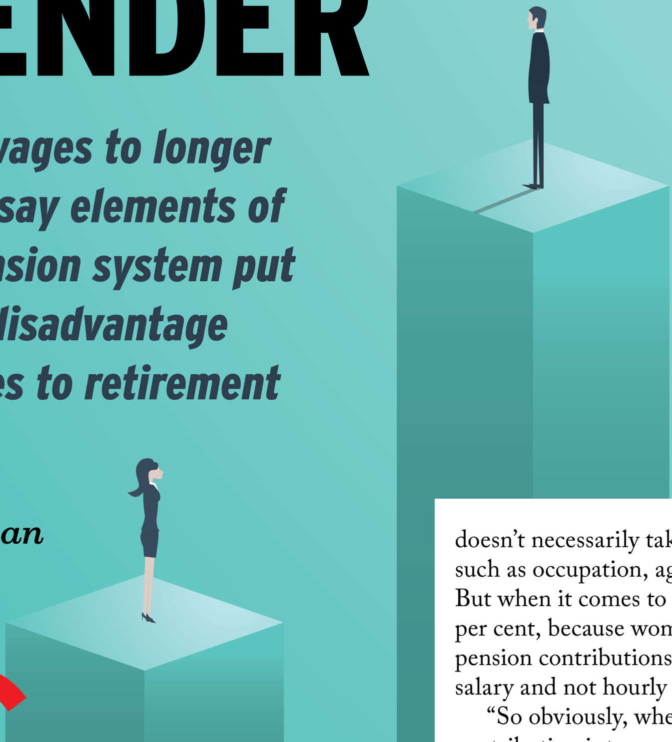
BRIDGING THE PENSION GENDER GAP

From lower wages to longer lives, critics say elements of Canada's pension system put women at a disadvantage when it comes to retirement outcomes

By Sara Tatelman



Girls are "made of sugar and spice and everything nice — and gunpowder and Cubans and bourbon, no ice." So sang Columbia Business School students in a 2014 parody music video about gender representation in their industry. But while many women now do the same jobs as men, their employment patterns remain distinct and, as a result, they're often at a disadvantage when it comes to retirement outcomes in comparison to their male colleagues.

A recent study by Zurich Insurance Co. Ltd., for example, found that over the course of her career, the average British woman would earn 47,000 pounds less in employer pension contributions than the average British man. In Canada, women need to save 26 per cent more than men for retirement, says Jillian Kennedy, leader of defined contribution and financial wellness at Mercer in Toronto.

It's important to first acknowledge the link between the pension and wage gaps, says Rose St Louis, head of partnership development at Zurich in London, England. Statistics Canada, for example, found women's average hourly wages were 88 per cent of what men earned in 2014, although that doesn't necessarily take into consideration factors such as occupation, age, union status and location. But when it comes to annual pay, that drops to 74 per cent, because women work far fewer hours. And pension contributions, of course, are based on total salary and not hourly wages.

"So obviously, when you're looking at an employer contribution into a pension, that percentage will be pounds and pence, or dollars and cents, if you will, less in a woman's pension than a man's because she actually receives less in her salary," says St Louis, adding the wage gap has significant ripple effects.

At the beginning of an average career, the gender pay difference isn't enormous. The Zurich study calculated a 21-year-old woman would receive 217 pounds less in annual employer pension contributions than her male counterpart. "But that's hugely amplified by the time you get to retirement," says St Louis. "It's massive. And it has a direct impact on how much money you've got in retirement, the income you've got to live off."

St Louis notes men are also more likely to work in "substantial and established sectors" and for larger employers that can afford to contribute more generously to employee pensions. A 2009 study from Aon Hewitt, for example, found British employees working in financial services, a traditionally male industry, fared best. On average, they received an 8.4 per cent employer contribution and put in 2.6 per cent themselves. Those working in the leisure and travel sector, which traditionally has more female employees, were the worst off, receiving just 4.1 per cent in employer contributions and putting in 2.9 per cent themselves.

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A SNAPSHOT OF THE RCMP'S JOB-SHARING PROGRAM

29
Number of officers participating in the job-sharing program in 2014

61%
Percentage of female police constables who also have primary responsibility for childcare in their families

9%
Percentage of male police officers who also have primary responsibility for childcare in their families

26.5%
Percentage of female officers serving in the RCMP in 2014

Source: *Fraser v. Attorney General of Canada*, applicants' memorandum of fact and law

Another issue to consider is the commuted value employees can elect to take from a defined benefit plan if they leave an employer before retirement. Other than Quebec, all provinces require employers to calculate commuted values using unisex longevity tables, says Joe Nunes, president of Actuarial Solutions Inc. So women, who typically live longer than men, receive a smaller payout than would be the case if their employer had used a sex-based longevity table because "they're assumed to be partially male from a mortality point of view," says Nunes.

If an employee uses the payout to buy an annuity, the insurer will have to sell it to her on a gender-neutral basis, since the source of the funds was a pension plan. "However, it's not necessarily the same basis at which the commuted value was calculated," says Nunes, noting the journey from commuted value to annuity is akin to converting Canadian dollars to U.S. currency and back again. "You don't always end up in the same spot you started."

The mommy track

Perhaps a bigger piece of the puzzle is the fact that women are much more likely to take career breaks, such as maternity leave or a few years off to take care of young children or ailing parents. "That would mean, overall, they have fewer years in the workforce," says Elizabeth Shilton, senior fellow at the Centre for Law in the Contemporary Workplace at Queen's University. That means, in a defined contribution plan, staff will receive less in employer contributions and, in the end, a smaller nest egg for retirement.

Women with a defined benefit plan, which also reflects years of pensionable service, may be able to buy back years of pensionable service, but there are still potential pitfalls. "What often happens is that women taking time out from the workplace leave their jobs," says Shilton. "So they are then picking up a new job when they come back after, say, five years out to raise a family."

Among the concerns are vesting rules that would put women who changed jobs as a result of family responsibilities at a disadvantage. "The turnover was a huge cost to anybody who's in a pension plan, and women just had more turnover because of their family responsibilities," says Shilton, referring to the former vesting rules in Ontario. Workers in multi-employer plans, she notes, are often better off because they have the flexibility to work for numerous employers without jeopardizing their retirement income. But she's not optimistic many employers will adopt such a plan.

"If you go right back to the roots of why we have pension plans and the fact that most of them are still employer-sponsored and employer-controlled, it was all about being a competitive employer and being able to control the turnover in your workforce by building disincentives into your plan to leaving early," she says. That means employers don't have a big incentive to adopt a multi-employer plan.

Men taking more time off for caregiving responsibilities would help even out the burden of career breaks, Shilton notes. "But it'll be a long time before we find employers encouraging them to do that, because it's not in the interest of employers for [their employees] to take time out," she says. "That's an issue for public policy."

Shilton points to Quebec and Scandinavia, which reserve time off for new fathers and, as a result, see more balanced caregiving roles between men and women.

Design issues

Other aspects of plan design can also affect women's ability to save for retirement. The Royal Canadian Mounted Police pension plan, for example, is a defined benefit arrangement that bases retirement income on pensionable years of service. If a full-time officer is on an approved leave, whether because of illness, caregiving responsibilities or even a suspension, he or she can buy back that time as pensionable service by paying both employee and employer contributions for the duration of the time away. But there's one exception: part-time work.

In 1997, the force began allowing for job-sharing. That is, two officers could split a position — and pay and pension — in the same community. Some of the first officers to participate in the scheme understood they could buy back the lost contributions, but the force didn't actually have the legislative authority to allow members working part-time hours to do so. Three officers are now suing the force for discrimination on the grounds of sex and family status, as most of the affected officers are women who worked part time while their children were young.

Joanne Fraser, Allison Pilgrim and Colleen Fox all joined the RCMP in the 1980s and, after they had children and the scheme became available, they participated in the force's job-sharing program. "The applicants all face lower pension benefits on retirement because they chose to job-share and balance their police duties with their family obligations while their children were young," the applicants' memorandum of fact and law reads. Pilgrim estimates the policy has reduced her pension by up to five per cent annually, and Fraser testified she had to retire later to make up for the lost years of service.

"I was shocked to learn that I was able to buy back my pension contributions for the time I was completely off work but not for the time I was job-sharing," said Fox in her affidavit. "I firmly believed that I had done a great service to the RCMP by going back to my patrolling duties on a part-time basis. I could not understand why I was being penalized for this."

If the women had either worked full time or remained off work, they would have been able to earn full pension benefits. The memorandum of fact and law alleges the plan "perpetuates the notion that there are two separate and distinct roles available to women, and that women who choose to do both at the same time are less worthy or deserving of respect." The applicants are seeking to be able to buy back pensionable service.

In response to the application, the RCMP has said the case reflects a "fundamental misunderstanding" of how the pension plan works and suggested the applicants are seeking a benefit that's not available to anyone else in the federal public service: the right to buy back full-time pension benefits for periods of part-time service.

The court hearing took place in December 2016. At press time, the judge had yet to issue a decision.

A VERY BRITISH PROBLEM

Legislation in Britain requires employees earning more than 10,000 pounds to contribute to their employer's pension plan, if one is available. But automatic enrolment doesn't apply to someone who works part time for two or more employers and earns less than 10,000 pounds at each organization. "You run the risk of not getting any pension contributions, if you, yourself don't opt in," says Zurich's Rose St Louis. Ideally, there wouldn't be a threshold for automatic enrolment, she adds. "It's just a way of capturing free money."

OF AGE AND EQUALITY

Women aren't the only workers who experience disadvantages when it comes to retirement savings. Young people, for example, often lose out when an employer closes its defined benefit plan to new hires, shuttling them into a defined contribution plan or a group registered retirement savings plan instead. "The result, at the end of the day, is you have two classes of workers within a company," says Yves Carrière, adjunct professor of demography at the University of Montreal.

"I believe that two-tier provisions, or any form of workplace inequality, causes issues with employee morale over time," says François Paradis, national president of the Union of Postal Communications Employees, which represents engineers, call centre representatives and other workers at Canada Post Corp. "The enrolment to DC is newer to our group and we haven't seen too many new hires in recent years. Generational inequality has certainly been a hot topic of discussion, and we are living through it at Canada Post."

But according to Carrière, a bigger problem is inequality within an age group, especially when it comes to the question of raising the retirement age. He notes life expectancy is closely linked to socio-economic status: Canadian men in the top income decile can expect to live seven years longer than men in the bottom decile. For women, the gap is just over four years. "And if that gap is increasing and we increase the age of retirement, we are magnifying already really large inequalities."

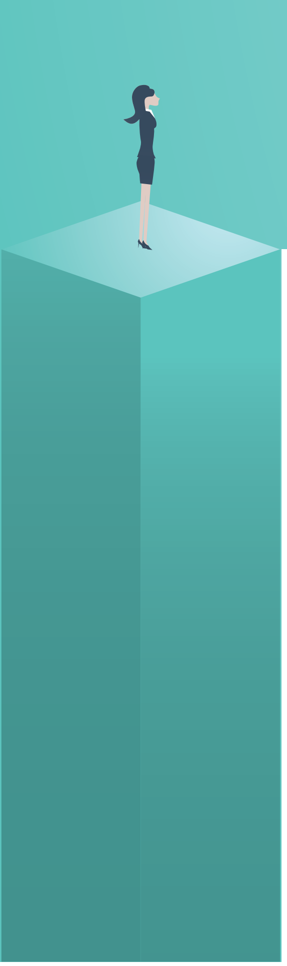
One solution is to base Canada Pension Plan eligibility on years in the workforce, rather than age, says Carrière. "So if you started working when you're 18 years old, almost by definition, you don't have a high level of schooling and you will have . . . not the best paid jobs in Canada and probably not the best working conditions.

"So if we say to get your full CPP, what you need is 42 years of contribution, well, if you started working at 18 and you reach 60, then you've contributed for 42 years, maybe you should have access to your full CPP." On the other hand, someone who holds multiple university degrees and didn't join the workforce until much later could keep working longer. The person would also be more likely to work in the knowledge economy and therefore be less at risk for work-related injuries.

Living longer on less

The challenges continue as women retire. For one, if they end their careers with a smaller pension pot than their male colleagues, they're likely to pay higher fees, says Kennedy. "Decumulation is, basically, you're dropped into a retail environment," she says. "That will definitely erode a retirement income faster for women than men, if they're starting off in a lower spend-down rate. . . . Record keepers, for example, actually would give you a fee based on the account balance that you have."

Because they're statistically likely to live longer, women will also face higher prices when



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> **_So is it about making sure you have gender equality in the vendors that you work with and the resources that people can access?_**

buying annuities, at least in Canada. A 2011 ruling from the European Court of Justice made it illegal for insurers to use gender when calculating premiums. "Equality between men and women is a fundamental principle of the European Union," a summary of the judgment reads.

"The use of actuarial factors related to sex is widespread in the provision of insurance and other related financial services," the court added. "In order to ensure equal treatment between men and women, the use of sex as an actuarial factor should not result in differences in individuals' premiums and benefits."

Women's life expectancies also mean their smaller nest eggs will have to last longer than their male colleagues' larger ones. And women may be less comfortable making aggressive investment decisions. "It's really not about financial literacy in the traditional sense," says Kennedy. "It's more about the loss of potential confidence and financial literacy within trusting their skills as it relates to things like interest rates, inflation."

Boosting confidence and savings

Employers could pair women up with financial advisors to boost their confidence, but Kennedy considers that to be just a start. "It could be a trust piece. So, for example, we've seen in certain situations, women like to receive education and planning from other women. So is it about making sure you have gender equality in the vendors that you work with and the resources that people can access? Sometimes, we find that women will do better and be more financially literate and engaged when they have women mentors. So is it about making sure you have champions within your workplace and mentors and senior staff that can mentor up-and-coming generations?"

Employers should also ensure their staff understand the retirement savings options the company provides and should send out regular reminders through internal communication channels, says St Louis. "The responsibility of the employer there is to make their employees aware of what's available to them, not just when they join the scheme, not just when they join the company, but at critical points during the year: pay-raise time, bonus time, end of tax year or just on a quarterly basis."

Kennedy also advocates for allowing more flexible pension contributions, such as lump-sum deposits instead of a percentage of salary. "Let's take a look at a common thing, like when a baby is born," she says. "Maybe there [are] more expenses up front, and then you get used to the everyday management of having a new budget or a new level of income. And then maybe six months in or four months in, now maybe I can manage making a contribution to my plan."

Ontario's College of Early Childhood Educators, for example, will match each employee's contributions up to $2,000 in its group registered retirement savings plan, says Melissa Watanabe, manager of corporate services in Toronto. Contribution levels are entirely up to each individual, irrespective of salary. Watanabe estimates 50 of the college's 60 staff members are women, and several have kept contributing to the group RRSP during maternity leaves.

Another option is for an employer to contribute to the plan, regardless of whether the employee is paying into it. Mercer takes that approach with its own staff, automatically contributing four per cent of each employee's salary to the company's defined contribution plan, which continues through parental and other leaves. "Above this foundational benefit, we have ways they can complement the savings," says chief executive officer for Canada Louis Gagnon.

Employees can funnel up to 12 per cent towards savings vehicles. If they contribute the full amount, Mercer will add another eight per cent. At least two-thirds of employer contributions must go to the pension plan, but the remaining four per cent, along with all employee contributions, can go to a group RRSP, which can help those looking to buy a home; a group tax-free savings account; or a non-registered account.

"I don't want paycheque-to-paycheque circumstances to be the reason why people can't get into the behaviour of savings and take advantage of the match we're willing to give," says Gagnon.

Sara Tatelman is an associate editor at _Benefits Canada_: sara.tatelman@tc.tc.