Financial security in old age: an overview of inequalities faced by women

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Some key considerations for the financial security of women in old age

- Pensions through intergenerational transfers are unlikely to be sustainable in the long term
  - Individuals will be expected to make (additional) provision themselves
- But voluntary provision is often low, particularly by people on low or middle incomes
  - Too young, too poor, too old!
- Women are often at a disadvantage in terms of financial protection in old age
  - As a result of multiple factors: demographic, labour market participation and behavioural biases
  - Which private pension design often does not accommodate
Demographic factors and family history

• Lower educational attainment
• Primary responsibility for child and elder care
  – More limited opportunity to build up financial provision
• Poorer following divorce & lose provision for old age
• Longer life expectancy
  – Financial provision must cover more years with a risk that the money may run out
• Marry younger and greater likelihood that will be widowed and live alone
  – Financial provision will not go so far through loss of economies of scale
Labour market participation

- Child bearing and child rearing leads to periods of economic inactivity and labour market disadvantage
- Child rearing role means more part-time working
  - Can limit access to pensions as well as ability to save
- Lower educational attainment means less-skilled and lower-paid work
- More likely to work in the informal sector in low- and middle-income countries
- Lack of wage parity – even in countries with equal pay legislation
Behavioural biases among women

• Put their children’s needs before their own
  – Start thinking about planning for old age much later

• Have responsibility for (and are very good at) day-to-day money management
  – Shorter-term horizons & less good at planning for old age
  – Many rely on husband’s pension provision

• Couples find it difficult to discuss money matters unless things are very bad or very good
  – So not involved in husband’s pension planning, even though it worries them
  – And because men often expect to die young they tend only to think about their own retirement
Behavioural biases among women ctd

- Are less confident and knowledgeable and have less interest in reading about financial products
  - So make less-informed choices and often go with default options
- Are more trusting and rely on financial advisers to act in their best interest
  - So are more vulnerable to mis-selling
- Are more risk averse
  - So make investments that have a less volatile and lower rate of return – leading to lower financial pots on retirement
Pension design effects on women

• Universality and auto-enrolment benefit women
  – But choice has been the mantra of the pensions debate
• Women have better provision in defined benefit rather than defined contribution schemes
  – But defined benefit schemes are universally in decline
Pension design effects ctd

- Access to money saved for old age over life-time
  - Women are more focussed on short/medium term needs
  - So are more likely to save if they have access to a life-time account with limited draw down
  - But may end up with smaller pots of money in old age

- Retirement age
  - An earlier retirement age for women in some countries contributes to their lower pensions
  - Linking retirement age to size of pension pot adversely affects women
Pension design effects ctd

• Pay-out terms of asset-based schemes
  – Whether annuitisation is mandatory (will protect women, but women may resist; greater discretion could adversely affect women)
  – Indexation, especially to wages, benefits the old-old at the expense of the young old (and women benefit)
  – Imputed interest rate applied to payouts (low rate means a lower initial pension but facilitates better indexation which benefits women who tend to live longer)
  – Mortality tables (in theory unisex ones benefit women; gender specific ones do not. But unisex tables may discourage insurance companies from targeting women)
Pension design effects ctd

- **Beneficiaries in cases of early death**
  - Research shows that women would like their children to be beneficiaries, but most pensions do not permit this

- **Arrangements for survivors**
  - Women tend to outlive their husbands and household costs fall by 30% but a survivor’s pension payment usually halves

- **Arrangements for the very old**
  - Women face a greater risk of running out of money – so rules regarding annuitisation, indexation, survivors’ benefits and joint pensions are important
Safety net for women’s welfare in old age: family support

• For many women, investing in their children is the way that they would choose to provide for their old age
• In some low- and middle-income countries this may not be a bad decision
  – But only if family bonds are strong and likely to endure
• But is declining rapidly
  – In more developed economies this is a much riskier proposition, even as a safety net
Safety net provisions are crucial for women’s welfare in old age: adjusting private pensions

- Maternity and caring credits given to women who fulfil roles that society values
  - But both risk damaging work incentives and pension contributions
- Adjusting survivors benefits
- Requiring each spouse to buy a joint annuity or other joint pension provision
- Split the family’s retirement accumulation either continuously or upon divorce
Safety net provisions for women’s welfare in old age: public safety nets

- Flat rate minimum income guarantee to all at a set age
  - Ageing societies may make this unaffordable
- Means-tested minimum income guarantee
  - Can act as a disincentive to low-wage earners (and therefore women in particular) from making own pension provision
- Minimum contribution level to qualify for safety net
  - Can adversely affect women
- But such safety nets pose a dilemma
  - They increase the welfare of older women today but impede changes to improve future welfare of younger women
Overall design of pension provision

- Extent of individual choice and decision-making
  - Too much choice paralyses individuals and women in particular and causes them to rely on poor heuristics
  - And reliance on individual decision-making disadvantages women, whose knowledge is lower and risk aversion higher

- Voluntary versus compulsory
  - Women are less inclined to join voluntary schemes for variety of reasons already discussed
  - Opt out schemes, with automatic enrolment are growing in number and popularity
Overall design of pension provision

• If based on Financial Defined Contribution plans
  – Need regulation covering pension design and cost
  – Need robust regulation of sales and financial advice
  – A good default option that is unlikely to be mis-sold

• Growing interest in Non-financial (notional) Defined Contribution plans
  – An individual account that combines pay-as-you-go financing with an individual lifetime account structure
  – Decision process is simpler; asset management is done centrally
  – No annuities – payouts are calculated on the balance in an individual’s account and the life expectancy of their cohort at retirement
What role can financial education play?

- This depends on the nature of the pension provision
  - and is needed most where provision is based on Financial Defined Contribution plans

- Potential areas of need (especially for women) are:
  - Combating lack of interest and raising awareness of the importance of adequate personal financial provision
  - Addressing poor knowledge
  - Addressing short-term financial planning horizons
  - Moderating risk aversion
  - Addressing the paucity of independent advice
  - Encouraging couples to plan together
But what works?

- Effects of one-time interventions are short-lived
  - Reinforcement is necessary to sustain behavioural change
- Imparting knowledge alone can be insufficient to bring about behaviour change
- Programs work best if they are entertaining and appeal to emotions
  - and/or reach consumers at teachable moments
- So edutainment, learning by doing and one-to-one guidance have most impact
  - Small group sessions work better with women than with men
  - Workshops work least well
However…

- Financial behaviour can improve even if knowledge does not
  - Measures to change behaviour directly can have more effect eg effects on pension take-up of auto-enrolment was far greater than financial education
Conclusions

• The causes of gender pension inequalities are diverse and complex
• Tackling them requires a comprehensive approach
  – Tackling inequalities in the labour market, through childcare provision, equal pay and equal opportunities legislation
  – Designing pension plans that are appropriate to women’s needs and patterns of labour market participation
  – Designing pension systems that overcome women’s behavioural biases and provide them with good regulatory protection
  – And complementing this with appropriate interventions to raise women’s financial capability in the area of pensions
Thank you

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