

The Gender Impact of Pension  
Reform—What Is It and Why?  
And how to increase coverage?

by

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# What is the impact of pension reform on women vs. men?

- Critics argue that close benefit-contribution link in new systems hurts women
- We studied this in Chile, Argentina & Mexico
  - found positive impact of reform on women
  - must take all parts of system into account (IA, public benefit, joint pension)
  - details of policies matter a lot
  - different outcomes in transition economies and Sweden because details differ
- I will discuss how policies affect women and how to increase coverage, which is partly a women's problem

# Features of new systems that affect women

- All have individual accounts (IA)
- All have redistributive public benefit
  - Chile-minimum pension guarantee (MPG)
  - Argentina-flat benefit
  - Mexico-social quota (SQ)--flat payment into account per day worked + MPG
  - Eligibility and indexation rules vary—important
- Must contribute to system to get these benefits
- Husbands must purchase joint pensions. Widow keeps own pension + survivors' pension
- Retirement age for women < men (Chile, Argentina)<sup>3</sup>

# Why the gender difference in pensions? 1) labor market

- Low labor force participation rates
  - women work half as much as men, in L.Am.
  - some women don't work in market at all
  - women's participation is closely tied to their education, which is rising, so will be much higher in future; we now have legacy problem
- Low wages (2/3 as much as men)
- This hurts women in contributory schemes
- Retirement age for women often < men
  - this hurts in DC systems--women accumulate less retirement savings and pension credits

# Why gender differences?

## 2) demography

- Women live 3-5 years longer than men and are younger than husbands, become widows for 5-10 years
- Household income may fall by 70%, yet expenses only fall by 30-35% (household economies of scale)
- Other resources get used up
- Very old women often pockets of poverty

# Impact of new systems on women vs. men--methodology

- New systems don't have retirees yet and absolute benefits in old systems were unsustainable
- We constructed synthetic work histories of representative men and women using hh surveys
- We applied rules of new and old systems to simulate future benefits for young workers
  - Average vs. 10 year vs. full career (FC) women
  - Women in 5 different educational groups
- Compared relative (not absolute) positions of men and women in new and old systems

# Major conclusions

- Women gained relative to men in Latin America
- Biggest gainers were:
  - low earners (low education) due to redistributive public benefit
  - married & FC women due to joint+own pension
- This applies to women who contribute + those whose husbands contribute (joint pension)
- Work incentives vs. coverage differ:
  - Mexico subsidizes women who work more (SQ)
  - Argentina subsidizes women who work less (flat)
  - Chile conflicted (20-years for MPG subsidy)

# Where women's pensions come from in new systems

- Women's pensions from own account are only 30-40% those of men in private DC plans
- Would be 50% higher if retirement ages equalized
  - Interest builds more years, annuity for fewer years
- Goes up further with public benefits that redistribute to low earners, especially women
- Upon retirement husbands purchase joint pensions
  - recognizes implicit family contract
  - increases coverage of women with no tax cost
  - women keep joint pension + own pension
  - doubles lifetime benefit of married women
- So total lifetime F/M ratio: for av. married women 75%; FC women 100%--higher than old systems <sup>8</sup>

# Examples from Mexico (figure)

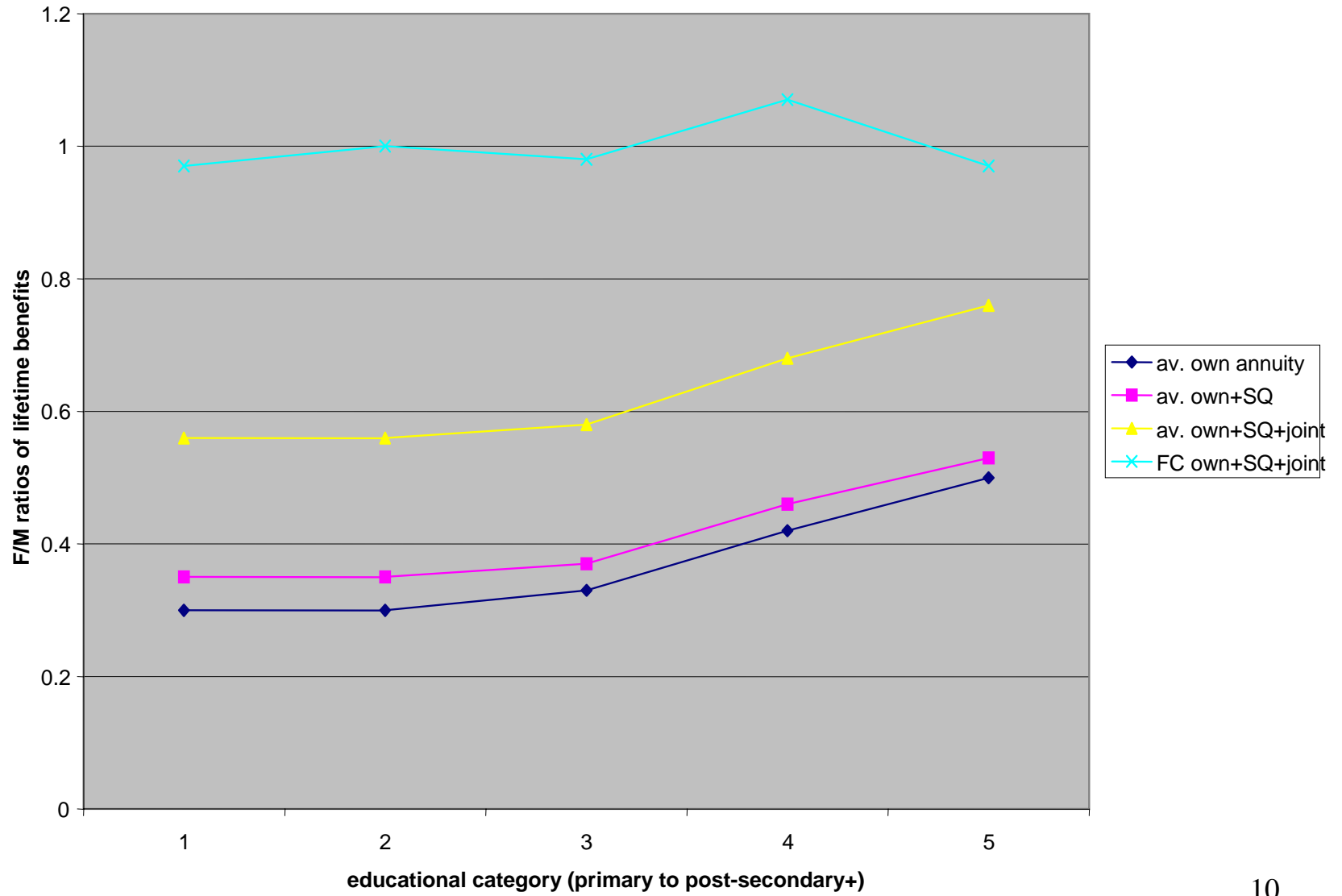
Slide 1: F/M ratios of lifetime retirement income

1. start out higher for those with high education, who work more (bottom line)
2. are raised by social quota (pink line) and
3. joint annuity (yellow line).
4. Top line gives F/M ratios for full career women (future women)

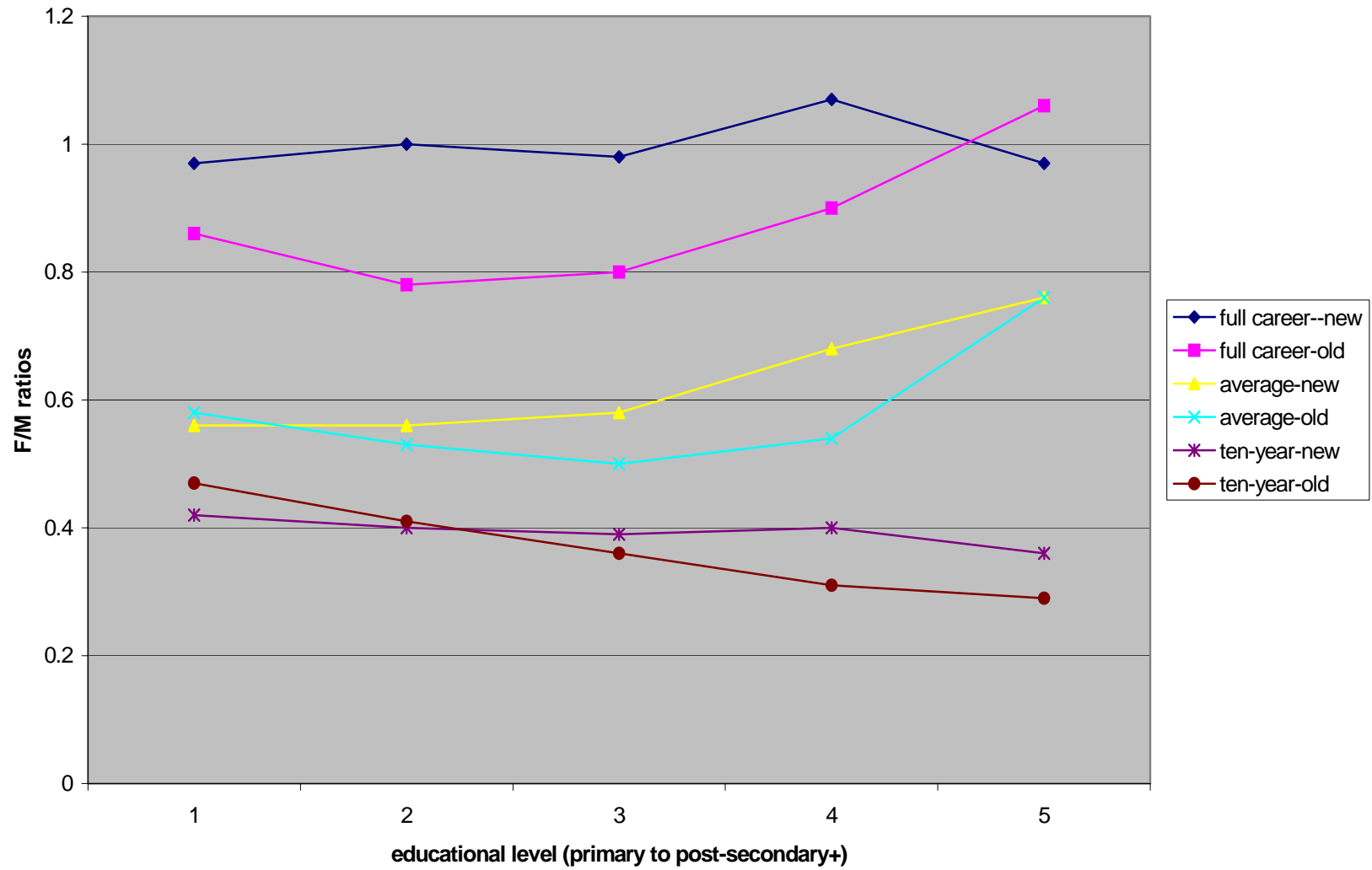
**Important to take all parts of system into account—this is often overlooked**

Slide 2: F/M ratios in new vs. old system for FC, av<sub>9</sub> and 10-yr women—top lines are new system

**Gender ratios of lifetime retirement income, by source, Mexico**



Female/male ratios of lifetime retirement income, married women, in new vs. old systems, Mexico



# Different impact in transition economies (East & C. Europe)

- Wage inequality is growing, so accounts unequal
- Public benefits less targeted toward low earners
- Survivors' benefit reduced to save money
- Policies re joint annuities not yet clear
- Many single and divorced women
- Earlier allowable retirement age hurts women more in new systems
- Therefore new systems increase gender inequality in pensions in transition economies (also Sweden)
- Details of plans matter a lot

# Design features of private pillar that help women

- Equalize retirement age for M & W—raises pension of women, reduces cost of MPG
- Require or strongly encourage annuitization — women live longer, hurt by myopia
- Require joint pension and survivors benefits
- Price indexation of annuities—otherwise very old women will be poor
- Split balance in accounts, upon divorce
- Unisex mortality tables?? Less important in context of joint annuities. Less impact than equalizing raising retirement age for M and W
- Supplement with redistributive public pillar

# [Should unisex mortality tables be used for annuities?]

- Uses same average mortality tables for M and W
  - For individual annuities, raises payouts to W
- Redistributes from men to women (not from high earners to low earners). Equalizes between genders but not efficient anti-poverty measure.
- Selection--may lead men not to buy annuities, insurance companies to try not to sell to women, so may not be compatible with voluntary annuitization and competitive insurance markets
- With joint annuities, unisex and gender-specific tables yield similar payouts, less selection—defuses controversial unisex issue

# Object of public pillar: redistribution, poverty prevention and diversification

- Can be for contributors only or for all old residents, and if for all can be flat or mean-tested
- Collecting contributions is difficult in economies with much self-employment, small firms
  - Include self-employed in mandatory system by collecting through income tax system?
  - Most high income countries try this. But enforcement is difficult, even in US and Japan
- To prevent poverty, public benefit for some non-contributors is needed. Increases coverage
  - What form? how large? how finance?
- Women are major recipients. Which women?

# Public schemes for contributors

- Examples: common in L. Am--MPG, social quota
- Provides safety net for contributors, encourages formal work and contributions
- Eligible women get redistributions but many women (and men) not eligible
- Eligibility conditions are key policy choice
  - how many years for eligibility? 25 too much (Mex), 10 too little (Arg), bad if deters marginal contributions (Chile); prop. to years worked (SQ)?
  - In future more women will meet eligibility conditions: more education, changing social norms, higher participation rates. Experience of older women understates density of younger women.

# Universal means-tested benefit

- Like MPG but takes all income into account
- Examples: UK, India, Australia, Hong Kong, PASIS in Chile, Costa Rica, Canada
- Can keep recipients above poverty line at lower cost than flat benefit
- But mis-targeting, high transactions and bribery costs, disincentives to contribute and save
- Difficult to apply in extended family situation

# Universal flat benefit (based on age & residence)

- Examples--Denmark, Bolivia, Kosovo, Mex. City; also New Zealand, Mauritius, Namibia, Botswana
- Designed to increase coverage, reach everyone
  - women benefit disproportionately, get net subsidy
- Uniform for all, diversifies income sources for all, administration simple, less distortionary than MT
- But most recipients aren't poor
  - inefficient anti-poverty method
- Higher cost but can reduce by small benefit, claw back from rich, indexing eligible age to longevity
- Is mandatory private pillar still needed? Yes—otherwise many myopic old people will only have flat benefit--very small pension

# 3 possible patterns for public pillar

- 1) (proportional) MPG for contributors + small means-tested benefit for non-contributors (Chile)
- 2) modest universal flat (OECD, Bolivia, Kosovo) for all
- 3) smaller universal flat+small (prop) MPG
- Different costs, incentives, protection
- As populations age, countries shift from flat toward means-tested or MPG to control costs (Nordic; UK too much)

# One choice doesn't fit all.

## Diagnostic questions:

- How are old people supported now and how many old poor compared with young poor? Is poverty concentrated or widespread?
- How does this rate with other fiscal needs?
- Does country have administrative capacity to means test? fiscal capacity for universal flat?
- Will high payroll tax or means tested benefit perpetuate informality and low contributions?
- Is economy and demography in transition?  
Don't adopt tomorrow's policies to solve yesterday's problems.

# Key choice re public benefit: price or wage-indexation?

- Under price indexation projected costs are lower because wages and taxes grow over time but benefits remain constant, become negligible for very old retirees and future cohorts (UK)
- Wage indexation costs more, women gain more, binds future generations
- Swiss indexation (50-50) is a plausible compromise

# Basic principles that always apply

- Finance by general revenues, not payroll tax, so doesn't depress employment or wages
- Avoid tax and benefit structure in public pillar that discourages contributions to private pillar
- Careful projections of long term costs, distributional effects and assessment of budget capacity and priorities are essential