

# THE DIFFERENT IMPACT OF PENSION REFORM ON WOMEN AND MEN

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*The national system's pensions reform is taking place at this moment in different European countries like Slovenia, Poland, Hungary, Romania, Latvia, Lithuania. This paper emphasize the different impact of pension system's reform on women and men. Gender objectives were not considered a priority in the reform frame, although there is a series of complex problems generated by these changes and women will be mostly affected.*

*Key words: pension, reform, annuity*

## **Pension system reform**

The Romanian state introduced a pension system at the beginning of the 20th century, with money contributing to the system moving on to the existing pensioners. As a self-sufficient entity, this is now heading for collapse. Life expectancy has increased, which is good news for everyone except the welfare state, because the total number of pensioners will overtake those who can contribute to their pensions.

Many analysts argue that the failure of the state pension is because the system in which contributors pay to the social securities budget is inefficient. The state also does not, and cannot, invest the money it receives – which it then passes on straight to the current class of pensioners. Demographically, the number of contributors to the state pension is decreasing every year. Numbers of employees in Romania have fallen from over eight million in 1990 to under five million in 2006. If at the beginning of the 1990s there were five employees paying the pension of one retired person, this ratio now stands at one employee to 1.2 pensioners. In the next two decades, according to the National Institute of Statistics, the proportion of the elderly will rise from 14.3 per cent to 17.4 per cent of the population – the kind of shift all Europe has to contend with.

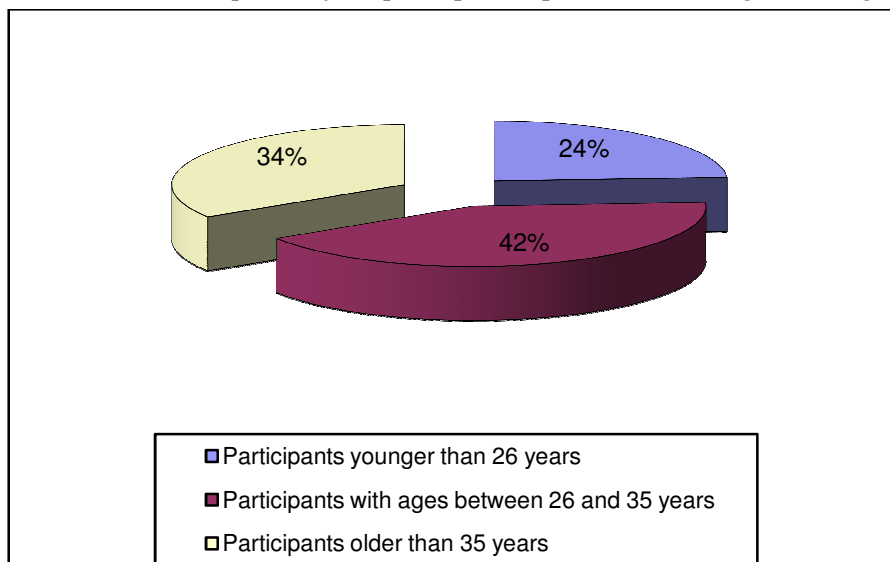
September witnessed the birth of a new industry in Romania, with legislation giving the green light to the much-awaited private pension system on the Romanian market.

Optimists hope that through this legislation, in 30 years' time, pensioners will lead a more decent life, as young people are forced to save earlier into pension accounts administered by private businesses.

Romania's legislation is based on the experience of New Europe and the principles are similar, but critics argue that its legislation is restrictive and prudent.

The public pension is the so-called first pillar of the pension system. It functions according to the law no. 19 from 2000 with further modifications and completions. This type of pension relies on the solidarity between generations: the pension of the actual retired population is made up of the contributions collected from the active persons working on the labour market in this moment.

*Chart no. 1. Private pension fund participants repartition according to their ages*



Source: CSSPP Report 7 March 2008

The private mandatory pension represents the so-called second pillar of the pension system. It functions according to the law no. 411 from 2004. It can be considered a type of forced saving, based on an individual compulsory contribution: the sum with which a person is mandatory contributing during its active life stands at the base of its pension. To this sum is added (or subtracted, if it is negative) the accumulated fund's capitalization rate and it are subtracted the administration commissions of the respective fund. All Romanian employees under the age of 35 had four months to choose to subscribe to one fund and then this year the funds will start collecting money. Until this moment, for the private mandatory pension have applied about 4 millions employees; number which includes also persons with ages between 35 and 45 years who adhered optionally to the second pillar (Chart no.1).

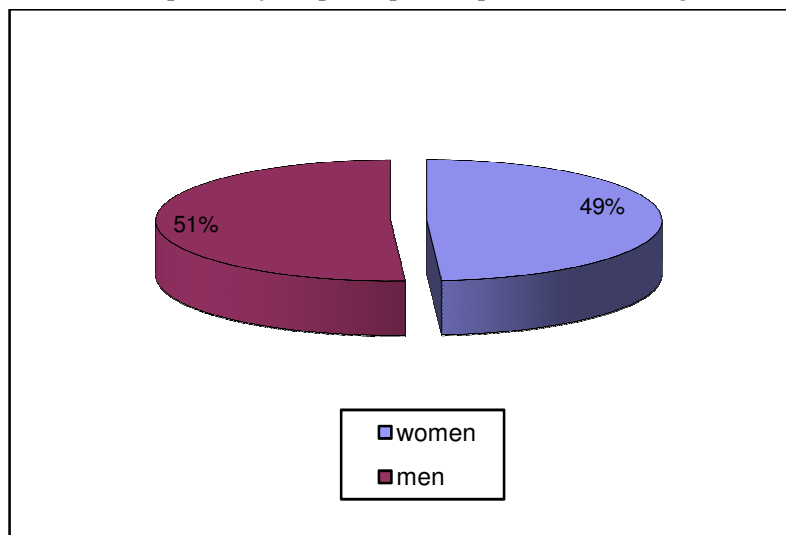
The optional private pension represents the so-called third pillar of pension system. It functions according to the law no. 240 from 2006. It is a voluntary saving system, based on deliberate individual contribution. The mechanism that makes up this type of pension is the same with the one used for mandatory private pensions.

### **The different impact of pension's reform on women and men**

The research performed in different countries, which had reformed their pension system, show that there are differences that, in general, are in women's disadvantage.

In general, women register smaller rates of participation on the labour market (Chart no. 2), contributing more at the domestic work – women work in the salaried labour system, in average, just half of the years that men do; this is also because of the discontinuities related to maternity, child raising and care vacations.

*Chart no. 2. Private pension fund participants repartition according to their gender*



Source: CSSPP Report 7 March 2008

Smaller wages, due to weaker fructifying of women's work and its belonging to economic fields with smaller rewards – until adult age women earn in average 2/3 of the amount earned by men.

If the pension benefits depend on the contributions and the contributions depend on the wages, work type and the number of years worked, women get smaller pension benefits.

Demographic problems and regulations regarding beforehand retirement are amplifying the differences:

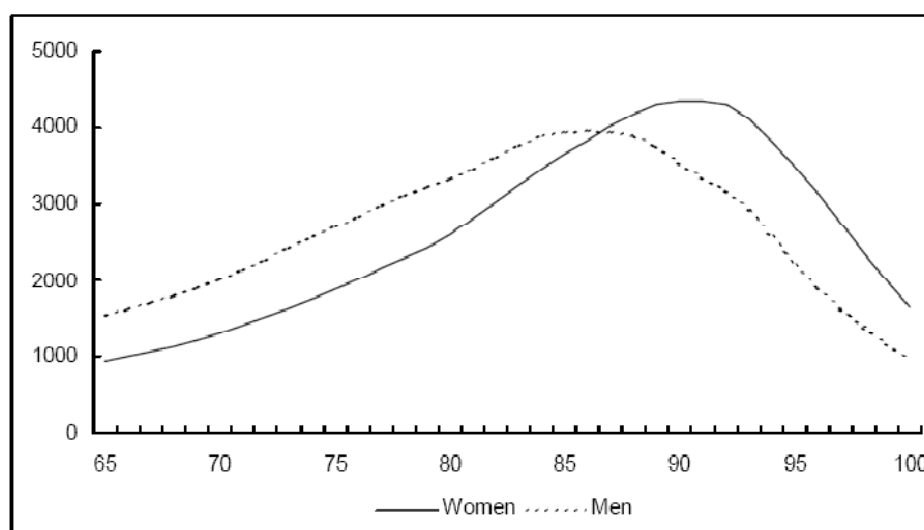
- Women live in average with 3-5 years more than men do and they are younger than their husbands/partners;
- Women are allowed often to retire with 5 years earlier than men. It is tempting, but this means that they accumulate less resources for the pension period;
- If we add the fact that they live more than their husbands/partners, the risk of poverty is bigger – they live a longer period of time with smaller resources.

The role of life expectancy is important in setting the pension benefits for women and men, according with the private pension system. If the system will copy the private assurance's customs of using different tables for women and men life expectancy, than women will end up receiving just a half of what men are getting.

Despite the fact that on average women are expected to live longer than men, for individual men and women there is a significant overlap in the ages at which they die. Chart no. 3 highlights this overlap. Although more men than women are expected to die at each age before age 87, 61 per cent of men and 46 per cent of women are expected to die before reaching this age.

For Romania, the estimation made regarding the gender impact on pension reform, indicate the fact that, the smaller number of worked years, smaller earnings and bigger life expectancy can lead to a reduction of the women average pension with about 34% in comparison with the one from the public sector, if the situation remains unchanged.

**Chart no. 3. The number of men and women from a population of 100,000 aged 65 in 2004 expected to die at each subsequent age**



Source: GAD 2002-based population projections

Women receive lower monthly annuity payments than a man from the same amount of pension saving because annuity providers take into account the expectation those women will live longer than men.

It appears inherently unfair that a woman can be offered a smaller annual payment than a man for an identical pension lump sum, even if the lump sum has been built up using exactly the same contributions. In other parts of the pension system this does not happen. In the state pension system a woman could receive a higher overall payout than a man with an identical contribution record, because a woman would receive a pension for a greater number of years (once state pension ages are equalised between 2010 and 2020, a woman will receive the same state pension as a man with an identical contribution record). In an occupational pension scheme a man and a woman with identical career and earning experience would receive identical annual benefits. This is because in both of these schemes men and women are 'pooled' together, and the relative risks of long life are shared among them. To the extent that women live, on average, longer than men, these schemes may be seen to subsidise women at the expense of men.

These arguments help us sustain the idea that a woman with the same income, age and working years has to receive a monthly pension equal with a man in the same situation. In some countries this happens, but in others do not. In those countries where it has been decided to use the unique life expectancy for the second pillar pensions calculation, there is the need for the actions to continue. This decision is not sufficient, because the ones managing the private funds will find a way to discourage women to participate in the scheme, either because of the advertising approach, or because of their operating manner. It is necessary to set up a regulation system that will help equilibrate women's and men's participation rates to this scheme.

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