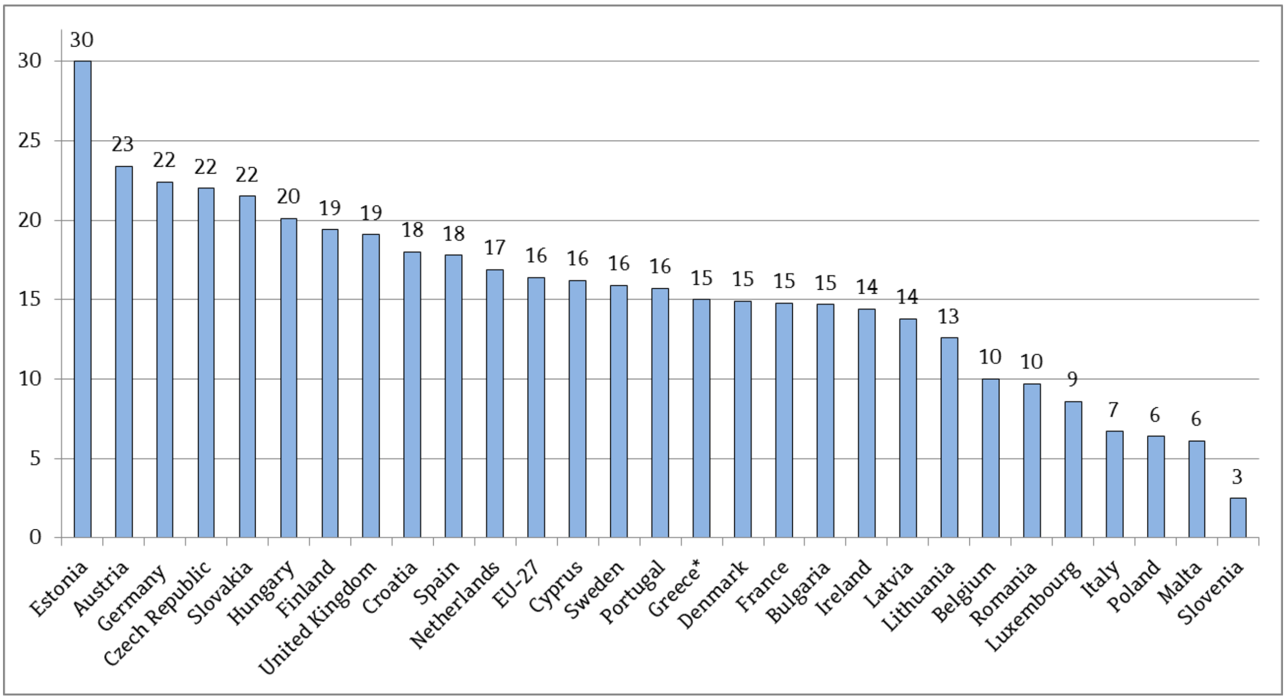
Income and gender

Today, there are fewer women than men with low-level educational degrees and competences. Likewise, more women than men have a high-level education and high-level competences in many of the EU-27 countries. Another important improvement is that more and more women now translate their education into employment. And yet the labour force participation of women is lower than that of men in all EU-27 member states (see Chapter 2, Figure 6). Likewise, as already shown, there are vast differences in the types of employment that men and women engage in (see Chapter 2, Figure 10). In all EU countries, women are more likely than men to interrupt their careers (periods of so-called inactivity) and work in atypical forms of employment (especially part-time work and fixed-term contracts). What is also clear is that women retire earlier than men, thereby further reducing their total time of employment, with profoundly negative effects on their lifetime earnings and the amount of their future retirement pensions.

The mean gender hourly wage gap in the EU is 16% (Figure 1 below). At the beginning of people's working lives, earnings differences between men and women are rather small but then keep growing over time. In Germany and Finland, for example, the gender wage gap at the age of 25-29 is 4%; at the age of 40-44 it is 22%; and at 55-59 years it is 31% (OECD, 2013b: 145). Moreover, the gender wage gap is particularly wide in the upper income brackets, meaning that women in leadership positions earn significantly lower hourly wages than men in the same leadership positions.
How can the wage gap be explained? Researchers have identified a whole bundle of causes. There are many occupations that are primarily performed by men; others are primarily performed by women (horizontal segregation). In particular, women are highly overrepresented in the public sector. Typical female occupations are characterised by low entry salaries in most cases, but more importantly, salary progression in these occupations is flatter than that in 'typical' male occupations (OECD, 2013b: 132, Flabbi | Tejada, 2012). **Whereas the right to 'equal pay for equal work' has been firmly established in most countries, the principle of 'equal pay for comparable work' is not yet put into practice although this principle is stated in the European treaties for decades** (Treaty of Amsterdam 1997; see CJCE case Defrenne II, 1976).
What is more, all EU-27 countries have significantly more men than women in leadership positions (vertical segregation), where income differentials are particularly high. One of the

reasons for this is that interruptions in employment and a reduction of working hours are severely punished in financial terms (accordingly, the gender wage gap is smaller if we only look at full-time workers, OECD, 2013b: 143). Interruptions in employment cause women's careers to stall: once they are working part time, they are no longer offered leadership positions nor comparable wages with men (Breen | Cooke, 2005).

Figure 1: Gender pay gap in unadjusted form, 2012



Source: Eurostat-Online 2014, Structure of Earnings Survey (SES).
Note: Data refer to enterprises with 10 employees or more
and to NACE Rev.2 sections B to S excluding O.
* Greece refers to 2010 data

However, the gender wage gap cannot be fully explained by pointing to employment careers, occupational characteristics, work hours or education. Some unexplained variance remains. The scope of this 'remainder' varies widely between the EU-27 countries (OECD, 2013b: Table 13.5; Arulampalam et al., 2007) and can be explained in part by country-specific differences in family policy, labour policy and taxation. For instance, the wage gap decreases along with the percentage of children who attend formal caregiving institutions (R^2=0.56; OECD, 2013b: 147). Conversely, the wage gap increases along with the number of weeks of paid parental leave (R^2=0.604; OECD, 2013b: 148). Likewise, countries with unregulated labour markets are characterised by significantly higher wage differentials than countries with regulated labour markets.

People's employment careers also determine their material situation in retirement, as most pensions' amounts are based on employment duration and average earnings. The gender wage gap thus turns into a gender pension gap – a gap that persists for many years: on average, women at the age of 60 can expect to live for another 22.5 years, compared to 18.5 years for men who have reached the same age (OECD, 2011: 29). In a comprehensive study conducted on behalf of the European Commission, Francesca Bettio, Platon Tinios and Gianni Betti (2013) have looked at the gender pension gap in detail.[1] The picture that emerges is a dark one. From the wealth of the authors' findings, one can highlight three key results: the gender pension gap, the concentration of women in the low-pension segment and the evolution of the gender pension gap over time.

To begin with, it is important to point out that the EU-SILC data do not allow for providing separate information for people's own old-age pensions (i.e. pensions earned through their own employment) and widow's pensions (i.e. pensions earned as a result of marriage).[2] The differences between the various EU countries therefore result from women's different employment careers, different retirement policies and different ways of taking marriage into account. As widow's pensions reduce the gap between male and female pensions to some degree, the differences shown below only provide a glimpse of women's actual employment situation.

Across the EU-27, the average gender pension gap is 39%. The gap is especially wide in Luxemburg (47%), Germany (44%) and the UK (43%); it is extraordinarily small in Eastern European countries such as Estonia (4%), Slovakia (8%) and Latvia (9%). If we calculate the pension gap without taking widowed women into account (thereby excluding widow's pensions), the average EU-27 gender pension gap increases from 39% to 53%.

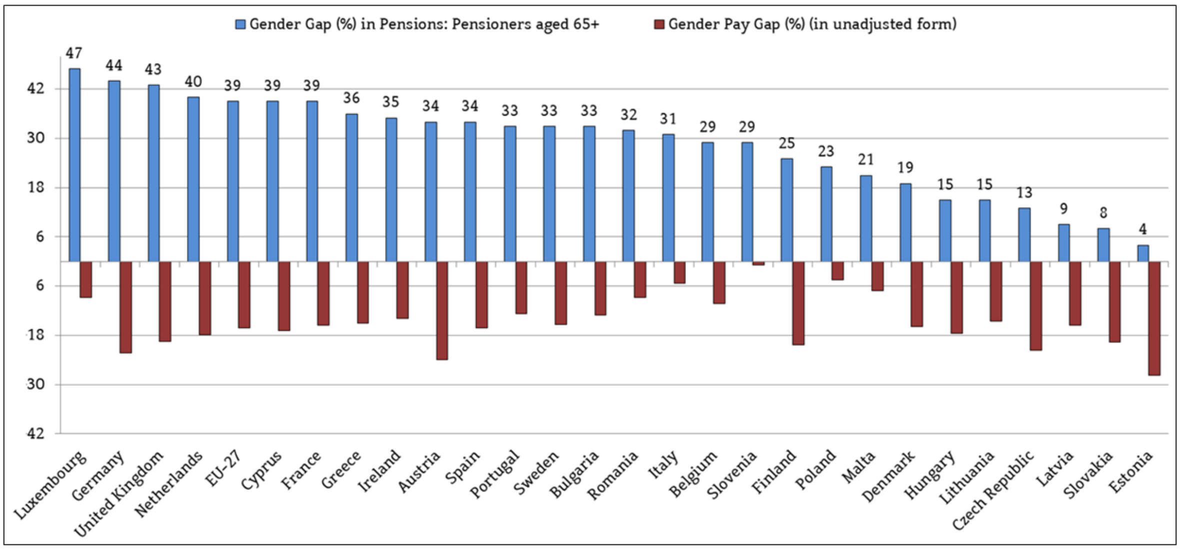
Figure 2 below shows both the gender pension gap (above the horizontal axis) and the gender pay gap (below the horizontal axis). Even if we include widow's pensions, the gender pension gap is significantly larger than the gender pay gap and the gap in mean annual gross earnings, as supplied by Eurostat. Two groups of countries can be clearly distinguished. The transition countries and Denmark are characterized by a small pension gap despite a large pay gap. In

[1] Bettio et al. (2013) refer to the EU-SILC data while also using the SHARE data for validation purposes.

[2] Furthermore, statutory pensions and employer-sponsored pensions are lumped together in EU-SILC. Private pensions are shown separately, but their share is very small in most countries. The SHARE data illustrate that the distribution of employer-sponsored pensions between men and women is especially unequal, significantly increasing the gender pension gap.

these countries, we find pension systems that include some kind of age pension. In the second group of countries, gender pension gaps are much wider than gender pay gaps. These are the countries in which the pension system follows the social insurance principle and thus reproduces or even intensifies the labour market situation.

Figure 2: Gender gap in pensions and gender pay gap, pensioners over 65 years, 2010



Source: EU-SILC, Bettio et al (2013): The gender gap in pensions in the EU. P. 37 (here Figure 1.5).

In addition to studying the relation between male and female pensions, we can also look at the size of people's pensions. If we sort men according to the size of their pension benefits, we can form three groups: one-third of men receive the lowest pensions, another third the highest pensions; the rest is somewhere in the middle. Now how many women do we find in the lower third of the distribution scale defined above? **Across the EU-27, an average of 64% of all women receives pensions that fall into the bracket that includes the 33% of men with the lowest pensions. In other words, there are 1.9 times as many pension-poor women as pension-poor men. The group of high-income pensioners includes only 11% women. For every three pension-rich men there is less than one pension-rich woman.** These are average values. They are especially pronounced in Germany, the Netherlands, Norway, Sweden and Bulgaria. In Denmark, by contrast, the lowest pension group includes more men than women; then again, women are almost as underrepresented in the highest pension group in Denmark as they are in other countries.

Now how do pension payments evolve over time? Considering the growing workforce participation of women, one might expect the gender pension gap to decrease over the years. Conversely, however, one might also suspect that the growth in part-time employment and deregulated labour markets leads to an even wider pension gap. As Bettio et al. (2013) point out: 'If the pension gap is the result of past injustices we may expect things to get better. If pension gaps are premonitions of future problems, they may be getting worse.' **The result is clear: the gender pension gap has widened over time**. Among men and women aged between 65 and 80 years, the average gap is 41%, compared to only 33% in the group of those older than 80.[3] The differences are particularly pronounced in countries in which female part-time work has long been as much a fact of life as women's independent financial security. **More detailed analyses show that older cohorts were still able to benefit from widow's pensions, which have been phased out over the years, however. This loss could not be compensated for by women's growing workforce participation.**

Essentially, women's pay, income and pension gaps result from deviations from a key norm in today's world of work: constant availability in the labour market (Goldin, 2014). Whereas the majority of men work full time, women tend to interrupt their careers and work part time. As a consequence, women experience much more severe pay loss than they would if the employment careers of men and women were more similar to each other. This goal might be accomplished if all working-age individuals had an uninterrupted employment career that spanned their entire lifetime. This would also help reduce pay differences between men and women and make quotas unnecessary after a while. However, following that path would also mean calling for an end to family time. That is why the Review suggests taking a different path towards more gender equity in terms of earnings, i.e. a policy of reducing the gainful employment of men in order to redistribute paid and unpaid work between men and women.

[3] Alternative calculations, such as comparing the 2005 and 2010 pension gaps, yield the same result.