

Gendered consequences of divorce on old-age security in Sweden and West Germany

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Objective & Country Context

In Germany and Sweden, public pensions are closely related to life-time earnings (Betti et al., 2015). As employment behavior of women often overlap with their family histories, women may be disadvantaged and accumulate only low pension entitlements of their own, which inevitably puts them at higher risk of old-age poverty (Haitz, 2015). Gender gaps in pensions, defined as the percentage by which the average pension of women is lower than men's, illustrate these inequalities in biographies. Although the gap has narrowed over the years, Germany still performs exceptionally poor with a gap of 36% in 2019. Despite Sweden being generally considered a more gender-equal society, women's public pensions were also 28% lower than men's in the same year (eurostat, 2020). Marriage has long been considered an economically secure institution in retirement, as within a household the lower pension income of one spouse can be offset by the higher pension income of the other spouse. Divorce, however, likely disrupts this security and puts the economic well-being at risk (Mortelmans, 2020), particularly for women.

This study analyzes the long-term consequences of divorce on the old-age security of women and men in two contrasting welfare states, Sweden and West Germany. To do so, we compare first how divorce affects working histories of women and men and second, how prevailing pension regulations shape individual pension entitlements in each country.

In Sweden and Germany, a large proportion of people who are now reaching retirement age were affected by an increasing risk of divorce during their life course (Härkönen, 2014). However, both countries followed different paths to mitigate the effects of 'new social risks' (Bonoli, 2005) on men's and women's old-age security (Lewis 1992). During the 1970s, Sweden already adapted an approach of individual economic independence and has therefore long pursued policies to promote gender equality in the labor market, thereby increasing individual employment regardless of family status. Based on this, almost no ex-spousal support is provided in the event of divorce. Contrary in West Germany, a family model with gender-specific division of labor was the norm. To account for this imbalance in the event of divorce, the system of 'divorce splitting' (*Versorgungsausgleich*) was introduced in 1977. Under this system, the accumulated pension entitlements during the years of marriage are summed up and divided equally between the former spouses upon divorce. Hence, while in Sweden attempts are made to protect women and men from the consequences of divorce by making them economically independent, in West Germany the imbalance between women and men is recognized and emphasis is placed on 'equalization payments'.

Data and Methods

For Sweden, we link different population registers (o.a. LISA, register of total population) and for Germany, we draw on different subsamples of the pension registers (RTZN, VVL). Both data sources include individual-level data on demographic characteristics, records on earnings histories and information on pension entitlements. For comparability, both data sources are restricted to women and men who i) retired between the years 2004 and 2018, ii) were aged between 60-67 in the year of retirement and iii) received a public old-age pension. Persons with missing information on family status were excluded and the German sample was restricted to people currently living in former West Germany. Our final datasets include 3.655,194 persons (48% men, 52% women) for Germany and 1.139,120 persons (47% men, 53% women) for Sweden.

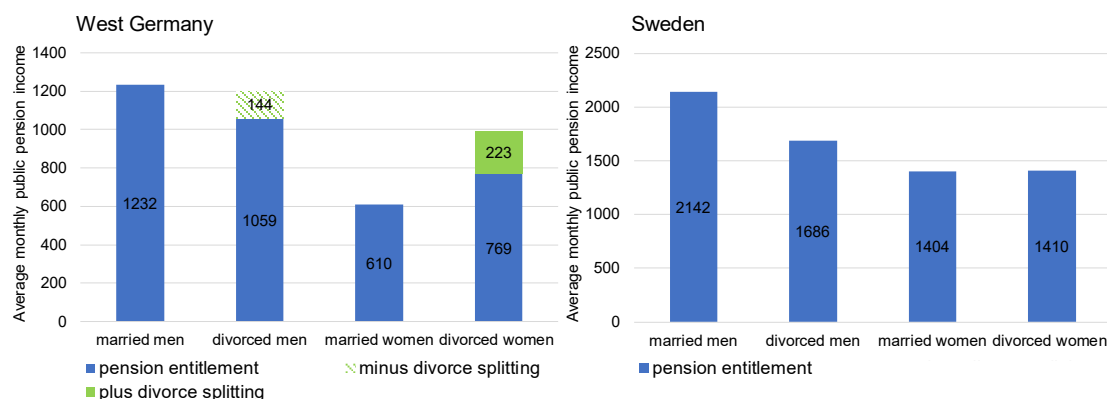
Our dependent variable is *monthly public pension income* in euros (first tier pension). For the descriptive part, we construct *annual earnings histories* from age 15 until 65 as they determine the individual public pension income. To decompose the public pension income into the components resulting from individual earnings and pension regulations, we further calculate the monthly public pension income *without crediting for child raising periods* and, for the German sample, *without the supplements/deductions for the 'divorce splitting'*. In our regression models, the main variables of interest are *gender* and *family status*, distinguishing between being *married, remarried, divorced, widowed* and *never married* at the time of retirement. Further control variables are *year of retirement, cohort, number of children* and *education*. We further investigate interaction models by family status and gender and 3-way-interaction models additionally including the year of retirement.

The preliminary analyses focus on married and divorced women and men and consist of the description of the average public pension income, OLS-regression models by gender as well as a 3-way-interaction.

Descriptive results

Figure 1 disentangles the public pension entitlement of women and men according to their family status and respective pension regulations. In Germany, married men are having the highest public pension income and married women the lowest. Divorced women and men show similar monthly public pension entitlements around 1000 euros. Whereas divorced women already have a higher pension income due to own earnings, their pension entitlement gets further increased by the system of divorce splitting (+223€), while men's get decreased (-144€). In the Swedish case, married men also receive the highest public pension income. While divorced men's pension income is lower compared to married men's, there is almost no difference in married and divorced women's pension entitlements. It seems that in Sweden, divorce had more severe consequences on the pension entitlement for men. Women receive similar pension entitlements regardless of family status, albeit at a lower level than men.

Figure 1: Average monthly public pension income in euros, by gender and family status



Source: Swedish administrative registers, RTZN-VVL2004-2018; own calculations.

Regression results

Table 1 includes first results from the OLS-models separately by gender with the monthly public pension income as dependent variable. The models show that family status has a different impact on pension entitlements of women and men. While in both countries divorced men are having lower public pension entitlements than married men, results are different for women. In Germany, we observe a reversed pattern, with divorced women having on average a pension that is 369 euros higher than that of married women. For Swedish women, we do not see a substantial difference in their public pension entitlement, regardless if divorced or married.

Table 1: Regression results with monthly public pension income in euros as dependent variable

| | West Germany | | Sweden | |
|----------------------|--------------|-----------|---------|---------|
| | men | women | men | women |
| family status | | | | |
| married | ref. | ref. | ref. | ref. |
| divorced | -180*** | 369*** | -465*** | 8*** |
| constant | 1289*** | 582*** | 1809*** | 1082*** |
| N | 1 769 829 | 1 885 365 | 537 029 | 597 710 |

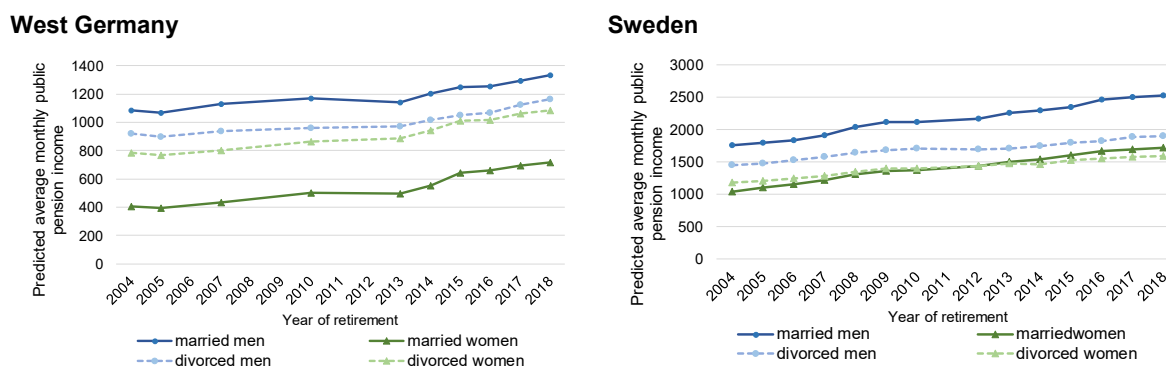
* p<.1; ** p<.05; *** p<.01

Controlled for: year of retirement, family status; Women: additional for number of children.

Source: Swedish administrative registers, RTZN-VVL2004-2018; own calculations.

As we use pooled data, we run an interaction model of gender, retirement year and family status to examine trends in pension entitlements over time (Figure 2). While patterns in pension differences seem quite stable in Germany, we observe divorced men's pension income lagging even more behind that of married men over time in Sweden. Also, for divorced women we see that those retiring after 2013 are having lower pension entitlements than married women.

Figure 2: AMEs from the OLS interaction models by gender, family status and year of retirement



Note: Scales differ for the countries. Controlled for: year of retirement, family status.
Source: Swedish administrative registers, RTZN-VVL2004-2018; own calculations.

Preliminary conclusions

By comparing women's and men's public pension income for the cohorts born between 1937-1958 in Sweden and West Germany, we seek to contribute to a better understanding of country-specific, long-term consequences of divorce on old-age security and to enlarge our understanding of the factors that lead to old-age poverty.

The study is currently in progress and final results will be available for the EPC 2022. Nonetheless, based on the preliminary results, we would like to highlight the association between different pension levels and work-family histories that are shaped by prevailing policies in each welfare state. Although Sweden and West Germany are following different paths, it seems that women and men in both welfare states have to cope with the long-term consequences of divorce in old-age. In both countries, divorced women's and men's public pension entitlement is way below that of a married man.

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