

Pension Notes

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Gender gaps in pensions and seven proposals for improving women's pensions in FIAP countries



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Executive Summary

Women's average pension amounts are significantly lower than those of men in most parts of the world, which is due to several factors, among which the following stand out: they earn lower wages, contribute fewer years, have a lower official retirement age, and live longer.








To reduce this pension gap, it is proposed:

- i. Equalize the legal retirement age between men and women in countries where there is still a difference
- ii. Promote childcare networks
- iii. Improve labor legislation to reduce gender biases (Examples: part-time and teleworking; equal paternity leave)
- iv. Encourage non-contributory or solidarity pensions
- v. Provide pensions for women in case of separation or divorce
- vi. Create subsidies for people who care for senior citizens and the disabled
- vii. Create voluntary pension savings plans with tax incentives

Women's average pension amounts are significantly lower than those of men in most parts of the world. This difference, commonly referred to as the pension gap, is due to several factors, the most salient being the following:

1. **They earn lower wages:** As shown in Table No.1, the wage gap between women and men in Latin America fluctuates between 6% in Uruguay and 24% in Mexico. The only country in the sample in which the average salaries of women exceed those of men is the Dominican Republic, by 2.2%.








Table No. 1

Country	Wage gap
 Bolivia (2015)	Unavailable
 Chile (2019)	9.7%
 Colombia (2019)	7.8%
 Mexico (2019)	24%
 Peru (2017)	14.8%
 Dom. Republic (2015)	-2.2%
 Uruguay	6%

Source: Karol Fernández, Gender gaps in pensions and proposals for improving women's pensions in FIAP countries.

2. **They contribute for a lesser number of years:** As shown in Table No.2, the contribution density (percentage of years contributed vs. total years of working life) of men is higher than that of women in most countries.

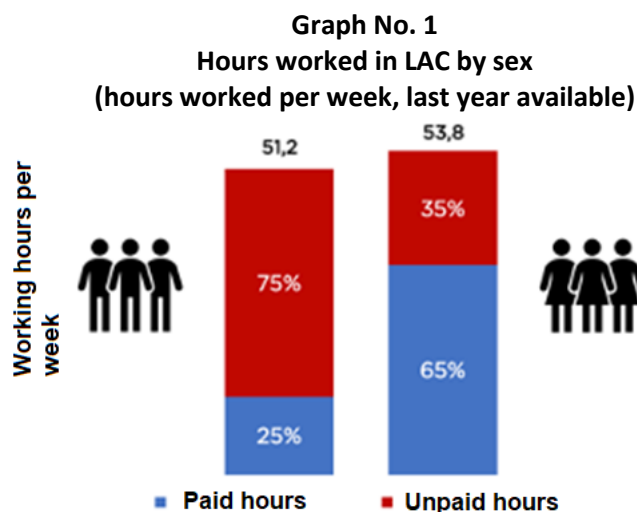
Table No. 2

Country	Average contribution density	
	Men	Women
 Bolivia	Unavailable	Unavailable
 Chile	60%	50%
 Colombia	37.3%	37.8%
 Mexico	53.7%	46.1%
 Peru	57%	58%
 Dom. Republic	Unavailable	Unavailable
 Uruguay	52.8%	47.2%

Source: Karol Fernández, Gender gaps in pensions and proposals for improving women's pensions in FIAP countries.

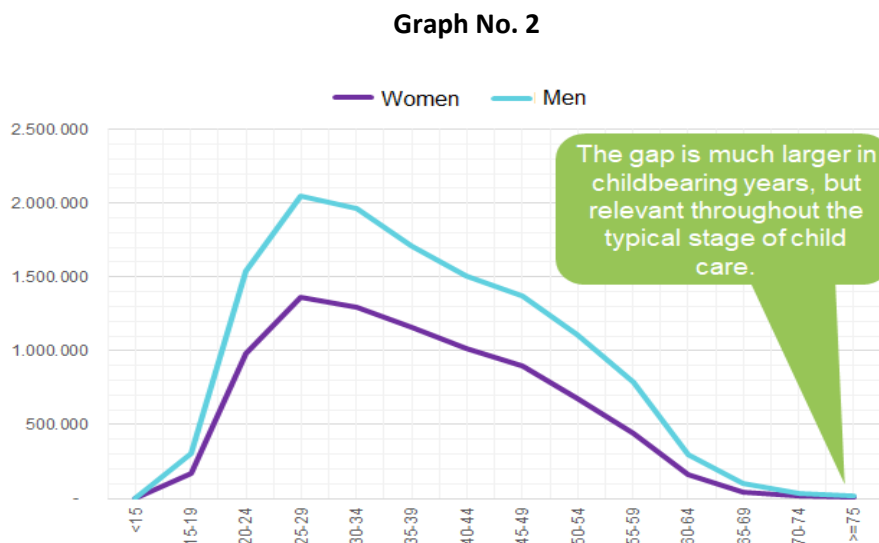
An important cause of women earning less and having a lower contribution density than men, has to do with the unequal distribution of work in the kitchen, household cleaning and home care for children, the elderly and disabled individuals. All these activities, commonly unpaid, are mostly undertaken by women in Latin America, as shown in Graph No.1.

In fact, women on average work 2.6 hours more per week than men (53.8 vs. 51.2 hours), but in terms of paid hours, they work 25 hours less per week.



Source: Waldo Tapia (IDB), calculations based on Gender Equality Observatory for LAC ECLAC

In the particular case of Mexico, the predominantly female role in the care of children is evident when analyzing Graph No.2, which shows the number of workers who are contributing to the Mexican Institute of Social Security (IMSS) by age and gender (formal jobs). It shows that the maximum gap between women and men occurs between 25 and 34 years of age, in the fertility and childcare stage, whereas this gap is reduced at younger ages and at ages when children are more independent, when women tend to access or gradually return to the labor market, reducing the gap and even eliminating it at advanced ages. Unpaid work also negatively affects the job advancement opportunities of those women who manage to access formal paid work.










Source: Nieves Lanzagorta García, Vice President of Linking, AMAFORE, taken from the Mexican Institute of Social Security (IMSS).

Thus, unpaid work, mostly performed by women, makes it difficult for them to participate in the formal labor market, especially at productive ages.

3. **Lower official retirement age:** Although some Latin American countries have followed the example of developed countries, by equalizing the official retirement age between men and women, there are still countries in the region where it differs, as shown in Table No.3

Table No. 3

Country	Legal retirement age	
	Men	Women
 Bolivia	55	50
 Chile	65	60
 Colombia	62	57
 Mexico	65	65
 Peru	65	65
 Dom. Republic	60	60
 Uruguay	60	60

Source: Karol Fernández, Gender gaps in pensions and proposals for improving women's pensions in FIAP countries.

4. **They live longer:** As shown in Table No.4, the life expectancy of women at 65 is several years longer than that of men, on all continents. In LAC women live almost 3 years longer than men. So, the same savings accumulated during working life must be distributed over a longer period, which automatically reduces women's pension amountss compared to those of men. One must bear in mind that the differences in pensions between men and women are significantly reduced among partners, compared to single people, since the pensions of workers and their spouses must be financed with savings¹.

¹ Men must save funds to finance the widowhood pensions of their spouses, who have a longer life expectancy than they do. Similarly, women must fund the widowhood pensions of their spouses, who have a shorter life expectancy than they do. Due to this situation, couple's pensions have a smaller gap between workers, compared to a situation in which workers of both sexes are single.








Table No. 4
Life expectancy at 65

	Men	Women	Difference
World	15.2	18.1	2.9
Africa	11.9	13.6	1.7
Asia	14.9	17.8	.,9
Europe	16.2	19.5	3.3
Latin American and the Caribbean	15.1	18	2.9
North America	18.3	21.1	2.8
Oceania	194	22	2,6

Source: United Nations

The combined effect of lower wages, lower contribution density, lower official retirement age and higher life expectancy for women than for men, is the main cause of the relatively lower pensions of women. Table 5 shows the gap in the self-financed pensions of women and men.

Table No. 5

País	Pension gap
 Bolivia	17%
 Chile	50.2%
 Colombia	33%
 Mexico	43%
 Peru	16.4%
 Dom. Republic	-13%
 Uruguay	13.9%

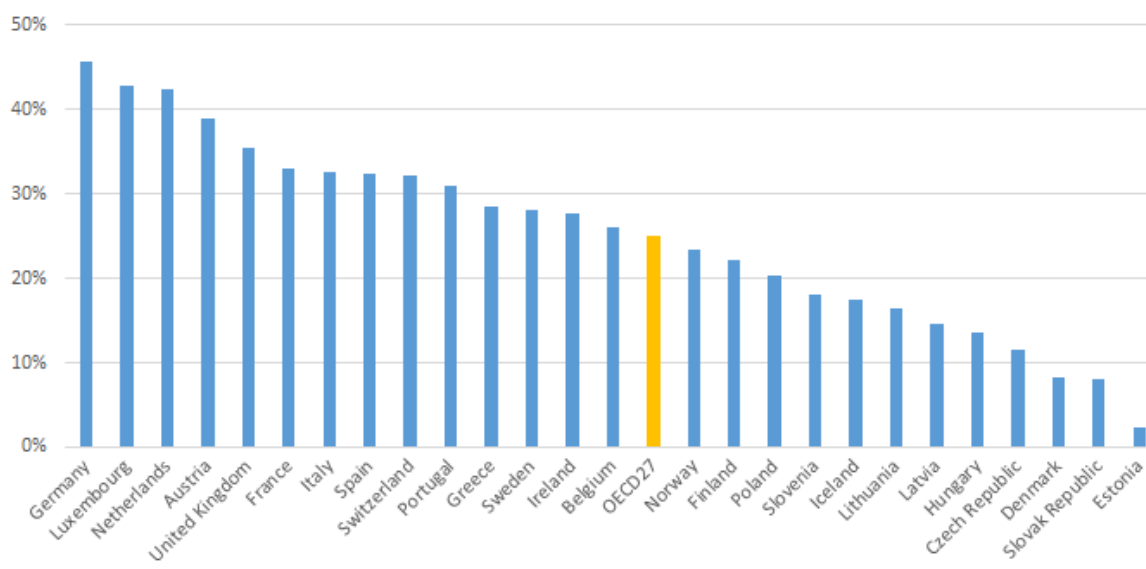
Source: Karol Fernández, Gender gaps in pensions and proposals for improving women's pensions in FIAP countries.

It is worth mentioning that the gap indicated in the previous table refers exclusively to contributory pensions, since it is significantly reduced when considering non-contributory or solidarity pillar pensions. **In Chile, the pension gap is reduced to less than half, from 50.2% to 21.1%, by incorporating the solidarity pillar contribution.**

The significant difference between the pension and wage gaps, caused by the combined effect of the four variables mentioned above, is striking. In the European OECD countries, the gender gap in pensions is also substantially higher than the wage gap (25% and 13%, respectively).

The following Graph No. 3 shows the pension gap by gender for European countries, confirming that this difference in pensions is significant even in developed countries (more than 40% in the Netherlands, Luxembourg and Germany).

Graph No. 3. European countries: Pension gap between genders, March 2018 (Percentage)

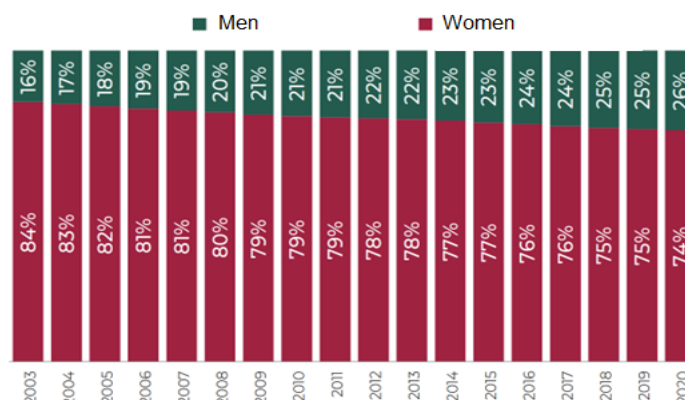


Note: The pension gap is calculated using the following formula: $(1 - \text{average pension for women} / \text{average pension for men}) \times 100$. Includes all forms of pension (old age, disability and survival), both public and private.

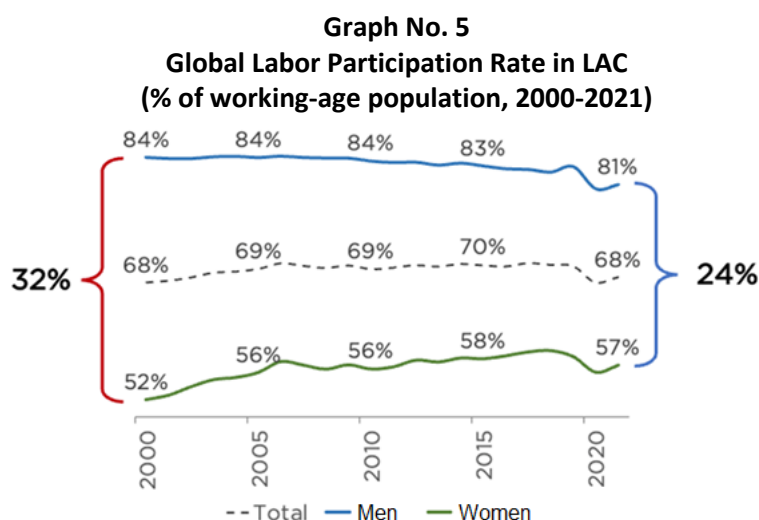
Source: OECD.

Progress is being made on a more equitable distribution of domestic work and childcare (see Graph No.4), with men increasing their participation by 10 percentage points in the last two decades, in Mexico. This step in the right direction is enabling a growing participation of Latin American women in the paid labor market (see Graph No.5), although there is still a long way to go to reach the level of developed countries.

Graph No. 4.- Distribution of unpaid domestic and care work by gender



Source: Consar.



Source: Labor Markets and Social Security Information System of the Inter-American Development Bank (2022). Calculations made by Tapia (2022) based on Gender Equality Observatory for LAC, CEPALC.

How do we reduce the pension gap?

An important first step is to review the labor, education, and social security legislation of each of the countries, in search of gender biases, to identify the issues that can negatively affect the incorporation of women into the paid labor market.

The study conducted by Karol Fernández concludes that among the four variables that mostly explain the pension gap, the lower official retirement age for women is the one that has the greatest impact, in those countries where there is a difference. This is evident from the fact that in three of the four countries with the largest pension gaps, women legally retire before men. That is why it ranks first among the proposals.

1. **Equalize the official retirement ages of men and women in countries where there is still a difference.**

In the individually funded systems, the earlier retirement of women (in relation to men) is not a benefit, since it reduces the number of years of contribution (lower savings) while simultaneously increasing the number of years in which they receive a pension. Both of these issues play a significant role in the difference in pension amounts. It is estimated that delaying retirement by one year could increase pension amounts by about 7%.

In the PAYGO systems, the lower official retirement age of women also reduces their pension amounts, since the pension calculation rules usually consider the number of years of contributions (the greater the number of years of contributions, the higher the pension) and may even entail the loss of the pension, for not meeting the minimum number of years of contributions required. Thus, the lower retirement age of women is not a benefit, as it has an impact on lower pensions.

While it is understood that this measure may be complex in political terms, there is no good reason for maintaining this difference indefinitely, considering the ongoing positive evolution of household task distribution and the growing participation of women in the paid labour market.

One way of facilitating the equalization of retirement ages, following the example of European countries² is to do so gradually over time, without affecting women who are about to retire. Alternatively, strong incentives can be put in place for women to voluntarily postpone their retirement.

Although this measure has no tax cost and can even generate tax savings in non-contributory or solidarity programs, it must be accompanied by measures that favor the employability of senior citizens. Furthermore, increasing the retirement age of women to 65 could increase Chile's GDP per capita by 0.6%, according to an OECD study (2018). In 2018 the IMF also recommended that Chile should gradually equalize retirement ages.

It is important to clarify that this does not involve the elimination of a privilege, but rather the intention of increasing women's pensions, because they will live longer and healthier lives.

2. **Promote childcare networks:** Childcare is a role traditionally attributed to women, forcing many of them to leave the labor market, especially during the first years of a child's life. The evidence in both developed and developing countries shows that childcare subsidies increase the likelihood of mothers seeking employment and being hired. Thus, effective access to a wide network of nurseries/preschools will allow them to remain in the labor market, either part-time or full-time.

These networks must be very carefully designed, because of the costs involved, and to avoid distortions in the employment of women. It is evident that the State alone cannot meet 100% of the demand for childcare services, and private sector participation is therefore also required. Apart from the State, employers and workers could contribute to their funding.

It is essential that both male and female workers contribute equally, since contribution by only female workers would generate a negative bias to the hiring of women (due to the cost of nurseries and preschools) and/or the payment of lower salaries than men, while also prolonging the traditional role of women as sole caregivers.

3. **Improve Labor Legislation:** The review of labor legislation in each country, in search of gender biases, can result in proposals such as the following:
 - **Part-time and teleworking:** It is important for the labor laws of countries to facilitate part-time and work-from-home work, as promoted by the ILO.³ since this makes paid work more compatible with maternity/paternity and childcare.
 - **Equal paternity leave:** In Finland, mandatory and alternating equal paternity leave was recently adopted for men and women. This avoids staff recruitment bias, because mothers and fathers are equally unable to work after the birth of their children. This also encourages

² By 2030, all 28 European Community countries will have equal retirement ages for men and women, and 9 countries will have automatic adjustments linked to life expectancies.

³ See "[Guidelines on gender mainstreaming in employment policies](#)," ILO, 2011.

men to assume the same responsibility and bond of care with their children, thus sharing the burden equally between both parents.

- **Work permit flexibility:** For cultural reasons, women are expected to more easily receive work permits for childcare-related activities (e.g., taking them to the doctor), than men. More flexible treatment in this regard could help to balance the burden-sharing of unpaid work between the sexes.
- **Maternity Compensation:** There are several ways to compensate for the impact of motherhood on a woman's pension. In Chile, there is the bonus-per-child-born-live, consisting in the deposit of an amount equivalent to 10% of 18 minimum wages, adjusted by the returns of Pension Fund C, for each child. Bolivia and Uruguay have also implemented bonds of this type⁴.

Most pension schemes do not consider benefits for mothers who leave the labor market to care for newborn children, so it would be very important to have some means of encouraging their return and/or permanence in the formal labor market.

- **Non-discrimination:** Promote gender neutrality in jobs that do not require a specific gender to do a job.
 - **Genuine gender equality in maternity/paternity:** Promote equal benefits for mothers and fathers to avoid discrimination in the hiring of women.
4. **Encourage non-contributory or solidarity pensions:** The implementation of these pensions financed by general State taxes is an excellent mechanism for reducing the gender gap in pensions. In Chile, 60% of solidarity pensions are paid to women, reducing the gender gap in self-financed pensions from 50.2% to 21.1%.

However, non-contributory and solidarity pensions have a high tax cost in countries with high labor informality, and they must be carefully designed to avoid disincentives to labor formality and evasion in contributory pension systems.

5. **Provide pensions for women in case of separation or divorce:** Marriage contracts between spouses should consider a commitment to protect each other at all times, including in old age. Little importance has been given to this issue, because people tend to think that women will have a partner until they die. However, the current reality is that an increasing number of couples are getting separated or divorced, and in those cases, particularly when the woman has sacrificed her working life for the care of the household and the children, we must consider protecting her and the children.

For those families that decide that one of the spouses will take care of the children, that spouse's retribution may include pension savings. One of the options is an additional savings scheme based on consumption.

⁴ See "[Gender equity in pensions. The case of Mexico.](#)" CONSAR, 2022.

6. **Create subsidies for people who care for senior citizens and the disabled**⁵ Women also mostly play the role of caregivers for senior citizens and the disabled (in Chile 67% of senior citizens are cared for by their families, mostly by women.⁶)

In view of the accelerated aging of the Latin American population in the coming decades, it is believed that this issue must be faced with the incorporation of subsidies, or severe dependency insurance, as part of the social security policies that, among other aspects, finance adequate incomes (and that contribute to pension savings) for people who provide such care.

Policies should be carefully planned to prevent fiscal spending on this measure from spiraling out of control. I.e., put safeguards in place and grant the subsidy only to people who demonstrate that they stopped working in the formal sector to dedicate themselves to the care of senior citizens and disabled individuals. It is important not to limit this measure to women only.

7. **Create voluntary pension savings plans with tax incentives:** A good complementary measure to improve women's pensions is the creation of voluntary savings plans designed on behavioral economy principles, incorporating special incentives for them. Automatic enrolment mechanisms could be incorporated into these plans, with greater tax incentives for women, to which their spouses could also contribute.

The experience of the United Kingdom evidences the success of automatic enrolment schemes in increasing pension savings. Furthermore, studies conducted by Fixsen, show that automatic enrolment has been successful in reducing the gender gap in social security savings since its implementation.

This conclusion is also shared by Crawford and O'Brien who show that automatic enrolment has had a significant effect on pension savings behavior, with more women than ever contributing to occupational plans, significantly impacting the reduction of gender gaps.

8. **Use sex-differentiated mortality tables.** The application of unisex mortality tables, i.e., average life expectancies between men and women, is a proposal that is commonly mentioned to address the gender gap in pensions. However, it has very little impact on women's pension amounts, while negatively affecting pension alternatives, competition and transparency. **It is therefore not recommended, and it is preferable to use sex-differentiated mortality tables.**

In fact, imposing unisex mortality tables makes it difficult to offer different pension modalities because men would rationally prefer programmed withdrawal (PW), since they would be able to leave significant inheritances if they live longer than their life expectancy, and women would opt for a Life Annuity (LA), because if they opt for PW, they could exhaust their funds before dying, since they would live longer than their life expectancy stated in the unisex mortality tables. This would generate a higher concentration of women in LA, where unisex tables would also not reflect their life expectancy. In countries that have imposed the use of unisex mortality tables, the PW modality has often been eliminated, harming certain population groups.

⁵ In Latin America, only Argentina and Brazil provide this benefit.

⁶ Comunidad Mujer, 2018.

Competition would not only be affected by eliminating the PW modality but would also be affected within the insurance market (LA), since the sex variable, which is relevant in calculating the cost of pensions, would be hidden. However, hiding such information is not easy when retirement ages are different for men and women (the Insurance Company would probably assume that if you are retiring under age 65 you are a woman, and over 65 you are a man); from the age of the couple (men usually marry younger women), information that can be provided by the interested parties themselves (men), or that can be obtained irregularly. To avoid the use of the sex variable in LA offers, strict control is established and only group (not individual) offers are usually allowed, which limits healthy competition (the health or socioeconomic conditions of the future pensioner cannot be considered).

The use of unisex tables implies that the gender pension gap is reduced, in part by the unnecessary worsening of male pensions and the increase in women's pensions (which would be only 4%). Nonetheless, women receiving widowhood pensions would be affected by lower pensions on the death of their partners (widowhood pensions are usually a percentage of the deceased's pension).

Bibliography

- 1) Karol Fernández, Gender gaps in pensions and proposals to improve women's pensions in FIAP countries.
- 2) Presentation of Nieves Lanzagorta (AMAFORE), at FIAP-ADAFP 2022 International Seminar.
- 3) Presentation by Waldo Tapia (IDB), at FIAP-ADAFP 2022 International Seminar.
- 4) Gender Equity in Pensions, CONSAR
- 5) Rachel Fixsen (2019), "Self-enrolment irons out gender gap in UK pensions participation."
- 6) Rowena Crawford and Laurence O'Brien (2021) "Life-cycle patterns in pension saving".

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Queries: International Federation of Pension Fund Administrators (FIAP).

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