Mercer

How policymakers and employers can address the gender pensions gap

welcome to brighter

There are two main reasons for the gender pensions gap in most major economies: on average, women are in paid employment for fewer years than men, and during employment, women are paid less on average.[1] Not only do women therefore have lower retirement incomes, they must survive longer on their retirement savings, living on average five years longer than men.[2]

The increasing burden on shrinking workforces to support aging populations is becoming all the more apparent to policymakers. The World Economic Forum's Longevity Economy initiative has recently established six principles which address how societies can ensure all individuals are able to meet their financial needs, enjoy a healthy life, access employment and learning opportunities, and live a life filled with purpose at all stages.[3] A key priority will be to activate potential workers who are not currently in paid employment — this could also provide an opportunity to reduce the gender pensions gap.

The gender pensions gap is universal in retirement systems around the globe, whereby women face less income and security in retirement than men.

26%[4]

is the average gender pensions gap across OECD countries

29.5%[5]

is the gender pensions gap in the EU-27

There is no single cause for the gender pensions gap; a wide variety of employment-related, pension design and socio-cultural issues influence it.[6]

In 2023, the European Commission inaugurated an EU-wide study on care credits across occupational pension schemes.[7] The study[8] draws welcome focus on the role that employers can play in tackling the gender pensions gap, as well as the supporting measures that policymakers can take to empower employers across the EU member states, given the complex matrix of labor practices, taxation policies, employment law and socio-cultural considerations that exist within the zone.

This article explores the driving factors behind this stark gap in pensions based on gender with particular focus on Europe and includes suggestions for how policymakers can improve their statutory and occupational pension systems with a view to further empowering employers to help close the gap.

Causes of the gender pensions gap go beyond the gender pay gap

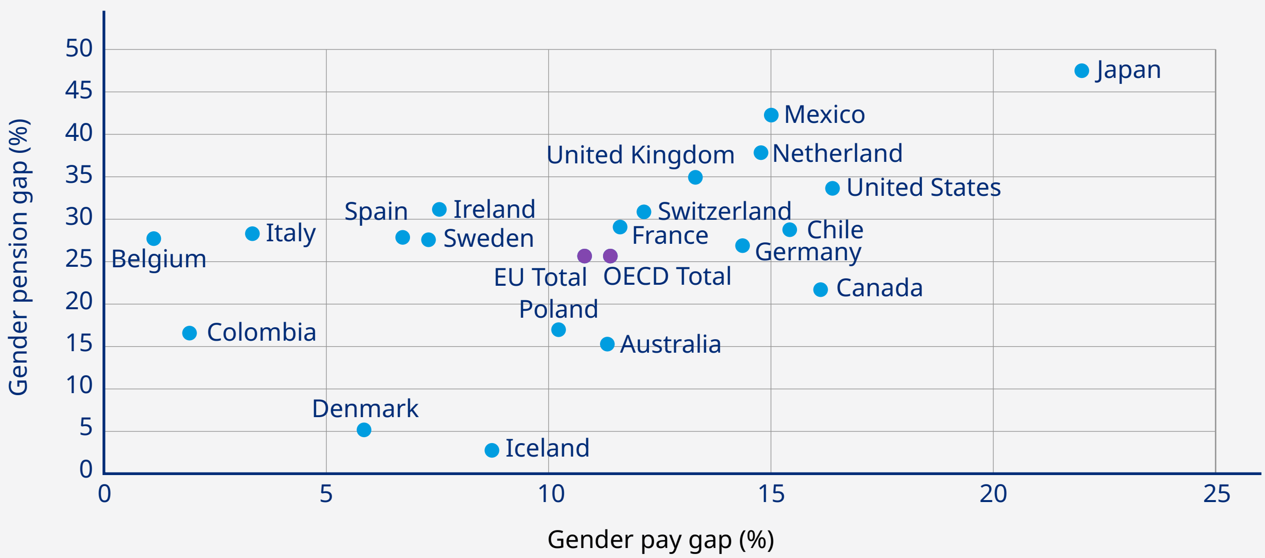
There is a close link between pension income and employment income via employment-related patterns, as illustrated in Figure 1. Women, on average, experience:

- Shorter careers due to a slightly later start in the labor force, career gaps for childbirth and earlier retirement.[9]
- More part-time work, which might be choice-driven but is often to cover the requirements of the parent or caregiver role.
- Promotion opportunities and pay progression impacted by limited and/or discontinuous employment.

Gender pay gaps can be divided into an 'unexplained' and an 'explained' portion, where the 'unexplained' portion is brought about through potential biases in implementing pay policies and the 'explained' portion relates to objective criteria including differing levels of accumulated experience, skills and roles.

Besides these employment-related patterns, pension income is also determined by career employment income, where pay gaps have a long socioeconomic history globally. Despite existing and upcoming regulations across many countries and many organizations addressing gender pay gaps, both unilaterally and through disclosure requirements, they continue to persist in many workplaces today.[10] The introduction of the EU Pay Transparency Directive[11] adds to the challenge for employers pursuing greater pay transparency as it widens the scope of the traditional pay review: From June 2027, employers with 150+ employees in the EU and European Economic Area must calculate the value of benefits and pensions as part of their pay transparency obligations. But given the intricacies of employee benefits and pensions which vary by individual, country and legal entity, and with no guidance within the Directive currently, employers will need to rely on national legislation or their own judgement.

Figure 1. Gender pension gap and gender pay gap compared



Source: Gender pay gap data sourced from OECD (gender wage gap and country medians data). Gender pensions gap data sourced from Eurostat (gender pension gap by age group data for EU member states, Iceland and Switzerland if available from 2019 or later); UK gender pensions gap data sourced from the Department of Work and Pensions; otherwise, data sourced from OECD.[12][13][14]

The impact of pension design and sociocultural factors

While some of the underlying causes of the gender pension gap and the gender pay gap are linked, pay gaps and employment-related issues are by no means the sole cause of the gender pension gap. Other factors can include pension design and sociocultural factors. Key pension system design-related factors include:

- Eligibility restrictions such as the minimum income requirements that some pension arrangements impose, which can exclude a significant portion of employed women.
- Contributions or pension benefit accrual may not be required during periods of paid maternity or parental leave and, even when contributions are made, they may be based on a lower salary.
- While statutory pension systems may provide some form of crediting and some employers have voluntarily financed credits, the absence of care credits is common among occupational pension systems.

Globally, women tend to live longer than men, which has an additional impact on pension systems, especially where there is a low or lacking survivor's benefits or the absence of indexation of pensions during retirement. Similarly, all else equal, the shift from defined benefit (DB) to defined contribution (DC) arrangements results in smaller lifetime incomes for women as they tend to live longer.

While future normal retirement ages are increasing globally by an average of 1.9 years, life expectancy at age 65 is projected to increase by more than double this (4.4 years) for those who joined the labor market in 2020.[15] Hence, the average legislated increase in normal retirement ages accounts for about 40% of the average projected increase in old-age life expectancy.[16] This longevity adds further pressure to pension systems and, in particular, to women's financial well-being in retirement.

Additionally, gender-specific mortality tables and lower savings rates among women, often linked to pension system design, may further contribute to the gender pension gap.

Socio-cultural factors mainly include the absence of affordable and quality childcare options, which limits work opportunities for parents, particularly women. Childcare costs often fall on women, impacting their ability to make voluntary pension contributions. For example, the Irish Census found that, as of 2023, over five times more one-parent families were headed by the mother than by the father.[17] Another burden that affects women's finances are requirements and commitments due to a caregiver role in short- and long-term care for elderly relatives: 76% of women in the UK are the primary carer for elderly relatives compared to 42% of men.[18] Lower levels of financial literacy among some women also affects their financial decisions and has an adverse effect in DC arrangements.[19] Beyond this, gender stereotyping in educational and family roles also plays a role, as there remains a societal expectation for women to take on the bulk of unpaid family and/or caregiving work.[20]

As well as these unpaid roles within the family, women are often more likely to find themselves in informal employment roles where they are paid in cash. This means they remain outside of state and private retirement savings systems.

For **employers** seeking to address these issues, there are some hurdles to overcome. Depending on the pension system design within the country of employment, many employers do not have full view of employees' expected pensions, and so the actions they can take to ensure protection beyond the working life are limited.

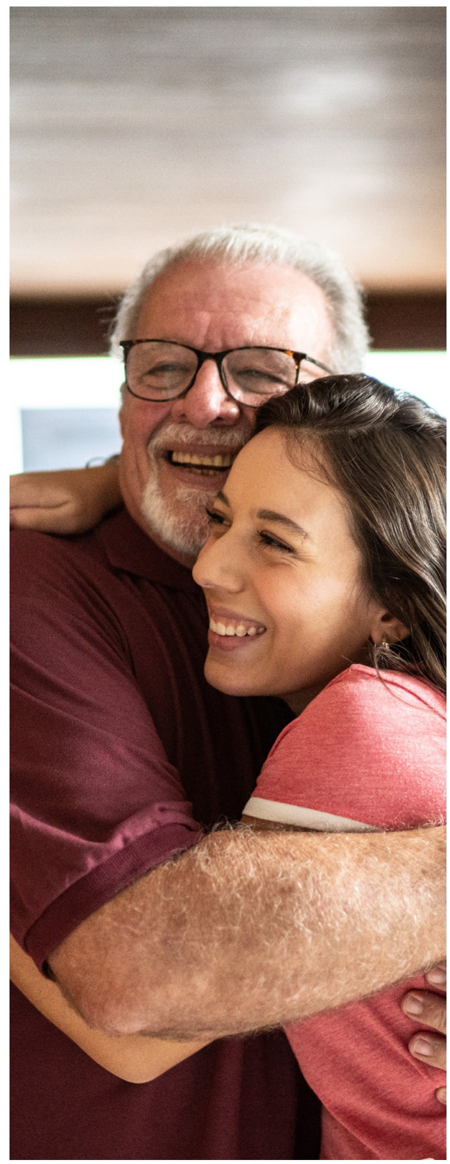
Given the variety of causes of the gender pension gap and its persistence across many countries, the responsibility for remediation does not lie on one stakeholder. **Governments and employers must act.**

What are governments doing?

State pension systems

There are positive characteristics of statutory schemes in many OECD countries, portraying a growing global awareness of this issue. Here are some examples from within the European Union, where the Work-Life Balance Directive[21] is in force:

Netherlands	Automatic coverage for periods outside the workforce spent providing unpaid care within the basic old-age pension system.
Ireland	The HomeCaring Periods Scheme provides a social insurance contribution towards an individual's State Pension for up to twenty years of care, provided they earn less than €38 per week during the period of care.[22]
France	Parent caring for a child below the age of 16 for a minimum of nine years will be granted an additional two years of pension coverage, whether they stay in the workforce or not. A parent who raises three or more children for a minimum of nine years before the children are 16 receives a 10% increase in their old-age benefit at retirement.[23]
Finland	The accrual rate of pensions is linked to the parental allowance until the child reaches the age of three, and the child home-care allowance thereafter.
Germany	The first three years of the child's life are treated as if the mother or father earns the average income during this period within the statutory pension insurance scheme.



Outside the European Union, similar provisions often exist. In Canada, pension credits are given for the period in which an individual is the primary caregiver for a dependent child under the age of seven. The UK provides National Insurance credits for individuals who are registered parents of children under the age of 12.

Where government action is aimed at other objectives, such as adequacy, it is important that the potential gender impact is accounted for. For example, Ireland is planning to enact 'auto enrolment' in 2025 where working-age individuals not currently paying into a pension and earning more than €20,000 per year will be automatically enrolled in a state pension plan. The lack of an option for the individual to make a voluntary contribution to their plan means that women who have taken time out of the workforce due to, for example, illness or caregiving, will be unable to increase their pension savings. Oversights of this nature are likely to widen the gender pension gap.[24]

Potential government actions to reduce the gender pension gap and tackle inequality in retirement[25]:

- Acknowledge that many people will not contribute to their retirement savings without an element of **compulsion or auto-enrolment** and implement coverage of employees in the private pension system. Automatic pension enrolment has advantages as it gives access to women who would not have had it otherwise. This creates a safety net upon retirement and lessens women's dependence on the state pension scheme. However, it should include an **option for voluntary contributions** to build funds. Financial education is also vital as these schemes will not be suited to some individuals.

- **Adjust the state pension age and/or retirement age** to align with the rising health-adjusted life expectancy, both presently and in the future, to decrease the expenses associated with publicly funded pension benefits.

- **Promote increased levels of personal savings**, both within and outside of the pension system to decrease reliance on public pensions in the future. This will also start to shift the dial on workers' expectations, as many still wrongly assume public pensions alone will maintain them well into late life. Minimizing the leakage of funds from the retirement savings system before retirement is crucial to ensure that the savings, often supported by taxation, are used to provide retirement income.

- **Encourage greater participation in the workforce** among older individuals to increase the amount of savings for retirement and mitigate the ongoing expansion of retirement duration.

- **Minimize the impact of time out of work for caregiving** on pension savings and/or entitlements by introducing crediting mechanisms.

- **Provide affordable, quality childcare** which is likely to enable more mothers to return to the workforce rather than permanently exiting to care for children.

Occupational and personal pensions around the world

Across a large majority of countries, there is no formalized occupational pension system and where there is one, most workers are not protected during care leave, or when working in informal employment relationships. This is because care credits or service credits arise mostly through statutory systems and, only to a limited extent, follow salary.

This overview of a handful of countries with well-established occupational pension systems shows how diverse the protection of carers is across the globe:

Australia

The government recently announced it will make superannuation contributions on government-paid parental leave payments from 1 July 2025.[26] The minister for Social Services, Amanda Rishworth, said, "Paying superannuation on Paid Parental Leave is another key step to prioritize gender equality, better value care work and improve women's workforce participation. It helps to normalize taking time off work for caring responsibilities and reinforces (Government) Paid Parental Leave is not a welfare payment — it is a workplace entitlement just like annual and sick leave".[27]

Paid Parental Leave currently stands at 20 weeks and the Parliament has recently passed legislation to increase government-paid parental leave to 26 weeks from July 2026. Major employers pay additional parental leave but it is not a requirement to make superannuation contributions on company-paid parental leave. The Mercer Australian Benefits Review 2024 reports that 88% of employers paid primary caregiver leave for permanent employees in addition to the government-paid parental leave, with 88% of employers paying superannuation contributions to employees on paid parental leave.

It is not a requirement to make superannuation contributions on unpaid carers' leave or unpaid parental leave. In addition, under Australia's zero pillar (poverty alleviation) pension, the Age Pension is means-tested (on both assets and income), meaning that individuals with smaller retirement balances would potentially qualify for a larger payment compared to those with larger retirement balances. This tends to reduce the gender pension gap as women on average have smaller retirement balances.

Denmark

Most Danish occupational pensions are DC plans with contributions linked to salary payments. It is common market practice to continue salary payment during at least part of maternity, paternity and parental leave and therefore occupational pension contributions are continued during periods of care leave.

For many workers, collective agreements govern the duration of continued salary payments. Some collective agreements, such as the one for public employees in the municipalities and regions, even foresee the continuation of full occupational pension contributions when the employer stops salary payment. Employers may receive compensation from the state for paying full salary and many contribute to so-called maternity funds that provide a top-up to the public compensation.

Japan

'Shakai Hoken' or 'Social Security' is the comprehensive coverage of health insurance, industrial injuries insurance, employment insurance and pension benefits. The health insurance premiums and pension premiums are covered 50:50 by the employer and employee, with deductions being made monthly from the salary.

Maternity leave begins six weeks before birth and ends eight weeks after giving birth. During this time, health insurance pays the maternity allowance at two-thirds of the employee's salary. Mothers and fathers can take childcare leave until the child reaches one year of age. If both parents avail of childcare leave, this extends until the child is 14 months old. [28] In case the child is on the waiting list for nurseries, this extends up to two years of age. During the childcare leave, the employment insurance pays parental allowance at 67% of the employee's salary up to 180 days, and 50% after 180 days.[29] During maternity leave and childcare leave, both employer and employees are exempted from social security premiums, and the period is treated as if the premiums are paid.

Sweden

The main DC pension plans for white collar workers (ITP 1) and blue collar workers (SAF-LO) leverage a waiver of premium insurance which takes over occupational pension contributions from the employer when the worker is on child-care-related leave.

Generally, the waiver of premium insurance is quite affordable to employers: In the white collar plan, the premium amounts to 0.14% of pensionable income up to 7.5 IBA, corresponding to approximately US$52,500, and 1.236% of pensionable income between 7.5 IBA, US$52,500, and 30 IBA, US$209,850.[30] Under the blue collar plan, the premium is currently zero due to the favorable financial situation of the insurance company covering the benefit. In addition to occupational pension credits, blue collar workers covered by the SAF-LO plan receive a top-up of their statutory parental benefit during parental leave, so they receive 90% of their previous salary. Under the phased-out DB scheme for white collar workers born in or before 1978 (ITP 2), it is market practice that pension contributions continue to be paid for up to eleven months while the worker is on parental leave and pension contributions are not affected by short-term leave related to the care of a sick child.

United Kingdom

Under occupational pension plans in the UK, both the employee and employer continue making contributions during paid leave to the extent that the employee remains a member of the plan. The employee contribution amount is based on actual earnings during the leave period. However, the employer continues paying contributions based on the employee's pensionable salary before the leave starts.[31]

If an employee is receiving payment during maternity leave (including Statutory Maternity Pay over the first 39 weeks of maternity leave), both the employee and employer will continue to make pension contributions as set out above. If the employee is taking additional unpaid leave, they will not make any contributions and the employer may stop contributing as well, unless otherwise stated in the employment contract. Employees have the option of Shared Parental Leave and Statutory Shared Parental Pay, which allows up to 50 weeks of leave and 37 weeks of pay to be split between the parents during the first year of the child's life.

United States

The Family and Medical Leave Act (FMLA) allows for up to twelve weeks of job-protected but unpaid leave for: the birth of a child or placement of a child with an employee through foster care or adoption, the care for a child, spouse or parent who has a serious health condition.

The Bureau of Labor Statistics data shows that only about one in four employees (27%) in the private sector have access to paid family leave.[32] While the FMLA requires benefits that employees were receiving prior to taking leave, including pensions, retirement or 401(k), must be continued upon their return to work, it is not continued during their leave.[33] No US federal law provides the right to paid family or medical leave. As of March 2022, only 24% of private sector workers in the US had access to paid family leave through their employer. However, if the FMLA leave is unpaid, the employer can require the employee to pay their required employee contributions to maintain such group health plan coverage during FMLA leave.[34]

Qualified retirement plans, which include 401(k) plans, are employer-sponsored and meet Internal Revenue Service and US Labor Department requirements. These plans contain provisions that prevent a participant from incurring a break in service (which would affect their eligibility and vesting) due to Maternity and Paternity Leaves of absence.

What can employers do?

The variety of underlying causes of gender pension gaps presents a challenge for employers on the quest to provide pension equity. Beyond ensuring equal pay for equal work, there are a series of strategic decisions and actions both human resources and pension leaders can take to lessen the pension gap. For example, forward-thinking organizations are increasingly using global minimum standards on benefits, including types and length of leave, to protect carers in their workforce in countries that do not provide this in the statutory or occupational system. Other employers are going beyond the concept of a living wage to ensure their workforce benefits from living pensions. This can be achieved by considering the cost of living standards across locations and determining the employees' needs to secure a pension that meets a set minimum standard of living.

Actions to shift the dial on the gender pension gap

Mercer has been working with employers to help address the gender pension gap:

- Hosting financial wellness programs and encouraging education to provide better knowledge of how and when to retire.
- Extensive gender pay gap analysis and reporting for fairer outcomes and financial security.
- Encouraging caregiver leave and support through the understanding of caregiver population levels.
- Developing a progressive retirement strategy to address demographic challenges which incentivizes savings. This could potentially reduce the risk of elder poverty and dependence on social support.
- Job redesign for the future of work for better succession planning and more suitable work opportunities, allowing employees to better prepare for life after work.

By taking these steps, organizations increase employee satisfaction, attract talent, enable financial security and represent themselves as positive and committed to their employees' well-being.

Case Study: Global minimum standards for leave

Client situation

A luxury brands company with 30,000+ employees globally, with predominantly women in the workforce, requested a strategic review of current leave programs to ensure it supports their diversity and inclusion strategy when competing for top talent. The leave strategy aimed to be global in design yet locally nurture the whole person and provide employees with flexibility based on their unique circumstances.

Mercer's approach

Local HR representatives designed and completed a modern benefits inventory to establish the current state of leave policy and practice. Mercer assessed the current state of leave programs, external market trends and peer group practices. Demographic personas were analyzed, and leaves were mapped to moments that matter within the employee lifecycle. A design thinking workshop gathered stakeholder inputs and reflections on market practice. The workshop also developed employee personas and established global minimum leave standards.

Results delivered

- An integrated three-layer, bold, stand-out strategic framework to address the different types of leave for their diverse workforce.
- Documented global minimum standards for leave policies including parental, family care and personal leave to reflect different employee personas.
- Peer group benchmarking provided insights into opportunities for the employer to differentiate themselves, all while aligning to their company purpose and values.

The key actions that HR and pension leaders can take to address pension equity are summarized below[35]:

HR leaders	Pension leaders
Enable more flexible working arrangements and more sharing of parental leave by tackling stigma (particularly against new fathers taking leave) and ensuring policies are accessible.	Remove eligibility thresholds and restrictions from pension plans so low earners and part timers can join.
Introduce targeted financial wellness seminars. Include the small actions women can take now, such as mothers sharing child-rearing costs.	Pay contributions for paid parental leave and carers leave.
Analyze existing gender pay gaps, identify remediation strategies and take action.	Introduce unisex rates on annuities, make sure survivors' benefits are built in and index all pensions.
Remediate career differentials that can lead to pay gaps.	Ensure that communications contain inclusive language to engage with women.
Introduce personalized models to show the impact of different working arrangements and career gaps on pay and pensions.	Create greater awareness of the implications of divorce on pensions.
Ensure that parental leave can be taken by either parent.	

Want to learn more?

Take a look at our retirement-focused research and offerings:

- World Benefit and Employment Guidelines
- 2024 Global Talent Trends
- Family-friendly leave in the new world of work
- Inclusive benefits and smart personalization
- Living pensions
- Financial education and literacy

For more information, please contact your local Mercer consultant.

Authors:

Gina Fassino
Client Solutions Specialist

Yvonne Sonsino
Total Well-being and Longevity Lead

Graham Pearce
Global DB Segment Leader

John O'Brien
Strategic Risk Management Leader, Europe

Contributors:

David Knox
Actuary and Senior Partner

Lea Lønsted
Pay Equity Leader, Europe/UK

Lucye Provera
Global Pay Equity Solution Manager

Endnotes

[1] OECD. (2021). "Towards Improved Retirement Savings Outcomes for Women." Available at https://web-archive.oecd.org/2021-03-10/581607-Towards-Improved-Retirement-Savings-Outcomes-for-Women-Highlights.pdf

[2] Dattani and Rodés-Guirao (2023). "Why do women live longer than men?" Available at www.ourworldindata.org.

[3] World Economic Forum. "Industry Leaders Support New Longevity Economy Principles to Improve Outcomes for Aging Societies."

[4] OECD. "Towards Improved Retirement Savings Outcomes for Women."

[5] European Commission. "The 2021 Pension Adequacy Report."

[6] Mercer & CFA Institute *Global Pension Index 2023*

[7] Care credits are offered as a mechanism to provide contributions to pension schemes when a worker is on a care-related leave, for instance maternity or parental leave. Care credits are designed to compensate for this break in 'working time' so that there are no significant gaps in pension entitlements.

[8] European Commission. "Study supporting the monitoring of care credits in occupational pension schemes - Final Report."

[9] Mercer. *How to fix the gender pension gap*

[10] European Parliament. "Work-life balance for parents and carers and repealing Council Directive 2010/18/EU."

[11] EU Directive definition: 'Pay' means the ordinary basic or minimum wage or salary and any other consideration, whether in cash or in kind, which a worker receives directly or indirectly (complementary or variable components) in respect of his or her employment from his or her employer.

[12] EU Directive definition: 'Pay' means the ordinary basic or minimum wage or salary and any other consideration, whether in cash or in kind, which a worker receives directly or indirectly (complementary or variable components) in respect of his or her employment from his or her employer.

[13] Eurostat data browser available at ec.europa.eu/eurostat/databrowser/view/ilc_pnp13/default/table?lang=en.

[14] Department of Work & Pensions, Gender Pensions Gap in Private Pensions, available at https://www.gov.uk/government/statistics/gender-pensions-gap-in-private-pensions.

[15] OECD. "Future retirement ages | Pensions at a Glance 2021: OECD and G20 Indicators."

[16] OECD. "Pensions at a Glance 2023."

[17] Central Statistics Office (Ireland). "Families Census of Population 2022 Profile 3 - Households, Families and Childcare."

[18] Mercer. *Women and Money: Empowering Financial Wellbeing for the Future*

[19] OECD (2021). "Towards Improved Retirement Savings Outcomes for Women," p. 40.

[20] International Labour Office. "Women and men in the informal economy: A statistical picture."

[21] The Directive entered into force in August 2019 with the aim to make flexible working arrangements and family-related leave more accessible to European families. Member states had to implement the directive into national law within 3 years.

[22] "HomeCaring Periods Scheme". Available at citizensinformation.ie

[23] Jankowski J. "Caregiver Credits in France, Germany, and Sweden: Lessons for the United States" Social Security Bulletin, Vol. 71, No. 4, 2011.

[24] Business Plus. "Fears pensions gender gap will worsen."

[25] Mercer & CFA Institute. Global Pension Index 2021

[26] Reuters. "Australia to make pension contributions for workers on paid parental leave", March 7, 2024.

[27] Westcott and Bainbridge. "Australia Will Pay Pension Contributions on Paid Parental Leave", Bloomberg, March 6, 2024.

[28] Export to Japan. "Employee Benefits In Japan." Available at www.exporttojapan.co.uk/guide/hr-recruitment/employee-benefits

[29] General Union. "Maximize Your Time with Your Newborn: What You Need to Know About Childcare Leave in Japan".

[30] IBA = Income Base Amounts. USD figures are approximate and converted from SEK. European Commission. "Employment, Social Affairs & Inclusion: Sweden – Old-age pension". Available at https://ec.europa.eu/social/main.jsp?catId=1130&langId=en&intPageId=4814

[31] "Workplace Pensions: Changing Jobs and Taking Leave." Available at www.gov.uk

[32] Congressional Research Service. "Paid Family and Medical Leave in the United States"

[33] US Department of Labor. "Fact Sheet #28A: Employee Protections under the Family and Medical Leave Act"

[34] US Department of Labor. "Employer's Guide to the Family and Medical Leave Act"

[35] Mercer. *How to fix the gender pension gap*