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**Work and Pensions in a  
“Gendered” Life Cycle  
Perspective**

*July, 2015*

1. Women in the demographic transition
2. An interpretative framework: women's life cycle(F. Modigliani); still lagging behind?
3. Women's and economic reforms: which role? which consequences?
4. An example: the welfare/pension reforms
5. Why reforms are, per se, not enough
6. Lessons from the Italian experience of pension reform

# The force of the demographic transition

Deep changes in our societies,  
in work and consumption,  
in attitudes and habits,  
in political preferences

European pension systems started and expanded when the population looked like in the following picture



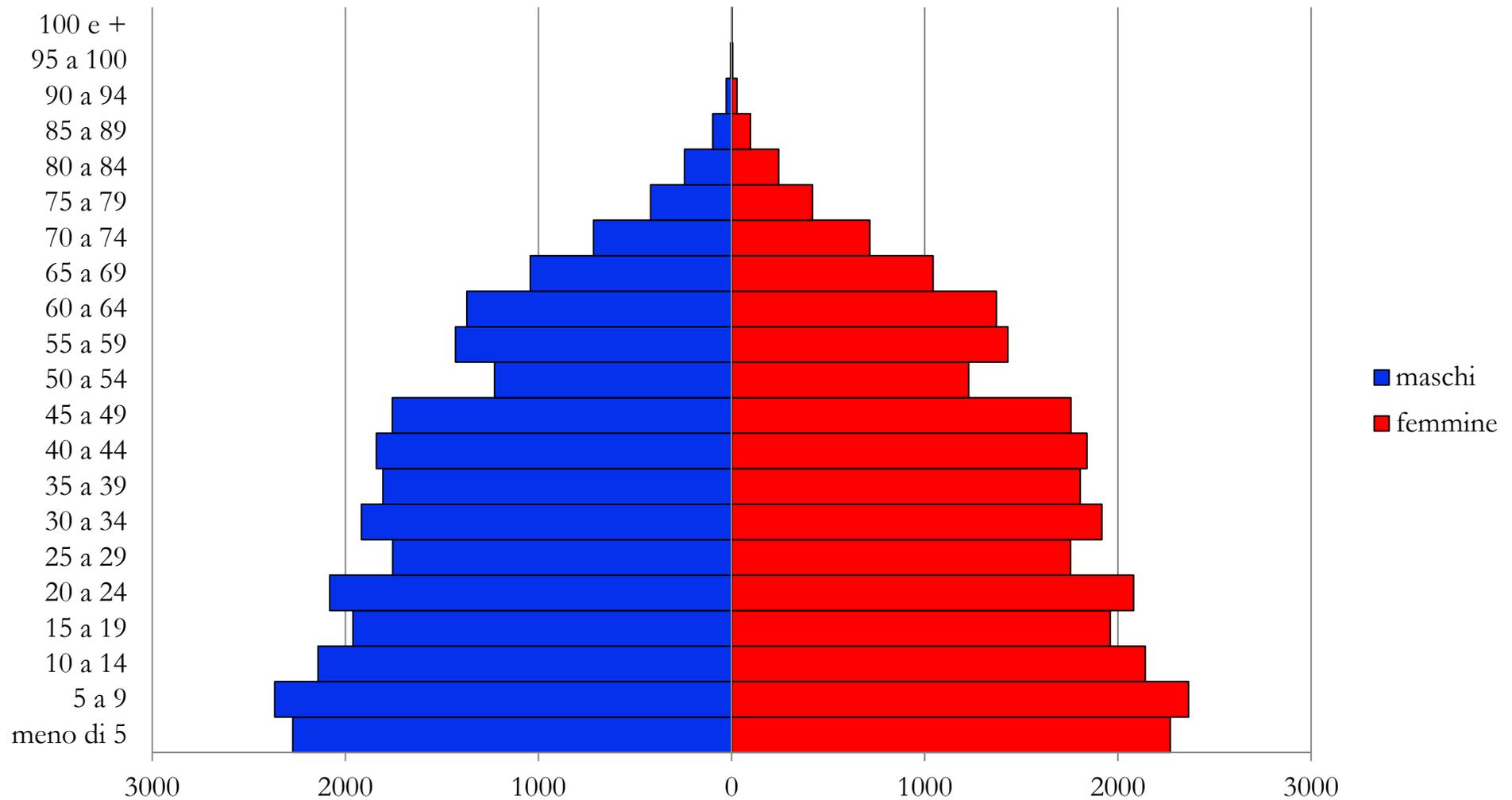
...they have difficulties in adapting to an aged (and ageing) population



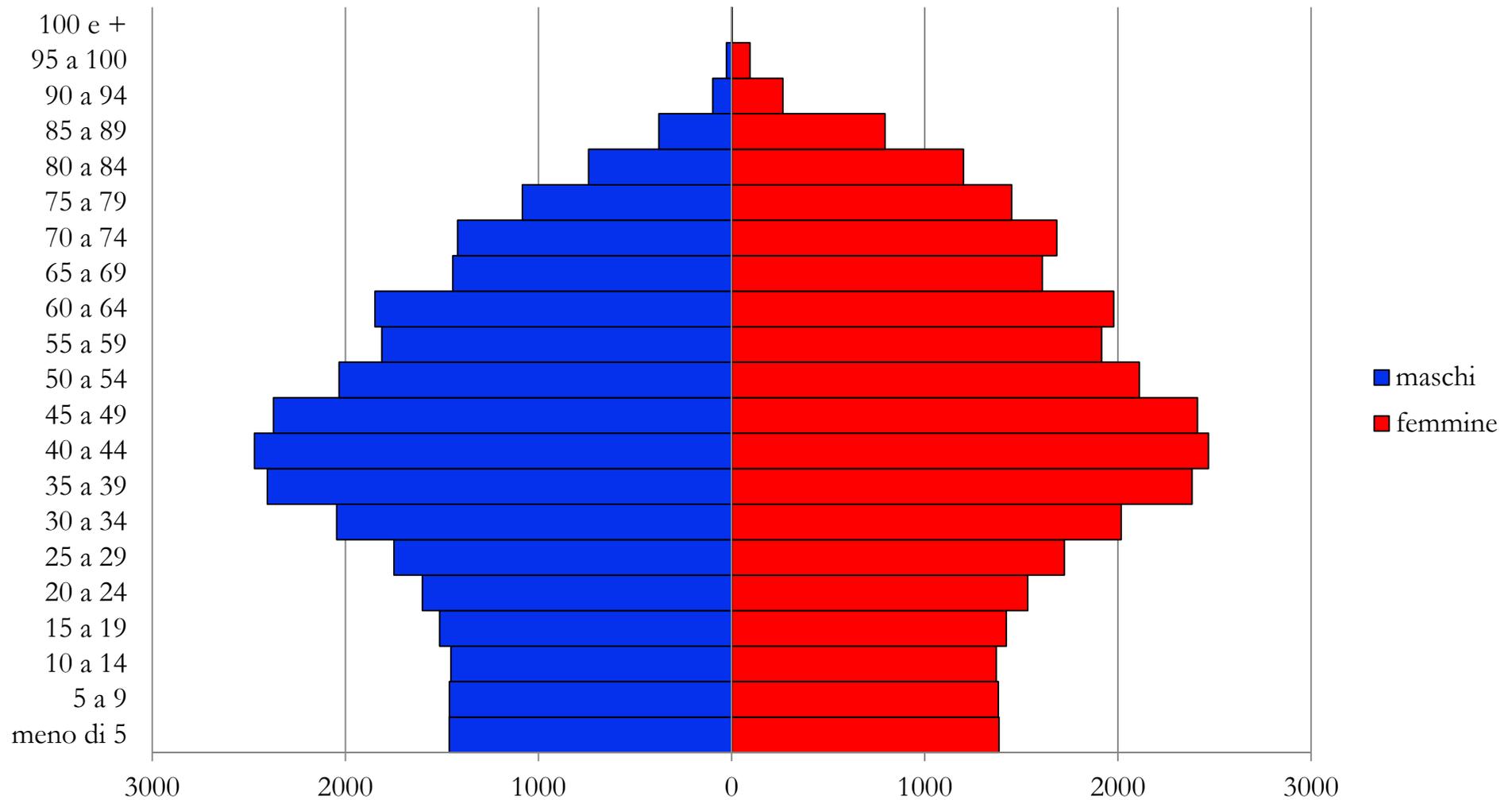
For the future,  
we do not have “photographs”

but we have  
demographic projections

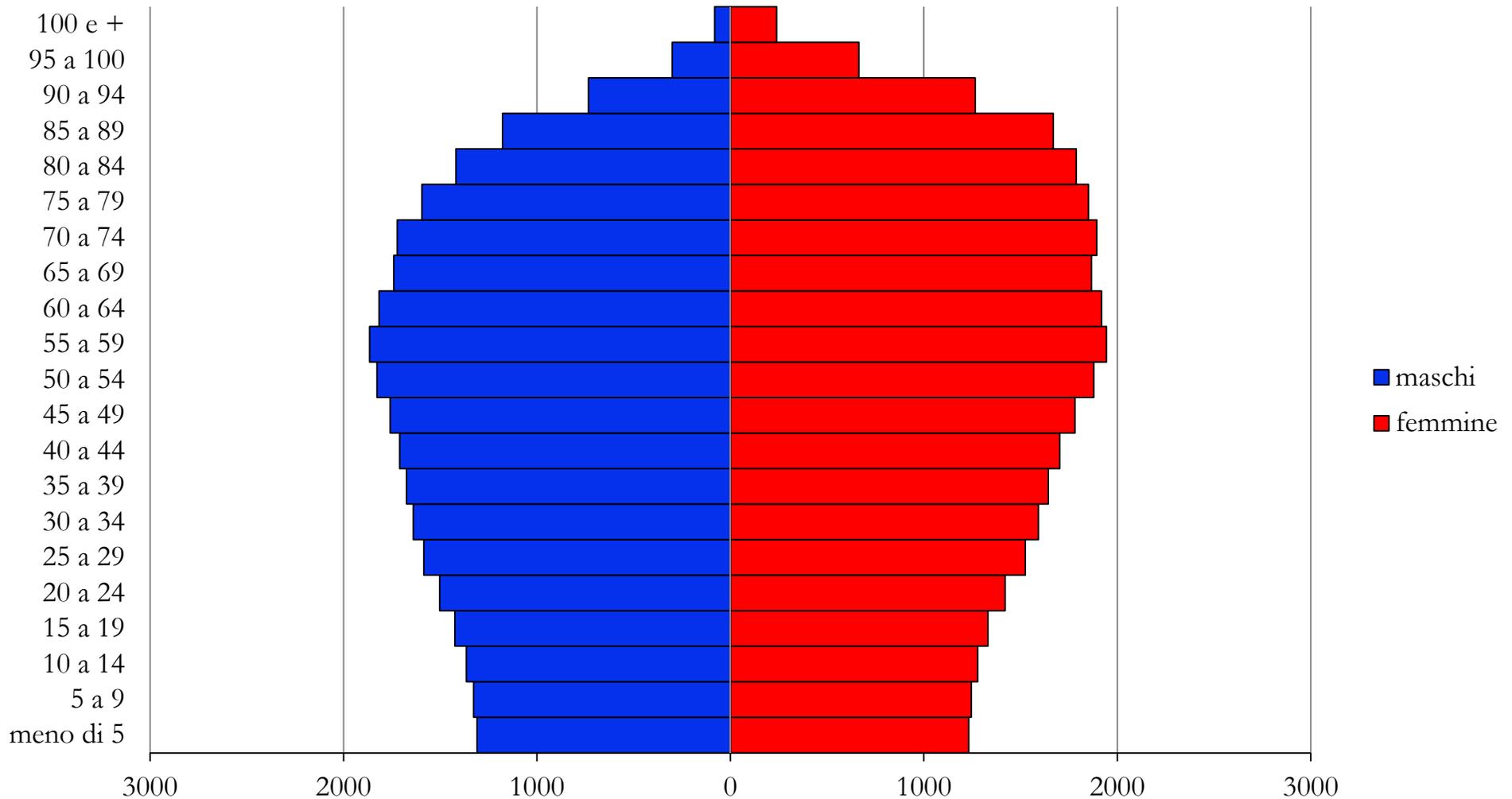
# The population pyramid - Italy - 1971



# The population pyramid - Italy - 2011



# The population pyramid - Italy - 2061

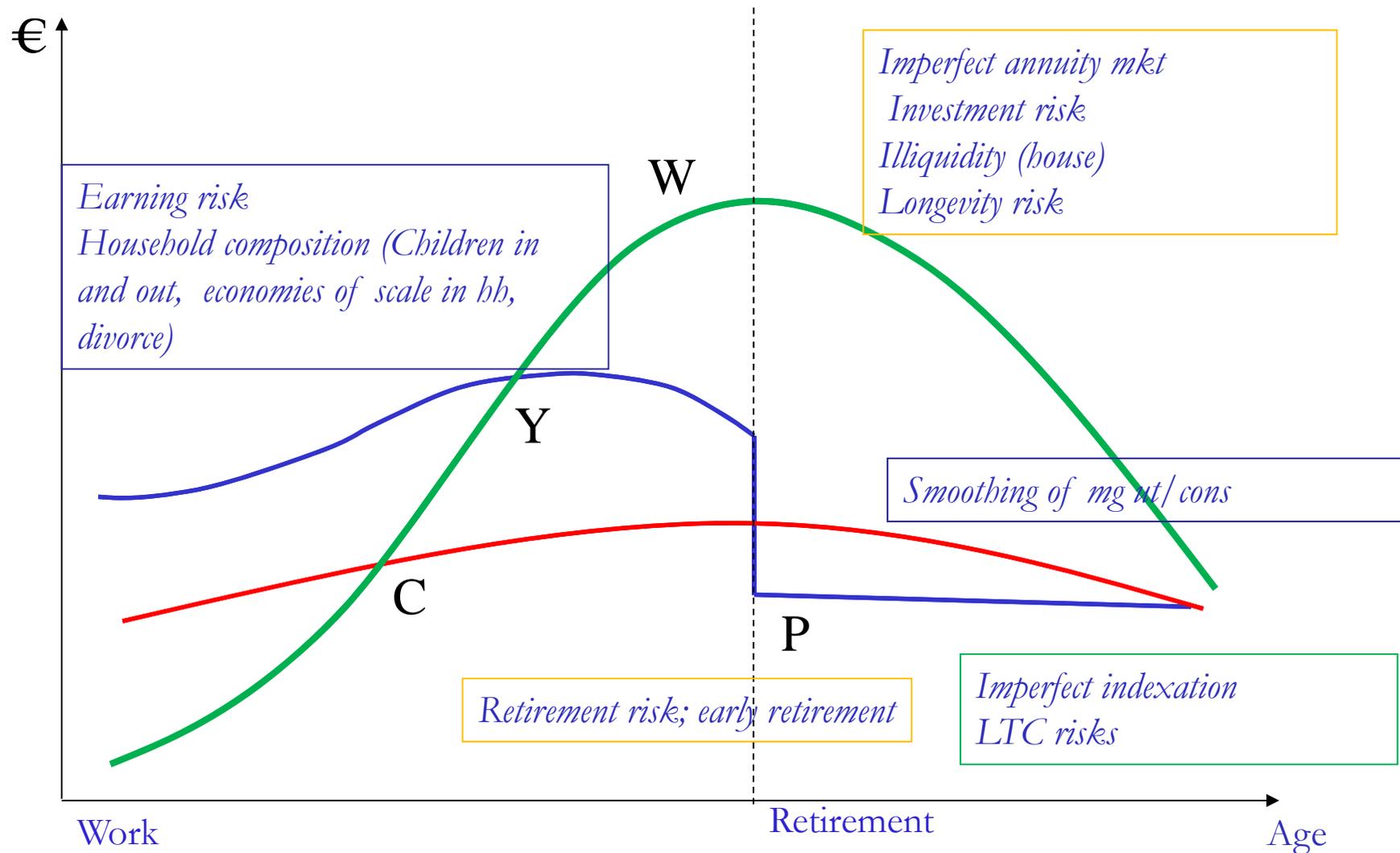


# An overlapping of structural changes across both generations and gender

- Creating a *level playing field* for young/future generations
- Allowing a *transition* for older ones, who have little margins, if any, for adjustment

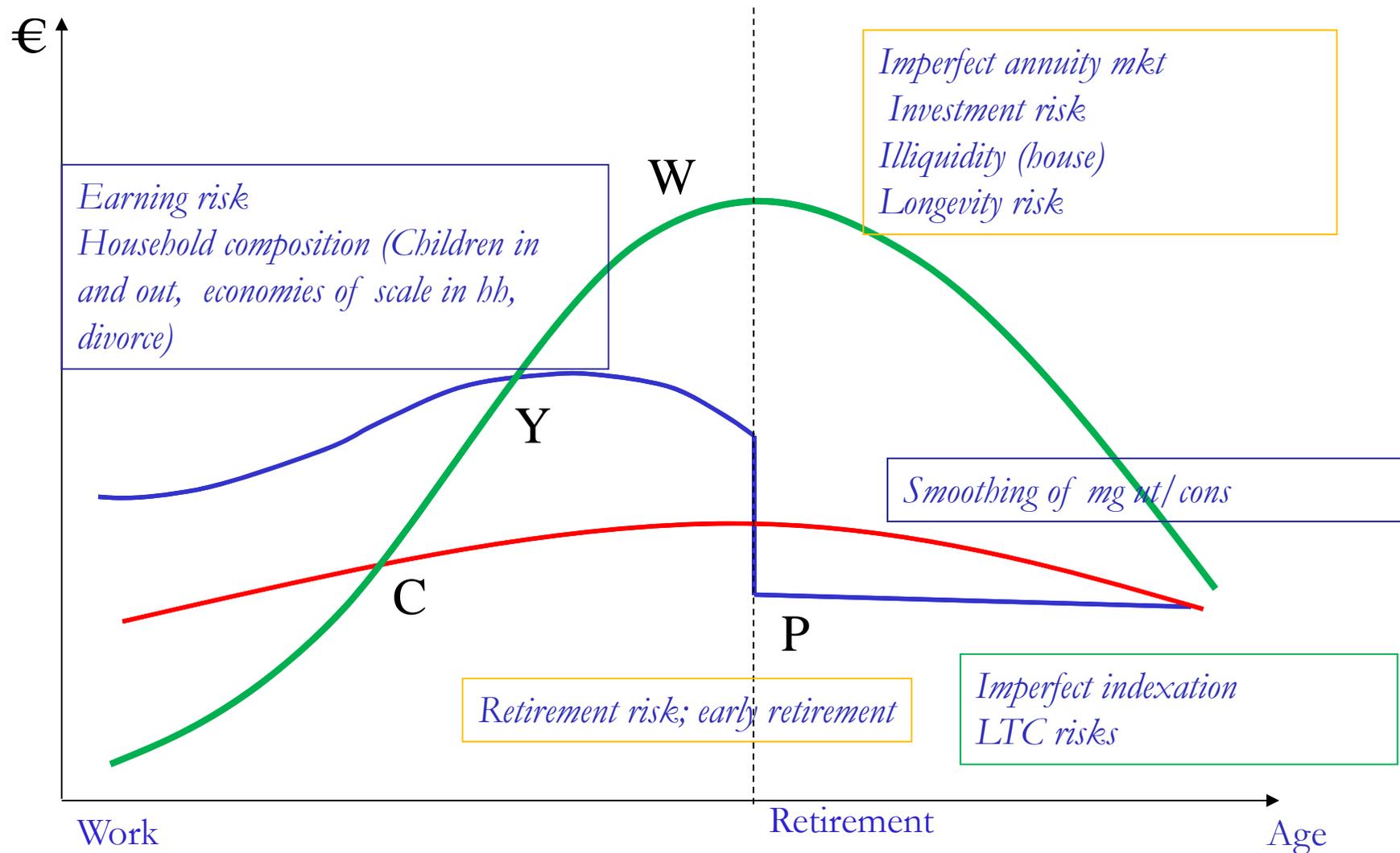
## 2. An interpretative framework:

the life cycle hypothesis (F. Modigliani) from a generational/gender perspective



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# Shaping the life cycle: (i) Education

## Outdoing boys?

PISA SCORES - OECD Average									
	Reading			Mathematics			Science		
Year	2006	2009	2012	2006	2009	2012	2006	2009	2012
Boys	470,1	474,1	477,8	499,7	501,4	499,4	499,4	500,9	501,9
Girls	508,6	513,2	515,4	488,6	489,8	488,6	497,1	500,8	500,4

Source: elaboration on OECD data, dataset on Education (Jun 2014)

# (Reversed) gender gaps in education

Share of population who attained tertiary education, by age group (2011)								
Age Group	25-34		35-44		45-54		55-64	
Gender	Men	Women	Men	Women	Men	Women	Men	Women
Germany	25,7	29,7	31,3	26,5	30,9	23,8	32,5	20,1
Italy	16,4	25,6	14,7	18,6	11,1	11,9	11,4	10,4
United Kingdom	45,4	48,5	41,9	43,3	35,4	36,2	32,5	30,2
United States	38,2	48,1	41,7	47,5	39,2	42,5	42,3	40,2

Source: elaboration on OECD data, dataset on Education (Jun 2014)

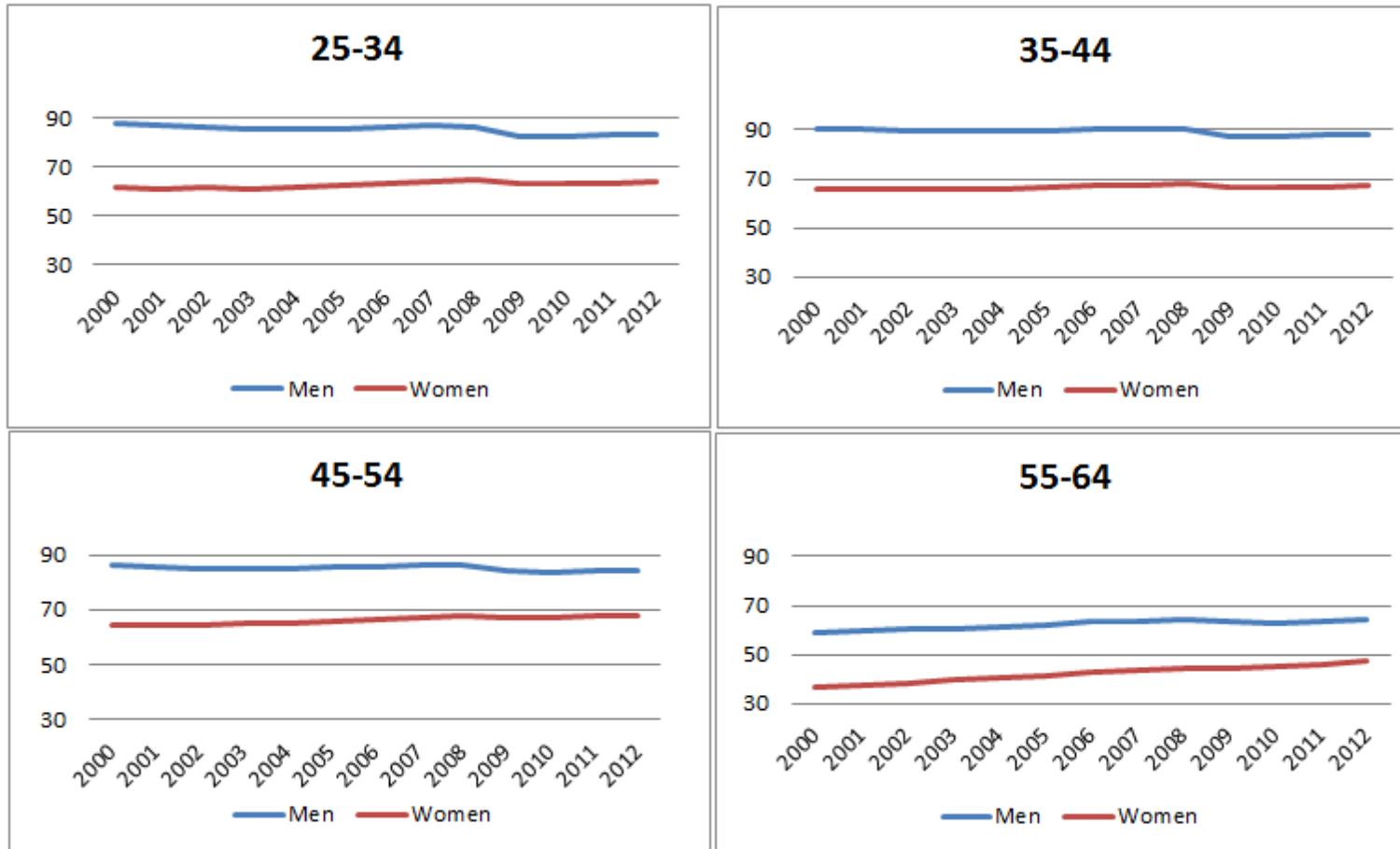
## (ii) Still climbing the mountains in **work**?

Compared to men, women work shows several critical patterns:

- Lower participation rates
- A negative wage gaps
- More part-time and (slightly) more temporary employment
- Higher risk of mobbing, (sexual) harassment, being fired/?
- Glass ceiling
- Less flexible use of time because of unequal distribution of home chores
- Female entrepreneurship: lower access to credit?

# Participation gaps...from the start

## Employment rate by age group - OECD Average



Source: elaboration on OECD data, dataset on Labor Force Statistics (Jun 2014)

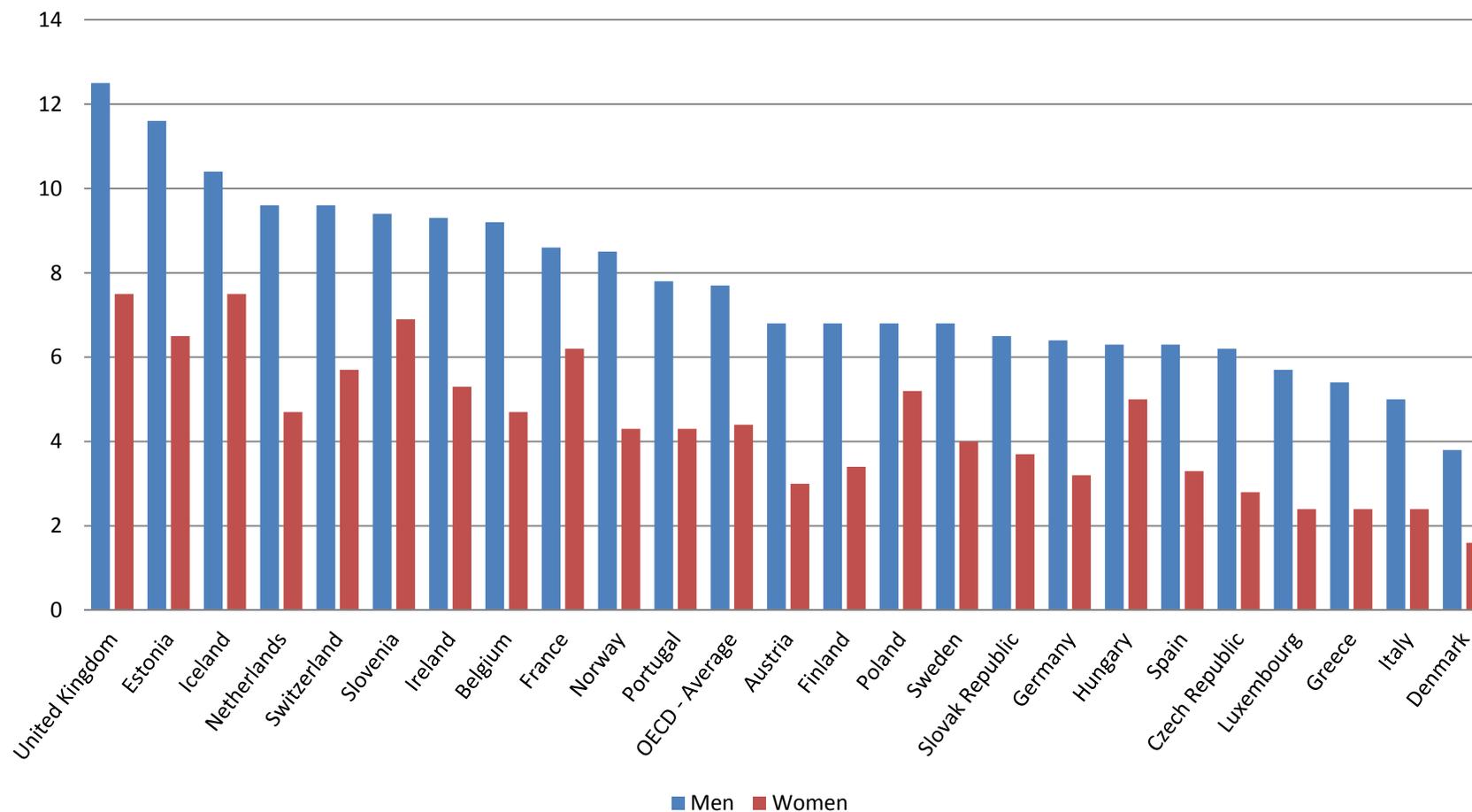
# A persistent wage gap

Gender pay gap by age group in % (2012 <sup>1</sup> )				
Age group	25-34	35-44	45-54	55-64
Germany	11,5	23,6	27,2	27,5
France	8,8	13,1	19,3	21,9
Italy	8,6	8,2	4,8	5,9
United Kingdom	4,9	18,6	27,6	24,7

Source: elaboration on Eurostat data, dataset on Earnings (Jun 2014). <sup>1</sup>Germany: 2010

# Glass ceiling

## Proportion of employed persons with managerial responsibilities (2011)



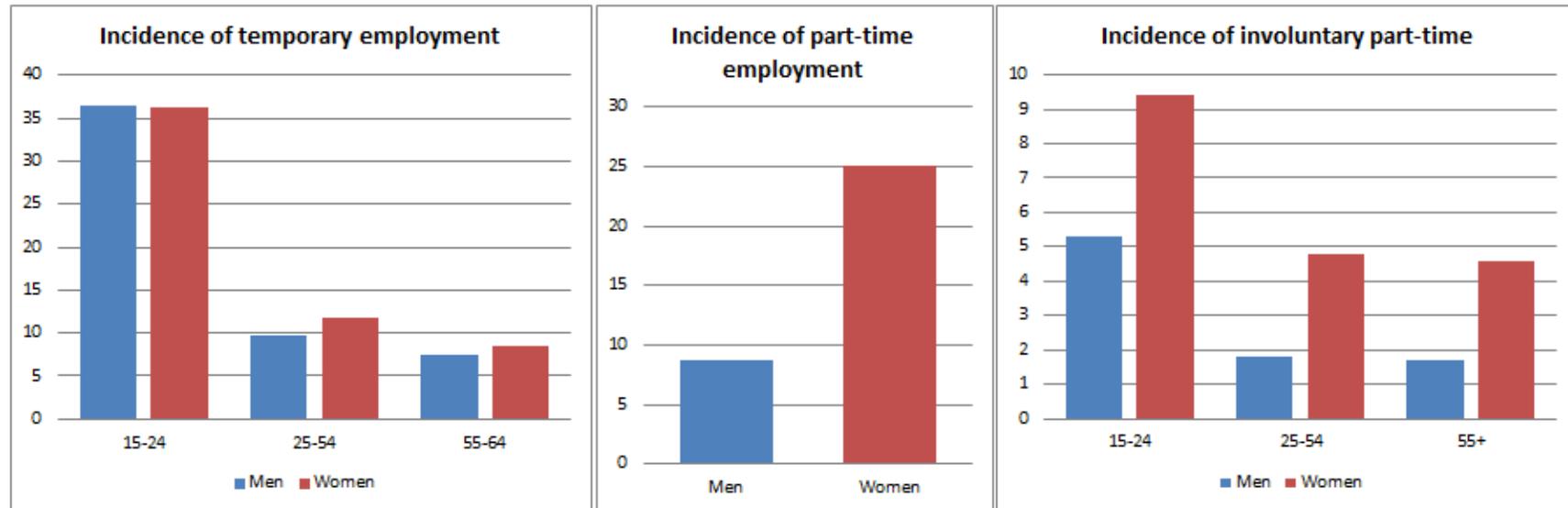
Source: elaboration on OECD data, dataset on Employment (Jun 2014)

### (iii). Shaping the life cycle: **work and family**

- The trade off between work and family?
  - *Maternity is still too often a reason for women to stop working*
- How long does the woman stay out the work for caring activities? how easily is for her to go back?
  - *The question turns around the presence of both care services and effective work protection of mothers against (discriminatory) firing*
- Reconciliation of work and family is an issue for both men and women
  - *Promoting a greater participation of men in parenthood through cultural changes and economic incentives (company's welfare)*
- How does divorce affect women's financial security?
  - *Women dependent on their husband/partner income may find themselves in poverty after divorce*

# A weaker working career

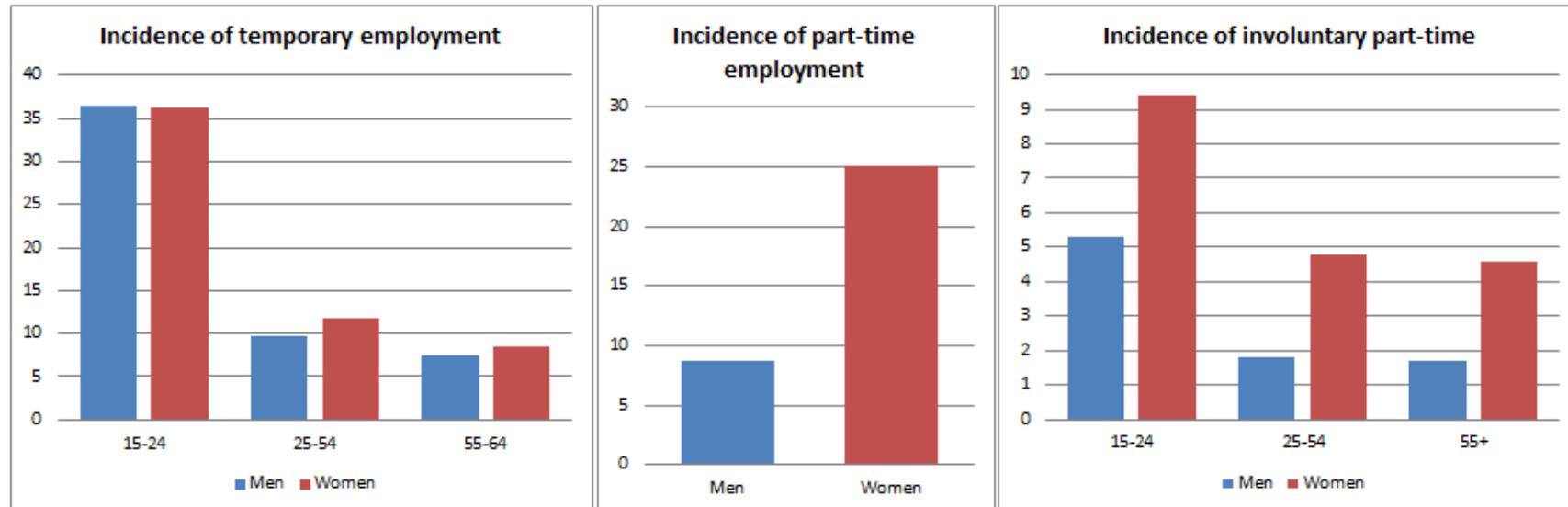
## OECD Average - 2012



Source: elaboration on OECD data, dataset on Labor Force Statistics (Jun 2014)

# A weaker working career

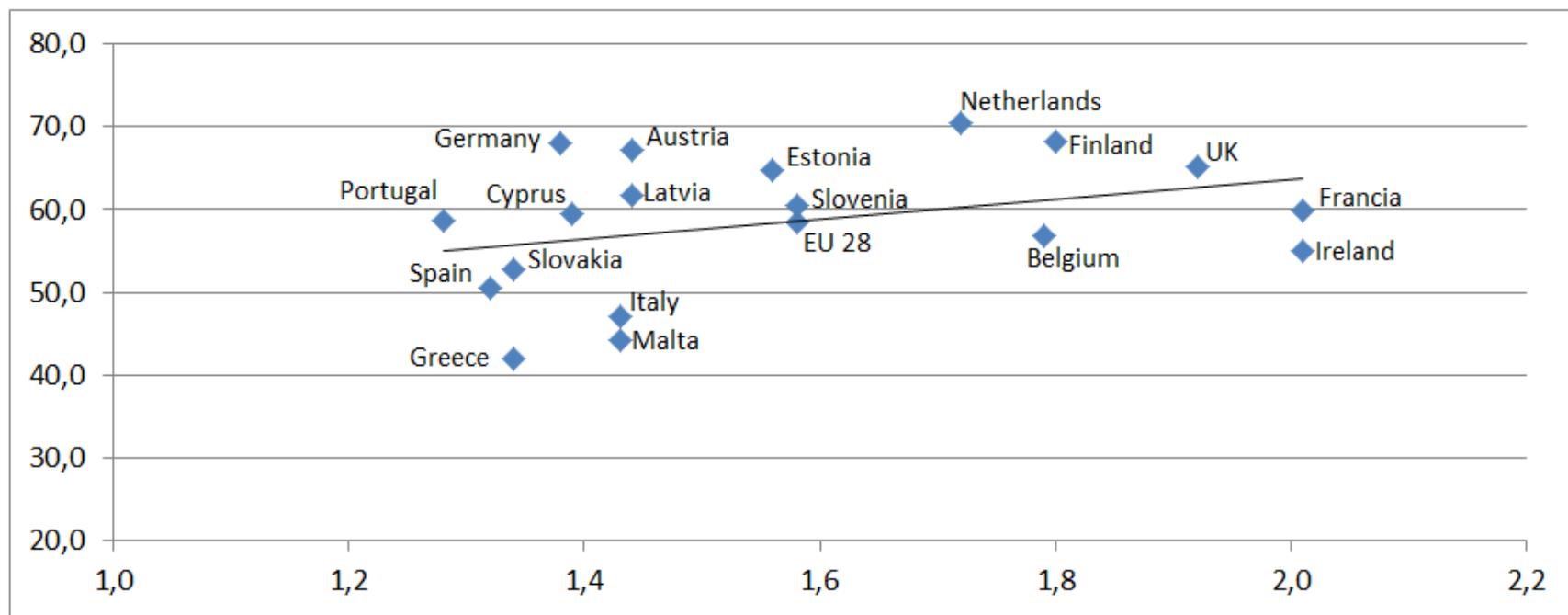
## OECD Average - 2012



Source: elaboration on OECD data, dataset on Labor Force Statistics (Jun 2014)

# Is there a trade-off between work and family life?

Female employment and fertility rate in European countries (2012)



Source: elaboration on Eurostat data, datasets on Employment and Demography (Jun 2014)

## (iv). Shaping the life cycle: **Retirement**

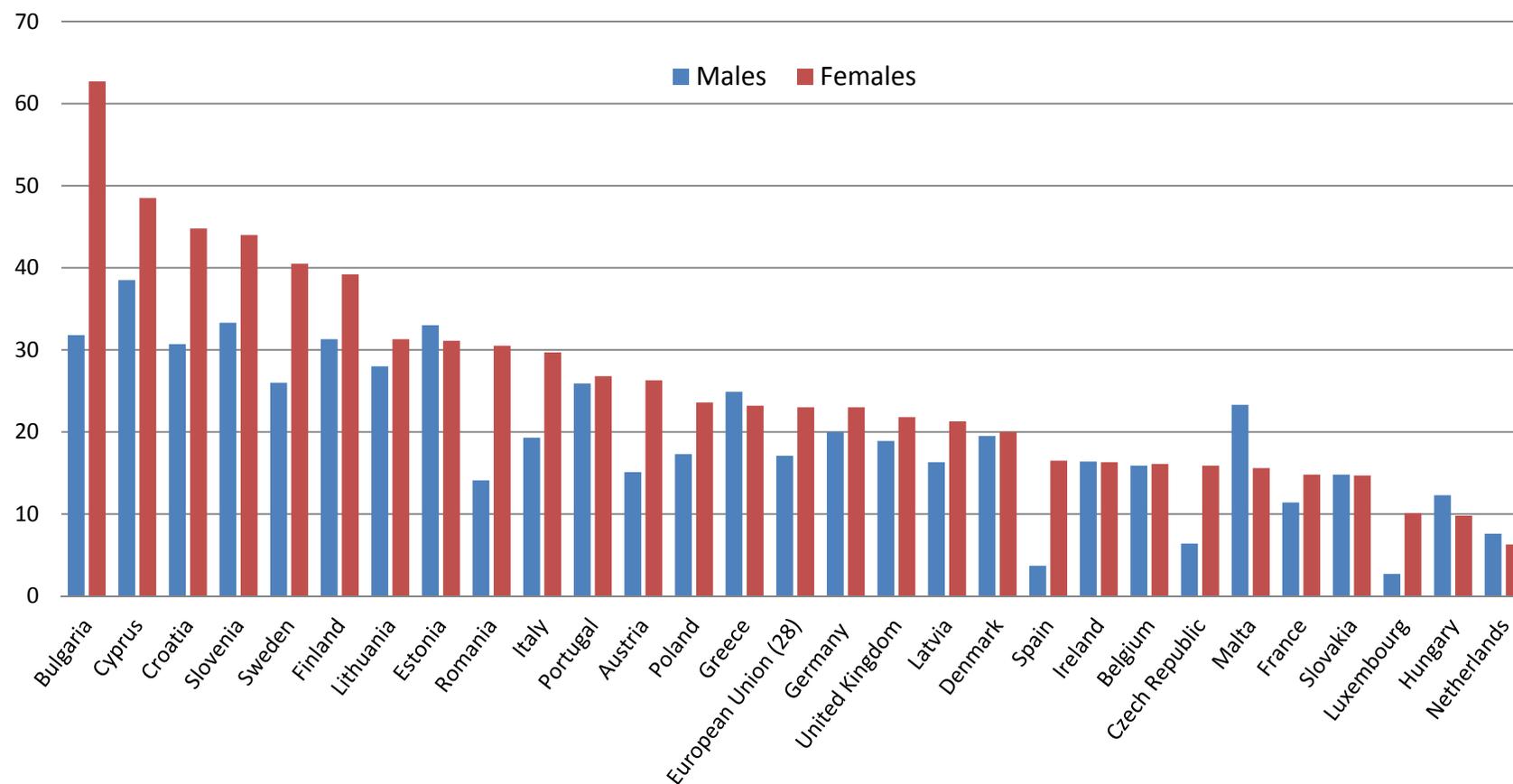
Labor and pensions: two sides of the same coin

- As Franco Modigliani's life cycle hypothesis has taught us long ago, work and retirement are two matching segments of our life
- No pension system can deliver adequate benefits if the labor market – which generates the resources on which current pensions are paid - does not perform adequately

# Are women adequately prepared for retirement?

- Older generations: mostly dependent on their husband
- Younger generations: more discontinuous career and lower wages imply also less pension wealth
- Less generous survivor pensions' expose women to higher poverty risk in old-age
- Saving: less financial literacy may lead women to imprudent choices

## “At risk of poverty” rate for single persons 65+ (2012)



Source: elaboration on Eurostat data, dataset on Income and Living Conditions (Jun 2014)

Note: risk of poverty rate considers a cut-off point at 60% of median equalized income after social transfers

### 3. Women's and economic reforms: which role? Which consequences?

Given that

pension systems

(because of their “*Pay-as-you-Go*” financing)

envisage a **compact between generations**,

the demographic transition calls

for *reforms*

to avoid burdening too much young and future generations.

***Reforms, however, cannot stand alone***

# Reform

A definition

(from: [Wordreference.com](http://Wordreference.com))

- i. «To improve an existing institution, law, practice, etc. by alteration or correction of abuses»*
- ii. «To give up or cause to give up a reprehensible habit or immoral way of life»*

## 4. An example: the welfare/pension reforms

**Three ingredients for a successful reform:  
the example of the pension reform**

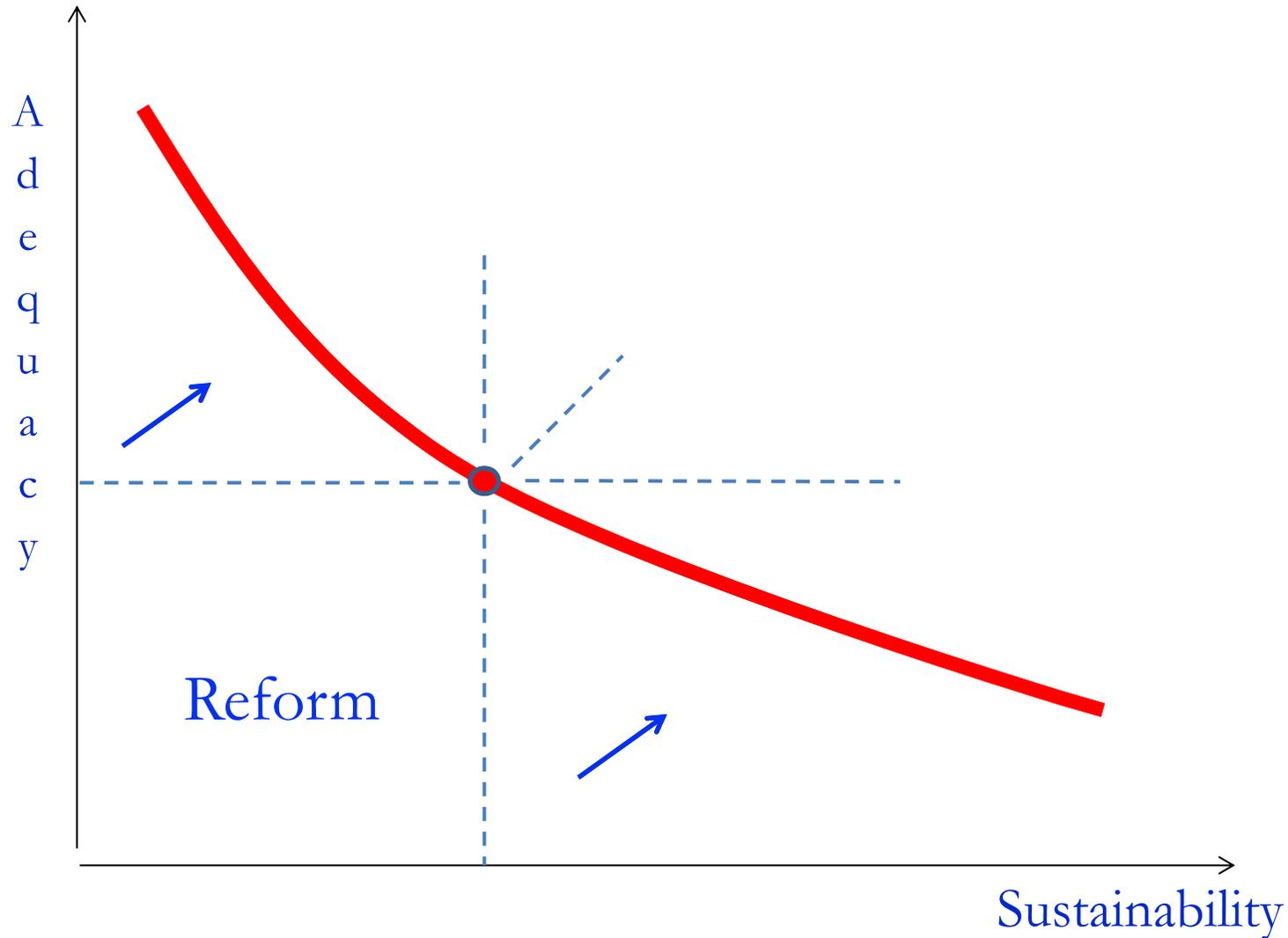
**Reform**

**Inform**

**Educate**

# An economic reading of pension reforms:

improving the trade off between adequacy and sustainability



Technically, reforms imply  
moving towards

- more *social insurance* and  
less discretionary political *redistribution*
- more uniform and transparent *rules*
- more *efficient, inclusive and dynamic* labor  
markets
- complementarity between *state and*  
*market*

# Economic Consistency of Reforms

A PayGo system can be rationalized:

- **From a macroeconomic perspective** (Paul Samuelson): as an **intergenerational insurance contract**, with efficiency properties in terms of risk allocation and an equilibrium rate of return  $\approx$  equal to *the sum of the labor force and productivity growth rates* ( $n + g$ )
- **From an individual perspective** (Franco Modigliani's *LCH*): as a (compulsory) saving/insurance program allowing workers to transfer resources from their working life to retirement and to smooth their consumption
- **First best solutions** are not achievable
- **Politics** “interferes” with the basic design (for good or bad reasons, i.e. fairness vs populism), often increasing the **implicit debt** and reducing efficiency, transparency and equity

# The four cardinal points of (public) pensions

- ***Responsibility***: pensions financed by savings/contributions
- ***Flexibility***: benefit correlated to retirement age; choice between constant and increasing pension; gradual retirement
- ***Sustainability***: retirement age indexed to longevity; an internal rate of return consistent with balanced budget
- ***Adequacy***: a multi-pillar system, integrated with LTC; solidarity instead of privileges



# Information

- The accumulation of pension wealth is a long and complex endeavor
  - Workers must have an idea, as precise as possible, of their accumulated wealth, retirement options, the benefit they will get
  - This knowledge is essential, particularly in the DC world, for individual planning/decision making (join a pension plan, save more...)
- Information is fundamental also for the sustainability of reforms: if people misinterpret the reform they will try to reverse it
- Technical possibilities for a good and transparent information are now available and good practices exist

The example of the *orange envelope*

# Lack of financial literacy matters

Studies carried out in many different countries highlight some common findings about groups most at risk of not being able to take sound financial decisions

- Women
- Young and elderly
- Low education individuals
- Low income individuals
- Ethnic minorities
- Regional disparities (e.g. Italy and Germany)

This risks creating a vicious circle: controlling for income and other characteristics, less literate individuals save less, participate less in financial markets and invest less in fiscally advantaged products, being thus excluded from both market and state opportunities

# Economic-Financial Education

Greater individual responsibility requires EFL

Basic knowledge of:

- *compound interest* to understand the notion of pension wealth and the rate of return on contributions
- *postponing retirement* contributes to benefit increase, through higher contributions and lower expected longevity
  - *risk diversification* could help people in their decision to participate in a pension fund

# 5. Lessons

from the 2011

emergency-driven

Italian pension reform

# The Economist

JULY 16TH-22ND 2011

Economist.com

Murdoch's empire under siege  
Will the F-35 be the last manned fighter?  
The Arab spring, six months on  
Remembering the Orgasmatron  
The greatest Habsburg



## On the edge

Why the euro crisis has just got a lot worse

*A country that had adopted a too gradual reform process, found itself on the verge of a severe financial crisis*

*Paul Krugman «Now, with Italy falling off a cliff, it's hard to see how the euro can survive at all», The New York Times, November 10, 2011*

*TIME (November 7): «[Italy,] the world's most dangerous economy»*

*Süddeutsche Zeitung (October 24), «Italien—schlimmer als Griechenland » (Italy – worst than Greece)*

# The (long, slow and reluctant) reform process

## I Pillar

1992 – Cutback of the DB formula (DLg 503/1992)

1995 – Introduction of the DC formula for new entrants and young workers (l. 335/1995),

1997 - Stricter eligibility criteria for public employees (l.499/1997)

2001 - Increase in Social allowance (l.448/2001)

2004 – Further restrictions in eligibility criteria (l.243/2004)

2006 - Increase in payroll tax rates (l.296/2006) (effective=notional)

2007 – Stricter eligibility criteria (l.247/2007) (“quota” system: age + seniority)

2009 – Indexation (as of 2015) of ret ages to longevity and possibility to cumulate earnings and pension benefit (l.102/2009)

2010 - Increase of minimum age criteria to 65 years for women in the public sector (l.122/2010)

2011 - Increase of age requirements (from D.l.138/2011 and l.111/2011 for women in the private sector, l.148/2011 also), "windows"

**2011** - Universal introduction of pro-rata DC scheme from 2012, restructuring of seniority pensions, new eligibility criteria, indexation to longevity (l.214/2011)

.....

2030 - New pension flows: entirely DC-type

.....

2050 - All Pensions: entirely DC-type

## II Pillar

1993 - Introduction (D.Lgs 124/1993)

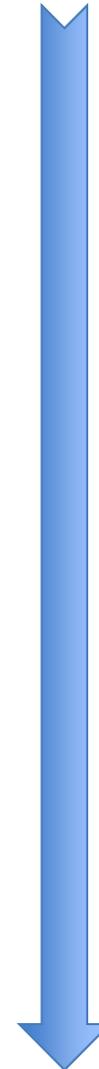
1995 - Collective participation in open pension funds (l.335/1995)

2000 - Individual pension plans and fiscal incentives (D.Lgs 47/2000)

2001- Further fiscal incentives (D.Lgs 168/2001)

2005 – Change of default for participation in pension funds (“tacit consent” rule for TFR, flexibility, fiscal incentives (D.Lgs 252/2005)

2006 - Anticipation of TFR transfer terms (D.l.279/2006)



## A still very complex and badly designed system

- A very high pension expenditure/GDP ( $\approx 15\%$ )
- Still a relatively low average retirement age, due to the prevalence of “seniority pensions”
- A tendency to use the pension system as a social protection scheme
- Fragmentation: a maze of different schemes and rules favoring opaqueness and social run ups
- Pervasive privileges

# The 2011 “cold shower” reform

- Application of the DC formula to all workers, as of Jan 2012 and for future seniorities, with periodic update (every 2 years) of annuity rate coefficients
- Increases in the statutory retirement ages (66 +longevity, in 2018) and cutback of seniority pensions
- Alignment, as of 2018, of ages and seniority requirements for women (in private sector) to those of men (and women in public sector)
- Indexation of eligibility requirements to changes (two preceding years) in i.e.
- Increases in payroll tax rates for farmers and self-employed
- Temporary freeze of indexation for average-high pensions (>1400 €)
- A “solidarity contribution” on high pensions
- Free summing up of contributions for NDC benefits
- Elimination of “exit windows

# Caveats

- The main challenge is the **labor market**, with the young, women and elderly workers more at risk of inadequate contributions and thus inadequate pensions
- Notional contributions (to be paid by the public budget) are envisaged for out of work periods
- The very rapid implementation of the reform has created a problem with workers that had left their job in anticipation of a relatively near retirement
- To adequately protect savers, special attention has to be devoted to groups more at risks, such as women and vulnerable workers

- The reform aims at dismantling the deep-rooted notions that:
  - workers over 54-55 are lost to the labor market
  - the lump of labor fallacy (older workers take away jobs from younger ones )
- Difficulties also with the notion of “acquired rights” (also supported by the Constitutional Court)
- Difficulties of making the reform understood and shared

# My commitment as Italian Minister of Labor, Welfare and Equal Opportunities (Nov 2011 – Apr 2013)

## **The Labor reform:**

- A reform Paternal leave
- Vouchers
- «Dimissioni in bianco»
- Support for female/youth employment
- Convention for the female entrepreneurship

## **The Pension reform:**

- Equalizing retirement age: unfairness or level playing field?
- A general trend: toward pensions' individuality

## **Gender equality:**

- Istanbul Convention and interventions against homophobia
- LBGT strategy
- Programs for financial literacy

# Conclusions

- Equality of opportunities between men and women: a fundamental human right
- It can deliver important economic payoffs, but these are not the first reason to pursue the goal
- Promoting a culture of mutual respect is a priority
- Promoting selection procedures based on meritocracy is another priority, although gender quotas as a temporary measure to break the glass ceiling should be considered
- Women have to decide whether they want to rely on “ex post compensatory measure” or whether they really want a level playing field