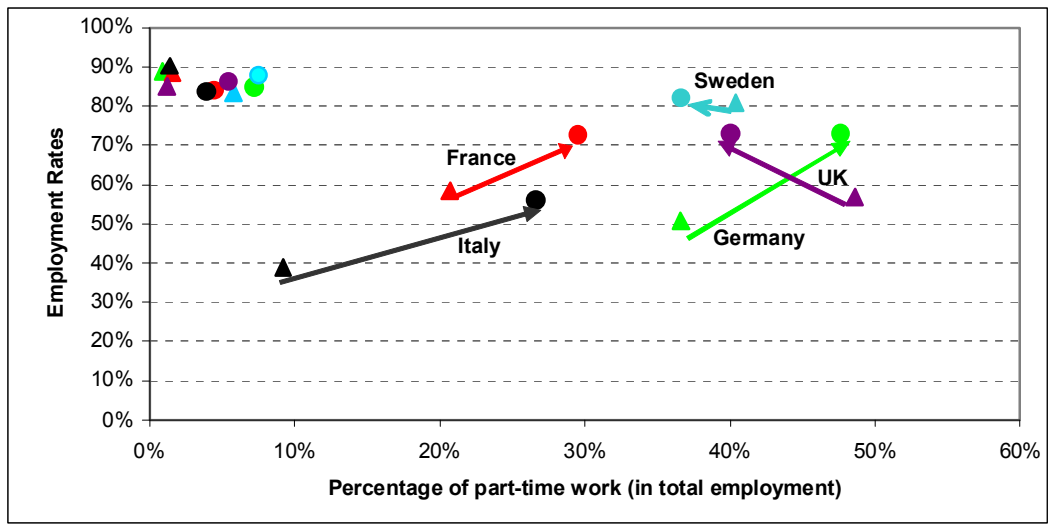
<sup>1</sup> This short article relies heavily on Bonnet and Geraci (2009). The authors benefit from different studies made by the Pensions Advisory Council which published in December 2008 a report on the topic of survivor's pension and family retirement benefits (COR, 2008).

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<sup>3</sup> See below.

The majority of women 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 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.

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



Population: individuals aged 25-59; men (points to the left) versus women (points to the right with arrows).

**Note:** in Germany, the female employment rate rose from 51% to 73% between 1983 and 2007, while the percentage of working women in part-time work was 37% in 1983, up to 48% in 2007.

**Source:** Eurostat.

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. Women’s work has also developed in an environment of slowing growth, rising unemployment and involuntary part-time work. 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.

**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 spousal behaviour becomes 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. 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 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:

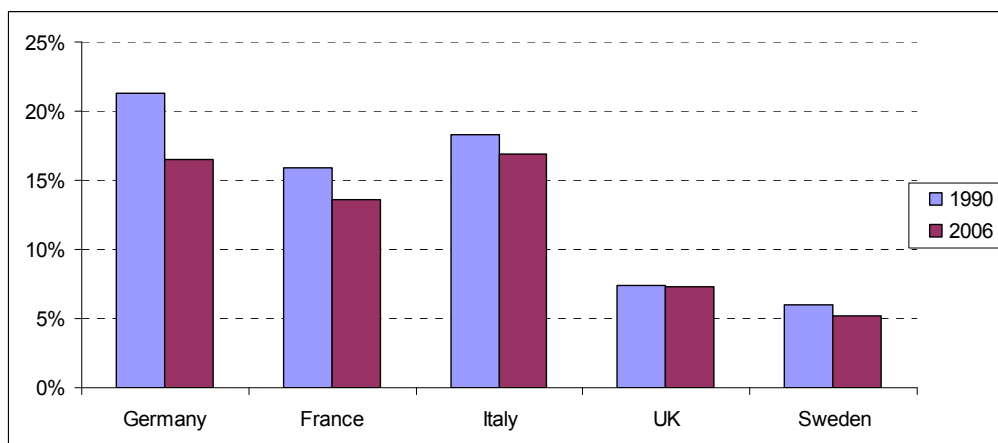
- Universal pensions (for all residents, such as those in the Scandinavian countries, particularly Sweden, before the 1998 reform), which are the same for everyone. If pensions are to remain sufficiently high, cost is nevertheless an obstacle.
- Minimum pensions (such as the basic state pension in the U.K. and the *minimum contributif* in France), which play an important role in raising pensions under certain conditions. However, 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). This could reflect 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)<sup>4</sup> or abolished (Sweden). The trend in all the countries is towards abolishing rights for surviving spouses who are not near retirement age<sup>5</sup> and, except in France, toughening the conditions of entitlement for others. Survivors' pensions accounted for 14 per cent of total pension expenditure in France in 2006, or a little more than €30 billion. Germany and Italy spend even more on survivors' pensions, although that expenditure is falling (Figure 2).

**Figure 2 – Spending on survivors' pensions as a percentage of total pension expenditure between 1990 and 2006 in five European countries (%)**



**Note:** 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.

A new type of spousal entitlement, which does not exist in France, appeared in Germany in the mid-1970s, and later in the U.K.: 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

<sup>4</sup> Even if the survivor's pension has been extended to unions other than marriage.

<sup>5</sup> Except for surviving spouses with dependent children, for whom temporary pensions can be granted.

husband and wife during the union and splits them equally between both spouses. It intends to remedy both the low level of women's own rights and the dependency on husbands that underpins survivors' pensions. Even if the splitting mechanism seems attractive to many, further investigations are needed to fully understand the implications.

### **Developing family retirement benefits ("family rights")**

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 countries under review, except in France which appears more generous than the other countries on this aspect.

In Italy, Germany and the U.K., family rights were limited and 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 (COR, 2008):

- 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 or a lower pace of wage rises, 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.

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. An "old-age insurance for non-working parents" enables parents, mostly mothers, on certain conditions, to earn entitlements for periods of inactivity or reduced work due to children. There is also a bonus on pensions for all contributors who have had three or more children.

### **The impact of family pension rights in the countries studied**

The impact of family pension rights is harder to evaluate than that of survivor's pensions. Simulation exercises based on various assumptions would have to be conducted to determine individuals' pension levels in the absence of family rights. Family pension rights amounted to 7.2 per cent of total pensions expenditures in France in 2006, or a little more than €15 billion (COR, 2008), equivalent to half the amounts paid in family benefits in the same year. In 2006, almost 21 per cent 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 pension rights accounted for between 5 per cent and 7 per cent of pensions (Stahlberg, 2006; Bonnet *et al.*, 2007). In Germany, for the mothers who will benefit fully from the mechanisms developed recently, family pension rights could make up to around 20 per cent of their pensions (Bonnet *et al.*, 2007). The U.K. 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.

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