Pension Crediting for Caregivers

Policies in Finland, France, Germany, Sweden, the United Kingdom, Canada, and Japan

Elaine Fultz

Institute for Women's Policy Research

About This Report

This report examines pension caregiver crediting in five European Union (EU) countries, Canada, and Japan and draws out the potential relevance of different policy designs for the United States. The report describes the rationales and objectives for pension caregiver crediting, which can include poverty alleviation, increased labor force participation, increased fertility rates, and greater gender equality. The report provides country-specific contexts for the development of pension caregiver crediting policies. The research was made possible by generous funding from The Ford Foundation.

This report was prepared for the Institute for Women's Policy Research by Elaine Fultz, Ph.D., consultant on Social Security, International Labour Organization (ILO), retired.

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Elaine Fultz

Executive Summary

This report examines pension crediting for caregivers in seven countries. These credits are most often awarded to mothers of young children, but also to fathers, adult children, grandparents, or unrelated caregivers. They improve pension adequacy by compensating for periods of unpaid work during which the care provider makes limited or no pension contributions. The credits may help to establish pension eligibility, advance the date of retirement, improve the pension amount, or affect a combination of these. The countries examined here are Canada, Japan, and five members of the European Union (EU): Finland, France, Germany, Sweden, and the United Kingdom. While the credits are known by a variety of terms, this paper uses for the most part a single phrase: Pension Crediting for Caregivers, or PCC.

The analysis has three parts. Chapter 1 serves as background, describing the national contexts in which PCC occurs, the social objectives it is used to achieve, and the general parameters of PCC scheme designs. Chapter 2 describes variation in PCC features across the seven countries. Drawing on these comparisons, it considers the feasibility of achieving different policy purposes through the use of crediting, with particular reference to the United States, were it to establish PCC. Chapter 3 provides country-by-country descriptions of PCC systems, as well as some relevant features of the national pension systems and the labor markets in which they operate.

The analysis shows:

- The seven countries analyzed make wide use of PCC to pursue a range of policy purposes. PCC are used for prevention of poverty among women, improvements in gender equality, recognition of the social value of unpaid work, incentives for women to take up paid employment, and in some cases, to have and raise children. In the EU countries, poverty alleviation is a longstanding PCC objective, supplemented in recent decades by provisions to promote gender equality in both family caregiving and employment.
- A set of logical relations exists between these purposes and scheme designs. PCC systems aimed at poverty alleviation tend to target (directly or indirectly) those with low earnings, to provide relatively long periods of eligibility, and to allow work while receiving credits. PCC systems aimed at raising or maintaining high workforce participation rates among women tend to provide high wage replacement rates for shorter periods. PCC systems aimed at raising fertility rates tend to base eligibility on giving birth alone (without a requirement for raising a child) and may provide more generous crediting for subsequent births. PCC systems aimed at gender equality tend to include incentives for equal sharing of family caregiving between parents. In many countries, two or three different sets of PCC rules operate side-by-side aimed at various objectives.
- All sample countries link PCC with other social benefits (e.g., family allowances, childcare benefits, or tax subsidies) in ways that increase its reach and impact. The clearest implication of this study is that pension crediting in any form can be expected to be effective only to the extent that it is linked with other tools that support its role and extend its reach. Thus, a key question for analysis in

the U.S. context is how a new PCC system might be aligned with existing or new policy tools.

- While PCC is often conceptualized as a way of compensating women for time spent out of the workforce, the analysis points to strong advantages of allowing at least some concurrent work, especially where poverty alleviation is a central goal of crediting. Namely, it enables caregivers to enhance family income today while, at the same time, having their pension record supplemented by PCC, thus boosting future pension adequacy. In addition, it helps to sustain a caregiver's ties with the labor force, making it easier to resume full-time employment over the life course. In principle, to the extent that PCC systems are conceived in recognition of the value of unpaid work, the rearing of children and informal care for the elderly or disabled should be credited regardless of the care provider's labor force status.
- The sample countries employ various methods to finance PCC: the pension scheme itself, through a cross-subsidy from those paying contributions to those providing care; the general government budget, which shifts the financing burden to taxpayers at large; financial transfers from another government agency; contributions withheld from a cash benefit paid to the caregiver; and, taxes on capital income. Comparisons between PCC financing methods and program structure over time suggest that internal financing enhances stability (relative to general government revenues, for example), reducing the risk of frequent changes in crediting rules due to short-term budgetary pressures.

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Chapter 1. The Context

Within social security systems, pension crediting is used to avoid inadequate pensions for persons engaged in unpaid or low-paid activities that are judged to be of high value, including military service, postsecondary education, and job training, as well as providing care for children, the elderly, and disabled adults. Such crediting is also used to prevent involuntary absences from the workforce—such as unemployment and disability— from reducing the adequacy of the person's pension. In some countries, pension crediting systems are designed to encourage higher birth rates. This study focuses on Pension Crediting for Caregivers (PCC) in the public pension system of seven Organization for Economic Co-operation and Development (OECD) member countries.

Of the 30 OECD member countries in 2009, only the United States, Turkey, Mexico, and Australia lack PCC systems. In the other 26 countries, there is considerable variation in PCC. First, the period of eligibility differs widely, with Greece, Japan, and Korea offering PCC for one year per child, while in the United Kingdom and Switzerland the period can extend up to 16 years per child. Three- to five-year periods are common (as found in systems in Belgium, Finland, Norway, Poland, Portugal, and Sweden), but longer periods are not unusual. Second, PCC enters the pension calculation in different ways and with different impacts. Depending on the country, it may enable a person to establish pension eligibility, to raise his/her benefit amount, and/or to advance the date on which a pension can be paid.

The general context in which PCC operates includes: 1) the pension systems in which crediting is embedded, and 2) the larger political, economic, and social environments within which the pension systems function. As discussed below, these contextual factors produce differences in the design and functioning of PCC. Since five of the seven countries selected for this study are member states of the European Union (EU), the EU context receives central attention.

European Social Security Systems

Concepts of social security in European countries differ from those in the United States. While Americans tend to think of social security as a pension in retirement, Europeans often use the term to refer to protection from loss of income due to a greater number of risks. This is reflected in the definition of social security of the International Labour Organization (International Labor Organization (ILO) 1952), which includes protections from the following risks:

1. sickness;
2. maternity;
3. unemployment;
4. employment injury;
5. old age;
6. disability; and,
7. death of a breadwinner;

plus the provision of subsidies for

8. health care; and,
9. family expenditures for raising children.

In the five European countries analyzed, these protections are combined in benefit packages that link the various branches of social security. Some examples of such linkages exist in the United States, such as Medicare eligibility being linked to Old-Age, Survivors, and, Disability Insurance (OASDI) eligibility, but such connections are more common in European systems.

Of particular relevance for PCC is the last item in the list above: support for the additional costs families incur in raising children. Such supports may include cash allowances for families with children, family-oriented social services (such as public or subsidized childcare), tax subsidies, and cash benefits paid to parents who quit, reduce, or forgo employment in order to care for young children. In all seven countries, PCC is tied to the receipt of such family benefits.[1] This linkage enables the governments to use PCC to address a broader set of purposes than could be achieved by a pension credit alone.

The Larger Contexts

The contexts in which social security systems operate exert important influences on the design and impact of PCC. The most important contextual factor today in developed countries is population aging. It is causing an increase in the number of retired workers in relation to active ones, a shift that is expected to accelerate in coming decades.

All seven countries under analysis are experiencing population aging. Part of the reason is an increase in life expectancy due to safer living and working conditions and improvements in medical care. Another major cause is low fertility rates. Among the seven countries, fertility rates range from a low of 1.27 births per woman in Japan to highs of 1.8 in Sweden and 1.9 in France— all below the rate needed for maintaining the size of the population, 2.1 births per woman (United Nations (UN) 2007).[2] Furthermore, across Europe the effects of aging on pension finance are magnified by the high wage replacement rates and low retirement ages of public pension plans relative to the United States. With the exception of the United Kingdom, the pension systems of these countries are more generous in both these regards. As a consequence, aging poses more serious pension financing challenges for them than for the U.S. social security system.

The European Union's response to population aging involves pension cost reductions on the one hand and boosting employment rates on the other, especially for women and older workers. The EU strategy also calls for investments in technology to raise productivity, which has flagged in recent years. Its leadership contends that with higher employment and more productive economies, the European Union will be better able to shoulder the additional costs of aging. Recognizing the critical role of employment in raising economic growth, the *EU Lisbon Strategy* (2000) and its successor, *EU Europe 2020* (2010), set explicit targets for raising national employment levels.[3] They also emphasize life-long learning, to encourage later retirement and to make a better match between labor market supply and demand.

It is important to note that the European Union has no binding authority to enforce either pension or employment targets. Whereas member states are subject to binding legislation in certain areas such as monetary, fiscal, and customs policies, most authority is left to the individual member state in regards to social policy.[4] To encourage cooperation and monitor progress, the European Union has developed a system known as the Open Method of Coordination (OMC), whereby member states together set benchmarks and indicators linked to policy goals adopted by the EU Council of Ministers and periodically self-assess levels of compliance. The latter includes periodic EU-wide consultations, action plans, and national strategy reports. This process relies on peer pressure and is sometimes called "name and shame." The OMC is an important source of documentation for this report. It is described in the appendix.

To encourage longer work lives, European governments are raising retirement ages, increasing the years of work required for a full pension, and tightening the fit between each worker's lifetime pension contributions and the benefit amount that he or she receives. In calculating cost-of-living adjustments, governments are placing greater weight on price as opposed to wage changes. Together over time, these reforms will lower pension replacement rates. Women as a group are at greater risk of poverty due to these reforms, given their longer periods out of the workforce and lower average wages. PCC systems provide a useful policy tool for reducing this gender-related risk. In the context of tightening pension eligibility criteria and reducing benefit levels, many European governments are liberalizing and expanding PCC.

In addition, EU member states are seeking to shore up pension finance by boosting employment rates, with women as a prime target group. Three approaches can be observed. First, improvements in family benefit packages, such as expanding caregiver leave provisions and improved childcare benefits, along with improved PCC for periods out of the workforce, may make work more attractive for mothers. Second, following the model of the Scandinavian countries that have both high female employment rates and birth rates that are among Europe's highest, many European governments are working to create friendlier work environments for employees and potential employees who might wish to have children. Third, EU countries are attempting to use their childcare/PCC packages as an incentive to induce fathers to share more equally in the work of raising their children, thereby easing the burden of childcare historically falling on mothers.[5]

Alongside these general trends, the sample countries illustrate how the features of PCC schemes vary and how PCC can serve multiple purposes. The next chapter considers variation in the main design features of PCC systems in order to cast light on the potential range of options for creating a new PCC system in the United States and the potential of PCC to achieve various policy goals. The final chapter profiles each of the countries, providing a brief look at its demographic situation, women's participation in the labor market, and the basic structure of pension systems, including PCC. The latter includes the timing of major legislation, the rules for determining eligibility, and the calculation, duration, and financing of PCC.

Chapter 2. Variation, Trends, and Policy implications

What can the United States learn from PCC systems in other countries? This chapter addresses this question by focusing on the variability in important PCC design features and, by extrapolating from the various designs, assessing the potential of PCC to achieve different policy purposes. Among the PCC purposes considered, poverty prevention receives central attention. Such international comparisons are highly relevant for U.S. policy deliberations on pension crediting, but they are only one input. A full characterization of the possible role and structure of PCC in the U.S. context would require broader analysis, including its relation to minimum pension benefits, childcare supports, or means-tested benefits. These questions lie beyond the scope of this analysis.

This chapter examines the sample countries with respect to seven issues: (1) the extent of match between policy goals and design features; (2) the packaging of PCC with other policy tools; (3) targeting of PCC on women and men with low or moderate incomes; (4) the options for assigning a value to unpaid work; (5) the impact of PCC on different elements within pension benefit formulas; (6) rules concerning work during receipt of PCC; and (7) options for financing PCC.

PCC Goals and Structures

As noted, the purposes for which PCC is used in the seven sample countries are numerous, including the prevention and alleviation of poverty, raising women's employment levels, encouraging higher birth rates, and improving gender equality. These purposes influence the design of PCC systems, as shown in Chapter 3, suggesting a set of logical relations between purpose and structure. Specifically:

- If poverty prevention is a goal of PCC policies, it will be limited (directly or indirectly) to those with low incomes, crediting will be of relatively long duration, and beneficiaries will be allowed to work while receiving PCC.
- If the main purpose is to encourage or maintain high employment rates for women, then PCC periods will be short and based mainly on women's actual earnings.
- If encouraging birth rates is a major purpose, PCC will be provided to women who have children, without regard to whether they interrupt their careers to provide care.
- If a society seeks to encourage and support mothers to give up employment in order to raise children, long periods of PCC will be appropriate, possibly based on minimum-wage levels or a fraction of the average wage.
- If PCC is used to encourage a more equal division of childcare labor between men and women, full crediting will be granted only when leave from work is shared more or less equally by two parents, with an exception for single parents. PCC may also include incentives available only to men.

The country profiles also show, however, that simple relations between stated policy goals and scheme design are not often achieved. This is because most of the existing PCC policies were produced over time by different governments seeking to address different problems in different contexts (see Table 1). Thus, like the social security systems in which they are embedded, the PCC systems reflect a mixture of objectives and incentives. Provisions created in one period for one purpose have evolved in response to changing conditions and, in some cases, acquired new purposes.

Table 1. Pension Credit for Caregiving: Years of Major Legislation

Country	Year of enactment	Year(s) of latest legislative change	Change
Canada	1977	None	None
Finland	1970s	2005	Credit improved and harmonized: paid to all recipients of short-term social security benefits.
France	1945	1971	Creation of pension bonuses for bearing children.
		1975	Creation of pension credits for mothers of at least two children. Creation of old-age insurance for parents with little or no earnings.
		2004	Expansion of pension credits for mothers of one as well as two children.
		2010	Extension of pension credits to fathers.
			Pension credit revised: PCC is awarded separately for birth (or adoption) and for education of the child.
Germany	1986	1992	Increase in duration of credited period to three years.
		1996	Increase in value of PCC to 100% of average wage (as from year 2000).
		2001	Credit for parents of two or more children and for parents working part-time. Expanded PCC for survivors.
		2002	Riester Pension credit.
Japan	1992	2005	One-year period made more flexible, can be taken within first three years of child's life.
Sweden	1970s	1994 (Implemented in 1998)	Caring credit improved as part of major pension reform, creating notional defined contribution scheme and private individual accounts.
United Kingdom	1978	2002	State Second Pension created, with additional pension credit.
		2010	Credit liberalized and broadened.
		2011	Credit extended to grandparents.

Source: See Chapter 3, Country Profiles.

Integration of PCC with Other Policy Tools

Across the seven countries, PCC is used in tandem with an array of other policy tools, with the exact mix determined by the purpose being pursued. Here the country profiles show:

- To encourage employment, PCC is often linked with parental leave and cash benefits for workers who have children, helping them to balance commitments to family and employment. Other related tools include subsidized childcare and favorable tax treatment for working spouses.
- To promote gender equality, crediting is sometimes linked with "use-or-lose" leave and cash benefits for fathers, as well as public campaigns (e.g., in Finland) and tax policies that reward the use of these benefits (e.g., in Sweden).
- To support childbearing, longer periods of credit are provided along with longer periods of leave and cash benefits for mothers and fathers of second and third children, with tax advantages for subsequent children.[6]
- To prevent and alleviate poverty, PCC is provided along with minimum pensions, universal pensions, social assistance, housing subsidies, independent living allowances, and tax-free income.
- The linking of PCC with other policy tools is essential to achieving its objectives, since PCC alone would be unlikely to influence behavior. For example, few women will choose to enter or exit the labor force based solely on the availability of PCC just as few men will opt to take time off for childcare solely for this reason. The power of PCC to induce a woman to have another child is probably zero. The provision of PCC as part of a broader package to ensure the adequacy of retirement benefits is also important because alone it cannot reach all women. It is typically not available to childless women, nor to women with a very weak attachment to the labor force.[7]

Thus, the close linkages between PCC and other policy tools observed in the sample countries invite consideration of how a U.S. crediting system might be integrated with existing or new policy tools so as to maximize their collective impact. The clearest implication of this study is that pension crediting, in any form, can be expected to be effective only to the extent it is associated with other tools that support, complement, and extend its reach.

Targeting

All seven of the countries target all or part of their PCC systems to caregivers with low incomes, suggesting the central importance of poverty alleviation as a goal. This targeting is most often indirect, achieved through basing eligibility for PCC on receipt of a cash benefit that is itself targeted, or by limiting the wages that are deemed to the caregiver to a low level that is attractive only to those with low incomes (see Tables 2 and 3). This "piggyback" approach of basing eligibility for PCC on a means-tested caregiver subsidy or tax credit for caregiving reduces the administrative apparatus that would otherwise be required to target it.

Table 2. Who Is Eligible for PCC?

Country	
Canada	A parent caring for a child under age 7 and receiving a family allowance or tax credit.
Finland	A parent who receives any of several short term social security benefits related to birth and child rearing.
France	a. Pension credit for parents. Mothers are the default recipient, fathers may receive instead if parents request . b. Old-age insurance for parents with little or no earnings. Two-parent families with incomes below a monthly ceiling or single parents, regardless of income, so long as the parent or parents are receiving a family benefit or caring for a disabled child. c. Pension bonuses for multiple children. Parents who have parented or raised three or more children.
Germany	Either parent, employed or unemployed, and credit may be shared between parents; care provider for a frail person.[8]
Japan	Parent receiving childcare benefit.
Sweden	Parent receiving parental leave benefit.
United Kingdom	Parent, foster parent, or person caring for a disabled person who is receiving a family benefit; effective, April 2011, grandparents providing care for grandchildren.

Sources: See Chapter 3, Country Profiles.

Setting the Value of PCC for Unpaid Work

In a pension system that calculates benefits based on past wages, it is necessary to attribute to periods of unpaid caregiving some imaginary or "deemed" wages. The sample countries use different approaches (see Table 3). Here too, the optimal approach depends on the objective of the system. If the objective is to prevent poverty and assist low-income women, the value of the credit should be generous for this group. Germany and Sweden use effective methods in this regard, basing PCC not on the parent's earnings but on the average wage in the country: a woman or man with low skills and little earning potential may be credited with an amount that exceeds previous or current earnings.[9] The United Kingdom and Canada provide PCC in the form of a reduction in the years required for pension qualification. This approach ensures that years of care do not diminish a care provider's pension amount below what she/he would be awarded based on earnings alone. This approach tends to be regressive, however, providing the largest benefit to women and men with high wages. Using the minimum wage as the basis for crediting, as in France, or 20 percent of the median income, as in Finland, makes the credit less attractive for those with greater earnings potential, and it also has a reduced capacity to prevent old-age poverty among lower-income recipients.

Table 3. Reference Wages and Dropout Years for PCC

Country	
Canada	Drop-out years are provided for both first and second tiers of pension system. Each year of childcare is excluded from both the averaging period in the first-tier pension calculation, and from the contributory period under the second-tier earnings-related scheme.
Finland	For various parental benefits (maternity, paternity, parental), the credit amount to approximately 80 percent of salary. For child home-care leave, a flat, deemed monthly amount, equal to about one-fifth the average wage, is credited.
France	a. Pension credit for parents. Four-quarters of care for birth, and four additional credits for four years of educating the child. b. Old-age insurance for parents with little or no earnings. The minimum wage c. Pension bonuses for many children. Paid without respect to a reference wage.
Germany	For three-year credit, the average covered wage. For children up to age 10, caregiver's part-time earnings are topped up by 50 percent in credit computation. Those with two or more children under age 10 receive a credit of 33 percent of the average wage, to top up any earnings.[10]
Japan	Actual earnings in the year prior to taking leave.
Sweden	For parental leave, 80 percent of the previous wage up to a ceiling for 390 days, plus 90 days at a daily flat rate of SEK180. For qualified childcare periods, the higher of 1) actual earnings the year before the child was born, 2) 75 percent of the average wage, or 3) for parents who work, a single, flat amount plus contributions from earnings.
United Kingdom	For the Basic State Pension, each year of childcare reduces by one the number of years required to qualify for a full pension, down to a minimum of 20 years. For the Second State Pension, earnings are deemed to be equal to the "Lower Earnings Threshold" (GBP13,624 per year in 2008).

Sources: See Chapter 3, Country Profiles.

Role of PCC in the Pension Formula

The sample countries show that PCC may be counted in different parts of the pension benefit formula, and that these seeming technicalities are of considerable importance for the reach and impact of crediting. The key questions are three-fold:

Does PCC help to establish eligibility for a pension, or does it serve only to boost the pension amount of women and men who are already eligible by virtue of their paid work? This distinction is clear in the United Kingdom, which today provides significant caring credit for women and men who can also meet three additional pension eligibility criteria based upon employment. As explained in Chapter 3, the United Kingdom is removing those criteria as a way of extending the reach of PCC to larger numbers of low-income women in the near term. Similarly, in Germany, where PCC is counted in the minimum five-year contribution period required for a pension, a mother of two children with no paid work history can now qualify for a pension based on PCC alone. These policies differ from those of Sweden, where PCC adds to pension adequacy only after an employee has met the eligibility requirement with five years of contributions.

How does the PCC count for purposes of a minimum or residential pension? Sweden counts all earnings-related pension income in determining eligibility for its minimum pension. As a result, PCC under the earnings-related pension system serves to reduce the need for minimum pension benefits.[11] In Finland, by contrast, PCC provided under the earnings-related scheme is disregarded in determining eligibility for the residence pension, easing women's access to this national minimum pension.

Is the PCC implemented prospectively, or instead applied retroactively to caregiving done before enactment of the credit rule? As shown in Chapter 3, Germany took the former approach in expanding PCC in 1992. As a result, it will take several decades for these improvements to have a significant impact on women's pensions. By contrast, the United Kingdom adopted reforms in 2007 that will extend more liberal treatment to credit earned before enactment, opening the door to a more rapid impact on older women's retirement security.[12]

Rules for Receipt of PCC and Concurrent Work

All but one of the seven countries (Finland) allow some employment earnings simultaneous with the accrual of PCC (see Table 4). Japan allows parents to work part-time, while crediting them at the full-time wages they received during the previous year (these previous wages are credited regardless of employment status). This is a generous crediting policy, but one that provides no pension reward for employment. Germany, on the other hand, vigorously encourages labor force participation by providing a 50 percent boost in the value of PCC contributions for parents who work part time and are in receipt of PCC.

Table 4. Concurrent Employment and PCC

Country	
Canada	Part-time work is allowed.
Finland	Working parents cannot accrue PCC.
France	a. Pension credit for parents, employment allowed. b. Old-age insurance for parents with little or no income, allowed up to a wage ceiling that effectively limits activity to part-time work. c. Pension bonus for three or more children, accrued without regard to employment.
Germany	Allowed and encouraged by an additional top-up credit.
Japan	Allowed with part-time workers paying contributions on current wages but receiving benefits based on previous full-time pay.
Sweden	Allowed.
United Kingdom	Allowed, with a cap on the credit of GBP87 per week.

Sources: See Chapter 3, Country Profiles.

On first consideration, it might seem inconsistent to allow employment concurrent with the award of a PCC, which is often considered as a way to compensate women for time spent out of the workforce. If one of the purposes of crediting is poverty alleviation, however, allowing at least some work is helpful. It enables caregivers to enhance family income today and, at the same time, to supplement their retirement income with PCC, thus boosting future pension adequacy in two ways. In addition, part-time work helps sustain a caregiver's ties with the labor force, making it easier for her or him to resume full-time employment over the life course. In principle, to the extent that PCC systems are conceived in recognition of the value of unpaid work, the rearing of children and informal care for the elderly or disabled should be credited regardless of labor force status.

Some form of targeting is utilized in each of the countries to prevent relatively affluent or well-paid professional women who can afford to drop out temporarily from attracting the bulk of the financing available for the credit. For example, in Canada indirect targeting is achieved by linking pension crediting to a tax benefit that is itself targeted toward low-income families, whereas in France targeting is achieved by limiting the amounts that a parent can earn while receiving pension credit (see Table 2).

Financing

The sample countries finance PCC from five sources:

- the pension scheme itself, through a cross-subsidy from those paying contributions to those providing care;
- the general government budget, which shifts the financing burden to taxpayers at large;
- another agency budget within the government;
- contributions withheld from a benefit paid to the caregiver; or,
- taxes on capital income.

Only the United Kingdom finances PCC entirely from the general government budget, while two countries, Canada and Japan, finance it entirely from pension contributions. The others have mixed financing sources (see Table 5).

Table 5. Financing of Credit

Country	
Canada	Pension system (cross-subsidies).
Finland	For maternity, paternity, and parental leave: pension insurance scheme (cross-subsidies). For child home care allowance: transfer from the state budget.
France	The Old-Age Solidarity Fund, which receives revenues from 1) the state family assistance budget, 2) a two percent tax surcharge on capital gains, and 3) employer contributions.
Germany	Transfer from state budget.
Japan	Pension system (cross-subsidies).
Sweden	For parental leave: the social insurance scheme (cross subsidies). For childcare leave: transfer from the state budget.
United Kingdom	Transfer from state budget.

Sources: See Chapter 3, Country Profiles.

For public pension systems, the sample countries suggest there may be advantages to financing from within the pension system. First, internal financing may provide greater stability for PCC systems over time (Fultz, Ruck, and Steinhilber 2003). Such stability is observed in Canada and Japan, where PCC has undergone only minor changes in the years since it was created (see Chapter 3). Internal financing is sometimes criticized as obscuring PCC costs. Critics who use this argument prefer the use of general revenues, holding that it increases the transparency of pension accounting, bringing to public attention and scrutiny the exact costs of PCC. The World Bank has taken this position in providing technical assistance to developing countries on pension restructuring (Fultz, Ruck, and Steinhilber 2003).

The picture that emerges from these countries, however, is more nuanced. While Sweden and Finland make general revenue transfers based on careful cost calculations, Germany, with external financing, provides only a lump-sum appropriation that is considerably short of the real costs of crediting. Canada, in contrast, with internal financing of crediting from pension scheme revenues, makes exact calculations, including an estimate of how much lower the contribution rate for wage earners would be without PCC. This mixed picture suggests that transparency is more a feature of general governance in a country than of any particular financing method.

A second advantage of internal financing is that it recognizes childbearing as critical to the generational contract that underlies all public pension finance. This dependence was recognized most explicitly in a 1986 case before the Federal Constitutional Court of Germany, as described in Chapter 3. The Constitutional Court asserted, the equality between family care giving and paid work as a matter of principle, noting the role of childrearing in fulfilling the intergenerational contract underlying Germany's pension system. On this basis, it ordered the government to increase PCC.

This decision provides an important reminder that pension systems can only keep their promises to tomorrow's retirees if there are enough workers tomorrow to pay the needed pension contributions *and* to produce the food, clothing, housing, and services that retirees will use their benefits to buy. In this sense, the Constitutional Court offered a strong rationale not only for PCC as a basic feature of public pension systems but also for placing its financing within those systems, so that all contributors support family caregiving.[13]

Chapter 3. Country Profiles

Canada

Canada is a relatively young country, with an employment rate for women of around 58 percent in 2009 (Statistics Canada 2010) similar to that of the United States at 59 percent (United States Census Bureau 2011). Women's jobs are concentrated in the public sector and one-quarter of women work part-time. At 20 percent, the gender pay gap is significant (Organization for Economic Co-operation and Development (OECD) 2010). Despite its relatively young population, , Canada's fertility rate is low at 1.5 children per woman—well below the 2.1 needed for population replacement. Along with increasing life expectancy, this low rate is fueling population aging. The ratio of those 65 and older to the working population, quite favorable now at 17 per 100 workers, is projected to more than double by 2028, to 37 per 100. While this is not an unsustainable ratio, the shift will place substantial demands on pension systems.

In 1977, Canada adopted the Child Rearing Provision (CRP) (OECD 2007, 2009; Social Security Administration (SSA) and International Social Security Administration (ISSA) 2008). The provision allows a primary caregiver to exclude up to seven years from the pension benefit calculation for periods of caring for a child less than seven years old (OECD 2005). CRP can also be used in determining eligibility for disability and survivors' benefits. Either parent, or a partner of a parent, may provide the care, although only one of them may use the dropout provision for any given period. The caregiver or the caregiver's partner must provide the child's birth certificate and have been receiving Family Allowance payments or have been eligible for the Canada Child Tax Benefit to receive the CRP benefit.[14] In addition, the person providing care must have either stopped working or cut back to part-time.

The credit is financed from within the pension system. The current costs are estimated by Canada's Office of the Chief Actuary at 620 million Canadian dollars (Can$620 million). This represents 2.3 percent of the total annual benefit expenditure of the Canada Pension Plan (Can$27 billion, 2007) and 0.2 percent of covered wages.[15] The cost is considerably less than was projected when the program was initiated in 1977, with the discrepancy reflecting the fact that the current fertility rate (1.5) is lower and labor force participation rates are higher than projected.[16]

Finland

Finland has in place a bundle of policy measures to promote gender equality and high female employment rates (Laitinen and Tuominen 2006; Tuominen 2005; Zaidi 2007). Relative to its national child care system and separate taxation of spouses, the PCC likely has smaller effects on women's labor force participation.[17] These policies, which date to the 1970s, resulted in women's employment rates approaching those of men by the 1990s, surpassing those of French, German, and British women, as well as those of U.S. women.[18] The employment rate of older Finnish women is almost identical to that of men: as of 2008, 56 percent of Finnish women aged 55–64 were still working, compared to 57 percent for men (Tuominen 2005). Still the gender wage gap is relatively high at 20 percent, compared to the EU average of 17 percent (Eurostat 2011c).

In 2005, Finland enacted major pension reforms to prepare for population aging: The minimum retirement age was raised by two years and flexibility introduced enabling workers to retire between ages 62 and 68, but these changes were combined with financial incentives to continue working (Tuominen 2005).[19]A demographic factor was added to the pension formula to ensure that pension replacement rates will automatically decline as average life expectancy rises, thereby reducing pressures on pension finance. The relation between contributions and benefits has also been tightened: the earnings-related pension is now based on total career earnings rather than on the last ten years. As a result, the replacement rate for many Finnish workers will decline. For example, middle income workers retiring at age 65 after 49 years of employment will, on average, receive 67 percent of their previous wages in 2050, compared to 74 percent in 2005 (European Commission 2006).

Since the global financial crisis in the fall of 2008, Finnish pension financing imbalances have rekindled discussions of reform. In 2010, the Finnish government proposed raising the minimum retirement age from 62 to 65. The major national trade union federations resisted, calling instead for voluntary measures to encourage longer working life. A national commission was created to consider how to boost the average age of leaving the workforce.

Both the 2005 reforms and those currently under discussion pose a risk of reducing the standard of living for many older Finnish women. To help avoid this, the PCC for certain unpaid activities was improved and harmonized with eligibility for short-term social security benefits. Specifically, the 2005 reform provided PCC benefits to all parents who receive short-term benefits related to the birth and early care of children, such as maternity, paternity, parental leave, and childcare home leave. Pension crediting was extended as well for those workers who receive short-term social security benefits for sickness, unemployment, employment injury, and rehabilitation, and for certain forms of training.

Reflecting Finland's strong emphasis on gender equality, either parent may receive PCC for periods when they receive a cash benefit. The maternity benefit is available for 105 days, the paternity benefit for 18 days, and parental leave (which can be split between parents) for 158 days for the first child, with 60 additional days for second and subsequent children. Further, there is a bonus for fathers who take at least two weeks of parental leave—an optional 12 weekdays of additional father's leave. Recently, a national publicity campaign has been urging fathers to make greater use of these benefits. The maximum paid leave and benefit period is 11 months. A child home-care allowance, payable until the child turns three, also triggers eligibility for PCC. These periods during which PCC accrues are considerably shorter than those provided in several other countries in the sample, such as the United Kingdom (12 years), Germany (10 years), Canada (7 years), and Sweden (about 5.5 years).

For maternity, paternity, and parental leave, the PCC is based on the benefit amount, which is 70 percent of the salary forgone, multiplied by a factor (1.17). This results in a cash payment equal to about 80 percent of the parent's wage. For periods of unpaid leave during which the child home-care allowance is received, PCC is based on a deemed, flat-rate amount of EUR 556.60 per month, equal roughly to one fifth of the average wage. PCC is provided only for the earnings-related part of the pension scheme (Gesellschaft für Versicherungswissenschaft und Gestaltung (GVG) 2009).

Compared to the other six sample countries, Finland is exceptional in that a parent receiving PCC cannot be employed.

PCC is financed by the pension system through cross-subsidies from other contributors, except for the child home-care allowance, which is financed by a transfer from the state budget (Tuominen 2005).

France

The French pension system is fragmented, consisting of nearly 200 separate pay-as-you-go schemes for different groups of workers.[20] The largest of these is the general scheme (*le régime général*), which covers private sector workers and accounts for 60 percent of national pension expenditures. France also has a minimum pension (EUR 599 per month, in 2005) with a declining number of recipients, due to the expansion of earnings-related schemes. The French pension system's wage replacement rates are relatively high, with the average benefit equal to about 80 percent of average net wages. As a result of a reform enacted in 2010 under the sponsorship and strong endorsement of French President Nicolas Sarkozy, the minimum age for retirement increased from age 60 to 62; and those who claim a full pension must wait till age 67, rather than 65 (The Guardian 2010).

At 1.9 births per woman, France's fertility rate is the highest among the sample countries and considerably higher than the European Union rate, 1.56 births per woman.[21] Similarly, at 60 percent, the female employment rate exceeds that of the European Union.[22] This combination of relatively high fertility and relatively high female employment rates is explainable in part by the French government's involvement in family policy and its use of family policy to promote population growth. Among the sample countries, it has the widest range of PCCs. These are available for parents who work full-time, those who have little or no earnings, and those who have many children, regardless of employment status. Eligibility rules vary across France's many pension schemes, creating a very complex picture. Except as noted, a description of the rules of the general scheme follows.

PCC for Parents Who Work Full-Time

Since 1972, mothers of two children can receive a one-year supplement to their records that count toward their required period of pension insurance (Conseil d'Orientation des Retraites 2008).[23] This supplement (known in France by its initials, MDA) required only that the mother live with the children, not that she ceases working. In 1975, this credit was extended to cover as well mothers with one child, and the period of coverage was increased to two years per child (Conseil d'Orientation des Retraites 2008). The credit is earned incrementally, with one-quarter of a year of coverage for each year that a woman raises a child, with a maximum of two years coverage per child, earned after eight years of childrearing. For a woman near retirement age who is short of the number of work years needed for a full pension, the supplement allows her to retire earlier with full benefits.

In 2004, under the influence of EU law, this PCC was extended to fathers (Conseil d'Orientation des Retraites 2008). However, it was at the same time restricted to parents (mother or father) who take a break of at least two months from paid employment. As virtually all new mothers take leave of this duration, and very few new fathers do so, the new policy in practice continues to target PCC tightly to women.[24] In 2010, this PCC was further revisedto award four quarters to a mother for giving birth or adopting a child, and four more for keeping the child in school, at a rate of one credit per completed year of education (Liaisons Sociales Quotidien 2010). The new law allows the parents to allocate the credit to the father; the default continues to be awarded to the mother.

Some two million women receive the PCC for full-time workers, at annual cost of about three billion euros (EUR 3 billion). The Family Allowance Agency budget covers the cost of crediting. According to Bonnet (2006), women now approaching retirement will see an average increase of three insured years due to this PCC.

PCC for Parents with Little or No Earnings

A second PCC is available to parents who do not work, or work part-time, *and* receive one of a variety of French family benefits, while caring for either a child under age three, a child or adult with a disability, or at least three children. Two-parent households are restricted to monthly earned income of roughly EUR 350, though single parents are not restricted in this way. The PCC is computed as if the parent were earning the minimum wage. Depending on the number of children and the age differences among them, the PCC can continue for 20 or more years. Caregiving credits can also be available for full-time workers, as described above (the MDA). If the parent works, the earnings top up this PCC (Conseil d'Orientation des Retraites 2008).

Pension Bonuses for Multiple Children

Since 1945 French parents of three or more children (mothers and fathers) have been entitled to a bonus in their retirement benefits. The bonus is for children born or raised. In the general scheme, it raises the pension by ten percent. Bonnet reports that among current retirees, over 40 percent of French men and women see increases in their pensions from the bonus (Conseil d'Orientation des Retraites 2008).

In 2004, the Pensions Advisory Council (COR) raised the possibility of merging the three PCCs and designing a single system based on more precise objectives.[25] The Council invited public discussion as to whether the credit should be designed to compensate for time out of the workforce spent raising children, to encourage more equal sharing of family caregiving between women and men, or to raise the employment level of women closer to that of men. The members pointed out that the design features of a new system would depend on its objectives. The appropriate pension rights for caregiving and possible consolidation of these proposed schemes remain open topics of discussion in France (Conseil d'Orientation des Retraites 2008).

Germany

Germany is the most populous country in the European Union and also has one of Europe's lowest fertility rates, at 1.4 births per woman (UN 2007). Low fertility dates back to the 1970s and has been the focus of much German media attention and research.[26] Of note from a family policy perspective are the relatively low rates of public childcare available for children younger than three years of age, compared with children aged three to six: 7 percent versus 89 percent, respectively. The employment rate of German women, at 66 per cent, significantly exceeds rates in France (60 per cent) and the European Union generally (59 percent), although the rate reflects high rates of 'short' or part-time employment and remains well below those of the Nordic countries (in addition it reflects very high rates of part-time jobs of less than 20 hours per week).[27] There is a significant difference between labor force participation rates of women, and particularly mothers, in the East and West of the country, with higher rates in the East. In addition to economic and historical factors, this is due to the differential availability of child care, particularly for children below three years of age (Klenner and Haskova 2010).

Germany's pension system relies on a pension points system (OECD 2009). Under the point system, in a particular year each worker's earnings are related to the average wage. A worker with average earnings is credited with one pension point per year, while a worker with a lower wage receives a proportionate fraction of a point, and one with a higher wage receives a proportionate boost. Because the point system results in benefits that are proportionate to wages, it does not allow for the sort of redistribution to low-income workers that occurs in the U.S. benefit formula.[28] Given the lower average wages of women, the point system disadvantages them as a group relative to a redistributive formula.

The German Constitutional Court has played a strong role in shaping pension legislation, including PCC. Prior to 1986, Germany provided a very modest PCC for six months of maternity leave. In that year, childrearing was recognized by the Constitutional Court as of equal importance with paid work, and entitlement to pension rights was extended to child rearing periods as well, for one year period per child.[29] In 1989, Germany again revised the PCC formula, extending the crediting period to three years for each child born after 1992 (Bundesgesetzblatt I (BGBl) 1989).[30] PCC was awarded on the basis of 75 percent of the average wage in the economy, with an increase to 100 percent from the year 2000 (BGBl I 1997). The law also allowed caregivers for persons with disabilities to claim credit, without any time limit.

The Pension Reform Act of 2001 further expanded the German PCC. For an employed parent providing care for one or more children under the age of ten, the reform tops up the value of the worker's contributions by 50 percent, up to an amount derived from the average wage in the economy. For a non-employed parent of two or more children (at least one of whom must be younger than ten), the reform provided credit based on one third of the average wage. It also made the credit additive, allowing PCC from one source to be combined with other pension credits (Verband Deutscher Versicherungstraeger (VDR) 2001).

As a result of this crediting, the government estimates the additional pension entitlement for raising two children at EUR 9,100 per year. Long-term projections show that the PCC will boost the pensions of women with two children and an interrupted employment history from 44 percent of the pension of a woman with a full employment career as of 2008 to a level of 66 percent by 2050 (GVG 2009).

PCC is financed in part by government transfers of general revenues to the pension scheme, equal to roughly EUR 12 billion yearly. In past years, financing was fully covered from general revenues. The practice has evolved in the direction of a flat amount, which today falls well short of the value of the aggregate credit.

Starting in 2001, the German government provided a PCC under a new supplemental savings scheme, known as the Riester pension.[31] The scheme, sponsored by the state, is voluntary for workers and is most heavily used by women and in areas of the former East Germany (Riedmüllerand Willert 2008). This credit takes the form of an additional, end-of-year deposit into the individual pension account of a parent who has a Riester pension.[32]

Recent discussion of the German pension system reveals two schools of thought on these expansions of PCC. One perspective emphasizes their positive role in helping to prevent poverty among large numbers of older women (GVG 2009). Given Germany's requirement of five years of contributions to qualify for a pension, the mother of two children can establish pension eligibility based on pension credit alone. The other perspective holds that, despite a woman's ability to receive pension credit while working, this expansion consolidates the traditional breadwinner model that underlies Germany's pension system, making it easier for women to gain a pension by staying at home (Anderson and Meyer 2006). While work disincentives resulting from generous crediting could be a serious drawback, recent experience fails to reveal any obvious impact in terms of declining labor force participation rates for women. On the contrary, as noted above, the labor force participation rate of German women is high.

Japan

Japan has the oldest population in the developed world, with the proportion of people over the age of 65 exceeding 20 percent in 2005, and projected to rise to 40 percent by 2050. Average life expectancy edged over 81 years in 2008—while fertility remained very low—at just under 1.27 births per woman (UN 2007). In explaining their reluctance to have children, Japanese couples frequently cite the high cost of housing and higher education. Most men make limited contributions to family caregiving, and the traditional practice of living in extended families, where older members care for children, is less and less common.[33] Further disincentives exist in the workplace, where many employers are resistant to the law granting new mothers or fathers a year of family leave.[34] Despite government initiatives to increase formal childcare, it continues to be in much shorter supply than in Western Europe. Together these factors result in a large gap between male and female employment rates, which in 2009 stood at 49 percent for women versus 72 percent for men (Statistics Bureau Japan 2010).

The demographic imbalance between the active and inactive population is not being eased by immigration, which hovered close to zero as of 2008. Together, these factors — long life, low fertility, and minimal immigration — place a heavy strain on pension finance, which will increase in the future.

The Japanese pension system consists of two tiers: a flat-rate basic pension paid to all scheme participants and a second, earnings-related tier that applies only to workers. Financing is pay-as-you-go. Fifty percent of first-tier revenues are from general revenues; the other half, from contributions. The second tier is financed totally from contributions. A pension is payable after 25 years of work, with 40 years of work required for a full benefit. The retirement age is 65, with early retirement options beginning at age 60. The wage replacement rate for the two tiers combined is close to 60 percent for an average male worker and dependent wife (Takayama 2009). With the recent inclusion of a factor in the benefit formula that will automatically adjust pension amounts as the ratio of workers to pensioners decreases (as in Finland and Germany), the replacement rate will drop to around 50 percent in 2023.

The system provides the full, flat-rate basic pension for full-time housewives, for which no contributions are paid. There were about 10.8 million women in this category of scheme membership in 2007, or about 15 percent of the total number of insured persons (Takayama 2009). This benefit is a source of growing public contention, especially among single women, who tend to be self-supporting, and couples with two earners, whose numbers are increasing.

The pension system includes PCC for mothers taking up to 14 weeks of maternity leave and for parents taking childcare leave for up to one year, shared by couples as they choose. These were enacted into law in 1995, as part of a government initiative to encourage higher birth rates, in part by making work environments more family friendly. During maternity leave, the woman receives a cash benefit equal to 60 percent of wages, while during subsequent periods of childcare leave, the benefit is 50 percent of the care provider's previous wage. The PCC for childcare is, however, more generous, based on 100 percent of the wages the parent earned in the previous year. Parents may work during childcare leave, but these earnings are not included in the benefit calculation. No contributions are paid for PCC, which is instead financed within the pension system by cross-subsidies from the contributions of employed workers (Takayama 2009).

Sweden

At 70.2 percent (Eurostat 2011a), Sweden has the highest female employment rate among the sample countries and a fertility rate that stands at 1.8 births per woman, second only to France (UN 2007). Like France as well, Sweden provides strong support for families through an extensive social security system. This support complements national labor market policies that strongly promote female activation.

In the mid-1990s, pension reforms in Sweden, like those in many EU countries, aimed at strengthening financial solvency and sustainability in the face of population aging (OECD 2007, 2009; Regeringskansliet 2007). The reforms eliminated the calculation of benefits based on the best 15 years of earnings in favor of a notional defined contribution (NDC) scheme. NDC schemes base pension amounts on the total lifetime contributions that each worker pays. At retirement, pensions are calculated by "stretching" each worker's contributions over his/her remaining life expectancy (assumed to equal that of his/her age cohort). As a result, Swedish pension benefits will automatically decrease as life expectancy increases, unless workers choose to delay retirement.

As a result of these and other reforms, the average public pension benefit is projected to drop from 53 percent of the average net wage in 2005 to 40 percent by 2050 (European Commission 2006).[35] If occupational pensions are counted (today, they cover more than 90 percent of Swedish workers), the replacement rate is projected to fall from 71 percent today to 57 percent in 2050 (European Commission 2006). In this context, PCC has become an increasingly important tool to prevent the erosion of retirement benefits among parents who take time off from work to care for young children.[36]

Sweden's PCC has two components: 1) parental leave and benefits (which include maternity) and 2) subsequent childcare. The parental leave and benefit extend for 390 days with a cash benefit of about 80 percent of the parent's previous earnings up to a ceiling. For an additional 90 days, the benefit is flat-rate, SEK 180 per day. Parental leave days can be taken until the child is eight years old. The leave and benefit can be divided between parents, except that two months are reserved on a use-or-lose basis for the parent who makes less use of the provisions—in most cases, the father. Fathers are also encouraged to make greater use of this leave by a tax break that is extended when parental leave is equally shared. The benefit received for these days is treated as pensionable income and subject to pension contributions: the parent her/himself must pay the 7 percent contribution that is normally deducted from her/his wage, while the social insurance agency pays the employer's share of 10.2 percent. The latter is reimbursed from general revenues (GVG 2009). These PPCs are independent of the special pension crediting for child care, described below.

The second component, childcare pension credit, extends for up to four years. Here the pension credit can be computed based on: 1) the caregiver's income in the preceding year; 2) for caregivers who had low earnings prior to taking leave, 75 percent of average earnings across the economy; or 3) for caregivers who work during leave, a single, flat amount plus contributions from earnings. The social insurance agency chooses the most favorable option for the caregiver (GVG 2009). The generosity of this policy reflects Sweden's recognition that withdrawal from the workforce for childcare may have long-term consequences for the caregiver's earnings and, as a consequence, her/his pension adequacy.

Only one parent can receive PCC for a given year. If both parents fulfill the caring requirement, they may choose which parent will take the credit. If they fail to choose (i.e., to notify the social insurance office), the parent with the lowest pension base receives PCC. Parents with additional children during the child's first four years receive pension credit for only one of the children for any one year.

For a parent to receive a pension, he or she must satisfy what the Swedish scheme refers to as the *earned income requirement*: employment for at least five years with annual earnings exceeding a threshold.[37] Pension credit for childcare is not counted unless the five-year work requirement is met.

Two additional types of pensions exist in Sweden: 1) a mandatory individual savings scheme known as the Premium Pension, created in 1994 as part of the reforms described above, in which 2.5 percent of each worker's contribution is saved and invested, and 2) occupational pensions, negotiated through collective bargaining for more than 90 percent of the Swedish workforce. The social insurance agency pays contributions to the Premium Pension for those receiving parental benefits, while transfers from the state budget cover pension contributions for those taking childcare leave. For occupational pensions, the government recommends that employers contribute to an employee's pension for periods of up to 11 months for parental leave and most employers do so.

United Kingdom

The employment rate of British women stood at 65 percent in 2009, above the U.S. rate (59 percent; U.S. Census Bureau 2011) and that of the European Union (58.6 percent; Eurostat 2011a). With about 75 percent of British men employed, the gap between women's and men's employment rates is comparable with that in the United States (59 versus 72 percent; U.S. Census Bureau 2011) but below the Scandinavian countries (Sweden, 70.2 versus 74.2 percent, and Finland, 67.9 and 69.5 percent; Eurostat 2011a).

By European standards, UK public pensions are low, poverty rates among the elderly are high, although declining in recent years, and the gender pay gap is relatively large (OECD 2007, 2009). This last characteristic is reflected in average pension payments to women and men. While roughly 85 percent of men reach retirement age with a full Basic State Pension, only 30 percent of women do. In recent years, an enhanced PCC has gained attention as one way to mitigate this gender disparity. In 2009, Alistair Darling, then British Chancellor, announced the thrust of prospective changes: "Increasingly grandparents play a big role in family life and in looking after their grandchildren. To reflect this, we will, for the first time, ensure that these caring responsibilities for grandparents of working age will count towards their entitlement for the Basic State Pension."(Gammell 2009).

The first statutory recognition of family caregiving was enacted in the United Kingdom in 1978 (Vlachantomi 2009). This PCC counted the period of care as pension qualifying years, but without crediting any level of wages. As it is suited to a flat-rate pension scheme, this approach continues today. However, repeated reforms have caused the number of years of contributions required for women to qualify for the full Basic State Pension to vary considerably — between 20 and 39 years. Years of family caregiving are subtracted from the required total, thus making it easier to qualify.

In 2002, the State Second Pension was created as a means to help workers with low earnings build up pension entitlements. Under this pension, PCC was provided for certain periods when no wages were earned, including periods of caring (Vlachantomi 2009).

In 2005 and 2006, the UK Department for Work and Pensions released white papers proposing modifications of the PCC. Most of these provisions were enacted by Parliament in 2007 and 2008 and took effect in 2010 (Lhernould et al. 2010). These reforms are part of a broad strategy to improve the state pension for workers with lower incomes, while encouraging greater private pension provision for workers at the middle and upper end of the income scale.[38]

In addition, in 2009, the UK government provided funding for pension crediting for grandparents, effective April of 2011.

To cast light on the impact of these reforms, it is useful first to consider the PCC system that was amended:

- Carers are credited with qualifying years for the Basic State Pension if they receive either the cash Child Benefit (for a parent) or the Carer's Allowance (paid to the care provider of a person receiving a disability benefit). Under the old system, each year so credited reduced by one the number of years needed to qualify for this flat-rate pension. Women needed 39 years of coverage, while men need 44 years. PCC could reduce these years to 20 but not below it (GVG 2009). PCC could continue until a child reached age 16; the care of a disabled person could be credited so long as the Carer's Allowance continues.
- For the earnings-related State Second Pension, family caregivers received PCC based on the same criteria, that is, receipt of the Child Benefit or Carer's Allowance. For this pension, however, they were credited at a deemed amount equal to the Lower Earnings Threshold (GBP13,624 for 2008). Such credit was provided until a child reaches age six and, for those receiving the Carer's Allowance, so long as it continued to be paid.
- For those providing care but not receiving a cash payment, pension qualifying years could still be reduced under the Basic State Pension, and credited under the State Second Pension, if the carer was earning at or above another threshold in British pension regulations, the Lower Earnings Limit (GBP4,368).[39]
- Three additional regulations limited the PCC: 1) the *25 percent de minimis rule*, which required an individual to have accumulated at least 25 percent of the years required for the full pension (that is, 10 years for women and 11 years for men); 2) The *1st contribution rule*, which required that at least one of these years be gained through paid contributions (i.e., from employment); and 3) the *labor market attachment test*, which required that individuals have paid contributions for at least ten percent of their working lives.

The reforms that took effect in 2010 eliminated these three rules, thus opening the door for substantial numbers of women (and some men as well) to qualify for pensions based on caregiving. To open the entitlement door still further, the 2010 amendments also:

- Reduce from 39 years for women and 44 years for men the time required to qualify for the full Basic State Pension, to a new, gender neutral minimum threshold of 30 years;
- Make PCC directly proportional to the fraction of this 30-year period that a person spends caring (eliminating the 20-year floor), thus providing pension rights to anyone who has contributed for a single period. Combining of noncontributory and contributory credit for the State Second Pension within a given tax year is also allowed.

- Provide PCC for anyone having caring responsibilities for at least 20 hours for another person who needs care (whether or not the person or the carer receives a cash benefit); and,
- Make the maximum duration of the credit consistent across the two public pensions. Whereas carers could previously receive pension qualifying reductions for children up to age 16 for the Basic State Pension and, for the State Second Pension, for children up to age six, the new rules allow care for children up to age 12 to qualify for both pensions.

As noted above, legislation adopted in 2009 extends credit for the first time to grandparents who are not working and who provide at least 20 hours of care per week for a grandchild under the age of 12, effective April 2011.

According to government projections, the combination of eased access to pension entitlements and improvement in the ability to accumulate qualifying periods based on caregiving will immediately raise to 70 percent (from 30 percent) the number of women who will qualify for the full Basic State Pension. By 2025, the rate is expected to rise to 90 percent for both men and women. Moreover, the government projects that an additional 780,000 women (and 30,000 men) will qualify for State Second Pension.

The United Kingdom's PCC is financed from general state revenues.[40]

Notes

[1] In addition, it may be linked to the receipt of an allowance for caring for a sick or disabled person.

[2] The U.S.fertility rate is near 2.1 births per woman (UN2007).

[3] The Lisbon Strategy sought to raise the employment rates for older persons (aged 55–64) to 50 percent by 2010 and to 60 percent for women as a group. The attainment of these goals was thrown off course by the global economic crisis of 2008 and its aftermath. Europe 2020 calls for an increase in the employment rate of the aggregate working age population (20–64) from 69 percent (2010) to 75 percent (2020) (European Commission 2010; European Union 2000).

[4] There is no single definition of social security for the European Union. However, EU case law has defined equal treatment with respect to social security. For example, Directive 79/7, Article 3, establishes the principle of non-discrimination in statutory social security schemes which provide protection against the following contingencies: sickness, disability, old age, accidents at work and occupational diseases, and unemployment. The directive also applies to social assistance, in so far as it is intended to supplement or replace these schemes. In contrast, the directive does not extend to survivors' or family benefits, except in case of family benefits granted as increases in respect of the contingencies referred to above.

[5] They have done so as a first step by making these benefits available to either parent. Across the European Union, gender-neutral eligibility rules have been in effect for many years with little discernable impact on gendered patterns of family caregiving. Recognizing this, in more recent years some EU member states have reserved a portion of the childcare benefit and accompanying pension crediting period for fathers only, on a use-or-lose basis.

[6] In addition, a growing number of countries are providing fertility services, including in vitro fertilization.

[7] The exceptions are the United Kingdom and Germany. In both countries, women without children may qualify for PCC based on the care of disabled family members. In Germany, the new crediting rules are such that a woman with two children can qualify for a pension without having gainful employment.

[8] In Germany, foster and adoptive parents are also eligible for PCC as well as grandparents or other relatives who have the main responsibility for the care of a child living in their household.

[9] If provided along with an ample cash benefit, such rules might discourage work; crediting alone, however, seems unlikely to provide much of a work incentive or disincentive, as discussed previously.

[10] As explained in Chapter 3, Germany uses the pension point system. The average wage is equal to one pension point and crediting is based on points.

[11] The Swedish minimum pension benefits workers with low earnings-related pensions, helping to prevent poverty and ensure the minimum adequacy of their retirement income. As the earnings related pension increases, it causes the minimum pension to phase out. Thus, when PCC boosts the earnings related pension, this increase in turn diminishes the minimum pension. The net effect is positive because it increases the caregiver's pension.

[12] A similar impact is achieved by providing credit for grandparents, as the United Kingdom did in 2009, allowing older women to boost their pensions through caring as they approach retirement age.

[13] For private pensions, internal financing is not an option, since private providers face an economic disincentive to create such social elements. Were they to do so, they would attract a disproportionate share of parents, while childless workers would opt to join private pension funds that do not offer caring credit. In this case, general revenue financing of pension credit in private schemes, as is provided in Germany (the Riester pension) and in Sweden (the Premium Pension), can be regarded as good practice.

[14] The Family Allowance program (often termed the "baby bonus") was paid monthly to parents or guardians of children under the age of 18, based on net family income plus the number and age of children. It was replaced in 1993 with the Canada Child Tax Benefit. The benefit is targeted toward families with low incomes, in 2008 less than Can$38,832.

[15] That is, without the PCC benefits, the contribution rate would be 9.6 percent instead of the current 9.8 percent. Personal communication, with Cathy Drummond, April 22, 2009.

[16] Personal communication with Michel Montambeault, May 13, 2009.

[17] Personal communication with Eila Tuominen, Finnish Center for Pensions, 28 April 2009.

[18] For 2009, the employment rate was 67.9 percent for women and 69.5 percent for men (Eurostat 2011a).

[19] The pension accrual rate is 1.9 percent of countable wages per year of work between ages 53 and 62. Beginning with age 63 and extending until age 68, it is increased to 4.5 percent of yearly earnings (Tuominen 2005).

[20] In total, there are 194 basic pension schemes in France and 135 supplemental pension schemes. There are special schemes for agricultural, mining, railroad, public utility, and public sector employees; seamen; non-agricultural self-employed persons, and agricultural self-employed persons (Bonnet 2006).

[21] 2008 figure, EU 27. (Eurostat 2011b).

[22] The EU 27 rate was 58.6 percent for 2009 (Eurostat 2011a).

[23] The policy was enacted in 1971.

[24] France has mandatory maternity leave of eight weeks. For civil servants (outside the general scheme and ineligible for the supplement), a similar PCC was put in place in 2003, in the form of pension recognition of up to three years of parental leave.

[25] Personal communication with Marie-France Laroque, French Ministry of Employment and Solidarity, August 24, 2009.

[26] The Max Planck Institute for Demographic Research, for one, has published extensively on this subject. See Neyer (2006).

[27] Women's labor force participation is 73 percent in Denmark, 68 percent in Finland, and 70 percent in Sweden (Eurostat 2011a).

[28] The point system does not eliminate redistribution altogether, however. Some redistribution can still be achieved by setting a ceiling and floor on the average value of the pension point per year of service. PCC provides another means of redistribution.

[29] Hohnerlein (2002) argues that the adoption of a PCC was in exchange for reductions in survivors' benefits (which were also mainly received by women).

[30] Parents of children born prior to 1992 received one year of credit.

[31] Personal communication with Silke Steinhilber, independent consultant on gender issues, Berlin, August 25, 2009.

[32] Occupational pensions are less developed in the former East Germany, which may account in part for this pattern. If parents are married, PCC is automatically credited to the mother. Fathers receive the PCC only if the parents agree, on a year-by-year basis. In cases of unmarried or separated partners, the recipient of the child allowance is entitled to PCC in her/his Riester account.

[33] One survey found that men in Japan spend less than 20 minutes per workday caring for children, about equal to the time spent by men in southern European countries.

[34] A key problem is that one parent has to take the entire period of leave.

[35] Another reform lowers wage replacement rates. Before pensions are computed, lifetime contributions are valorized or inflated so that those contributions paid in distant past years retain their real value. Here Sweden switched to basing valorization on changes in aggregate covered wages in the economy. This measure reflects both changes in wage levels and changes in the total numbers of workers. In the context of a shrinking workforce, over time this too will drive pension replacement rates down.

[36] As part of the reform, the ceiling on wages counted in computing parental leave benefits (as described above) was increased to 80 percent, and an extra 30 days of parental leave was provided and credited for pension purposes.

[37] The threshold is at least two income base amounts per year. The income base amount is used to set many social security benefits in Sweden. In 2011 one income base amount was equal to SEK 52,100, or US$7,876.

[38] The UK pensions are less affected by population aging than in other European countries. While in the European Union as a whole, pension spending is projected to consume an additional 8.8 percent of GDP by 2050, in the United Kingdom, the figure is less than half of this.

[39] For the State Second Pension, the credit is computed based on deemed earnings of GBP13,624, that is, the Lower Earnings Threshold. Thus, those with earnings below the Lower Earnings threshold receive a credit that exceeds their actual earnings, while those with earnings above the threshold receive no additional credit for caregiving.

[40] Gesellschaft für Versicherungswissenschaft und Gestaltung (GVG) (2009).

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Appendix

The European Union, Social Security, and the Open Method of Coordination

Since the analysis in this report includes five member states of the European Union, it is important to note the relationship between member states' social security policie s and the EU legislative and regulatory structure as a whole. Member states of the European Union are subject to binding legislation and regulation in certain areas, such as monetary, fiscal, and customs policies. In social policy, however, governance devolves to the member states on most issues. This devolution, known as subsidiarity, assigns competence for policy making to the lowest effective level. In practice, subsidiarity leaves individual nations in charge of much of their own social policy. However, the leaders of the European Union and of its precursor organizations recognized as far back as the 1950s the close links between economic policy and social policy with particular regard to assuring both competitiveness and cooperation among the members—building a level playing field— and to assuring freedom of movement of people across national boundaries within the European Union, a founding concern, and one recognized as important to the economic development of the European Union.

Jurisdiction within the European Union for matters of social security as well as other social issues associated with social exclusion, homelessness, and gender is located in the Directorate-General (DG) for Employment, Social Affairs, and Equal Opportunity. The directorate is one of many that form the administrative force of the European Commission, the European Union's executive body. Insofar as social security issues are concerned, the DG Employment is responsible for two issues. First, it has direct binding authority over freedom of movement within the European Union. In this regard, its focus is on protecting the pension rights of those who move from country to country and often must negotiate the complex entitlements that may arise as a result.

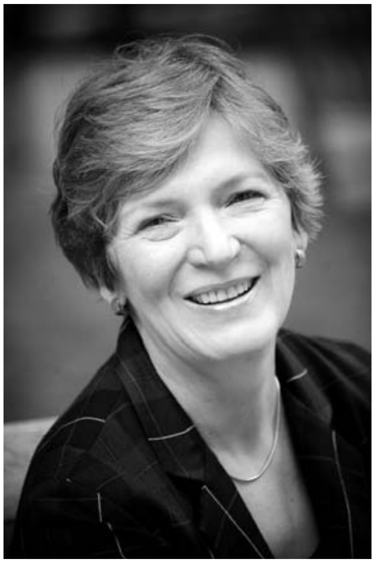
The second issue, or set of issues, involves the DG Employment's soft authority to pursue general policy goals adopted by the Council of Ministers that relate to its own sphere of authority. Among these are pensions where the DG Employment is charged with seeking convergence and compliance with general EU objectives regarding adequacy, gender equality and non-discrimination, and sustainability. The DG Employment's principal tool of governance with respect to this task is known the Open Method of Coordination (OMC). Its formal existence dates back to the Lisbon Summit of 2000. The OMC provides a process whereby member states establish benchmarks and indicators linked to the policy goals of interest (such as those just mentioned), assess their own level of compliance, project actions intended to improve compliance, and provide further assessments. These efforts are reflected in periodic national consultations, action plans, and National Strategy Reports.

As a tool of governance, the OMC is very much a work in progress. The OMC is in its early stages, and it is difficult to imagine a process more likely to lead to agreement and concerted action in an area freighted with diverse systems and policy objectives.

The importance of the OMC for this report rests in its documentation, in particular the National Strategy Reports and the Synthesis Reports — that the process generates. The data are not comprehensive and are often released after lengthy delays, but they nonetheless provide a valuable window into the functioning of PCC and other social security systems. They allow the broad public to hear from their governments on issues of importance to large numbers of women, men, and children.

Author Biography

Elaine Fultz has a Ph.D. in Public Administration from New York University where her teaching and research centered on government regulation of financial markets. She has been engaged with social security policy and implementation since 1975, first as a congressional aide and then as a professional staff member of the



Social Security Subcommittee of Ways and Means of the U.S. House of Representatives; Executive Director of the U.S. National Commission on Childhood Disability; social security specialist for the International Labor Organization (ILO) in Africa and subsequently in Central and Eastern Europe; and, Director of the ILO Subregional Office for Eastern Europe and Central Asia in Moscow.

At the ILO, Ms. Fultz provided policy advice and training on social security to governments, national trade unions, and employer associations. As part of her work, she designed and commissioned research on gender equality, family policy, and pensions. She is the author of many publications on these issues.

Having retired from the ILO, Ms. Fultz works as an independent consultant. She prepared the principal report for the European Regional Meeting of the International Social Security Association in Warsaw in 2010 and has consulted with the ILO on a range of social security issues, including increasing coverage of workers in irregular employment, reducing maternal mortality, combating HIV/AIDS, and improving gender equality in private pension systems. She is a regular contributor to the *International Social Security Review*.

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