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Gender differences in pension outcomes

As highlighted in the Mercer CFA Institute Global Pension Index Report, the total pension outcomes in every system around the world provide higher retirement income for males than females.

This paper supplements the discussion with a lens on Hong Kong.

When setting the scene to understand the disparity, it is helpful to recognise the two broad types of pension design which impact the pensions received in retirement.

The first is where the resulting pension for each individual is linked to the number of years of contributions made during the working years. There may also be a minimum pension (subject to residency requirements) and/or a formula which may favour those with lower incomes. These arrangements predominantly adopt a pay-as-you-go approach with contributions paid to the government to support the retirement pensions currently in payment.

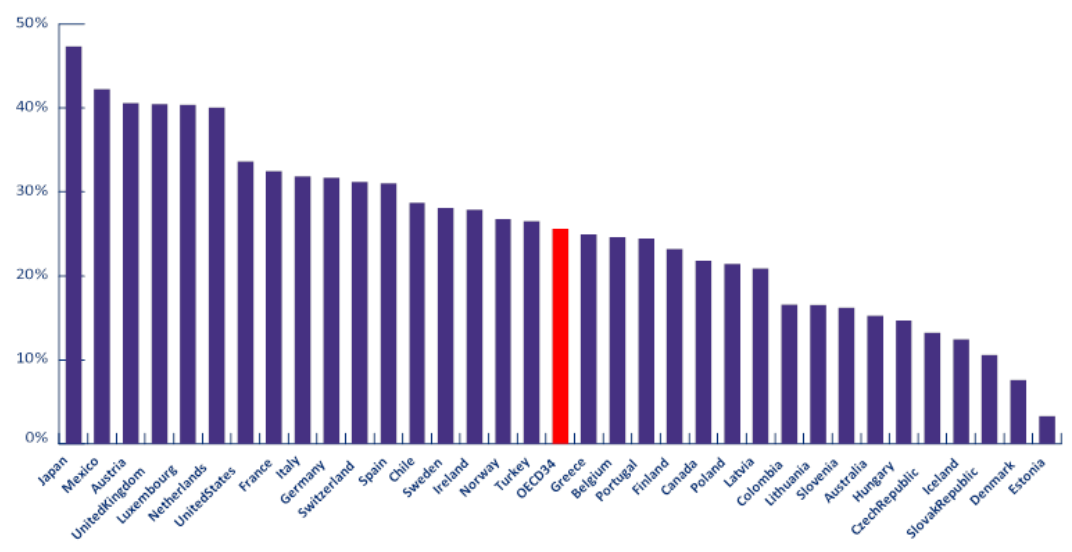
The second is the multi-pillar approach, with the first pillar being government paying qualified individuals a flat rate pension, which may be universal or subject to a means test. A second pillar, normally operated in the private sector, is funded by regular contributions.

The linkage to employment period affects more females, who have shorter careers and/or more care-related breaks which reduce their lifetime incomes, than males. Globally, a gender pension gap exists in every retirement income system around the world.

The gap is defined as the difference between the average male pension and the average female pension, expressed as a percentage of the average male pension. The calculation is based on those who are currently receiving a pension. Hence, if the average male pension is double that of the average female pension, the gap is 50 per cent.

Figure 1 shows the gender pension gap for most OECD countries, published in March 2021 by the OECD to coincide with International Women’s Day. It shows the range is very broad with Japan having a gap of almost 50 per cent whereas Estonia’s gap is less than 5 per cent.

Figure 1: Gender gap in pensions in selected OECD countries



Source: OECD (2021), Figure 1.1

For Hong Kong, the MPF system does not differentiate between men and women, in terms of retirement age and payout terms. Employment law also requires pension contributions to continue, during paternity or maternity leave. Hence together with global data, we highlight that there is no single cause of the gender pension gap. It is much more complicated and it is therefore appropriate to broaden the discussion and ask: “what are the major causes of the gap around the world?”

The many causes of the gender pension gap¹

Employment issues

As noted earlier, there is a direct relationship between employment patterns and the resulting pensions in most systems. We highlight a few issues that have relevance to Hong Kong:

- Periods out of the workforce for caring responsibilities. For example, in the early 2000s, an average of 48 per cent of women aged 15-64 were working in OECD countries compared to 69 per cent of men². The OECD study shows that the majority of the gender pension gap occurs between the ages of 25 and 44. The Hong Kong 2021 census data also measured that on average, women work 40 hours in a 7-day week compared to 44 hours by men.
- The long-term effects that reduced employment can have on promotion opportunities lead to lower lifetime earnings and pension savings, for some women.
- Lower average salaries for full-time workers with the gender wage gap in the OECD being 13 per cent in 2018. This outcome is partly due to a lower average wage in female-dominated industries than in male dominated industries. As Schuller notes: "In a nutshell, finance, engineering and the private sector generally pay better than care services, teaching, and the public sector, where women are far more frequently to be found."³ Hong Kong census data also confirms median pay for women is lower than for men across all age groups, with the biggest difference in age groups 40-49, but interestingly, the gap was less apparent in the 20-29 age group.
- Some examples where women get paid less than men for doing the same job – known as the 'unaccountable' pay gaps.

Given these differences in employment, it is not surprising that, on average, male pensions from employment-based pension arrangements, are higher than female pensions.

For Hong Kong, 2021 census data shows that there are 30% more women in short-duration contract-based employment compared to men. Inevitably, women are also more likely to opt out of employment in order to attend to household needs. In 2020, the number was 615.6K women to 38.7K of men⁴, who choose to be economically inactive due to engagement in household duties, although interestingly, around 10% of the women in that category also expressed interest in working if offered suitable employment. There was no breakdown of the factors that would deem the employment as 'suitable', and perhaps more research can be done in this area to consider how to design jobs to entice this category of non-earners to join the workforce.

Pension design issues

There are also several design features in pension systems which aggravate the issue. These include:

- The absence of any pension credit while caring for young children in most systems. Governments could reference system of pension credits in Canada, Finland, Germany and the UK to launch their own.
- The use of gender-specific mortality tables will lead to smaller annuities or pensions for women due to their lower mortality rates. This is also visible in Hong Kong, where HKMC's annuity calculator estimates that the annuity for a woman is \$500 a month lower than for a man, assuming the same age (65) and initial premium of \$1m. The message would be for women to save earlier or adjust their living costs accordingly⁵ to make the same amount of money last longer.

Socio-cultural issues

There are also societal factors that restrict the opportunity to reduce the gap:

- The absence of affordable and appropriate quality child care which restricts the work opportunities for parents (often women), including the lack of government supported child care options.
- Lower levels of financial literacy amongst some women also affect their financial decisions. Although MPFA's 2020 report⁶ shows that men and women make similar choices in their fund options, with men having more preference for equity funds and women allocating more to guaranteed funds.
- Pension rights accrued during a partnership are not normally split evenly on divorce or separation which can lead to many women having lower pension benefits than their former partner. We highlighted this area in our Hong Kong MCGPI report.
- Gender stereotyping can lead to educational differences (for example, in mathematics and the sciences) and an expectation that women do more unpaid family work.

The COVID-19 pandemic has also affected the retirement savings of females due to its significant impact on part-time and casual workers, as well as its effect on some female-dominated industries such as hospitality and tourism.

Given the variety of causes, there is not a single solution. Rather, the issue needs to be tackled from several perspectives.

¹ OECD (2021), p20,

² Schuller (2017), p54,

³ OECD (2021), p27

⁴ 2021 Hong Kong census data, p195, table 4.37 on Economically Inactive persons and reasons

⁵ https://www.hkmc.hk/hkmcaphp/php/calculator_web-result.php

⁶ https://www.mpfa.org.hk/en/-/media/files/information-centre/research-and-statistics/otherreports/2020/statistical_analysis_of_accrued_benefits_held_by_scheme_members_2020.pdf

Suggestions for reducing the gender pension gap

Our full report discusses a wide range of recommendations, and we have extracted what we consider to be key factors for Hong Kong here.

Actions by employers

- Encourage more flexible workplaces which will enable individuals to have more flexible working hours.
- Ensure that parental leave may be taken by either parent. This may help the mother to ease back into her career earlier, and therefore resume earnings and savings slightly earlier.
- Ensure improved gender balance at all levels within an organisation.

Actions within the pension industry

- Introduce pension credits for care givers so that those who are caring for young children or ageing relatives are not penalised in their retirement years.
- Be sensitive to any gender-based annuity rates, and educate the market on the implications of differences for retirement planning purposes.
- Introduce calculators to show the impact of different working arrangements and career gaps on future retirement pensions.

Actions by government

- Provide affordable quality childcare which is likely to encourage women to return to the workforce earlier.
- Provide flexibility for individuals to “catch up” in respect of their pension contributions following periods out of the workforce due to caring, illness or unemployment.
- Ensure that pension rights accrued during a partnership are taken into account on divorce or separation.

Many of these changes are happening at different pace, some as a consequence of organisations readjusting to build more diverse teams, and some as an outcome of better online tools to work remotely. Now is the time to take action to reduce the gender pension gap in the future.

To view the Mercer CFA Institute Global Pension Index report go to www.mercer.com/globalpensionindex



About HKRSA

The Hong Kong Retirement Schemes Association (HKRSA) was established in 1996 to promote the interests and best practices of retirement schemes in Hong Kong including provident and pooled retirement funds. The HKRSA is a not-for-profit, non-political association, which represents retirement schemes and their members, providing a forum for discussion of issues of current and topical interest.

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