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Women's and men's
pensions

An analysis of gender differences and pension
dispersion today and in the future

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Summary

Women's and men's pensions: An analysis of gender differences and pension dispersion today and in the future

The Swedish Social Insurance Inspectorate (Inspektionen för socialförsäkringen, ISF) is an independent supervisory agency for the Swedish social insurance system. The objectives of the agency are to strengthen compliance with legislation and other statutes, and to improve the efficiency of the social insurance system through system supervision and efficiency analysis and evaluation.

The ISF's work is mainly conducted on a project basis and is commissioned by the Government or initiated autonomously by the agency. This report has been commissioned by the Government.

Background

During the last decade, pensions have been subject to intense public and political debate in Sweden. The public pension system and the different occupational pension plans have undergone large reforms. As a consequence of these reforms, individuals have greater responsibility for their pensions than before. The pensions are based on earned income from the entire working life, and individual investment choices need to be made for parts of the public and occupational pensions. Hence, it is crucial that the Swedish Pensions Agency, other public authorities and private insurance companies provide information that enables individuals to make optimal pension decisions.

The introduction of individual investment choices into the pension system has been subject to discussion. There is a concern that this will lead to increasing pension dispersion in the future. On average men have considerably higher pensions than women due to gender differences in labour incomes. If men and women make different investment choices, they may potentially amplify this income inequality.

Income differences may be a matter of concern not only for individuals but also for society as a whole. For example, if the rules of the pension system create or increase the differences between women's and men's pensions, they may be detrimental to gender equality. It is therefore important to investigate the causes of gender differences in pensions.

Objectives

This report examines gender differences in pensions and in the dispersion of pensions today and in the future. Separate analyses are conducted for the main labour market sectors, as persons who have worked in different sectors receive pensions from different occupational pension schemes. Separate analyses are also conducted for high- and low-income groups.

The analyses show how pension differences and pension dispersion emerge and how these might evolve in the future. They also show how gender differences and dispersion might be affected by an increase or a decrease in the coverage of the occupational pensions.

Methods

The study uses longitudinal register data from Statistics Sweden and the Swedish Pensions Agency.

The Swedish pension system is a three-tier system consisting of public pensions, occupational pensions and individual private pensions. The public pensions include the guarantee pension, income pension, premium pension, survivor's pension, housing allowance (*bostadstillägg*) and social assistance for the elderly (*äldreförsörjningsstöd*). All these parts of the pension system are taken into consideration in the analysis, both separately and together. Throughout the report pension dispersion is measured by Gini coefficients.

It is quite straightforward to analyse the gender differences and dispersion of today's pension payments, as they are included in Statistics Sweden's records. It is much more complicated to analyse future pension payments. In the report the future pensions of persons born between 1985 and 1990 are predicted. This requires a number of assumptions. The assumptions about the future pension contributions for public and occupational pensions are based on labour incomes for persons born between 1938 and 1990.

All public sector employees and a majority of private sector employees are covered by occupational pension plans. There are no individual-level register data on coverage, but Statistics Sweden has information on the occupational pension contributions paid by employers. By linking employer and employee data, the analysis can identify employees who work in companies with some kind of occupational pension plan. It is assumed that all the employees in these companies are covered by occupational pensions, and an analysis of occupational pension plan coverage for men and women of different ages is carried out. The results are subsequently used to predict future occupational pension plan coverage and payouts.

Predictions of future outcomes are always uncertain. Not only are future labour incomes uncertain but also pensions are affected by the development of the economy, demography and the stock market. This has to be emphasized in the analysis of future gender differences and dispersion in pensions.

Findings

Women have lower pensions than men in all labour market sectors

The difference in public income pensions between persons who have worked in different sectors is small. This applies to both women and men. However, the difference in average occupational pensions between persons who have worked in different sectors is large, as it reflects the wage differences between sectors. Hence, the public pensions and the occupational pensions combined differ considerably between persons who have worked in different sectors. Women have lower pensions than men independent of the part of the labour market in which they have been working.

Real wages have increased over time, and, as a consequence, an increasing proportion of workers have labour incomes above the pension-qualifying income in the public pension system. Occupational pensions have therefore become more important, as they entitle individuals to pension benefits for incomes above the pension-qualifying income. The importance of occupational pensions has grown the most for county council employees, especially women, and for high-income workers in the private sector.

Among the pensioners with the lowest pensions, the guarantee pension's share of the total pension incomes has decreased over time. At the same time, the income pension's share has increased. The survivor's pensions' share has increased over time among the women with the lowest pensions.

The gender difference in pensions has decreased

Today the gender difference is approximately as large for younger as for older pensioners. Among younger pensioners the gender difference has decreased over time in all income strata. The gender difference between older pensioners' total pensions has decreased marginally over the past few years. There is one exception: the gender difference between the older pensioners with the highest pensions has increased over time.

The difference between women's and men's total pensions is due to gender inequalities in labour incomes that are transferred to pensions. Different components of the pension system have different effects on this transfer, and the effects vary between different segments of the retired population. For older cohorts the gender difference in total pensions is mainly explained by the gender differences in public income pensions. For younger cohorts it is mainly the occupational pensions that explain the gender difference. Within a cohort the occupational pension's contribution to the gender difference in the total pensions decreases as the pensioners grow older. The reason

for this is probably that many pensioners have withdrawn their occupational pension over 5 or 10 years instead of as an annuity. As the occupational pensions' contribution ceases, the gender difference decreases.

Guarantee pensions, survivor's pensions and housing allowances provide a small decrease in the gender difference, whereas private individual pension savings cause a marginal increase. The premium pension and the social assistance for the elderly do not affect the gender gap.

The gender differences between the pensioners with the highest pensions are almost fully explained by the differences in occupational pensions. This is also true for highly educated former private sector employees and for former government and county council employees.

Among the pensioners with the lowest pensions, men's higher total pensions are mainly explained by the gender differences in public income pensions. The guarantee pensions reduce the gender differences between the pensioners with the lowest pensions. The housing allowances increase the gender differences between the pensioners with the lowest pensions. Among the pensioners with low pensions, it is more common for men to be single than women, and therefore men receive housing allowances to a greater extent.

The dispersion of the total pensions has increased over time

The dispersion of the total pensions has increased over time, both among men and among women. The dispersion is larger for men than for women. Housing allowances, social assistance for the elderly and survivor's pensions decrease the dispersion of the total pensions, whereas the occupational and individual private pensions increase the dispersion. The dispersion of the total pensions is much larger among persons who started to withdraw their pensions before the age of 65.

The dispersion of the total pensions is smaller for women than for men, regardless of the part of the labour market in which they have been working. The dispersion is largest among men who have worked in county councils and among highly educated men and women who have worked in the private sector.

Gender differences will remain, but decrease, in the future

The predictions of future pensions for cohorts born between 1985 and 1990 show that the gender differences and dispersion of the total pensions will be similar to those observed today. The gender differences are predicted to decrease, but women will still receive lower pensions in the future regardless of the sector in which they have been working. There is one exception: the predictions show that women and men who have been working in municipalities will receive equal pensions.

The gender difference in future total pensions will mainly be explained by the occupational pensions, as it is today. The guarantee pensions will still reduce the gender difference, especially among low-income earners. The premium pensions are predicted to increase the gender difference, particularly among low-income earners.

Investment differences will have a small impact on the dispersion of total pensions in the future

The predictions show that the dispersion of future total pensions will be explained mainly by the dispersion of labour market earnings. The dispersion of premium pension investment returns contributes 4 per cent of the dispersion of future total pensions. The occupational pension investment returns contribute only 1 per cent of the dispersion of total pensions, as almost all persons choose the default investment option for

their pension savings. When most savers choose the same investment option for their pensions, there will obviously be little dispersion in their investment returns.

If the coverage of occupational pensions decreases, the gender differences and dispersion of total pensions will decrease

Between 94 and 96 per cent of women and 91 and 92 per cent of men either work for employers that make occupational pension contributions or are self-employed and pay pension contributions for themselves. Women have slightly higher coverage, as they work in the public sector to a larger extent than men, and all public sector employees are covered by occupational pension plans. Approximately 89 per cent of private sector employees are covered by occupational pension plans, and there is no gender difference. The proportion that is covered has been constant during the last 15 years. It is a very small fraction of the workforce that is not covered by occupational pensions during several years of their working life.

If the proportion of employees covered by occupational pension plans was to decrease in the future, the gender difference in the total pensions would decrease as well. The dispersion of the total pensions would decrease among men but only marginally among women. Many men have high occupational pensions, so, if fewer of them received these pensions, the gender difference and dispersion among men would decrease.

Concluding remarks

The total pensions reflect the income differences and income dispersion in individuals' working life. Women have lower pensions than men, but the difference has decreased over time. The dispersion of pensions is larger among men than among women, and it has increased over time. The gender difference in the total pensions is predicted to decrease in the future. If the occupational pension coverage decreases in the future, the gender differences and dispersion of the total pensions will also decrease.

The returns from premium pension and occupational pension investments will only explain a small part of the pension dispersion in the future. As almost all persons choose to invest their pension savings in the default investment option, the government and the social partners in the labour market have considerable responsibility when designing the default investment option of the premium pension and of the occupational pensions.

One important aspect that has been omitted from the analysis is the introduction of so-called flexible pensions (*flexpension*) as part of some occupational plans. The employer pays extra contributions to flexible pensions. The employee can choose either to leave the labour market early using the payments from the flexible pension or to continue working and receive a higher pension when retiring at a later date. The difference in the average total pensions between labour market sectors is expected to increase, as contributions to flexible pensions have been introduced in some, but not all, occupational pension plans. The effect on pension dispersion is unclear and depends on which workers will leave the labour market early and which will stay.

Another important aspect that has not been analysed in the report is immigrants' pensions. Immigrants have lower pensions than natives, and this will probably be the case in the future as well. The share of the population that has immigrated is growing, and, as a consequence, a larger part of the population will receive guarantee pensions, social assistance for the elderly and housing allowances. The average pension will probably decrease more for men than for women. Hence, the gender difference will decrease. The dispersion of pensions will also decrease, as a larger number of pensioners will receive no more than the minimum-level pension.