

Summary

The gender gap in pension incomes is significant and is expected to persist in the future. Although the Swedish pension system has a gender neutral design – the same income gives the same pension rights – the different labor market choices of men and women, and different responsibilities for children and household work, lead to different pension incomes by gender.

The fact that the design of the pension system will, given an unequal working life or an unequal division of household related work by gender, lead to a gender gap in pension incomes has received much attention. Less attention has been given to the fact that the pension income for many is not only decided by their working life but also by a husband's or wife's pension income, and thereby also by a spouse's choices within the pension system. This is a central aspect given that around three million persons are married in Sweden, along with many being cohabitants or registered partners. The working life is commonly the most essential determinant of the pension level, but for those who lack or have a low pension income the spouse's pension may play a significant role for the living standard.

This report shows how a spouse's choices within the pension system can contribute to a reduced gender gap in pension incomes, principally under two circumstances: when one spouse passes away and at a divorce or separation. The choices studied are based on the premium pension, where these choices are applicable.

More specifically, the report explores the choice of a survivor's cover and the choice to transfer pension rights to a spouse within the premium pension system. Both of them offer income protection when a spouse passes away, but the second one gives, as well, income protection in the event of a divorce or separation.

These choices of income covers will be especially important for the spouse with the lowest income. Since women, on average, live longer than men, have got a higher propensity to survive a spouse, have lower wages and work to a lesser extent, these measures for income protection will therefore be more important for women. For the same reasons women are also, in the event of a divorce, on average, more economically vulnerable compared to men. Importantly, these choices of income covers also play a relatively more important role within couples with an unequal division of income, such as couples where the spouses have taken different responsibilities for children and household work.

Both the choice of a survivor's cover and the transferring of pension rights within the premium pension thus have the possibility to reduce the gender gap in pensions. Still, both choices are associated with an economic cost in terms of a reduction of the pension income. The gain of a reduced gender gap must therefore be weighed against the cost incurred by the individual, and under some circumstances also by the couple.

An important aspect of the choice to transfer pension rights or the choice of a survivor's cover is that they have to be chosen actively by the spouse. Furthermore, the default alternative of not having a survivor's cover, or transferring any pension rights, has to actively be discarded. Thus, the design of the pension system relies on individuals being willing and able to choose. However, research within behavioral economics shows that many have difficulties taking economic decisions that either have consequences only in a far future, or have unclear consequences. The more complex the decision is the more prone are individuals not to account for future events and to take "wrong" decisions. To plan for the pension is typically such a complex decision. To consider how a choice within the pension realm also affects a partner's situation from a perspective of gender equality may therefore be expected to be even harder.

The report shows that the contemporary choice architecture according the choice of a survivor's cover, and the transferring of pension rights, works inefficiently. Few couples choose to make their pension incomes more gender equal by using the choices that are available within the system. 99.5 percent do not transfer their premium pension to their spouse regardless of their own income,

income difference between the spouses or age. It is even less of those that are registered partners that transfer their pension rights. Furthermore, 83 percent of women who live as married or are cohabitating do not choose a survivor's cover to their spouse, again regardless of their socioeconomic position. The corresponding share of men is lower, yet, it is still high at 65 percent. The majority thus live in couples where none of the spouses actively have chosen a survivor's cover or actively have transferred their pension rights.

Nevertheless, the report demonstrates that the pension transfers made and the survivor's cover chosen contribute to a lowering of the gender gap in pension incomes, although to a limited extent. Since it is almost exclusively men that, regardless of their economic situation, transfer their pension rights, and to a higher degree chooses survivor's cover as compared to women, the gender gap in pension incomes is counteracted. The husbands who choose to transfer their pension rights are also prone to continue to do so; the choice is thus persistent over time. The choices are also primarily made within households in which the husband earns significantly more than the wife. These choices thus help to even out income differences in couples with large income differences between the spouses. However, as they are more often chosen in couples in which the husband is a high income earner and within couples with presumably better knowledge of the choices and their consequences, the income covers do not protect those who may need them the most.

The knowledge about which individuals that chooses to make their pension incomes more gender equal within the pension system is important, not least in the design of the future systems and choice situations. Given that behavioral economics research show how difficult it is to choose within the pension realm and presumably also to consider the consequences on gender equality, it is important to account for behavioral aspects in the design of both the choice architecture and in the information disseminated.

The report discusses two policy areas of change: changing the system's choice architecture or making those who face the choices more competent to choose. However, the most pronounced impact in terms of attaining a lower gender gap in pensions would be to reduce the gender gaps in educational choices, occupational choices or working hours. Yet, given that the pension system presents

these choice opportunities, and given that they can contribute to a lower gender gap in pensions, it is significant to make them work more efficiently. In particular, it is important considering the background that the choice to transfer pension rights was introduced within the premium pension with the aim that “equality not only becomes an illusion”. Furthermore, it was suggested that an equal division of pension rights between spouses could give rise to “significant pension equality as accounts the net effect for the spouse that was given them that is not far from the result that a division would have given”. This report shows that this aim is not yet fulfilled.

The first area of change – changing the system’s choice architecture – is to make a survivor’s cover and an equal division of spouses’ pension rights the default choices for the premium pension. The possibility to actively deselect these should remain. Given that few persons make an active choice and therefore stay in the default alternative this could help reduce the gender gap in pension incomes. But since both a survivor’s cover and a transfer of pension rights give rise to economic costs for those who are inactive, and these costs could be particularly high for those with low pension incomes, the report discusses how the gain of a reduced gender gap in pensions have to be weighed against the cost incurred by the individual due to a change of default.

The report instead highlights the other policy area of change – to preserve the system as it is but try to increase the knowledge among those who face the choice – and particularly highlights the importance of a change in the information disseminated related to the choices. One explanation to the fact that many do not transfer pension rights or choose a survivor’s cover appears to be that they simply lack knowledge. There is thus a need for new and reformed information campaigns as compared to those carried out this far.

Even more important is how the information is disseminated. Both how the information is distributed and whether the impact of the information can be evaluated are crucial. To successfully assess a causal effect of new information, the information campaign should be done according to scientific methods for randomized controlled trials targeting specific groups of interest. Similar behavioral experiments are used in other countries.

The report furthermore discusses how these targeted information campaigns can use different forms of “nudging” that can help change behavior or lead to more well-informed choices. Individuals would through these become more aware of the choices, but as well be nudged to consider them when it comes to other pension sources. In particular, information around pension transfers could be targeted towards persons that recently have become parents since a large part of the income difference by gender arises in connection to parenthood.

Lastly, it is important to point out the limitations of the report. The most important limitation is that it only comprises aspects of gender equality in pensions based on individuals who live in couples. For that reason, the report does not discuss how unequal pensions by gender play a role for the group that may have the least favourable economic conditions. Another limitation is that the report only covers choices within the premium pension. For many persons this part of the pension system only constitutes a small source of income, but it is, however, expected to become more important for future generations. Nevertheless, what the report does show is that the pension system in its current design with active choices needed to attain higher gender equality, along with the information provided thus far, has difficulties in contributing to a reduced gender gap in pension incomes, something that was an important motive to once allowing pension transfers between spouses.