Pension Information

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A wide array of research has investigated the effects of pension information on different individuals' economic outcomes. While many studies show that information provision increases knowledge, the evidence is mixed regarding its effects on behavior. Nevertheless, examining different studies, some conclusions can be elicited about the effects of pension information on three broad areas of economic behavior: retirement planning, labor supply, and savings decisions. Specifically, the provision of pension information not only increases workers' knowledge about their benefits, but it also fosters individuals' retirement planning and decision making. Looking at individuals' labor supply, our review of the literature showed that only correctly informed workers are responsive to the incentives to work longer. Finally, information letters and other educational interventions such as seminars are found to increase both enrollment in retirement plans and the amount of contributions. We also highlight that the lack of knowledge prevalently hits the most vulnerable individuals in the society, such as women. As a consequence, not providing sufficient information could contribute to widening the gender gap in pensions.

Keywords: pension information ; retirement ; savings ; gender gap

1. Introduction

In recent decades, many countries have shifted from defined benefit to defined contribution pension schemes, where pension information becomes crucial in order to make sound retirement decisions. As pointed out by [1], a lack of pension knowledge "is troubling since workers may save or consume suboptimally, […] or retire earlier than they would have if equipped with better pension information." Such knowledge is related to information; thus, it also depends on the costs and benefits of gathering information [2].

As public pensions constitute a substantial share of the whole retirement income for many workers, it also is important for governments to provide individuals with information about their public retirement benefits [3]. Public pension statements are certainly one way to do it. Looking at the United States, a 2001 Gallup survey found that respondents who reported receiving the Social Security statement were more knowledgeable about the program than those who did not. For instance, the study highlighted a significant increase in the number of respondents who knew the relationship between benefits and earnings, and that retirement age was increasing [4]. Additionally, workers who received the statement were much more likely to be able to provide an estimate of their future benefits [5].

2. Pension Knowledge and Retirement Planning

Research has found that many people lack fundamental economic concepts and fail to plan for retirement even when they are close to it [6][7]. This result has important consequences, since being able to develop retirement plans is crucial for retirement security and can explain why some people arrive close to retirement with very little wealth. [8] showed that financial knowledge is key to wealth accumulation in a stochastic life cycle model, and they estimated that 30–40 percent of wealth inequality is accounted for by financial knowledge. Nevertheless, the role played by pension information is less clear.

An evaluation of a low-cost online financial and demographic literacy program was provided by [9], who implemented it with the largest industrial pension fund in Italy. The program was found not only to increase participants' knowledge, but it also made individuals look for more information on financial markets and financial planning. Moreover, the authors showed that the positive effect lasted several months after the treatment.

A few studies directly evaluated the effect of providing public retirement benefits information through public pension statements. In the United Sates, where the Social Security Administration fielded many surveys to evaluate its outreach effort, a considerable percentage of respondents reported using the statement for retirement planning, even though they did not believe they would receive Social Security benefits at the time they retire [4]. Even though there is widespread awareness of the unsustainability of pension systems, people seem to ignore or underestimate the cost of a public pay-as-you-go system [10]. These results might also be a consequence of low levels of financial literacy and understanding of retirement schemes [11]. [12], examining 85 preretirement planning seminars conducted by five companies in 2008 and 2009, showed that the exposure to them led to a considerable improvement in the knowledge of retirement programs and in the making of retirement choices, in addition to a reduction in transaction costs of managing pension plans.

In Sweden, where a notional defined contribution scheme provides a large share of retirement income, a lot of financial information—including forecasts of the expected future value of pension benefits—has been distributed through the so-called Orange Envelope to everybody eligible for a pension. The widespread dissemination of information is likely to have raised basic financial knowledge and have lowered the barriers to planning for retirement [13]. However, fewer than half the recipients reported having a good understanding of the pension system [14]. In Canada, public statement recipients said they had a better understanding of their pension plan and were more likely to plan for their retirement [4]. As a spillover effect, knowledge on the pension system and the personal pension situation decreases individuals' concerns about retirement, especially for women [15].

In line with these studies, [16] exploited the introduction of an annual pension overview for all Dutch employees to estimate the effect of providing information on pension knowledge and active planning by identifying with this expression individuals that are not procrastinating in making retirement decisions. The research suggested that providing an annual pension statement might have a positive impact on pension knowledge, which in turn has a positive causal effect on active pension decision making, meaning that people will adjust their behavior if pensions are cut (or will not adjust it if they can easily make ends meet).

The evidence presented so far clearly shows that pension information has a positive impact on workers' knowledge about their benefits and their self-declared retirement planning, but whether workers actually change their retirement behavior after receiving pension information is more controversial. In particular, [5] focused on the introduction of the annual Social Security Statement in 1995, and using the Health and Retirement Study data, he found that workers did not update their expectations after receiving the public statement, nor did Social Security claiming patterns change. The study concluded that "either workers were already behaving optimally or the additional information provided by the statement isn't sufficient to improve uninformed workers' retirement choices"[5].

3. The Pension Gender Gap

The research reviewed so far does not focus on the gender dimension, with only few studies touching upon it. However, a natural and straightforward conclusion drawn from the different aspects considered here is that the lack of information and knowledge could mostly affect more vulnerable individuals in the society, such as women [17]. In fact, pension benefits are first of all a consequence of the position that individuals hold in the labor market, and occupations depend on various features such as stability, labor market segregation, and wage gaps [18].

Disadvantageous conditions in the labor market cause lower pensions for women even when working hours or occupational positions are the same as those of men. Indeed, as pointed out by [19] and [20], people often associate the concept of economic independence with the gender pay gap. Going one step further, the authors examine the pension gender gap, defined as the difference between the gross pensions of men and women over age 65.

The different spread out of women's emancipation in the labor market is one of the factors responsible for differences in pension wealth accumulation. Older cohorts are indeed more influenced by past gender inequality. As reported in [21], "pensions of women are substantially lower than those of men, by 27 percent on average across the EU but by more than 40 percent in a few European countries. This average gap is higher than the one for hourly earnings at 14 percent".

From a US perspective, [22] analyzed the gender gap in Social Security and pension income between 1980 and 2000, and they highlighted the fact that, despite increases in female labor force participation and earnings, women tend to accumulate less pension wealth compared to men. Similar conclusions were drawn by [23], who aimed to understand and examine the different drivers of women's labor earnings that contribute to the earnings in retirement. Using data from the Labor Force Survey, the author found that part-time working, types of occupation, and employment represent the main reasons why women's incomes are lower than men's, and, as a consequence, after retirement, women appear to have reduced entitlement to benefits from pension schemes [23]. Therefore, focusing on the gender gap in pensions is fundamental to understand the well-functioning of a pension system; it is indeed an indicator of gender equality at older ages and might be useful in pointing out labor market inequalities [21].

Enhancing programs aimed at the improvement of financial literacy and pension knowledge in particular could represent a first step toward the awareness of the gender gap. Along this line, a recent OECD report points out that in many countries, the levels of financial literacy are very low, especially for women. Cross-comparable data from 30 countries and economies show that "overall levels of financial literacy are relatively low, with an average score of 13.2 out of a maximum of 21"[24]. It continues underlining that "on average, only 56% of adults achieve the minimum target score on financial knowledge, with significant differences by gender, as 61% of men achieve the minimum target score, compared to 51% of women"[25].

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