Narrowing the retirement savings gender gap

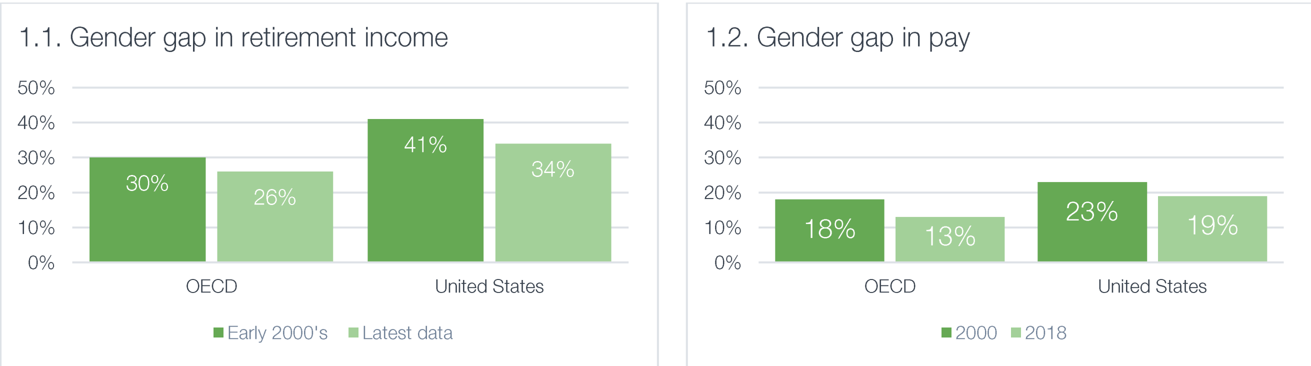
The retirement gender gap – A significant global challenge for employers

The gender gap in retirement savings is significant worldwide. Whilst multinational companies have been working to address significant pay gaps between men and women, much work remains to be done to narrow the wide disparity in retirement savings. Understanding the drivers likely affecting the retirement income gender gap could help multinationals make progress on this issue.

According to a recent report by the Organisation for Economic Co-operation and Development ("OECD"), women aged 65 and older received a retirement income that was 26% lower than men on average across OECD countries[1]. The OECD's "Towards Improved Retirement Savings Outcomes for Women" also showed that, in the United States, women received a 34% lower average retirement income than men according to the latest available data, a decrease from 41% in the early 2000s – suggesting that the retirement income gap between the genders is narrowing (Figure 1, Panel 1.1).

This gap may be partly due to pay inequities between the genders. On average in the OECD, women working full-time were earning 13% less than men in 2018, a decrease from the 2000 average of 18%. In the United States, the movement was broadly similar: women were earning 19% less than men in 2018, compared to 23% less in 2000 (Figure 1, Panel 1.2). The improvement in pay inequities over the period is encouraging and appears to correspond with the gradual closing of the retirement income gap. **However the retirement gender gap remains significant around the world, and is worse in the United States than on average across OECD countries.**

Figure 1: Movement in retirement income and pay gaps between genders[a]



Source: OECD (2021), Towards Improved Retirement Savings Outcomes for Women

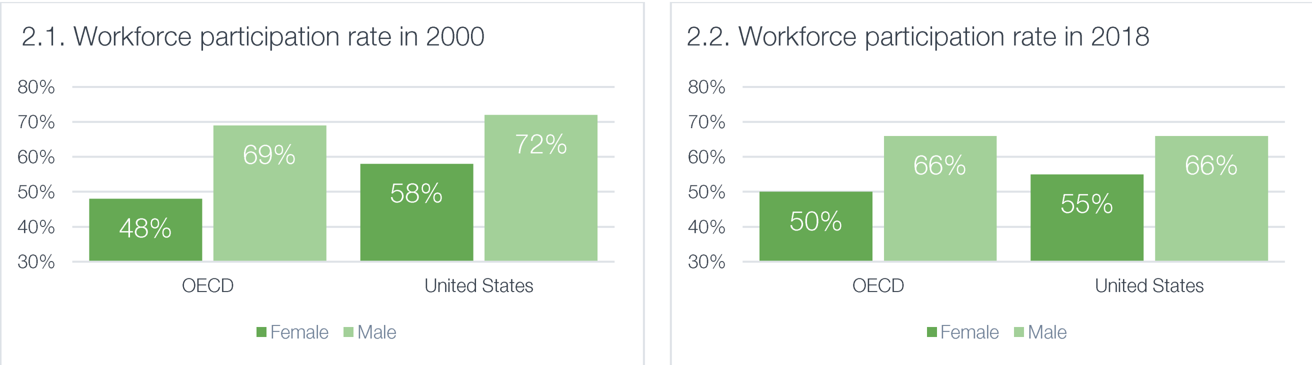
[a] Panel 1.1. Gender gap in retirement income is the difference between the average retirement income of men and women aged 65 and older, considering both public and private sources of income. Latest data reflects a range of years in the mid to late 2010's, whilst early 2000's data reflects data between 1998 and 2002. Latest data for the OECD reflects the average retirement income gender gap amongst 34 OECD countries, whilst early 2000's data reflects a straight average across 21 OECD countries.
Panel 1.2. Gender pay gap is the difference between men and women's median full-time pay divided by men's median full-time pay. Data for the OECD is the average pay gap amongst 37 OECD countries.

Pay inequity is not the only factor widening the retirement savings gap

Besides pay inequities between genders, there are other lingering factors that could be driving the gender gap in retirement savings. These include:

- **Workforce participation:** The OECD's recent report showed that workforce participation of men in OECD countries decreased from 69% to 66% between 2000 and 2018 (a 3% decrease), whilst women's participation increased from 48% to 50% over the same period (a 2% increase). Increased female workforce participation is potentially improving retirement outcomes for females. This compares to a decrease in workforce participation for both men and women in the United States between 2000 and 2018 (Figure 2, Panel 2.1 and 2.2). However, workforce participation in the US is still higher than the OECD average for both genders.

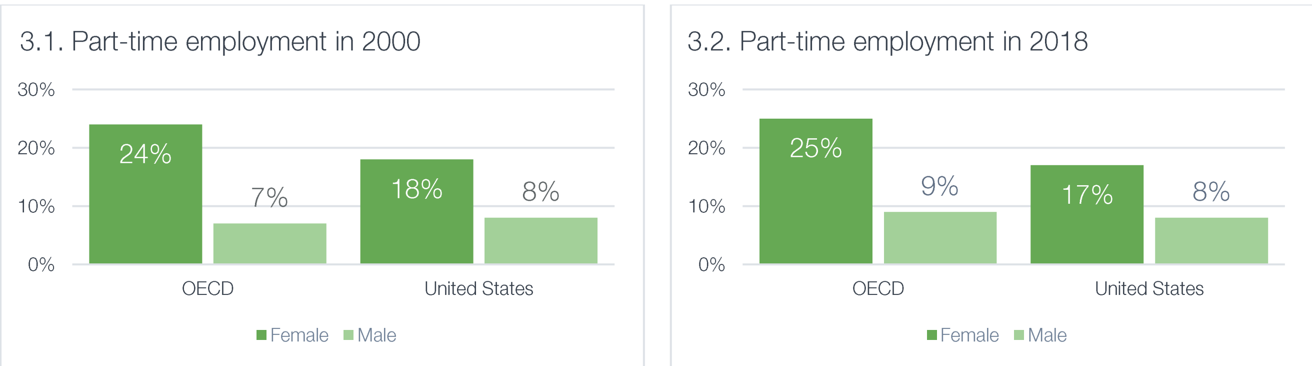
Figure 2: Workforce participation by gender[b]



Source: OECD (2021), Towards Improved Retirement Savings Outcomes for Women

- **Employment structure:** Different contract structures, for instance full-time versus part-time, could also have impacted the gender retirement gap since part-time workers are less likely to receive the same benefit entitlements as full-time workers. Against this backdrop, retirement income gaps tend to widen further as part-timers represent a much larger proportion of the workforce for women than for men (Figure 3, Panel 3.1 and 3.2). The proportion has remained broadly stable between 2000 and 2018.

Figure 3: Part-time employment by gender[c]



Source: OECD (2021), Towards Improved Retirement Savings Outcomes for Women

[b] Panel 2.1. and 2.2. Workforce participation reflected as a percentage of the working age population of men and women. Data for the OECD is the average amongst 37 OECD countries.

[c] Panel 3.1. and 3.2. Share of working men and women in part-time employment as a percentage. Data for the OECD is the average amongst 37 OECD countries.

- **Gaps in contributory service:** Retirement savings are also affected by gaps in contributory service, which tend to impact women disproportionately, especially those who take a career break (or switch to part-time work) to raise a family or care for older family members. Due to these breaks in service, fewer women than men have a stable, continuous stream of retirement contributions.

- **Design of retirement savings plans:** Many traditional retirement plan features tend to favor men. For example, in many countries retirement savings plans are based on pay, allowing only those whose pay is above a certain threshold to participate in the plan. This could put women at a disadvantage due to the underlying gender pay gap.

- **Other cultural, behavioural and financial factors:** Unlike men, women view achieving their personal goals as more important investment priority than achieving market outperformance[2]. Women have distinctive preferences, including more emphasis on security, accuracy and privacy. Women tend to make more conservative investment decisions compared to men. Over time, differences in retirement assets between men and women are likely to compound as these assets are invested in financial markets and yield investment returns – hence potentially widening the gender gap in retirement savings further.

Potential implications of not doing enough, fast enough

The gap in retirement income today is the result of retirement saving arrangements and career differences between men and women from many years ago. The gap in future retirement income for current working individuals may be different. However, current trends suggest that women may still need to play catch-up when it comes to their retirement savings. If not addressed today, the gender gap in retirement savings worldwide is likely to persist.

Moreover, with COVID-19 continuing to affect lives and livelihoods globally, the economic downturn is exacerbating gender inequities further[3]. Women's jobs are 1.8 times more vulnerable to this crisis than men's jobs[4]. Women have also been impacted more by COVID-19 as the pandemic has placed greater pressure on women to address the need for childcare due to closure of schools and daycare centers.

Women also tend to live longer than men, which simply makes retirement more expensive for women. Globally, women at age 65 are expected to live another 18 years, while men at the same age expect to live an additional 16 years based on 2015-2020 data[5]. Women need to fund for their retirement and healthcare needs for more years than men. There is also a higher likelihood for women to outlive their spouse, and the widow's income tends to reduce following the spouse's death[6].

Combining these factors, there is a pressing need to educate women on financial wellness and closing the gap on retirement savings. Multinationals who are early movers in addressing this gap are likely to see dividends from greater engagement amongst employees.

Bridging the gender retirement gap worldwide

Around the world, the retirement savings gap between genders is the result of several interconnected factors relating to employment, societal and cultural attitudes, education, and individual bias. **This is a global issue with globally consistent causes.** To help narrow the gender gap around the world, multinationals could therefore focus on the following specific areas – whilst these are by no means exhaustive, they provide similar overarching themes:

- **Address pay and career inequity between genders.** The pay gap between genders is the most significant factor driving the retirement savings gender gap. Multinationals may focus on ensuring pay equity, providing equal job opportunities across genders, and support better and more diverse career opportunities for women.

- **Ease eligibility criteria for employer retirement savings schemes.** Multinationals could consider easing eligibility criteria for participation in retirement savings schemes – for example, allowing part-timers or those with lower salaries to participate or reconsidering the treatment of those who take breaks in service to care for children – to be more inclusive of women.

- **Introduce more tailored financial education to women.** Reiterate the importance of savings and retirement planning and how additional savings can be made. Tailor financial wellbeing initiatives to take account of gender differences and individual needs. Aim to improve female employees' confidence and knowledge to navigate important financial matters for them and their families, including long-term retirement savings.

- **Support more sharing of family responsibilities between genders.** Multinationals could provide subsidies to both men and women who take time out to raise a family – this could be in the form of longer parental leave, or providing equitable leave to men for child or elderly care. Using success stories to demonstrate the impact of such benefits can be a powerful motivator for others to follow a similar path.

In summary

The gender gap in retirement savings appears to have narrowed since the early 2000's. However progress has been slow, and the fast-changing workforce and the uncertainties brought about by COVID-19 could erase the efforts made to progress gender equality. Understanding the factors widening the gender gap could present a significant opportunity for multinationals to lead on this critical issue on a global basis, and support the financial resilience of their employees worldwide. It should also give them a competitive advantage – in terms of employee retention, vitality, productivity and diversity.

At MBWL and Milliman, our mission is to protect the health and financial wellbeing of employees everywhere. Multinationals can reach out to our experts to help them review their retirement and financial wellbeing offerings to drive diversity and inclusivity among their workforce globally, and improved financial outcomes for employees and employers worldwide. Additionally, our consultants can help tailor financial communication sessions to be more inclusive and effective for women, provide meaningful analytics, and establish effective measures of success to sustain impact and return on investment. Bridging the gender gap in retirement savings today could yield significant benefits for both multinationals and society for many years to come.

End notes

1. OECD (2021), Towards Improved Retirement Savings Outcomes for Women, OECD Publishing, Paris, https://doi.org/10.1787/f7b48808-en.
2. Women and Wealth – The Case for a Customized Approach (2017). Ernst and Young (2017).
3. McKinsey Global Institute: COVID-19 and gender equality: Countering the regressive effects, July 2020.
4. Ibid.
5. United Nations, Department of Economic and Social Affairs, Population Division (2019). World Population Ageing 2019: Highlights (ST/ESA/SER.A/430).
6. Retirement Advisor Council: Viewpoint: Creating more impactful programs for women.

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