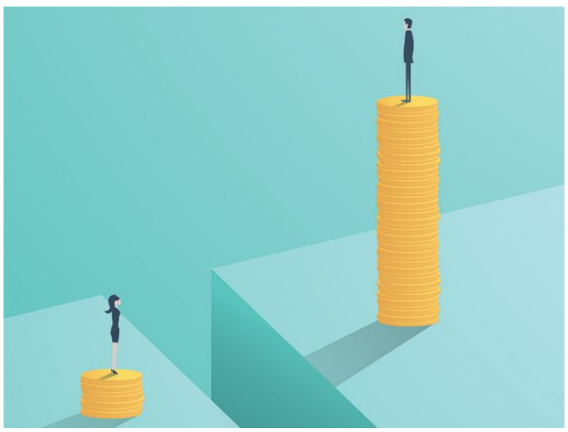
How can employers help bridge the gender pension gap?

Kelsey Rolfe | April 17, 2020



Women are in a worse position than men when it comes to pension savings, thanks to several systemic factors. So how can plan sponsors bridge the gender pension gap and help women prepare for retirement?

The gender pension gap continues to be a real and pressing issue. Globally, the World Economic Forum estimates that women's retirement balances are between 30 and 40 per cent lower than those of men. And in Canada, senior women are 1.5 times more likely to live in poverty than senior men, according to the 2018 federal budget.

The gap is influenced by a number of systemic factors. First, women bear the burden of the gender pay gap — in Canada, they earn $0.88 for every dollar of full-time hourly wages earned by men and the 2018 federal budget reported that women's yearly median income was $28,120 compared to men's $40,890.

Read: Gender inequality in the workplace, retirement addressed in budget

Women are also more likely to work in part-time, temporary and lower-wage jobs compared to men. And they're more likely to take time out of the workforce to raise their children. "People don't just go on leave for six months or a year; they often go on leave and discontinue their employment for [years], and that's the real problem," says Joe Nunes, executive chairman of Actuarial Solutions Inc.

All of these factors mean women are on track to save less for retirement, while they actually need to save more than their male counterparts, since they have longer lifespans. Research published in 2018 by Mercer estimated that Canadian women need to save 25 per cent more than men by age 65 if they want to retire at that age.

There isn't a silver bullet to solve such a complicated problem. But plan sponsors do have several levers they can pull to help their female employees save more and be better prepared for retirement.

On leave

One of the factors stoking the gender pension gap is the fact that women take more leaves of absence, either to have children or care for a loved one.

For defined contribution plan members, this means they contribute less to their retirement savings and miss out on their employer's match for the months or years they're out of the workforce, says Jillian Kennedy, leader of defined contribution and financial wellness at Mercer Canada.

Read: Women saving one-third less than men for retirement

Women in defined benefit plans, which reflect years of service, can buy back years of pensionable service for the period they're on leave. But for women who leave their jobs following their maternity leave, that option no longer applies. Vesting rules also complicate what women walk away with. In Ontario, for example, DB pension benefits are automatically vested for anyone who left a job after July 1, 2012. People who did so before then would be required to satisfy certain age, service or membership requirements.

As well, some aspects of plan design can hinder women's ability to make up for the time they're off work. The Royal Canadian Mounted Police pension plan, for example, allows employees to buy back pensionable service when they take an extended unpaid leave, but it doesn't extend the same rights to staff who choose to job-share and work reduced hours.

The plan was the subject of a lawsuit filed by three female RCMP officers who opted, in 1997, to job-share while they cared for their young children. The officers alleged the plan discriminated on the basis of gender, as women dominated the job-share group, and sought to be able to buy back the years they spent in part-time roles. The Federal Court of Appeal disagreed, unanimously ruling in late 2018 to uphold a federal court's decision that the plan wasn't discriminatory.

Read: Appeal court upholds ruling in RCMP pension case

Across all types of retirement plans, employees have the option to make contributions while on leave. The federal government, British Columbia, Saskatchewan, Ontario, Quebec, Nova Scotia and Prince Edward Island have provisions in place requiring pension and benefits accrual to continue during leaves of absence if the employee contributes their share. This leaves the door open for women in both DB and DC plans — as well as other capital accumulation plans — who want to continue saving on leave.

By the numbers

14 weeks per year — The amount of time Canadian women work "for free" due to pay differentials with men, according to Mercer

$0.88 — The amount Canadian women make for every dollar earned by men, according to Statistics Canada

$28,120 — The yearly median income for Canadian women, compared to **$40,890**, the yearly median income for Canadian men, according to the 2018 federal budget

30-40% — The difference between women's and men's retirement balances, according to the World Economic Forum

Sharing knowledge

But there may be a lack of awareness of these options, says Kennedy. "We need to be making sure women know in advance, making sure someone's educating them on their options at a time when there's already a lot of stress. I wouldn't say we do this well in the market. It's [about] thinking of women as a specialized employee group and thinking of moments that matter in their lives."

Even when women know they can continue saving, they rarely take advantage of the option. "Women have to actually find a way to continue to contribute to these [plans] when they have a significant reduction in income," says Kennedy. "Even if they do know about it, the take-up is extremely low because they're just trying to make things work on a very reduced income, in some cases."

Read: Mat leave returnees no longer facing reset of LTD pre-existing clause

Communication was a huge consideration when WSP Canada Inc. revamped its maternity leave strategy in 2018, aiming to provide consistent experience and information for employees across the country as they prepared to take leave.

The management and consulting company created a personalized guide with all the information women needed to know about their maternity leave, including the option to continue to participate in WSP's savings programs while they were away.

Employees can contribute to one of three types of capital accumulation plans — a registered retirement savings plan, a tax-free savings account or a non-registered savings account — with WSP matching 100 per cent of their contributions, up to four per cent, in a deferred profit-sharing plan.

The organization also offers a share purchase plan, which it matches in an employee profit-sharing plan. The arrangement has two contribution levels: hourly employees receive a 50 per cent match up to one per cent of their annual base salary, with an annual maximum match limit of $1,000; and salaried employees receive a 50 per cent match up to 1.5 per cent, with an annual maximum match limit of $2,000.

If female employees taking leave want to continue making contributions, they provide an upfront payment. "We will make the contributions every pay period as if the employee was still active and continue to match them," says Chantelle Tadman, senior benefits analyst at WSP.

Read: Innovative benefits communication nets award for WSP Canada

The company has historically allowed employees to make contributions during a leave, but before it created the guide, the information wasn't readily available. Tadman says WSP doesn't have data on whether the number of women contributing during their leave has increased, but she says it's more common to see new mothers contribute than employees going on other types of leaves, such as leaves for compassionate care, family medical issues, family caregiving and critical illness.

In the guide, the language around women's savings options is neutral, but WSP may look into making a change. "I feel that we should be encouraging in our guide," she says. "We'll definitely be reviewing that."

In the wider industry, Kennedy has seen DC plan sponsors change their plan design so women on leave can choose to make an automatic base contribution to their savings plan, plus the employer match. On the DB side, plan sponsors can waive an employee's contribution requirement during leave, but still allow them to accrue benefits through the employer match, says Nunes.

Outside of provisions for employees on leave, other tweaks to plan design are available to help employers support their female employees. Speaking specifically about the DC world, Kennedy says plan sponsors should look at their pension data to see how men's and women's outcomes compare under similar designs.

Leave it to the pros

Plan members using professionally managed investment allocations have better portfolios than those who select their own options, which works in women's favour, according to the Vanguard Group. In a survey, it found **51%** of women in voluntary enrolment savings plans and **66%** of those in auto-enrolment plans adopt professionally managed allocations, compared to **41%** and **60%** of men, respectively.

Financial literacy

Another issue is that women feel less confident and knowledgeable than men do about their finances and retirement. According to 2018 research by Mercer, 37 per cent of Canadian women aren't very or at all confident about having enough income in retirement, compared to 22 per cent of men. In addition, only 43 per cent of women said they consider themselves knowledgeable about financial matters, compared to 58 per cent of men. And 62 per cent of women said they're somewhat or very stressed about financial matters, versus just 49 per cent of men.

Read: Majority of women face challenges around finance, investments

Innovative arrangements around supplemental savings accounts can help reduce women's financial stress, says Kennedy. Employers can put their matching contribution into a locked-in pension account, while allowing employees to decide whether to put their own contributions into the pension, an RRSP or a TFSA.

Employers should also consider how they can personalize their retirement programs for women. According to Mercer's research, women respond more positively to mentoring, counselling and learning from other women. Plan sponsors can also personalize communications to women by providing case studies they can relate to.

There's one thing women already do well — they're more likely than men to use professionally managed allocations, according to a 2019 report by the Vanguard Group. "People who turned [management] over to an investment professional that's been vetted by the plan sponsor that has a fiduciary responsibility to act in their best interest have, as a group, better outcomes than people who do it themselves," says Jean Young, a senior investment strategist at Vanguard and a co-author of the report.

Leveraging auto-enrolment

In addition, since plan design options like auto-enrolment largely benefit lower-income savers who might not have signed up otherwise, it can be a beneficial option for women, who tend to be in lower income bands. And it helps reduce the difference in participation and savings rates between men and women.

"What we see is that women are participating at higher rates and they save more than men, but men have higher account balances and that is strictly due to higher wages," says Young. "When you get to auto-enrolment, you're in a place where the differences are mitigated."

Read: 65% of global employees support pension auto-enrolment: survey

Indeed, if plan sponsors are using auto-enrolment to make a difference in the gender pension gap, they should set a default contribution level. While that's a percentage of salary — so the gender pay gap still has a significant impact here — at least employees are, fundamentally, saving at the same level.

Key takeaways

• Globally, women are retiring with far less savings than men due to systemic factors, including maternity and other caregiving leaves, as well as their choice of occupations.

• To encourage women's savings, plan sponsors have levers to pull, such as making them aware of

Ultimately, auto-enrolment and financial education can be a good way to help bridge the gender pension gap. "To move the dial on this, I do think auto-enrolment is the way to go," says Young. "Even if people don't change jobs, this employer has created that savings habit and people are going to look for that in the future."

Kelsey Rolfe *is an associate editor at* Benefits Canada.

Copyright © 2020 Transcontinental Media G.P. This article first appeared in Benefits Canada.

their options to contribute during a leave or introducing innovative plan designs.

• In DC plans, women are the biggest beneficiaries of auto-enrolment because it mitigates the differences in participation and savings rates between men and women.