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A Briefing from the Retirement Policy and Research Centre

Gender: pay & pensions gaps, and penalty of COVID-19

RPRC PensionBriefing 2021-1

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This PensionBriefing is based on the RPRC 2020 Working Paper, *Women and Retirement in a post COVID-19 world*, by M.Claire Dale and Susan St John,[1] comparing gender pay gaps, gender pension gaps and COVID-19 penalties in New Zealand, Australia and Ireland. The gender pay gap, which adversely affects women's retirement preparation, is primarily the combination of lower pay rates, for fewer hours, for fewer years of the working age lifespan. Other factors contributing to the gender pay gap include conscious and unconscious bias, later age divorce, the high cost of childcare and the design of pension policy.

The gender *pension* gap is seldom measured or even acknowledged, largely because most social insurance and work-based retirement savings schemes have lacked a gender lens. Women are absorbed into a male model of workplace participation, yet their paid working lives tend to be very different. The gender *penalty* of COVID-19 has increased the magnitude of both pay and pension gaps.

This PensionBriefing also celebrates the 2021 OECD paper, *Towards Improved Retirement Savings Outcomes for Women.*[2] The youtube video of the launch of that paper is available here.[3] At that launch, in a panel discussion led by Dr Pablo Antolin, Principal Economist and Head of the Private Pensions Unit, OECD, panelists included Júlia Čillíková, Executive Director, Supervision and Financial Consumer Protection Division, National Bank of Slovakia; Paul Leandro, Partner, Barnett Waddingham, UK; Dr Mathilde Mesnard, Deputy Director, Directorate for Financial and Enterprise Affairs, OECD; and Dr M. Claire Dale, Research fellow, Retirement Policy and Research Centre, University of Auckland Business School.

1. Introduction

The gender *pay* gap indicates how much less women are paid than men. As well as the obvious natural justice, arguments supporting more gender equality include higher economic productivity, more diversity and economic and political stability, better mental health, more stable and happier families and less female poverty. While international and industry variation in the definition and basis for calculations makes it difficult to compare the size of the gap between countries and occupations, approximations can usefully be made.

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[1] See Dale & St John (2020).
[2] See https://www.oecd-ilibrary.org/finance-and-investment/towards-improved-retirement-savings-outcomes-for-women_f7b48808-en.
[3] See https://www.youtube.com/watch?v=VddEjLkuy5o.

Official statistics show that, compared to women in Australia or Ireland, New Zealand women are less disadvantaged: in New Zealand in 2019, *"a typical female earned about 9% less for an hour's work than a typical male"*.[4] In 2020, in Australia the gender pay gap was 13.4%,[5] and in Ireland it was 14.4%.[6]

The gender *pension* gap, or women's comparatively smaller accumulations of retirement savings, is seldom measured or even acknowledged. Historically, most social insurance and work-based retirement savings schemes lacked a gender lens. Women are absorbed into a male model of workplace participation, yet their paid working lives tend to be very different. Women's work is often part-time: in New Zealand, for example, women comprise nearly 72% of the part-time workforce and 48% of the full-time workforce.[7] Women's work also tends to be low paid, and career progression is compromised by breaks for caring for children and/or ageing parents. Such breaks in earning, as well as disrupting income, usually also stop the pension contributions from the women themselves, their employers and any state-funded tax concessions.

In addition, the gender pension gap is often negatively affected by widowhood, the increasing trend for divorce later in life, and lack of access to affordable housing. This smaller accumulation is at odds with the fact that on average women live longer than men, and they are more likely to both require expensive end of life care for longer and endure a lower quality of life.

The gender *penalty* of COVID-19 has increased the magnitude of both pay and pension gaps. As discussed below, this penalty is evidenced in the increase in unemployment for women, the dual responsibility of 24 hour childcare and working from home, and in 'hardship' withdrawals from retirement savings schemes. This does not mean the problem is insoluble.[8]

2. Gender pension gap

When considering the gender pension gap, New Zealand women are comparatively fortunate: the tier 1 state pension, New Zealand Superannuation (NZS), is individual, inclusive, and non-contributory, thus blind to gender. At age 65, if a person has been resident in New Zealand for 10 years since the age of 20, with 5 of those years since the age of 50, they qualify for NZS, whether or not they have ever been employed or paid tax.

In addition, NZS is not means-tested, and is taxed as part of total income, so there is no disincentive to continue employment. These conditions are in stark contrast to most age pensions which are, like the Australian Age Pension, income and asset-tested, or, like the Irish State Pension Contributory scheme (SPC) (previously the Old Age Pension), determined by individual contributions made during employment.

New Zealanders also enjoy human rights and anti-discrimination laws that prevent compulsory retirement, unlike Ireland. The situation there is very different: the mandatory retirement age for many in the private sector is 65. This mandatory retirement adds deep

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[4] See https://www.stats.govt.nz/information-releases/labour-market- statistics-income-june-2019-quarter.
[5] See https://www.wgea.gov.au/data/fact-sheets/australias-gender- pay-gap-statistics-2020#:~:text=The%20National%20Gender%20Pay%20Gap,-The%20national%20gender&text=Currently%2C%20Australia's%20national%20gender%20pay,full%2Dtime%20earnings%20of%20%241%2C812.00.
[6] See https://www.irishtimes.com/news/politics/irish-women-are-essentially-working-for-free-for-rest-of-year-due-to-pay-gap-campaign-says-1.4403856.
[7] See https://www.stats.govt.nz/news/women-in-paid-work.
[8] See, for example, *5 points to reduce the gender pay gap* at https://www.barnett-waddingham.co.uk/comment-insight/blog/5-key-focus-points-to-be-a-leader-in-reducing-the-gender-pay-gap-in-2021/.

tension to discussions around increasing the qualifying age for the Irish state pension (currently 66 years).[9]

While the design of New Zealand's auto-enrolment second tier, KiwiSaver, needs improvement, it also has some attractive features for those women able to contribute, including the Government's annual contribution of NZ$521 (providing the saver meets a minimum savings contribution of NZ$1,043 level). The Government's contribution is not conditional on being in employment.

While the state pension in New Zealand is relatively generous, a comfortable and secure retirement in New Zealand depends largely on owning a mortgage-free home. Prior to COVID, the average old-age poverty rates for women and men in the OECD equal 15.7% and 10.3%, respectively. Lower earnings-related pension income and longer life expectancy are among the main drivers of higher poverty incidence among women than among men. In Austria, Canada, the Czech Republic, Israel, Japan, Poland, Slovenia, Sweden, the UK, the US and New Zealand, the gender difference is more than 5 percentage points.[10] And those in poverty in New Zealand are more likely to be women renting their homes. This is another price of women's greater longevity.[11]

In Australia, older women are the fastest growing group in poverty.[12] There, as noted, the gender pay gap is 13.4%, the compulsory retirement saving scheme, the Superannuation Guarantee (SG), reveals a gender savings gap of 28%, and one third of women have no SG savings.[13] Increasing numbers of Australian pensioners, especially women and divorcees, work part-time from necessity, and pensioners who are working are three times more likely to have been divorced than other pensioners or self-funded retirees. Nearly 5% of people on the age pension are now in paid work, and the majority of working women pensioners say they want to work fewer hours.[14]

A critical flaw in the design of the SG means many Australian women do not earn the minimum necessary to access their employer's contribution. An estimated 43% of women work part-time, and have more than one employer, but do not meet the requirement to earn $450 per month (before tax) from a single employer. The consequence is that around 220,000 women miss out on any part of $125 million of employers' SG contributions. While some low-income women are compensated for the 15% tax on employer contributions to their SG by the government's low-income tax-offset of up to A$500, they are unable to benefit from the concessional tax treatment that higher earners enjoy.[15]

Women in Ireland are also disadvantaged in retirement by the design of the basic state pension. The RPRC has contributed to the Irish debate over pensions, especially auto-enrolment for more than a decade. A recent RPRC submission to the Irish Pensions

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9 Seehttps://www.citizensinformation.ie/en/social_welfare/social_welfare_payments/older_and_retired_people/state_pension_contributory.html#:~:text=The%20current%20qualifying%20age%20for,will%20continue%20to%20be%2066.

10 See https://www.oecd-ilibrary.org/docserver/fb958d50-en.pdf?expires=1618786885&id=id&accname=ocid177592&checksum=232B33CE1AB8CA6D05A77FDA6BA2BD59; p. 186.

11 See James, Bates, Coleman, Kearns, & Cram (2020). Tenure insecurity, precarious housing and hidden homelessness among older renters in New Zealand. *Housing Studies*, 1-23. https://www.tandfonline.com/doi/full/10.1080/02673037.2020.1813259; and see Statistics New Zealand (2016). Two's a crowd: Living alone in New Zealand. Retrieved from www.stats.govt.nz at https://www.superseniors.msd.govt.nz/documents/age-friendly-communities/living-alone.pdf.

12 See https://theconversation.com/400-000-women-over-45-are-at-risk-of-homelessness-in-australia-142906.

13 See https://www.aipm.com.au/blog/articles/can-australia-close-the-gender-gap-on-superannuati.aspx.

14 See Dale & St John (2020), p. 37-42.

15 Ibid.

Commission[16] argues that women are disadvantaged in retirement by the Irish state pension's design: a contributory basis with a means-tested top-up.

The first tier comprises two state pensions. The first is contributory and requires compulsory pay-related social insurance contributions (PRSI) from employees and employers at a complex variety of different rates.[17] It is the weeks of contributions that matter not the amount contributed, but for part-time earnings the PRSI rate is less than a full-time rate. To qualify for any state pension, a minimum of 520 paid contributions must have been made. For the maximum personal rate of State Pension (Contributory) 2,080 or more PRSI contributions (or 40 years of employment) are required.

As discussed in more detail in Dale & St John (2020) if there is a "dependant" adult (spouse, civil partner or defacto) an additional amount can be payable to that person, depending on their income and any property apart from the home. Credits for time out of the workforce may not cover all the caregiving situations women experience. Women who do not receive the State Pension (contributory) may qualify for a lower means tested non-contributory pension. The maximum non-contributory weekly pension in 2020 is €237 (NZ$402) but it is reduced euro for euro above the first €30 of other income.[18]

The complexity of the design makes it very difficult for women to understand what their entitlement on retirement might be.

The complex and limiting rules mean that women can fall far short of the contributions needed to gain a full state pension in their own right. For example, the National Women's Council of Ireland (2017) found that:

• *Women's State pensions are on average smaller than men's by more than a third;*
• *Women account for just over a third of those receiving a full State pension;*
• *Six out of 10 women aged 70+ receive only the lower State (non- contributory) pension;*
• *Older people living alone are at particular risk of poverty, and 7 out of 10 lone adults aged between 75 and 84 are women.*

Compounding the problem: there is no compulsory second tier in Ireland, coverage by occupational pension schemes is low, and average membership of such schemes (excluding single member schemes) is just 24 people. This exceedingly low membership is in sharp contrast to international practice where schemes routinely achieve economies of scale with hundreds, thousands and even millions of members.

Reform of the flawed design is slow, as is the implementation of the proposed auto-enrolment (AE) scheme. This scheme raises issues that are paramount for women such as the 'clearing house' design ensuring contributions via multiple employers still find their way to the employees' accounts, age of access, minimum earnings to qualify, and design of tax incentives. The 42-year contribution band from age 23-65 does not reflect the reality of many women's working life experience, and the proposed contribution threshold income of €20,000 is too high.[19]

In contrast, there is no entry threshold for New Zealand's KiwiSaver scheme, and the threshold for Australia's SG is much lower at an annual A$5,400. For women whose income is variable the proposed Irish scheme will be very complicated.

[16] See https://www.business.auckland.ac.nz/en/about/our-research/bs-research-institutes-and-centres/retirement-policy-and-research-centre-rprc/publications-28/submissions-1.html.
[17] See https://www.citizensinformation.ie/en/social_welfare/irish_social_welfare_system/social_insurance_prsi/social_insurance_classes.html.
[18] See https://www.gov.ie/en/publication/6aec4d-current-rates-of-payment-for-social-welfare-payments- sw19/.
[19] See https://cdn.auckland.ac.nz/assets/business/about/our-research/research-institutes-and-centres/RPRC/OtherPapers/Women%20in%20Super%20September%202020.pdf, p. 46-51.

3. COVID-19 gender penalty

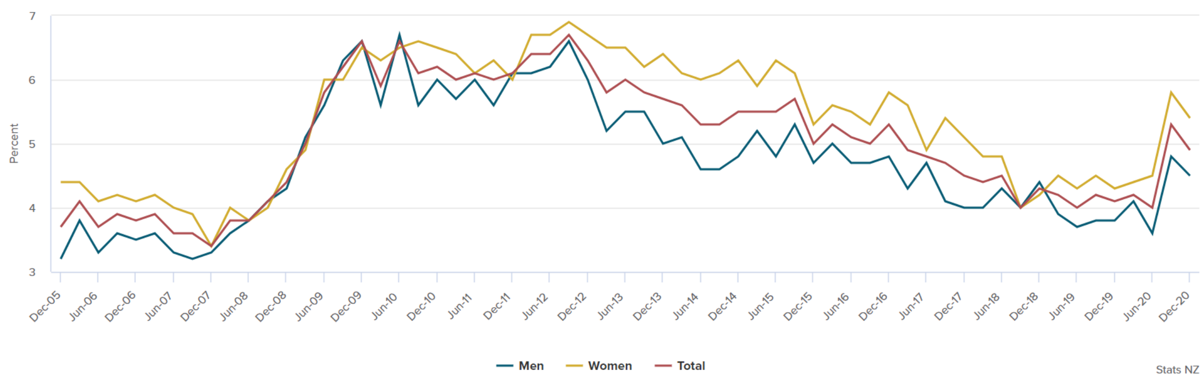
Taking a global view, technological and environmental developments in the labour market, exacerbated by the legacy impacts of COVID-19, will affect both genders but will be more pronounced for women and younger workers. While environmental action is urgent to ensure the planet remains liveable, pension action is urgent to ensure the aged are not impoverished, with particular impacts on women. Attention to pension policy design is made more critical by ageing populations, but solutions to the gender pension gap must begin prior to pension age.

In Australia, data from the superannuation fund HESTA showed that female accounts comprised nearly 80% of the $720 million drawn down under the government's early release.[20] Unfortunately, there is no gender analysis by either IRD or FMA of KiwiSaver withdrawals, but we can assume that a similar proportion of the $126 million withdrawn from KiwiSaver in the year to June 2020 due to financial hardship was from women's retirement savings.[21]

It is unlikely that women's retirement savings will ever recover from these withdrawals. Their on-average lower incomes in addition to the effects of compounding on their diminished savings do not augur well for their future retirement.

A further gender penalty is revealed in the unemployment rates in New Zealand. Pre and post COVID rates for women were higher than the rates for men, as shown in the figure below: unemployment rates December 2019: Men 3.8% Women 4.1%; December 2020: Men 4.5% Women 5.4%. Unemployment rates for men increased by 7 percentage points over the year, and for women by 13 percentage points.

Unemployment rate by sex, seasonally adjusted, December 2005 to December 2020 quarters (StatsNZ)[22]



The New Zealand Treasury's 2021 Budget Policy Statement also recognizes those most affected by COVID-19 were women and young people, and one of the five government priorities is to support them into employment.[23] Unfortunately, Treasury simply makes vague references to innovation and technology then reverts to the 'shovel ready' male-dominated model of economic recovery.

Research on women's retirement prospects in Australia and Ireland shows that there, also, women were more adversely affected by the pandemic than men.[24] During the COVID-19 pandemic, it has been clearly evident that women have been more severely impacted not

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[20] See https://thenewdaily.com.au/finance/superannuation/2020/06/19/young-women-losing-retirement/.
[21] Note that only $17 million was withdrawn due to financial hardship in the 2011 financial year - see https://www.ird.govt.nz/about-us/tax-statistics/kiwisaver/withdrawals/amount.
[22] See https://www.stats.govt.nz/indicators/unemployment-rate.
[23] See https://www.treasury.govt.nz/publications/budget-policy-statement/budget-policy-statement-2021, pp.14-15.
[24] See Dale & St John, 2020, *Women in retirement in a post-COVID-19 world*.

only by job loss but also by the dual responsibilities of maintaining their employment-related responsibilities from home while also providing the vast majority of any required childcare and home-schooling.[25] In addition, Governments have allocated more direct financial assistance to male-dominated sectors like construction, rather than female-dominated, low-wage sectors like hospitality.[26]

4. Possible solutions to closing the gender pension gap in New Zealand

Retirement policy design of state pensions and of auto-enrolment retirement saving schemes can't solve the whole problem but they can provide some amelioration and offer valuable leadership for other necessary broader policy changes (such as to child-care costs).

In New Zealand, a useful first step toward improving women's retirement prospects would be for the Inland Revenue and Financial Markets Authority (FMA) to use a gender lens in all their reporting on KiwiSaver.

The KiwiSaver subsidy from the state and from the employer is available between the ages of 18 and 65. Women are far less likely than men to access these subsidies for the full 47 years, as their working lives are very different.

Another step forward could be solving the 'Total Remuneration' (TR)[27] confusion. TR for all as a policy appears to provide a fair solution, including addressing some of the gender equity issues, by creating remuneration parity between employees doing the same job, including those over 65. However, TR is a long way from the current default option for an employer contribution on the top of pay and politically it may be a hard sell, especially as it appears, superficially, to go against the grain of providing an incentive to save in KiwiSaver. Mandating the employer contribution rather than requiring it to be a matching 3% and allowing lower rates of contributions for those who cannot afford 3% may be an easier political solution and offer an effective, if partial, resolution to the gender disadvantage of women in paid work.[28]

Gender-based retirement disadvantage will continue to compound in the presence of pandemic-driven uncertainty and precarity, and the absence of effective counter action. As with environmental policy action, pension policy improvement will contribute to a more equitable and socially sustainable future. As commentator Gordon Campbell has written:

> *[A]ny viable plan for sustainable economic recovery launched by the Ardern government cannot be gender blind. The reality is that the pandemic has hit women workers harder. Therefore, any job creation response needs to be targeted at improving the job opportunities for women, at ensuring they can retrain, and at ending their disproportionate rates of under-utilisation. So far, this hasn't happened. Priority has been given to "pick and shovel" projects in a construction sector where women have always been under-represented, and undervalued.*[29]

Over the past decade, New Zealand's fertility rate has plummeted. It now sits around 1.6 children per woman, on average, a decrease of around 20% in the last decade, and well below the replacement rate of 2.1 (the average number of children each woman needs to

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[25] See https://grattan.edu.au/report/womens-work/ 9 March 2021.
[26] See https://grattan.edu.au/wp-content/uploads/2021/03/Womens-work-report-briefing-pack.pdf; and see https://www.ageing-better.org.uk/news/poorest-hit-hardest-pandemic-according-new-figures.
[27] Total Remuneration (TR) is the total value of an employee's annual compensation package and includes both basic pay or salary and the financial and non-financial benefits, so KiwiSaver or other pension/superannuation plan contributions, bonuses, cash incentives, gym membership, access to counselling services and any other benefits, are included. TR is not applied universally, so some employees may be paid more than others for the same work.
[28] See *Would Total Remuneration improve KiwiSaver fairness? RPRC PensionBriefing 2020-1*.
[29] See https://www.scoop.co.nz/stories/HL2101/S00029/on-how-women-are-suffering-the-most-from-the-covid-economic-recession.htm.

have for a population to replace itself in the long term).[30] This decrease will continue if the Government does not provide more support to children and families, including incomes and adequate provision of expert, affordable childcare.

Suggested retirement policy reforms of a general international kind that will improve outcomes for women include, for the state pension: ensure it is simple, comprehensive, inclusive, individual, non-contributory, taxable, and adequate to prevent poverty. Women's retirement outcomes can also be improved by better design of the second tier. Access and membership should be part of being a citizen, not confined to the paid workforce, and state contributions could be made for those in all caregiving roles.

Those who are self-employed could be incentivised to contribute via access to modest tax concessions. Optional higher rates of contribution can be carefully balanced against their impact on the current living standards of women and those in low-paid employment.

On average, women face a higher longevity risk than men, so mechanisms to allow for gender-neutral annuitisation of Second Tier lumpsums should be explored.[31] It is clear that state involvement is necessary to ensure affordability and fairness in annuitisation.

It is vital that financial education is provided and tailored to women. This means targeting communication to clarify the importance of regular contributions; and the understanding of risk tolerance. And of course, financial literacy, can be promoted by the state: included in the school curriculum as is increasingly the case in New Zealand; and be part of the obligations for retirement saving scheme providers.

One of the many recommendations in the 2021 OECD publication *Towards Improved Retirement Savings Outcomes for Women,*[32] strongly endorsed by the RPRC, is that pension funds (which are increasingly significant) could invest in projects that address the sources of the gender gap, such as childcare and financial education; and they could also ensure the companies they invest in are seriously embracing gender equality in terms of pay and executive level representation.

As our Prime Minister Jacinda Ardern would say "Let's do it!"

Primary Reference

The Retirement Policy and Research Centre published "Women in retirement in a post-COVID-19 world" (M.C. Dale & S. St John), in September 2020.

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[30] See https://www.newsroom.co.nz/podcast-card/bye-bye-babies-our-declining-birthrate?utm_source=Friends+of+the+Newsroom&utm_campaign=faebcd9f81-Daily+Briefing+02.03.2021&utm_medium=email&utm_term=0_71de5c4b35-faebcd9f81-97840303.

[31] See St John & Dale (2019) *Decumulation: Time to act*.

[32] See http://www.oecd.org/pensions/towards-improved-retirement-savings-outcomes-for-women-f7b48808-en.htm.