

# The Gender Impact of Pension Reform—What Is It and Why?

By

Estelle James

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

- Recent pension reforms include 2 pillars:
  - Individual accounts that link benefits more closely to contributions and are fiscally sustainable
  - Public benefit that provides safety net
  - Critics argue that close B-C link hurts women compared with old PAYG DB systems
- We studied this empirically in Chile, Argentina and Mexico and found positive impact on women who work in labor market
- Policy implications are generalizable to other systems

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

- Low labor force participation rates, more household work
  - Women work half as much as men, in L.Am.
- Low wages (2/3 as much as men)
- So if benefits depend on contributions and contributions depend on wages and work, women get low benefits.
- Early retirement rules exacerbate difference
  - Women often allowed to retire 5 years before men—therefore they accumulate less retirement savings and pension credits

# Why gender differences (demography)

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

# Features of new systems in Chile, Mexico and Argentina

- All have individual accounts (IA)
- All have redistributive public benefit
  - Chile-minimum pension guarantee (25-29% av. wage)
  - Argentina-flat benefit (20%-30% av. wage)
  - Mexico-flat payment into account per day worked (2% av. wage) + minimum pension guarantee
- Survivors insurance while husbands work
- Husbands required to purchase joint pension upon retirement—widow keeps jt pension+own pension
- Retirement age in Chile and Argentina—65 for men, 60 for women (in Mexico 65 for M and W) 5

# Our methodology

- 3 major questions:
  - Who gained in relative position—men or women?
  - Which design features are responsible for these results?
  - Which sub-groups gained (or lost) the most and what incentives does this create?
- Problem--New systems don't have retirees yet and absolute benefits in old systems were unsustainable
  - so we used simulations and counterfactual was relative F/M benefits, not absolute benefits
- We constructed work histories of synthetic representative men & women using hh survey data
- We applied rules of new and old systems to simulate future benefits for
  - Average vs. 10 year vs. full career women
  - Women in 5 different educational groups

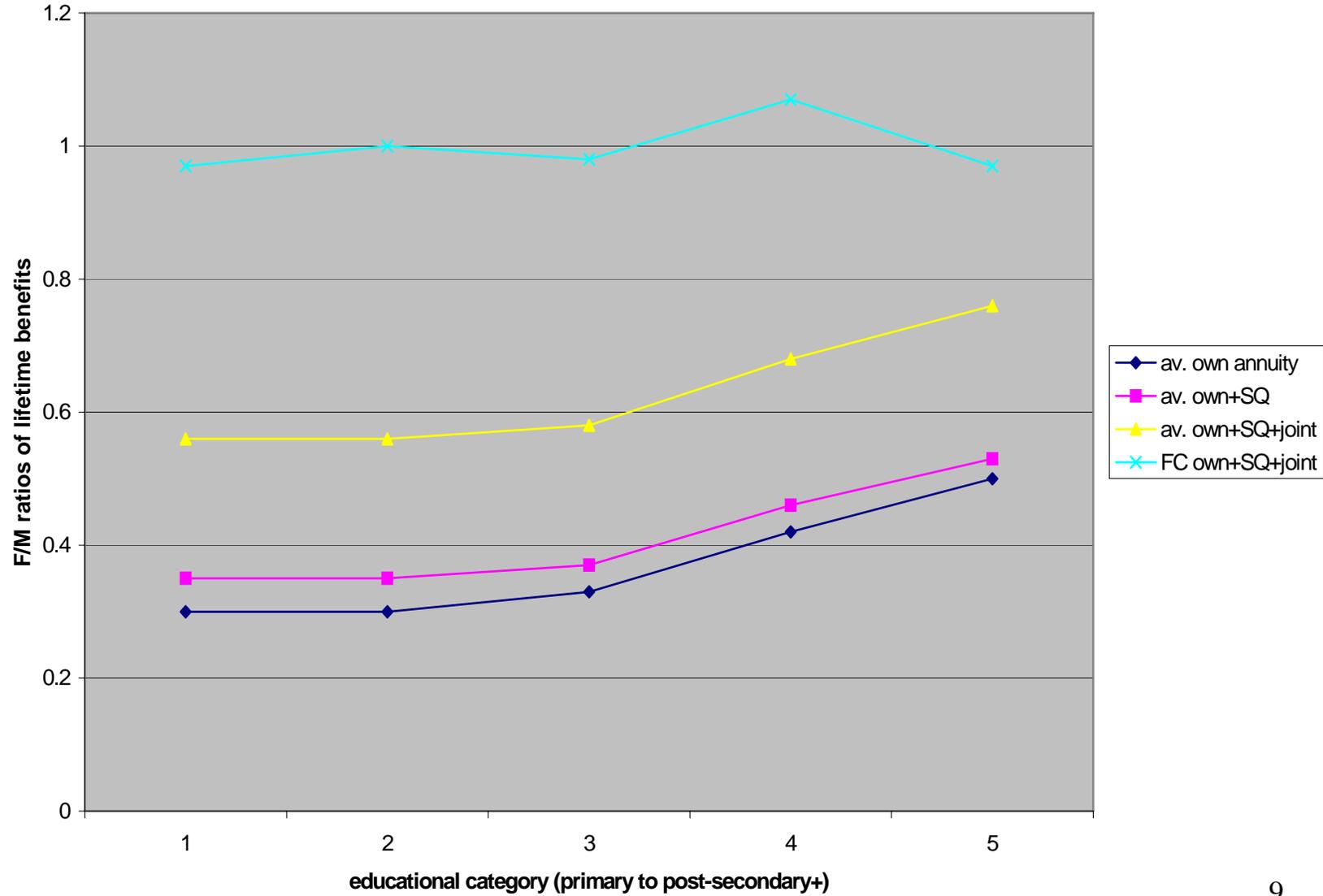
# Relative position of women in new systems: the building blocks

- Women's pensions from own account are only 30-35% those of men in private DC plans
- Goes up to 40-50% if retirement ages equalized
- Goes up further with public benefits that redistribute to low earners, especially women
- Upon retirement husbands purchase joint pensions
  - so women without contributions are covered
  - women keep joint pension + their own benefit so encourages women to work
- Therefore, lifetime benefits for average married women are 75% as much as men, FC women 100%<sup>7</sup>

# Example from Mexico

F/M ratios of lifetime retirement income in new system start out higher for those with high education (who work more), are raised by social quota (pink line) and joint annuity (yellow line), are highest for full career women who work the most (aqua line)

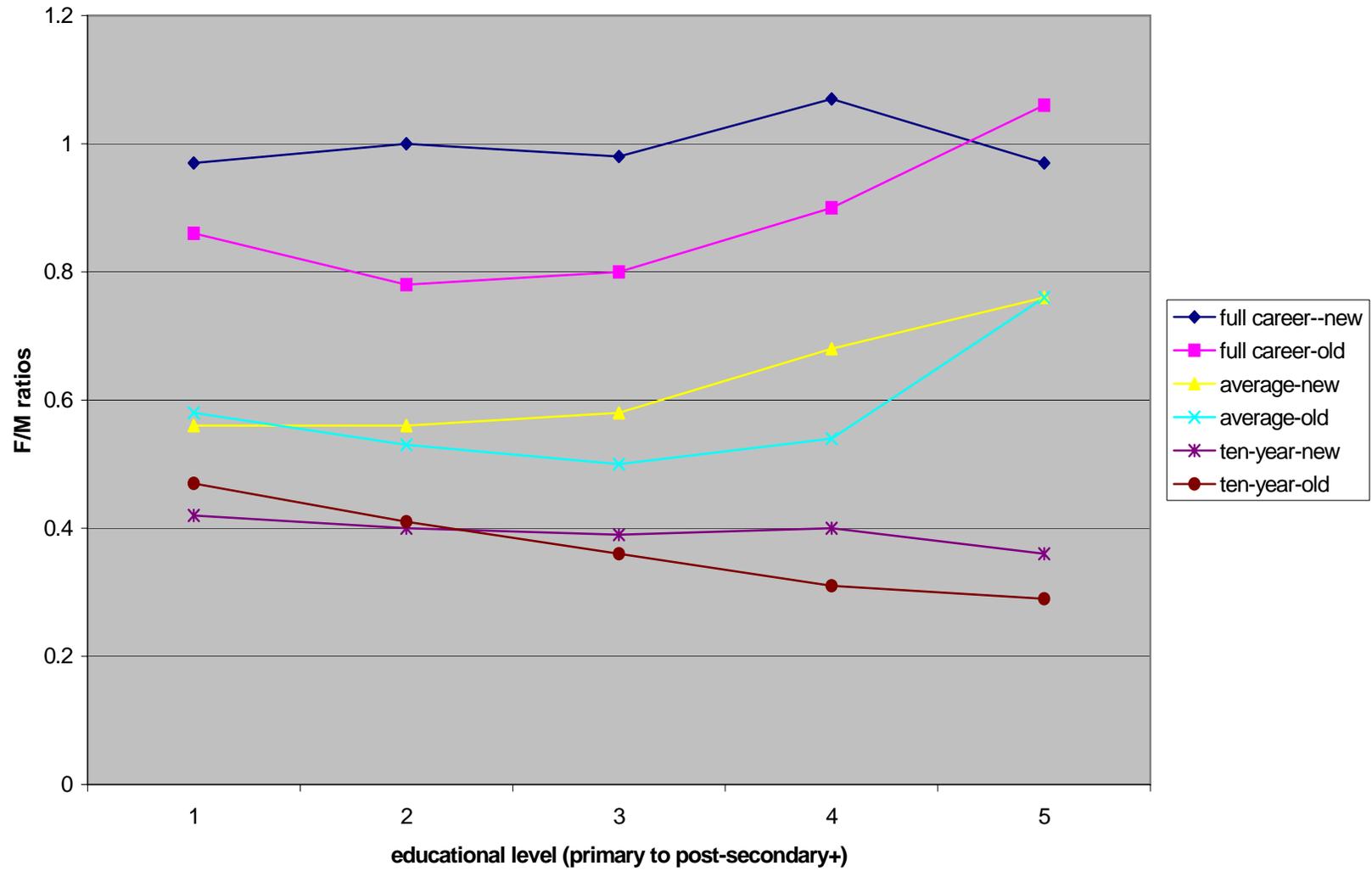
Gender ratios of lifetime income, by source, Mexico



# Change in relative position from old to new systems

- Women gained relative to men
- Low earning women (low education) gained the most from reform due to public benefit
- Married women gained due to keeping joint annuity + own pension
- Chile and Mexico: Full career women gained most
- Figure for Mexico shows F/M ratios of lifetime retirement income in new vs. old systems
  - Higher in new system, especially for low and middle earners, full career women

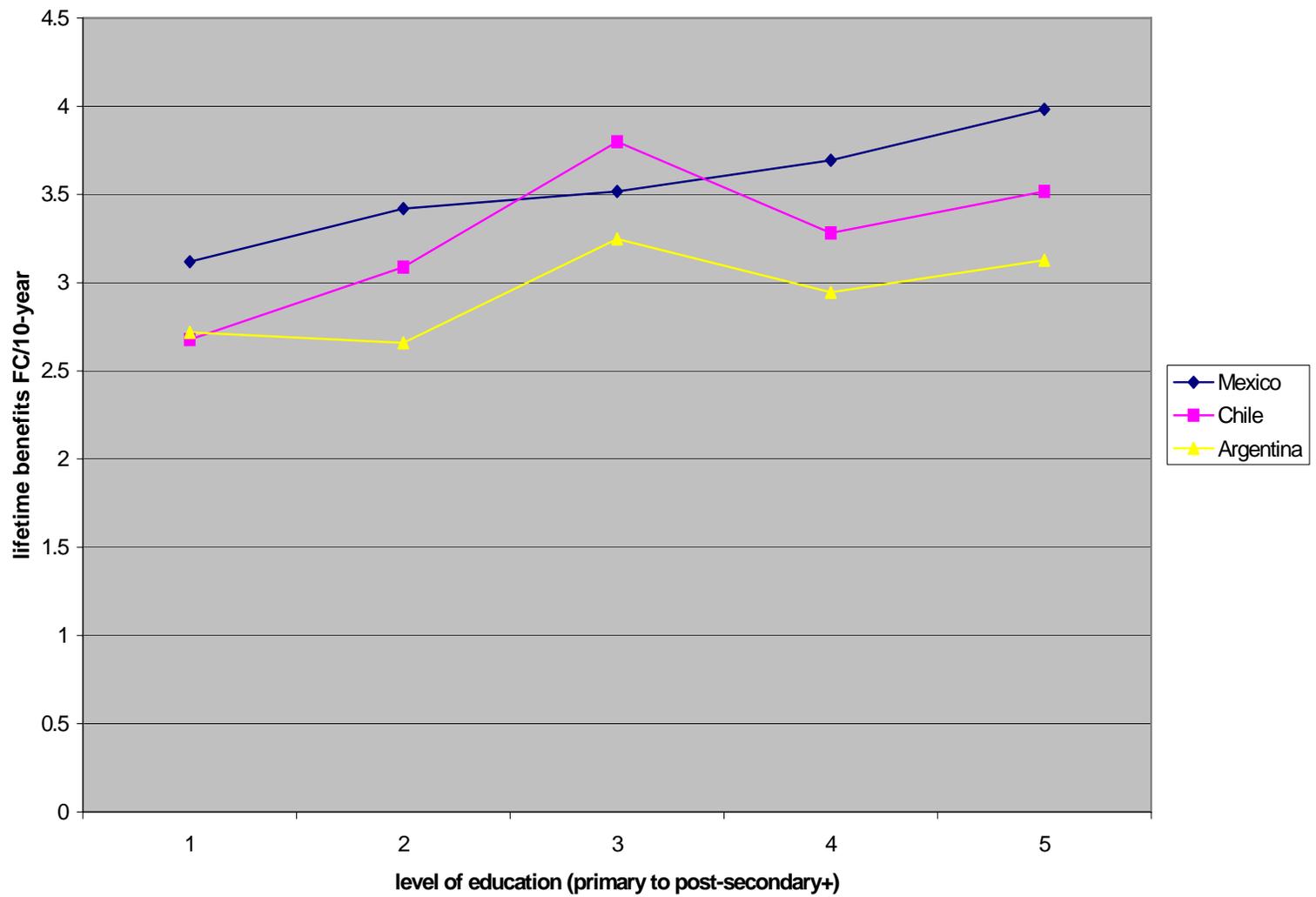
Female/male ratios of lifetime retirement income, married women, in new vs. old systems, Mexico



# Working vs. non-working women

- Chile and Mexico: Full career women gained most
- Argentina: Ten-year women gained more than full career women, also get largest redistribution—due to flat benefit (for 10 years of contributions)
- Figure compares lifetime income from (own annuity + public benefit) for full career women vs. ten-year women. Ratio of FC/10 year is highest in Mexico (blue line), lowest in Argentina (yellow) (social quota rewards work, flat benefit subsidizes women who stay at home)

ratio of lifetime benefits from own annuity + public benefit, Full career vs. 10 year women



# Which women get priority access to public subsidies?

- Latin America
  - earning capacity: biggest subsidies go to women with low education
  - work incentives: Mexico gives larger subsidy to women who work more, Argentina to women who work less, Chile conflicted (20 yrs rewarded; may change)
  - marital status: has little effect on subsidy
- U.S.
  - marital status: Spouses and widows get public benefit, husband does not finance
  - Earning capacity: women with low ed get lower subsidies than non-working wives with high ed
  - Work incentives: women must give up own-benefit to get widow's benefit (no reward for work & contrib.)

# Remaining issues in Latin America

- Divorce is increasing. How to treat accounts.
- Minimum pension guarantee—how many years for base eligibility? proportional to years worked?
- What to do for those with low contribution density
  - Includes the poorest, but some rich
  - Get low own-pension and may not be eligible for MPG
  - Widows covered by joint annuity if husbands covered & many old women without pensions live with children
  - Small flat or means-tested pension?--each has problems
  - Can only be covered by non-contributory pension financed by general revenues, which will require higher taxes or cuts in other government programs (priorities?)
  - Challenge: How to help while avoiding mis-targeting, disincentives, high transactions & fiscal costs

# 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 appear to increase gender inequality in pensions in transition economies
- Details of plans matter a lot

# Summary: key features for women

- **Targeting public pillar to low earners**
  - more targeted to low earners in new Latin American systems than in old Latin systems or in US
  - subsidies to contributor vs. non-contributors??
- **Annuitization**
  - very important because women live longer
- **Price indexation of pension**
  - maintains real value of pension for very old women
  - wage-indexed safety net to maintain relative value??
- **Equal retirement age for M and W (as in Mexico)**
  - helps equalize pensions.
  - earlier retirement hurts women more in new systems
- **Joint pension requirement protects widows**
  - at no cost to treasury or singles (implicit family contract)<sub>17</sub>
  - important for women to keep own + joint pension