Benefits CANADA

How can pension plan sponsors help women hit their retirement readiness stride?

By: Melissa Dunne | September 17, 2021 | 08:54

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Preparing financially for retirement is a marathon filled with many obstacles along the way to a constantly shifting finish line.

Even in 2021, female employees tend to have more obstacles and subsequently lag well behind their male counterparts when it comes to retirement savings. Women retire 30 per cent less wealthy than men, according to Mercer Canada's second annual retirement readiness barometer, which was released in March.

> **Key takeaways**
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> • The retirement readiness gap is a long-term systemic problem that requires long-term systemic solutions to solve.
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> • Pension plan sponsors can support women who take time off to have and raise children by allowing them to make contributions while on leave, as well as allowing plan members to buy back service down the road.
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> • Employers can help women get retirement ready in a range of ways, such as ensuring equal pay for equal work, providing flexible schedules to working parents and offering financial wellness programs.

Among the many systemic reasons for this large disparity is the persistent pay gap. In 2019, women reported earning an average pre-tax salary of $51,352, while men reported an average pre-tax salary of $67,704 — a gap of 24 per cent, according to a study commissioned by ADP Canada Co. When this gap is paired with women hitting pause on paid work to have and raise children, it adds up to women often earning — and subsequently saving — less money than men over their lifetimes, says Jillian Kennedy, leader of defined contribution and financial wellness at Mercer Canada.

Read: Women retiring two years later, with 30% less wealth, than men: report

Indeed, Mercer's report found women tend to save less than men in their work-place retirement savings plans and, on average, recently retired women have an account balance that's about $30,000 lower than their male counterparts. This shortfall means women need to work two years longer than men to be ready for retirement, noted the report. And while the full impact of the coronavirus pandemic on women's retirement readiness has yet to be seen, it's likely to be yet another factor slowing women down in the retirement savings readiness race, says Kennedy.

While there's many miles to go before the gap between women and men's retirement savings is closed, there's plenty that pension plan sponsors and administrators can do right now to help women catch up.

Pit stops

A key reason why women tend to have less retirement savings than men is they have more "career interruptions" to raise children, says Kennedy. Opting to take unpaid time off to care for kids often means women's retirement savings pace takes a hit.

The Healthcare of Ontario Pension Plan offers levers women can pull to help mitigate the impact of child-rearing years on their retirement accounts. Plan members on a leave for a period of reduced service can continue to make contributions as though they were working full time to allow their pension to continue to grow as if they weren't on the leave. The HOOPP also allows members to buy back service down the road, which tends to be "especially valuable to women taking pregnancy and parental leaves," says Rachel Arbour, vice-president of plan and policy development for the pension plan.

Read: HOOPP urges changes to address pension gender gap

"The key is enabling and supporting members to continue to accumulate as much as possible in their plan all throughout their careers, including during circumstances and life events that prevent them from working full time," she adds. "It's important to have equity embedded within a plan's values and decision-making. With 82 per cent of HOOPP's active members being female, this awareness has informed our plan structure for years as we aim to maximize retirement outcomes for our members."

Unexpected diversions

Joe Nunes, executive chairman of Actuarial Solutions Inc., agrees helping women continue to accumulate retirement savings at all ages and stages is key to closing the gap.

But the onset of the global coronavirus pandemic in March 2020 is yet another roadblock in many women's way on their journey to retirement. In the first two months of the pandemic, women's participation in the Canadian labour market dropped to its lowest level in three decades, with 1.5 million women losing their jobs, according to a study by the Royal Bank of Canada. And women have continued to lose their jobs at a higher rate than men, accounting for 53.7 per cent of year-over-year employment losses in the first year of the crisis, according to a May 2021 report by Statistics Canada.

Additionally, in the 18 months and counting since the onset of the pandemic, many women took on more unpaid labour at home than men. In the early months when many schools abruptly shifted to remote learning, 64 per cent of women said they

mostly performed homeschooling or helped children with homework, while 19 per cent of men reported being mostly responsible for these tasks, according to a June 2020 survey by StatsCan.

> **By the numbers**
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> **2** — The number of extra years women need to work compared to men to be ready for retirement
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> **23%** — The percentage gap between men and women's total income in 2020
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> **$30,000** — The approximate shortfall recently retired women have in their workplace retirement savings plans compared to men
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> **64%** — Percentage of women who said they mostly performed home-schooling or helping children with homework in the first months of the pandemic, compared to **19%** of men
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> **Sources:** Mercer Canada; Royal Bank of Canada; Statistics Canada

"This was clearly unplanned [and] that's very unfortunate [as] every time you miss a year of contributing to retirement income it takes more than a year to make that up because you're missing the investment opportunity," says Nunes. "As well, if someone's been out of work for 12 or 18 months that can definitely put a dent in the growth of their retirement accounts."

Pushing past the wall

While employees have no control over when the pandemic and parallel economic instability will end, employers can play an important role in helping women understand their path to financial wellness now and in the future.

Read: Women's participation in labour force reaches lowest level in three decades: study

The City of Toronto offers a defined benefit plan that's managed by the Ontario Municipal Employees Retirement System and provides retirement planning sessions multiple times per year for all employees. Meanwhile, the YWCA Halifax offers a retirement savings program that also offers regular information sessions.

Providing information so women can take control of their financial wellness and future is a key way employers can help, says Kennedy. And Mercer is practicing what it preaches around supporting women's retirement readiness.

“We have thought this through in the plan design [at Mercer] by making it flexible. Employees are able to access their own contributions while still receiving the company contribution. We have a business resource group — Women at Work — that learns from each other. We’re trying to think through the support, confidence and education from a financial wellness standpoint.”

Legal obstacles

It can be tricky to design financial wellness programs that support all employees. Take, as an example, a case that took years to wind its way up to the Supreme Court of Canada involving three former Royal Canadian Mounted Police officers who opted to job share and work reduced hours to spend more time with their 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: Supreme Court ruling in RCMP pension case may force plan design changes

But then in October 2020, the Supreme Court of Canada ruled that the RCMP pension plan discriminated against job-sharing women. “The negative pension consequences of job-sharing perpetuate a long-standing source of disadvantage to women: gender biases within pension plans, which have historically been designed for ‘middle and upper-income full-time employees with long service, typically male,’” wrote Justice Rosalie Abella on behalf of the 6-3 majority.

The long run

Pension plan design needs to move beyond outdated ideas about gender and family structure, notes Nunes.

“There’s no longer a formula of ‘man works, woman stays home, man needs a retirement income equal to 70 per cent of his pre-retirement earnings,’” he says. “That’s the way we talked 50 years ago, but that’s really entirely inaccurate for most families today, so I think that’s part of the problem. The whole retirement system is geared towards the more work, the more retirement income you’ve got, so that exacerbates the problem when people want to make what I would consider perfectly legitimate family choices.”

> **Women’s investing performance outpacing men’s**

> While the retirement readiness gap persists, women are slightly ahead of men when it comes to investment performance. Over a five-year period, women's investment performance equalled — or exceeded — men's, according to an analysis of 600,000 pension plan accounts by Mercer Canada released in March.
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> In every age group examined, despite lower savings rates, accounts held by women showed slightly higher average returns (0.1 of a per cent). This is likely due to women's greater affinity for diversified solutions within workplace retirement programs, concluded the analysis.

Sally Dimachki, manager of the investment readiness program for the Canadian Women's Foundation, agrees the retirement scales are currently tipped in favour of paid work, ultimately leaving women who do unpaid work, such as caring for children and elderly parents, with less money at retirement.

Employers today must recognize there's often intersectional challenges and identities that can be barriers to earning and saving money and then aim to address those diverse issues via retirement offerings, she notes. And while there tends to be emphasis on what women can do to catch up to men, employees who identify as male should become allies and advocates for their female and non-binary colleagues, she adds.

Male business leaders can also help normalize fathers taking more parental leaves so their female partners can continue participating in the paid labour market, says Dimachki, noting they can also lead initiatives to ensure women are getting equal pay for equal work and male leaders can provide flexible schedules to working parents and subsidize childcare via benefits offerings.

Read: How can employers help bridge the gender pension gap?

Based on the results of Mercer's barometer, it will likely take many years to close the retirement readiness gap, says Kennedy. But, she adds, there are many things employers can do to help women catch up with men in the retirement readiness race, from being flexible when it comes to plan design to educating women about financial wellness to supporting employees during the child-rearing years.

Nunes concurs, adding the best thing employers can do is help more women reach the retirement savings start line. "How many female-dominated industries have no pensions at all? One thing all employers can do is do something — they can set up some sort of a plan and contribute to it and help employees."

Melissa Dunne is the managing editor of *Benefits Canada*.