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Introduction: The Challenge of Pension Reform and Gender Equality in Aging Societies

When the first state-sponsored social security pension scheme was introduced in Germany by Otto von Bismark in 1889, the average life expectancy was about twenty years less than the age at which German workers' were slated to receive their retirement benefits. This assured the system would be solvent. Since then, life expectancy has climbed to seventy-six years in the industrialized countries of the Organization for Economic Cooperation and Development (OECD). Not only are people living longer but these societies are getting older. Between 1960 and 2040, the proportion of people over age sixty-five is expected to more than double from an average of 9.7 percent to 22.2 percent of the populations of most OECD countries. One half of those elderly people will be over seventy-five years of age. Aging populations are creating tremendous pressures on social security schemes throughout the advanced industrialized countries as looming deficits threaten to dilute the benefits of future retirees. Responding to this challenge, policy-makers tend to concentrate on designing reforms that will cover the projected shortfalls and ensure the fiscal integrity of the pension systems.

The fiscal challenge is serious, but not critical. There are basically five ways to restore the fiscal balance of conventional pay-as-you-go social security systems. Governments can raise payroll taxes, reduce benefits, create incentives to increase productivity, alter the age distribution through pro-natalist and pro-immigration policies and borrow in the lean years against the prospects of better times to come. Among these alternatives, increasing taxes and reducing benefits are the most reliable and easiest to craft. Also they can be introduced in shadowy increments through measures such as: changing the index for raising future benefits, using income tests

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to tax retirement benefits and slowly raising the age of retirement which may ease the political costs of pension reforms. There are other reforms that essentially alter the defined benefit model of pay-as-you-go systems. These include initiatives that privatize all or part of the pension schemes and changing public programs from defined benefit to defined contribution schemes under which each person’s retirement benefit is directly contingent upon how much the individual paid into the system. To ensure adequate pensions for low-income workers, defined contribution schemes are often designed with minimum benefit levels that are higher than what these workers would have received based only on their contributions.

As social security programs must accommodate the fiscal demands of aging societies, they must also adapt to the changing character of modern family life. The original blueprints for social security were drawn up at a time when the norms of family life prescribed wives stayed at home; their unpaid labor invested in household management and child and elder care while husbands worked for pay in the market economy. The initial design of social security took account of the traditional division of labor, for example, by augmenting retirement benefits with a dependent’s allowance. Over the last fifty years the norms governing the male-breadwinner model of family life have undergone considerable change. Increasing gender equality has fueled modern expectations women will shift their labor from the household to the market and be paid for their efforts. Women’s incomes have not achieved parity with those of men but there has been palpable progress in that direction. Although the dependent’s allowance remains a feature of many social security schemes, the increasing labor force participation of women has eroded the need for this benefit. Indeed, the dependent’s benefit is now seen as reinforcing an outmoded traditional view of the stay-at-home housewife dependent on her husband for financial support. It is often criticized for maintaining formidable inequities, particularly between low-income wage-earning wives who are employed and contributing to the system throughout their lives, and non-working wives of high income husbands who receive more money from the dependent’s allowance than the pension benefits earned by working wives.

As they seek to reconcile social security benefits with both the fiscal demands of aging societies and the changing needs of family life, policy makers are challenged to design pension reforms that achieve fair outcomes for women. But what constitutes fairness is not always self-evident. Does it mean pension systems should be gender-neutral or compensate for inequalities in paid and unpaid labor? Is it fair to employ unisex life tables in calculating pension annuities? Should pension policies be designed to facilitate work-family balance for women and men? Is it fair to guarantee a minimum pension level that provides the most return on pension contributions to people with thin records of lifetime employment?