

Chapter 6

Women and Super: A Reality Check

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I'm delighted to be able to talk to you about enhancing the prospects for women's economic independence, particularly in retirement. It's an unwise woman who totally relies on her spouse or partner to financially provide for her old age. If divorce doesn't get you, there's a strong chance you'll outlive your bloke anyway!

Good News and Bad News

The last 20 years or so have seen significant improvements in women's financial status and independence. But it remains a fact that women are still worse off than men when it comes to pay and superannuation.

Women's work histories are often punctuated by large gaps dictated by the demands of child rearing or caring for other members of the family at different stages of our lives.

You could argue that at last women do have it all — the imperative to work and contribute to the family income and the responsibility of caring for the youngest and the aged members of the family.

In the light of this, many women could be forgiven for putting their super or retirement income planning at the bottom of their very long list of responsibilities. Unfortunately our research bears this out — women are even less likely to plan for their retirement than men. Awareness is increasing, but too slowly.

Slide 1:



The good and the bad news about women and superannuation

- Super coverage now better
- Superannuation balances are getting better
- But many women (and men) will have inadequate retirement incomes
- Inadequate retirement incomes tied up with relative disadvantage during working years

ASFA's research has found that on average, women work the full-time equivalent of 20 years, compared to 38 years for men.

The Australian job market remains highly segmented by gender.

Women also average less than 90 percent of men's hourly pay rate. Add to this inequity the time taken out to work around family commitments. The result is, women are facing retirement with much less super than men. There has been some good news in that the participation rate for women is up over the last 15 years and unemployment is down. But most of the increase has been for part-time work and for women in their 50s.

At present, most of the retirees who rely on the age pension are women. The age pension acts as an important "safety net" for those who do not have enough superannuation or other financial resources. The prospect of living on the age pension alone (currently around \$230 per week for a single person or \$12,418 per annum) for 20-30 years is not an attractive one for most active women.

The objective of superannuation is to improve the adequacy of retirement income and reduce reliance on the age pension.

Superannuation Guarantee

Thanks to the introduction of compulsory super (the Superannuation Guarantee or SG) in 1992, over 93 percent of women working full-time now have super benefits. That's up from around 30 percent in 1982. The Super Guarantee is still a relatively young policy, so accumulated savings are still small, around \$43,000 for women and \$79,000 for men.

A woman on a part-time or low full-time wage, say \$35,000 per annum, who saves the SG of 9 percent through compulsory super for 20 years will have a retirement lump sum of \$73,000 and retirement income of around \$16,000 per annum (that's including the value of the age pension).

The fact that women tend to be in part-time or low paid full-time occupations, means that most women will continue to have to rely on a part age pension.

For someone on average weekly earnings, (\$50,000) who is able to work full-time for 30 years, her retirement lump sum would be around \$186,000 and retirement income will be around \$22,000 per annum. This also includes the value of the age pension.

Amounts of \$16,000 and \$22,000 a year are significantly better than relying on the age pension alone. But living on these amounts for 20-plus years in retirement, will not meet even modest expectations which are \$17,300 for a single and \$24,300 for a couple.

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Averages for those with super

Age group	Average balance men	Average balance women
15 to 24	\$6,800	\$4,300
35 to 44	\$65,400	\$37,600
55 to 64	\$183,600	\$94,700
Total	\$78,700	\$43,300

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How much do you need to spend in retirement?

- 7 out of 10 people say they would need at least \$30,000 a year
- Westpac/ASFA Retirement Living Standard indicates \$33,800 for single and \$45,280 a year for couple for comfortable retirement
- Modest lifestyle - \$17,300 for single, \$24,300 for couple

Baby boomers as a group expect they will need a minimum of \$30,000 a year to live on in retirement. That's almost three times the current age pension. These expectations are critical because they're the next, and the biggest, cab off the rank for retirement. Expectations are one thing but are they inflated pipe dreams.

A Comfortable Lifestyle

Research undertaken by ASFA looked at the question of adequacy from the other perspective. We looked at the actual cost of living in retirement and constructed what we describe as a modest and more comfortable lifestyle.

In this context, "modest" means better than just surviving on the age pension, but still only able to afford a restricted range of activities and basic consumer goods.

"Comfortable" means being able to have a broader range of leisure activities, private health insurance and better quality clothes, grooming and the like.

Perhaps it's also worth mentioning what the comfortable budget is not: While it may represent a higher standard of living in retirement than that offered

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How much does a couple need to spend to be comfortable?

- \$162 a week on food, \$80 on housing, \$36 personal care, \$90 on household goods and services, \$57 on clothing, \$100 on transport, \$86 on health, \$202 on leisure (including travel and vacations), \$40 on vice or virtues, or dog or cat care or whatever

by the age pension or just above, it certainly isn't lavish. It doesn't make provision for cruises in the Caribbean, boxes at the opera or botox.

The comfortable budget allows for entertaining at home (a family roast) once a fortnight, seven glasses of wine a week, eating out at a RSL Club restaurant three times a week or a more expensive restaurant once a week.

It allows for the maintenance of a second-hand car — a four-year-old Camry rather than an eight-year-old car. It allows for the bathroom, or kitchen, to be replaced during retirement rather than those items being left untouched for 20 years or more.

The comfortable budget also makes provision for the maintenance of a personal computer, mobile phone, and a digital camera — items that allow us to participate in a modern society. It allows for a budget overseas holiday every five years.

The bottom line identified for a "modest" lifestyle was \$17,000 per year for a single person and \$24,000 a year per couple.

For a "comfortable" lifestyle the figures are \$33,000 (single) and \$43,000 (double).

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Role of Age Pension

- For single \$12,418 a year, and for couple \$20,737
- Couple will need around \$500,000 at age 65 to achieve comfortable retirement
- Income and asset test along with tax provisions make this a tricky planning issue

The scary thing is the shortfall in savings for most people. You will need a lump sum of around \$500,000 to sustain a comfortable lifestyle. That compares to the \$186,000 lump sum I talked about earlier for a person earning \$50,000 a year.

Expectation Gap

As a community and a generation we are facing one heck of an expectation gap.

Looking at expectations, our research showed that more women look forward to retirement than men. But the key finding is what happens on actual retirement.

Our research commissioned through ANOP in 2004 found that a 6:1 “looking forward” ratio for men and women combined, drops to a 3:1 ratio when retirees are asked whether expectations have actually been met. Most significantly, it is women whose anticipation of a wonderful retirement plummets from a confident 7:1, to a financially insecure and depleted health reality of 1.5:1.

Mind you, someone did suggest to me that the reality of spending more time with your husband could be one of the factors that take the gloss off women’s retirement.

And these ratios reflect the situation among today’s retirees, who have relatively modest expectations. Wait till the more pampered baby boomers reach retirement.

It is well known that women live longer, to an average age of 86. What is less understood is that many will face retirement alone either as a result of divorce or widowhood.

A substantial increase in the number of divorced women entering retirement can be expected over the next five to 10 years.

Around 40 percent of current marriages will end in divorce (or marriage breakdown without divorce) over the next 30 years.

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Widows and divorcees

- Most retiree households are couples (married or de facto) – around 70%
- More divorcees and fewer widows these days, with percentage staying constant
- Blokes are living longer but are being divorced more
- Up to 40% of couples divorce, but mostly in first few years
- Some individuals are serial offenders in matrimony

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Superannuation and family law

- Recent legislation means that parties to a marriage have right to information about their partner’s super
- Super is taken into account in property agreement or settlement
- Super benefits can be split, or offset made to other assets
- Not always wise to split all assets equally

As I said earlier the shortfall between expectations and reality is a bit scary.

A number of policy initiatives have sought to tackle some of these issues in recent years.

The new divorce laws will improve equity through the division of superannuation accumulated by the higher earning spouse during a marriage. When a marriage breaks down, the couple can agree (or the court decide) on the split of all property, including the super.

They can agree to split the super any way they want, including trading it for more of the other assets.

This is a key development, particularly as super is now the second biggest asset in most families, after the family home.

Probably the biggest win for women in the legislation is the right to request and be given information about their husband’s super when the marriage breaks down. Many women were previously unaware of the value of their husband’s super and had

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difficulty finding out.

So, what other policy initiatives are required to address the inequities in women's retirement income prospects and reduce the impact of broken work patterns?

I have talked about the effect of divorce and the new divorce laws — thankfully most couples can and do consider their combined savings when planning for retirement.

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Successes and failures of public policy

- Spouse contribution provisions
- Majority of recipients of co-contribution are women
- Splitting of superannuation contributions
- Flexible retirement arrangements
- SG threshold

A number of other initiatives are now also in play. Some will be more important than others. The opportunity for spouse contributions is of some value, but only for a small proportion of eligible couples.

The new co-contributions arrangements for lower income earners are, I believe, a much better and more significant policy.

Under this arrangement for people earning less than \$28,000 a year the government will contribute \$1.50 for each \$1 of personal contributions, up to a maximum government co-contribution payment of \$1,500. The co-contribution is reduced progressively to nil as incomes rise above \$28,000 to \$58,000.

But it is the middle-income groups who have the greater capacity for discretionary savings. In this context ASFA is lobbying for the co-contribution to be extended so full payments up to AWE (around \$40,000) and a phase out at about one-and-half-times AWE (around \$60,000).

The government also recently announced initiatives to assist with the flexibility of retirement as a way of resolving the issue of aging demographics.

In my view, it's very important to have options and flexibility for a phased approach to retirement so I applaud the changes.

They are especially relevant to women, given their

longevity. But it must be acknowledged that the current small balances mean that there is no great flexibility to be had. Still it is good policy and hopefully will become more relevant over time.

We need to cut down on the red tape that undermines the efforts of those brave souls who want or need to do occasional or contract work in their late 60s or early 70s. Many of them will be women for all the reasons I've outlined already.

The problem is that the idea of working longer seems to be the only solution currently on offer. The idea of work until you drop is not appealing to many of us.

One policy initiative I would like to see tackled is removing the SG threshold. Currently the 9 percent SG contribution from employers is only compulsory where the employee is over the age of 18 and earns more than \$450 in a month.

Removing the \$450 threshold would be of particular benefit to women given that they have a higher incidence of casual and part-time jobs and many may have multiple jobs at the same time.

Taxation Penalises Women

Finally, we should look at the admittedly difficult issue of the taxation of super that penalises women or indeed anyone who has an interrupted work pattern. Australia is the only country in the world that taxes retirement savings at every point in its life:

contributions, earnings, end benefits. Super is still tax effective but it makes super unnecessarily complex.

It would be simpler and better to tax super once when the benefit is paid. The equity issues related to super and tax can also be best determined when an individual's lifetime earnings are known. For someone on AWE working for say, 30 years, taxing super only at end benefits would allow the full value of the contributions to be invested and grow.

Of the 9 percent SG currently paid by the employer only a little over 7.6 percent is actually invested. The 15 percent contributions tax depletes final retirement savings for someone on AWE by close to \$30,000 lump sum or \$46 per week in retirement income.

Removing or reducing contributions tax would go a long way to improving incentives, simplicity and adequacy of retirement savings.

The super surcharge was another example of a tax that raised the ire of many professional women and could be said to punish women returning to the workforce and trying to catch up in their savings. Many of us welcomed the fact that this tax was abolished in the last budget.

In summary, progress has been, and continues to be, made in facilitating economic independence for women. However, we still have a way to go to improve the retirement income prospects of that majority of the population.

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**What women
(and men) can do**

- Make additional contributions
- Get the government co-contribution (if you can)
- Consolidate your super accounts
- Think about working longer, perhaps part-time or in some other different capacity
- Agitate for policy reform