THE UNIVERSITY OF
NEW SOUTH WALES

Women, Ageing & Retirement Challenges & Long Term Strategies

A Submission to the Standing Committee on Ageing Inquiry into Long Term Strategies to Address the Ageing of the Australian Population

**Prepared by Dr Diana Olsberg, Director,
University of New South Wales Research Centre on Ageing & Retirement, (RCAR)
Kensington, NSW**

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INTRODUCTION

Australia's ageing population presents both challenges and opportunities for governments, private sector corporations and for individuals and Australian families. Australia is recognised as a world leader in confronting the challenges of an ageing population with regard to the provision of retirement income. Over the past 20 years, successive Australian Governments have transformed the national retirement income system, greatly extending the private accumulation of retirement savings throughout the working population. Australia now has the three-pillar system so ardently advocated by the World Bank and the International Monetary Fund. The three-pillar retirement income system comprises:

(i) A basic social security 'safety net' – the old age pension.
(ii) Compulsory employer contributions for most employees – the Superannuation Guarantee Charge.
(iii) Tax incentives for additional voluntary contributions.

With the development of the second tier through the introduction of the compulsory Superannuation Guarantee Charge (SGC) in 1992, more than 80% of Australian employees have accumulated retirement savings in decentralised, mostly privately controlled superannuation funds. Savings for retirement in the form of superannuation have become an increasingly important form of wealth in Australia. Indeed, as a personal and family asset, superannuation ranks only second in value to the family home. This value will grow substantially as compulsory and preserved savings increase. In addition to providing a new source of income for independent retirement lifestyles, the growth of assets in Australia's superannuation funds – already totalling more than $500 billion – provides a major, new source of domestic investment capital in this country.

Prior to the introduction of the SGC, those accumulating retirement savings were primarily male, white collar professional or management employees, usually in public sector employment. Women were particularly disadvantaged. In the early 1980s, less than 20% of female employees in private sector employment received superannuation entitlements. In many companies – even in some sectors of government employment – explicit forms of discrimination existed. In some cases, women were not entitled to superannuation simply on the basis of gender, they experienced longer eligibility periods for entitlement than male employees, and occasionally married women were not entitled to superannuation.

As a result of major legislative changes and campaigns by anti-discrimination, human rights and legal reform organisations, as well as women's organisations and community bodies, such explicit forms of discrimination in the workplace have been eliminated. Now women are largely entitled to the same superannuation benefits as male employees. Almost 90% of full-time female employees and more than 66% of part-time female employees have some accumulated and preserved retirement savings in superannuation funds. Yet, based on the figures and the perceptions of most women in Australia today – women are still **Ms…ing Out**.

This submission explores why women continue to be disadvantaged in regard to the accumulation of retirement savings and why women, on average, will retire from the paid workforce with about half as much money as men. Women on average live longer than men and increasing numbers of women in Australia are expected to live well into their 80s and 90s.

Additionally, more women will live alone and be largely dependent upon their own financial resources. The retirement lifestyles of future elderly women may well be at risk. Certainly, many women are anxious about their long-term financial futures. Research reveals that women are fearful due to insufficient savings to meet their needs. Many say they are unwilling or unable to depend on their children, most believe that the age pension is inadequate, and some even say they may well end up as a 'bag-lady' – homeless, on the street' (Olsberg, 1997).

The submission is divided into two sections. The first section discusses why, in an occupation-linked system of superannuation, women accumulate considerably less retirement savings than men. A complex array of constraints – broadly summarised as industrial; institutional; legal/political; social/cultural and attitudinal – impact upon women's retirement savings options and opportunities for a financially independent and comfortable retirement lifestyles. These issues are explored in some detail. Such problems are not confined to Australia – many other countries have identified similar problems.

Section Two proposes ways in which legislative and policy changes might assist women to enhance their retirement savings, and how women, through their own actions, can maximise existing retirement savings. We present the arguments for and against some of these proposals for reform, highlighting initiatives already adopted overseas and proposals that have been put forward in Australia. Our aim is to promote discussion of all the options. The possibility of assisting those women, who at present have no superannuation entitlements or accumulated retirement savings, is also discussed.

This submission is prepared by Dr Diana Olsberg, Director of the University of New South Wales Research Centre on Ageing & Retirement (RCAR). This is a multidisciplinary research centre established in 2000 to focus on the broad range of issues presented by Australia's changing demographic profile and people's diverse needs and experiences of ageing and retirement. The Centre provides research support and consultancy for government and public sector institutions and organisations and private corporations seeking to respond proactively and most effectively to Australia's new social futures.

The UNSW Research Centre on Ageing & Retirement (RCAR) is a collaborative undertaking which brings together economists and actuaries, urban planners, demographers and geographers, medical scientists and community medicine experts, social policy analysts, sociologists, educationalists and performing arts academics at the University of New South Wales, Sydney. RCAR, provides the opportunity for a number of senior academics across several disciplines who have been working on issues of ageing and retirement to come together to examine the interrelatedness of so many of the issues concerning ageing and retirement.

This not for profit, multidisciplinary research centre supports collaborative research, conferences, grant and fellowship applications, postgraduate research scholars, visiting international scholars, short course education programs and co-operative projects with community organisations, corporate enterprises and government bodies.

University of New South Wales units participating in the Centre are the Faculty of Medicine, the Faculty of Commerce, the Faculty of the Built Environment, the Faculty of Arts and Social Sciences, the School of Community Medicine, the School of Geography and the Social Policy Research Centre. RCAR brings together these diverse areas of activity undertaking a new generation of cross-disciplinary studies encompassing a range of these disciplines.

Ageing is also the concern of a vast range of community organisations, commercial enterprises, and government bodies. RCAR makes a special point of maintaining links with these groups and developing co-operative projects with them.

Dr Diana Olsberg, Director RCAR
UNSW Sydney NSW 2052
Telephone – 02 9385 2396
Facsimile 02 9385 1824
Email: D.Olsberg@unsw.ed.au

EXECUTIVE SUMMARY

This Submission explores why women continue to be disadvantaged in their efforts to accumulate adequate retirement savings and why women, on average, will retire from the paid workforce with about half the amount of superannuation savings as men. Means by which legislative and policy changes might assist women to enhance retirement savings and how women – through their own actions – can maximise existing retirement savings, will be examined. We present the arguments for and against some proposals for reform, highlighting initiatives already adopted overseas and proposals that have been put forward in Australia.

A complex array of constraints continues to have a significant impact upon women's retirement savings options and opportunities for a financially independent and comfortable retirement lifestyle. This situation is compounded by Australia's occupation-linked system of superannuation. Explicit forms of discrimination in the workplace have been eliminated and women are now largely entitled to the same superannuation benefits as male employees. Almost 90% of full-time female employees and more than 66% of part-time female employees have some accumulated and preserved retirement savings in superannuation funds. Yet - based on the figures and the perceptions of most Australian women today - women are still Ms…ing Out.

Why are women disadvantaged?

- As contributions are usually linked to earnings, many women will be unable to accumulate adequate retirement savings over the course of their working lives. The problem is: not enough time and not enough money – as compulsory retirement-income savings schemes are, at present, dependent upon an individual employee's paid employment profile and wage level.

- Women's working patterns, their lifelong earnings and therefore, their capacity to accumulate sufficient retirement savings are crucially compromised by interruptions to paid employment due to: child-bearing, child-rearing and other family responsibilities. Due to existing workplace arrangements, time out of the work force results in lower superannuation contributions and hence, lower levels of retirement savings.

- Women live longer than men – the current average life span is 82 years for females and 78 years for males. Based on projections for the next 50 years, longevity is expected to increase even further. With this increased life expectancy, more and more women will be confronted by the prospect of having to rely upon their own financial resources for long periods of time, often living alone.

- The increasing incidence of divorce and the low remarriage levels of divorced women indicate that expectations of financial security through access to a partner's superannuation or other retirement savings may not be realised. Recent studies by the Australian Institute of Family Studies attest to the long-standing, disadvantaged post-divorce financial position of many women.

- Research reveals that both women and men have low levels of understanding about superannuation and that fund information is overly complex and incomprehensible. Findings reveal that most Australians display low levels of commitment and often forgo opportunities to make long-term savings due to a disinclination to sacrifice current spending for future savings, as well as a lack of surplus discretionary income.

Solutions

- The low level of understanding and commitment in the community – by women and men – towards superannuation and retirement savings, in general, must be addressed by way of extensive consumer education programs. In addition to the dissemination of easy to understand and effective information, investment options based upon female models of lifetime earnings should be made available to women.

- Industry experts believe that the 9% Superannuation Guarantee Contributions (SGC) will not provide an adequate level of retirement income for most Australians. Due to strong opposition to future compulsory increases in contributions from the government and employer groups, initiatives aimed at increasing voluntary superannuation contributions must be examined.

- Persuading the government to improve incentives by reviewing taxation on superannuation may lead to an increase in voluntary contributions and therefore, greater retirement savings for women. There is also evidence to suggest that financial incentives such as co-contributions and ‘matching’ encourage higher saving rates.

- Women continue to have lower levels of retirement savings than men, but there are possibilities for women to maximise existing savings. Access to leading edge, financial consultation, investment products and information must be recognised as an important issue – pre and post retirement.

- Further amendment to the current structure of superannuation is required in order to allow those not in the paid workforce to accumulate superannuation assets in their own name. The extension of spouse contributions – complemented by a provision allowing an employee to enter into an arrangement with his/her superannuation fund to contribute regularly to the scheme on behalf of his or her spouse with little additional cost – would allow the SGC to be split into two memberships.

- Final superannuation benefits would increase considerably with a reduction in tax – currently most employees are eligible for 9% SG contributions – but the government immediately takes 15% in contribution taxes. Tax on superannuation contributions paid into an individual’s fund should be concessionally taxed – or even eliminated altogether – for those with below average incomes.

- Superannuation fees and charges diminish superannuation retirement savings and women are disproportionately affected. Firstly, because they tend to hold small balances and secondly, because they are likely to have multiple accounts. The government has already taken steps to ameliorate the impact of fees and charges on small accounts. Other countries have developed and implemented new products to solve these problems.

- More working hours and a longer period of time spent in the paid workforce would inevitably result in a larger pool of retirement savings. The introduction of 'family friendly' policies, paid maternity leave and affordable, quality child-care could well lead to an increase in female workforce participation and higher contribution levels.

- If women have not saved sufficient money for a financially secure retirement lifestyle, they ought to be assisted and encouraged to stay in the paid workforce after normal retirement age. An increase in the average retirement age is the ideal solution to the problem of an ageing population. Reforms designed to slow and reverse trends to early retirement have already been implemented overseas.

- Immediate government-funded SGC contributions to individuals not participating in the paid workforce (additional to the Carer Payment) might serve as a means of rewarding 'caring services'. Or perhaps, a system of credit bonuses could be developed, allowing those caring for others, to accrue additions on a pro-rata basis to 'top-up' their age pension.

- The possibility of tightening up the requirements ensuring that employers regularly make contributions for all employees into superannuation funds must be investigated. Rates of non-compliance particularly affect employees of small businesses, part-time and casual workers – women are over-represented in these categories.

- It is important to have a broader representation of women in decision-making positions across all sectors of superannuation, but particularly on the trustee boards of the funds that have particular member-focused responsibilities. The role of women in the governance of Australia's superannuation and retirement system must be expanded.

SECTION ONE

AUSTRALIAN WOMEN AND RETIREMENT INCOME

The likelihood of improving the accumulation of women's retirement savings through the occupationally linked, compulsory superannuation system or voluntary discretionary retirement savings are constrained by complex institutional, legal/political, socio/cultural and attitudinal factors. The need to summarise and present these constraints in a linear fashion necessarily obfuscates the dynamic interconnectedness and interdependence of all institutional and social systems. And of course, some constraints are immutable, given the continuing disadvantages experienced by women in the paid workforce.

However, there are ways in which women might be assisted to maximise existing savings – through recognition of women's different paid work and career profiles; through education and provision of 'women-aware' financial products; through schemes that encourage women to save early and regularly; through supporting greater awareness of the realities of future retirement needs and by exploring and developing policy initiatives to address the current constraints. The process of change is thus dependent upon those in policy-making positions being fully aware of the constraints that beset women on their life journey to financial independence. The following discussion identifies those constraints.

ACCUMULATING ADEQUATE SUPERANNUATION SAVINGS

All present compulsory retirement-income savings schemes are dependent upon an individual employee's paid employment profile and wage level. It is this intrinsic link that affects women's access to adequacy and equity in retirement savings. Assessments of the adequacy of present SGC levels (currently at 8% of wages, reaching a maximum of 9% of wages in 2002) generally assume an individual working life of 40 years, on average weekly earnings, to produce a replacement rate of 60% of pre-retirement earnings.

While the adequacy of the current rate of SGC is widely contested – and there are strong calls for an increase of the compulsory rate – the inequity in the accumulation of SGC and the continuing disadvantages suffered by women are clearly accepted. Compulsory, almost universal, occupational superannuation has appeared to extend 'superannuation benefits' throughout the female labour force, eliminated direct discriminatory practices and seems to have removed many barriers that previously made retirement income schemes unavailable or unattractive to women.

Yet, women are still disadvantaged. The Retirement Income Modelling Taskforce estimated average funded superannuation entitlements for women in 1995 at $17,000, compared to average funded entitlements for men of $42,000, with women holding only 23% of total assets (Rothman, 1996). Modelling showed the proportion of superannuation assets held by women expected to rise to 33% in 2019-20. This figure equates to women holding $600 billion, whereas men will hold $1,200 billion in aggregate entitlements out of a projected $1,800 billion in superannuation assets in that year. These projections suggest that in 2019-20, women will receive an average retirement payout – in today's dollars – of around $100,000. The majority of women's payments will be less than that amount.

Around 70% of individuals – both men and women – are expected to have an average balance or less. However, even these projections may be overly optimistic, as recent trends in hours worked and remuneration levels suggest lower amounts flowing to women as a group. The problem for women is not enough time and not enough money. The majority of women will accumulate significantly less superannuation than men for the following reasons:

1. Women are far more likely to work part-year, part-time or in casual positions and to work fewer hours than men. In 1999-2000, 43% of female employees worked part-time, compared to 13% of male employees and women accounted for only 35.8% of the total hours worked per week. Average working hours per week recorded for women was 28.4 hours, in comparison to 39.5 hours for males. (ABS, Cat 4153.0: Also see Apendix 2)

2. Even when working full-time, women's average earnings amount to only 89% of male average full-time earnings. While the earnings gap between men and women has reportedly remained relatively stable in the past 10 years, a recent Australian study argues that a less than benign picture is evident beneath these aggregate trends (Whitehouse, 2001). Growing disparities in average earnings between part-time/casual and full-time/permanent work and an increasing dispersion of wages within occupations (measured on equal pay female/male comparisons, like comparable worth) suggest diminishing incomes for women. These factors are resulting in further erosion of women's wages – in effect women continue to 'swim upstream'. (Whitehouse, 2001; 74)

3. Women are concentrated in the lower-paid sectors of the workforce. Many are in low-paying, low-status occupations such as cleaners, teachers and nurses. Such low-paid employment sectors are particularly at risk in terms of non-compliance by employers. The Australian Tax Office (ATO) reports a lack of awareness in relation to SGC entitlements for casuals and part-time employees amongst many employers. Non-compliance is more common in industries with high levels of female employees, such as hairdressing. Female contractors and part-time female employees are particularly at risk according to the ATO (ATO Superannuation Guarantee Audit, 1998). Most importantly, individuals who are paid less than $450 per month are not entitled to employer superannuation contributions. Many women's total earnings exceed $450 per month, but if they work for several different employers, not one of those jobs may reach the $450 benchmark. Consequently, <u>no</u> superannuation is received. Even within professional occupations, such as law and medicine, women are over-represented in lower paid positions.

4. Interruptions to women's paid employment are frequent, of varying duration, and are inevitable throughout the life course. Due to 'carer' obligations – children and elderly, or ill relatives – the only realistic option for most women is part-time and/or casual paid work for certain periods. Women who are sole parents are particularly disadvantaged. As a direct result of absence from the paid workforce, apart from the

loss of lifetime income and superannuation, women also suffer from deterioration of their marketable skills and impaired promotional patterns. These disadvantages are compounded when combined with other factors such as low skill levels; non-English speaking backgrounds resulting in poor language and literacy; Aboriginality and the effects of acute or chronic disability.

5. With such broken work patterns, women are not in the paid workforce for sufficient periods to accumulate adequate superannuation savings. According to the most recent estimate – based on the 1999 OECD Economic Survey of Australia by the Association of Superannuation Funds of Australia (ASFA) – on average, women are currently in the workforce for a full-time equivalent of 20 years, while men work for 38 years (Clare, 2001). An earlier study predicts that even with an expected increase in the female labour force participation over the next 30 years, women's working lives will only total an average of 28 years by 2030. (Brown, 1994)

6. Although increasing numbers of women are re-entering the paid workforce when their families become relatively independent, superannuation contributions late in life (or for short periods) cannot accumulate compound interest advantages. Furthermore, current taxation imposts – such as the additional contributions surcharge – discourage additional voluntary contributions over short periods.

7. Women from non-English speaking backgrounds are particularly at risk of being denied superannuation contributions. Unemployment rates are high amongst women from such backgrounds and those in employment are more likely to work in manual, unskilled jobs without proper entitlements. Some are known to be victims of exploitation – labouring in 'sweat shop' conditions – where they are denied access to even a minimum wage. Under these circumstances, the likelihood of receiving any superannuation benefit is remote (Olsberg, 1997).

8. The same is true for Aboriginal women, who consistently suffer from underemployment and unemployment and rarely have the opportunity to accumulate any retirement savings. The shameful tragedy is that the shorter life expectancy of Aboriginal women reduces the pressure of providing for their income needs in old age (Hunter & Hawke, 2001).

9. The position of women who are not in the paid workforce or who are registered as unemployed is particularly invidious as they continue to have no superannuation entitlements at all.

As contributions are usually linked to earnings, the result is that many women accumulate substantially less superannuation than men. Increases in paid workforce participation will continue to assist women in building the economic capacity to contribute to their own superannuation and to accumulate some income for retirement. However, as reported earlier, women will continue to be substantially disadvantaged – in comparison to men – and will accumulate insufficient retirement savings to be financially independent and secure in their old age.

This forecast is particularly threatening for ‘baby boom’ females who have enjoyed some degree of financial autonomy. Their expectations for retirement lifestyles are far higher than those of their mothers and grandmothers who were almost entirely dependent on the age pension. There is also some concern that occupational superannuation and social security policy are not well integrated, with the possibility of the SGC being only of marginal benefit to women if it merely serves as a replacement for the age pension (Knox, 1994).

Of course, the changing face of Australia’s workforce means that a growing number of males will also suffer. Many men will accumulate inadequate retirement savings as they increasingly experience broken employment, periods of unemployment, casual work and under-employment. Younger and older job seekers are likely to remain unemployed or under-employed for longer and longer periods. Such injustices mean that they too, will be deprived of adequate savings and independent retirement lifestyles.

Legislative and policy changes in recent years have sought to ameliorate the disadvantages which women intrinsically experience in the paid-employment dependent, privatised, retirement income system. The introduction of protection for small accounts – under $1,000 – against erosion by fees and charges has been particularly advantageous for women. More recently, in 1997-98 a spouse rebate entitlement was introduced allowing a superannuation member to make separate superannuation contributions on behalf of a spouse who is not working, or who earns less than $10,800. A rebate of 18% on contributions up to $3,000 allows for a maximum tax rebate benefit of $540 to the contributor. To date the total of such contributions is relatively minor compared to aggregate employer and member contributions. However, 26,000 taxpayers claimed the spouse contributions rebate in 1998-99 – and the majority of those benefiting were women.

The recently legislated divorce and superannuation provisions to the Family Law Act are expected to lead to a significant transfer of assets for many couples. ASFA estimates that these changes may affect some 300,000 couples, with in excess of $3 billion of the existing superannuation balances being shared and transferred (Clare, 2001). Regulations are not yet available and concerns exist in some quarters in relation to the continuing complexity of arrangements. Nevertheless, the changes should ensure that superannuation benefits are included in property settlements and that full disclosure of superannuation entitlements is made mandatory.

A CASE STUDY – COMPARING WOMEN’S AND MEN’S AVERAGE RETIREMENT SAVINGS AND RETIREMENT INCOME

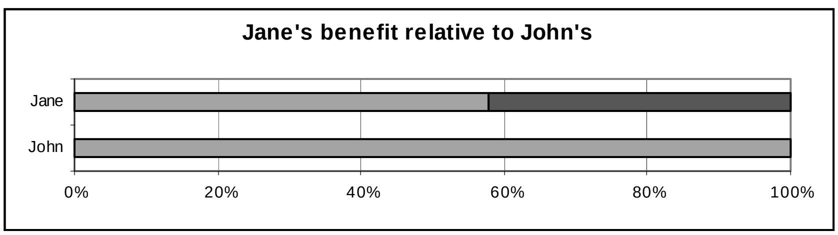
Let’s look at two young people, John and Jane. Both are aged 20 and just entering the workforce. Both plan to retire at age 60. We will project their average retirement incomes, allowing for average workforce participation rates, part time employment, average pay rates, and so on. The aim is to compare the average expected superannuation benefits for males and females

Ideally, these projections should allow for changes in all the variables. For example, we could assume that female workforce participation rates will rise, the gender earnings differential will narrow, and life expectancies will increase over time. Sophisticated models, which allow for trends in economic and demographic variables, are used by the Department of the Treasury RIM group. However, such models require a lot of future assumptions. For our purposes we will use a naive model. We will simply assume that the future is just like the present. This should be sufficient for our purposes. {The assumptions used in the projection are given in Appendix 1}

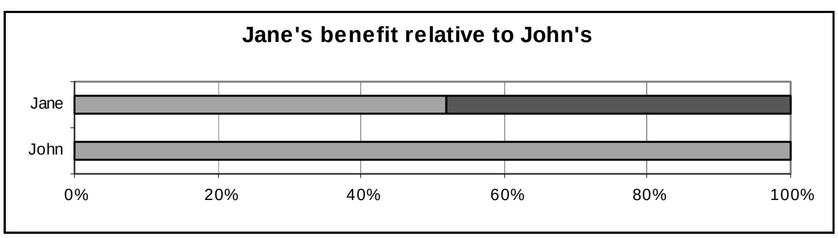
Based on our projections, John will have a lump sum benefit of about $244,000, which will provide an indexed lifetime annuity of almost $13,900 per annum.

Now let's amend the calculation, so that it is more relevant to Jane's experience.

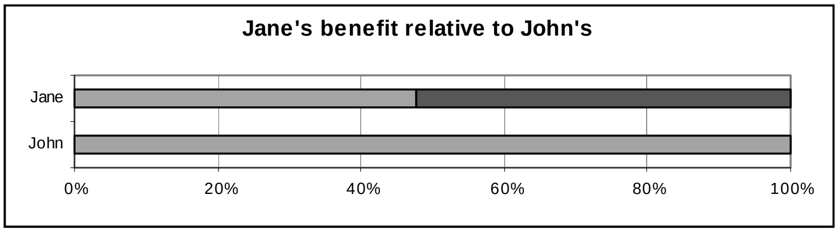
First, we will change the employment rates, to allow for lower workforce participation and more part-time work. After inserting employment rates relevant on average for females, the benefit drops by just over 42%.



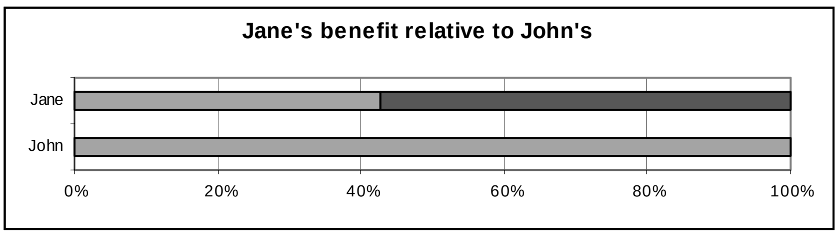
Next, we will factor in the difference in pay rates. Women earn hourly pay rates which are about 89% of male pay rates: so as you would expect, the accumulated superannuation benefits drop by a corresponding percentage. Jane's benefit is now about 52% of John's.



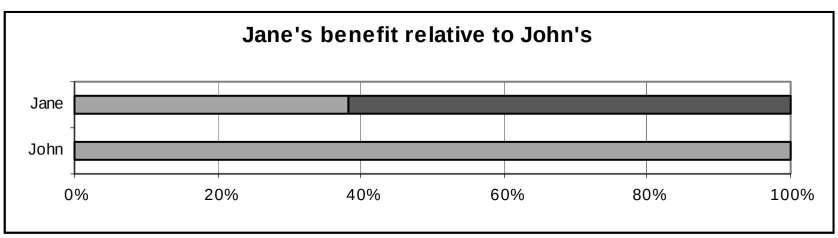
Next we allow for problems associated with part time and casual work. We know that some part-timers will be ineligible for SG benefits (because they are below the $450 per month threshold). We suspect that part-timers and casuals are more likely to suffer higher administration fees (because they are likely to have multiple accounts). We know that part-timers and casuals are more likely to miss out on their SG contributions (because employers are likely to neglect their entitlements). So let's assume that women receive only 95% of their entitlements, and they pay an extra $50 in costs each year. What is the impact ? Jane's benefits would fall again, to about 48% of John's benefits.



Now suppose that women choose more conservative investments. As noted in this Paper, there is little evidence of this at present in Australia, but just suppose it becomes a problem as member choice of investments becomes more widespread. Suppose that Jane chooses investments which provide a rate of return about 1/2% p.a. lower than John's investments. The result would reduce the benefit yet again. After making this adjustment, Jane's lump sum would be only 43% of John's.



Finally, we must allow for the difference in life expectancy. Jane will live a few years longer than John - so her lump sum benefit must stretch further. She can't afford to spend as much money as John in any year. Assuming that Jane and John buy lifetime indexed annuities, Jane's annual retirement income will be about 38% of John's.



Overall,

John's superannuation savings would provide an income of about $13,900 per annum
Jane's superannuation savings would provide an income of about $5,300 per annum.

However, so far, we have only looked at superannuation savings. Fortunately, Australia's retirement incomes system includes a progressive component as well - the old age pension. Jane and John will both be part pensioners, and Jane's part pension will be $3,440 higher than John's. This to some extent ameliorates the difference in superannuation incomes.

If the 15% contributions tax was eliminated, Jane's benefit would increase by almost 18%.

THE RETIREMENT SAVINGS COSTS OF CARING FOR OTHERS

As the expectation that women will participate in the paid workforce increases, they continue to play a dual role in society. They are seen – and see themselves – as responsible for maintaining a home, bringing up children and caring for elderly relatives. Women's working patterns, their lifelong earnings, and so their capacity for accumulating retirement savings are crucially compromised by child-bearing; child-rearing and other family responsibilities; by erosion of marketable skills; by workplace arrangements and by social attitudes.

Although some men do take on child-care responsibilities, largely women continue to be primary carers and as a result, their lifelong earnings in the paid workforce are significantly diminished. Research shows that workforce participation varies according to the age of dependents – women with young children (under age 5) are quite likely to be absent from the workforce or working part-time. As the children get older, women are more likely to return to work and to move into full time jobs. (ABS data Catalogue 6224.0, Table 14, Also see Appendix 3)

The question of how much women will lose in foregone earnings when they decide to have a baby is difficult to answer, because earnings are affected by so many other factors. However, a recent Australian study using a number of approximations and assumptions found that in the case of a woman who had completed high school:

- The first child led to a 28% reduction in earnings.
- The second child led to a reduction of about 8%.
- The third child led to a reduction of an additional 8%.

In other words, if a woman has three children, her expected lifelong earnings would be about 44% lower than that of a childless woman. (Chapman, Dunlop, Liu, Mitchell, 1999). One American author, Anne Crittenden, calls this a 'mommy tax'. (1999)

Recently, an increase in the paid workforce participation rate has been recorded amongst women with young children. These figures represent a marked improvement on the previous decade. Opportunities for part-time work have been supported by increased availability of formal child-care, subsidised child-care for low-income families, changed work practices in respect of maternity leave and the introduction of 'family friendly' arrangements by some employers. However, the persistence of lower earnings naturally flows through to lower superannuation contributions and lower levels of retirement savings.

Women's absence from the paid workforce also continues to affect their long-term career opportunities. A recent Human Rights & Equal Opportunities Commission report (HREOC) reveals that employers still ask female job applicants if they intend to have children – even though this practice is not legally permissible. Furthermore, women suffer from the loss of skills. Periods of absence from the labour market are associated with a diminution in the value of labour market skills, a process known as atrophy, and there is evidence to suggest that atrophy affects women's wages (Chapman, Dunlop, Gray, Liu and Mitchell, 1999).

Women still continue to suffer when they return to work after maternity leave. A recent survey reports that 43% of chief executive officers and general managers said mothers should not expect to return to the same position or to have the same level of authority. (Recruiting firm TMP Worldwide, July 2001.) Fiona Krautil, director of the Federal Government Equal Opportunity for Women in the Workplace Agency, says the survey results were appalling, “There are a whole lot of ingrained attitudes that women lose their brains when they have children, or aren’t committed”.

The threat of reduced lifelong earnings and career opportunities are increasingly resulting in some women – particularly professional and high-income earning women – choosing to delay childbirth, to have only one or at most two children or no children at all. Even in award-winning family friendly workplaces, some women report their family responsibilities make it difficult for them to participate in weekend or after hour’s meetings or training opportunities – with resulting adverse effects upon their career development (Biggs, 1998)

LIVING LONGER, LIVING ALONE

Women live longer than men – the current average life span is 82 years for females and 78 years for males. Based on projections for the next 50 years, longevity is expected to increase even further. With this increased life expectancy, more and more women will have to survive for long periods, often living alone and reliant upon their own financial resources. As now, the majority of women will be dependent upon whole or part government-provided age pensions. Also, women with some savings will still suffer discrimination in purchasing annuities and pension stream products.

Exemptions to anti-discrimination provisions allow more conservative actuarial assumptions to underpin women’s lower rates in purchases of annuity and pension products. Therefore, even if a woman manages to accumulate the same lump sum benefit at retirement as a man, a woman will receive annual benefits approximately 10% to 11% lower than the benefits available for a man. As a result, weekly payments are reduced and will not provide an equivalent standard of living in retirement (Using the lifetime annuity rates available in the market, discount depends on factors such as the age at purchase, the level of interest rates, and market conditions). (Ferris, 1997)

MARITAL STATUS, SEPARATION & DIVORCE

A majority of married women look to their husbands for support in their retirement. (Onyx, 1996) However, the increasing incidence of divorce and the low remarriage levels of divorced women, indicate that expectations of financial security through access to a partner’s superannuation or other retirement savings may not be realised.

A substantial increase in the number of divorced women entering retirement can be expected over the next five to ten years (Clare, 2001). In 1999 there were less than 10,000 divorced women aged 59, but this figure is likely to increase by 50% by 2004 and by 100% by 2009. This is a result of both an increase in the divorce rate and the first wave of the baby boomers reaching retirement age. Recent studies by the Australian Institute of Family Studies attest to the long-standing, disadvantaged, post-divorce financial position of many women. (1999) The recent passage of legislation, aimed at removing constraints that have beset the Family Court of Australia in dealing with superannuation entitlements on divorce, is expected to enhance women's entitlements.

The issue of same-sex partner entitlements is yet to be addressed. Legislative amendments requiring changes to rules concerning superannuation and taxation entitlements in relationships separation and particularly in the distribution of death benefits have been proposed. Growing pressure from consumer and sectional organisations in relation to the issue of equality for same sex partners must be addressed.

KNOWLEDGE, AWARENESS, ATTITUDE

Research across socio-economic groups and levels of education has revealed that the majority of women and men have low levels of understanding about superannuation (ASFA, 2000). Superannuation fund members complained that fund information is overly complex and incomprehensible. The findings show that most women and men share low levels of commitment and often forgo opportunities to make long-term savings. This stems from a disinclination to sacrifice current spending for future savings and a lack of surplus discretionary income reported by most people. Also, people are generally myopic about realistic future financial needs – as a rule, they don't want to talk or even think about growing old. These personal preferences are culturally and socially created and enhanced in today's youth-oriented and consumption-saturated society (Olsberg, 1997).

Yet, there is a general concern about superannuation and people are anxious about having enough money in retirement. In a recent national study, 55% of people said they were worried about not being financially prepared for retirement. (Plum Financial Services, December 2000). Women are particularly concerned and ignorance, fear and confusion are endemic. In one study (Olsberg, 1997), female members of superannuation funds said they regularly receive statements, however:

- They were unaware – even approximately – of their current superannuation balance.
- They did not know how much they were contributing. While they knew it was a percentage of their salary, few knew the actual percentage and hardly any knew how that translates into dollars.
- They were unaware of the relationship between their current contributions and their final expected entitlements.
- They did not know what was happening to their money while it was in a fund, or the relevance of having an investment choice.
- They did not know if there were any spouse entitlements under their husband's superannuation funds.

- They were only vaguely aware of death and disability clauses and did not know if they were covered.

- They did not know how much they were being charged for administrative fees.

- They did not know what the terms ‘portability’ and ‘vesting’ meant, or the implications for their benefits.

However, women recognise that times are changing and increasingly, they want to know about superannuation. In a recent study, women stated that they cannot continue to rely on their spouses and children for support, nor do they wish to do so. Some women already affected by divorce and those who are still married, expressed an awareness of the insecurity of spouse dependence. The general perception was that a compulsory retirement savings scheme was a ‘good thing’. They generally had high (sometimes overly optimistic and naïve) expectations about how their superannuation would provide for them in retirement. Most women had no concept of how much money they needed in retirement and very few said that they made additional voluntary superannuation contributions. The majority said their income was totally committed elsewhere and they had no money left over for retirement savings. For those in casual employment, their current concern was today’s income and expenditure (Olsberg, 1997).

Women’s knowledge, attitudes and perceptions about superannuation differ very little from men’s. The same pressing need exists for education for both Australian men and women - in terms of programs about the advantages of regular, lifelong retirement savings, and about the structures and possibilities of superannuation. The monies held as lost or inactive accounts by the ATO continue to grow – the total is now up to $4.5 billion or 2.6 million accounts. (http://www.findmysuper.com.au) This bears witness to the complexity of the system; to the difficulties of people understanding superannuation; and the level of ignorance about superannuation - particularly among people with small accounts.

PREPARING FOR RETIREMENT, DISCRETIONARY SAVINGS & INVESTMENT CHOICES

The financial challenges for women are crucial personal, social, economic and political issues. The fate of older women confronting increasing longevity – most with lower accumulated retirement savings than men and often with no savings at all – pose great difficulties for the individual, for their families and for society.

There is a large body of research that accuses women of not making adequate plans for retirement – it argues that women are generally ignorant about financial and investment issues. Among the reasons presented to pinpoint the factors behind women’s low retirement savings are: suggestions that women have been derelict during their working lives by not planning and saving, thinking some man will provide for them and that somehow, they have not paid attention or are not clever enough to understand investment issues.

Women do save less, they start later, and they tend not to consult financial planners or focus on long term financial planning. However, recent research – containing controls for income and savings – shows this is more the result of women being in low paying jobs, having small sums in superannuation and little or no other savings. In particular, women said that due to low levels of discretionary disposable income, spending time on retirement planning was neither rational nor productive. (Olsberg, 2001)

Importantly, this national study of recent retirees reveals that when women do have high levels of income, substantial superannuation and perhaps other retirement savings, they are just as astute, careful and knowledgeable about investment and planning for retirement as men. In fact, women have been known to plan much more prudently than men (Olsberg, 2001). Recent research in the United States and in Canada supports such findings and also shows that high-income earning females are rigorous savers and investors (Ferris, 2000).

People's lack of attention to long-term financial planning is particularly evident in decision-making situations involving uncertainty – in cases where people cannot accurately anticipate probabilities and outcomes. Life events that are central to retirement income planning are intrinsically uncertain – for example: personal longevity is notably difficult to predict, and planned retirement age may be altered by illness or retrenchment. Additionally, social situations may change drastically and unexpectedly, and people's time frame preferences for expenditure and for savings are highly variable and unpredictable (Kearney, 1997). Decision-making with regard to investments is especially difficult. Rates of return on broad asset classes and particularly on individual investments can vary considerably from historical norms and for quite long periods. In situations of uncertainty, people rely upon the advice of family and friends and often, upon professional financial advisers.

Women in particular report that they have great difficulties finding financial planners who will provide advice for individuals with low amounts of accumulated savings. Many comment that savings and investment options tend to be based upon male models of lifetime earnings and career prospects. Also, both women and men are concerned that financial planners are not independent and that advice is entirely driven by commission-based products. (Olsberg, 2001). Access to independent financial consultation and information must be recognised as an important option for all employees (pre and post retirement) to maximise the effectiveness of economic decision-making with regard to compulsory superannuation savings.

At present, there is little Australian evidence of gender differences in investment decisions within superannuation funds. Member investment choice is relatively new (in the past, the trustees were usually responsible for the entire funds' investment decisions). Not all funds offer a choice to members; only about 60% of contributions are paid into such funds. Even when choice is offered, most people tend to avoid choice, or choose the default option. This applies to both men and women. A recent study found very little difference between investment choices by men and women in public sector schemes (Ferris, 2000).

It appears that our current superannuation system is likely to fail in its task of providing adequate retirement incomes for many women. Can anything be done to improve the situation? The following section explores a number of solutions.

SECTION TWO

FINANCIAL INDEPENDENCE, ADEQUACY & EQUITY FOR WOMEN

STRATEGIES & SOLUTIONS?

Australia faces a previously unimagined economic future. High levels of publicly funded age pensions are now seen an unaffordable due to the greying of the population At present each person on an age pension is supported by 6 contributing taxpayers (6:1). By 2030 this ratio will have halved (3:1) – theoretically doubling the burden. This situation threatens to impose intolerable tax burdens upon future generations. In order to meet this perceived threat, Australian Federal Governments in a series of complex and wide-ranging policy changes, have privatised much of the national retirement income system. Almost all Australian employees are now saving for retirement in compulsory, decentralised, privately controlled superannuation funds and their savings are sequestered until retirement from the paid workforce.

However, the crucial issues discussed in the previous section constrain the adequacy, access, equity and economic and social justice for women in Australia's current retirement income system. Through no fault of their own, but in response to the demands of society, Australian women have less accumulated retirement savings than men. On current savings trends, only a small minority of women will be able to confidently look forward to a comfortable, financially independent retirement lifestyle. It appears that our current superannuation system is likely to fail in its task of providing adequate retirement incomes for many women. Can anything be done to improve the situation?

The problem requires concentrated efforts on the part of policy decision-makers in governments, in the financial services sector, by superannuation funds and by employers and through action by women themselves. The following section canvasses some possible policy strategies to address women's currently disadvantaged position. This problem is not confined to Australia. A number of countries have identified similar problems, and some have developed strategies and solutions to ameliorate women's disadvantages – other strategies are almost certainly possible. Whatever the forms and strategies of change, any action to advance the status of women is contingent upon the full provision of women's rights to knowledge, participation and planning within Australia's retirement income system.

A number of solutions have been proposed including:

1. A concerted and widespread education campaign about retirement savings.
2. Increasing compulsory contributions.
3. Increasing voluntary contributions.
4. Financial planning, investment products and maximising women's investment opportunities.
5. Superannuation sharing.

6. Reducing taxes on superannuation.
7. Reducing fees and charges.
8. Increasing female workforce participation rates.
9. Encouraging women to stay in the workforce past the normal retirement age.
10. Adjusting the Social Security System.
11. Protecting workers' entitlements to superannuation.
12. Increasing women's role in the governance of Australia's national superannuation and retirement savings and income system.

Many of these proposals are designed to improve the overall adequacy of retirement incomes; some are targeted to help low-income earners and others are specifically designed to assist women.

In the following section we present the arguments for and against some of these proposals for reform, highlighting initiatives that have been adopted overseas. Our aim is to promote discussion of all the options.

Examples of solutions developed in a number of countries and that have sought to address the challenges of women's disadvantaged position are included. Of course, the position of women in many developing and under-developed countries – where absolutely no form of late life protection or support exist – continues to be an issue of pressing importance. It is likely however, that if changes are introduced into already developed, government social security and private occupational retirement savings systems in advanced countries, those benefits for women may be even more widespread. Those initiatives may hopefully be included in the development of currently nascent social support and welfare systems in less developed countries. The World Bank has continued to push for developing and undeveloped countries to look to Australia's retirement income system as a model for the development of new systems. Greater recognition of the importance of providing adequacy and equity in already developed systems is crucial.

1. A KNOWLEDGE NATION?

There is a low level of understanding and commitment in the community – by women and men – about superannuation and retirement savings in general. This must be addressed. Also, as women have lesser amounts of savings, they are less well catered for by the financial services sector. The need for easy to understand and effective superannuation and investment information is critical.

1.1 A pressing need for education

An extensive consumer education program is required. The future welfare of the entire Australian community is at stake – those heading for retirement and for younger Australians in the workforce who will be hard pressed paying taxes to provide health and welfare services for the elderly. This situation is at least as important and warrants the same amounts of expenditure as introduction of the GST and the Republic Referendum.

Education campaigns focusing on financial choices or decision-making cannot be universally appropriate, relevant or effective. Education campaigns and retirement planning seminars should be targeted at people with varying amounts of superannuation benefits and total retirement savings, with different occupational backgrounds and different levels of financial expertise. Preferences are neither homogeneous nor constant and may change in response to advertising, political campaigns or fashion trends. Creative programs that are culturally diverse and appropriate for people with different levels of financial awareness and language skills must be developed. Let us not be seduced by the simplicity and slickness of national, one-off television advertising campaigns.

Such an education campaign can be led and co-ordinated by government with the involvement of financial services providers, particularly superannuation funds, employers and community organisations. Longer-term school programs must be developed to teach young women and men basic principles of investment and to create a savings culture. In a media-saturated culture – where every emphasis is on spend, spend, spend – there is a need to create an understanding and appreciation of the relative and intrinsic importance of save, save, save. The special needs of non-English speaking women must be addressed in education programs, including information and advertising messages in community languages. Use of community television, radio stations and press is particularly relevant.

It is essential that women be able to understand the benefit entitlements, accrued personal balances and liabilities for fees and charges for their own superannuation fund. As we move more directly into a consumer choice environment with the predicted passage of superannuation choice legislation, funds and retirement savings providers must ensure comparability of information with other similar products, as well as a basic understanding of the material provided.

1.2 How effective is education?

Education is expensive – it must be done in a cost-effective manner. Communication must be as clear as possible, without jargon. And different educational campaigns must be trialed to determine which ones really influence member behaviour.

The United States provides a wide range of communication methods on a variety of topics and regularly assesses the effectiveness of each approach (See box: Effectiveness of Education by US Employers)

EFFECTIVENESS OF EDUCATION BY US EMPLOYERS

The Employee Benefits Research Institute (EBRI) surveyed a number of service providers, covering the majority of the defined contribution plans in existence. (Vanderhei, 1995) They found that service providers gave information about a wide range of topics. In addition to describing the basic features of the plan, they gave information about:

- Estimating the income needed for retirement.

- The effect of inflation.
- Basic investment terminology.
- Risk and risk tolerance.
- Asset allocation.
- The impact of pre-retirement withdrawals (i.e. benefits of rolling over).

A later Retirement Confidence Survey reported a wide range of methods to communicate with members, including the increased use of Internet and on-line services. The recipients of educational material were also asked to rate the effectiveness of different forms of communication. (2001 Retirement Confidence Survey Summary of Findings, EBRI website)

	Provided by employer	Very effective	Somewhat effective	Not effective	Not Used
Benefit statements	89%	43%	38%	8%	10%
Brochures	85%	17%	54%	9%	19%
Newsletters	59%	21%	49%	13%	16%
Individual access to a financial planner	57%	37%	28%	4%	30%
Investment advice	57%	32%	40%	7%	21%
Workbooks /worksheets	54%	28%	40%	10%	22%
Seminars	54%	33%	35%	8%	23%
Internet or online services	47%	38%	30%	6%	25%
Videos	20%	19%	36%	13%	32%
Computer software	15%	45%	11%	12%	32%

According to another study by US SAVER Act researchers:

> *"Educational efforts make a difference. Out of all workers, 39% reported receiving material about retirement planning and saving from their employers over the past year. Among those receiving such material,*
>
> *41% started to contribute to a retirement plan*
> *43% changed the amount they contributed*
> *43% changed their asset allocation."*
> (SAVER background paper)

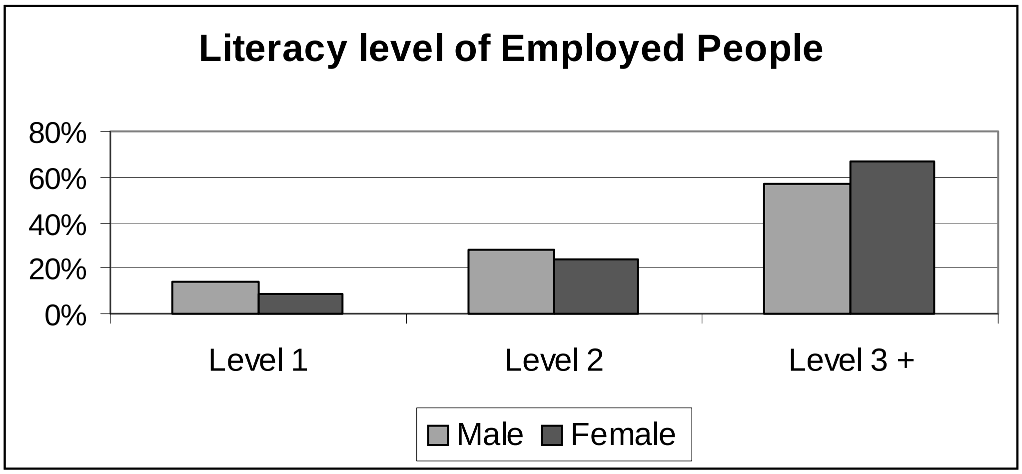
Education will not be an easy task. As noted earlier, studies have found that most Australians have very little knowledge about their own superannuation entitlements. Superannuation rules can be very complex, and problems may arise if people have difficulty in understanding the material provided.

Many people in the workforce have relatively low levels of literacy. This is most likely to be a problem for some recent migrants, but many Australian-born workers also experience problems reading and understanding written documents (especially if there are numbers involved). In 1996, the ABS conducted a survey of workers' ability to read and understand simple documents such as newspapers, magazines and brochures. The results are shown in the table below:

Level 1**:** People at this level have very poor skills and could be expected to experience considerable difficulties in using many of the printed materials encountered in daily life.

Level 2**:** People at this level could be expected to experience some difficulties in using many of the printed materials encountered in daily life

Level 3 or higher: People at these levels would have the ability to cope with a wide range of material found in daily life and at work.



(ABS catalogue 4228.0, 1996)

About 42% of employed males and 33% of employed females were located in levels 1 or 2. Hence, they were quite likely to experience difficulty in understanding documents about complex issues.

Even the cleverest person may encounter difficulty understanding superannuation laws and social security rules. The Senate Select Committee on Superannuation raised these issues during their enquiry into 'choice of fund'. Ms Helen Hewitt, Fund Secretary of C+BUS, one of the largest industry funds, reported:

"Recently we had a training session where there were 17 representatives from different superannuation funds and people across the industry. A very well known provider of superannuation gave them a document that is put out in the marketplace and they were asked to calculate the fees. There were 14 different answers that came about."

ASFA, along with Ageing Agendas, has conducted a considerable amount of work in this area. They have attempted to develop 'Key Features' Statements that are comprehensible to average employees. The main conclusions drawn from their research were:

- Considerable consumer input is required to identify problems in understanding superannuation.

- Difficulties in understanding and using superannuation occur at all levels of socio-economic and academic status.

- Motivation is a better predictor of success than socio-economic status or education.

- Consumers who have difficulty with content will use other props to help them understand the message, regardless of whether these props (e.g. pictures on the cover) are relevant, or in fact misleading.

- The performance of some participants with low levels of education indicates the importance of not relying entirely on written documentation. A proportion of consumers will always need verbal explanations of fund features and options to supplement written information. It is unlikely that these consumers would normally access financial planners. This makes information provided by fund staff an important element in the communication link.

2. INCREASING COMPULSORY CONTRIBUTIONS

Many experts believe that the 9% Superannuation Guarantee Contributions will not provide an adequate level of retirement income for most Australians. (Callil, Grenfell, Langton, Partridge, and Westman, 2001) It would be preferable to save at least 12% and ideally 15%, of salaries. (Knox, 1994; Fitzgerald, 1993) ACTU President Sharan Burrow has suggested that 15% is necessary to guarantee a dignified retirement income and the ACTU supports an increase in the SG rates. (‘Lewis and Cleary, AFR, April, 2001) Opposition Leader Kim Beazley has recently called for an increase in superannuation contributions of up to 15% of earnings, and has promised to review retirement incomes policy should Labor win the next election. Lewis and Cleary, AFR, August, 2001) Mr Beazley has stated, however, that any increase in the SG should be avoided if it were to have a substantial impact on business – incentives for voluntary contributions would be preferable. (Lewis, AFR, April, 2001)

An increase in the SG system seems to present political problems at present. When such increases were suggested recently, the Coalition immediately raised strong objections. The Prime Minister stated that an increase in the SG rates would sharply increase the labour costs to all businesses and would lead to a loss of 200,000 jobs. Mr Howard has stated that the Coalition, if re-elected, will not increase the SG levy beyond 9%.. (Lewis and Cleary, AFR, April, 2001)

Any move by government to increase compulsory employer SGC will meet strong opposition from employers, who argue that this represents a significant tax on employment and that any SGC increase will raise unemployment.

These discussions suggest that there will be strong opposition to compulsory increases in contributions from the government and employers. Is it possible therefore, to take steps to increase voluntary contributions?

3. INCREASING VOLUNTARY CONTRIBUTIONS

The possibility of significant increases in voluntary superannuation contributions – particularly amongst low-income earners – is regarded as very limited. Growth in private wealth in Australia exists, but household savings continue to decline.

The government argues that the SG contributions were never intended to provide more than a basic benefit. The SG system provides a foundation, which should be supplemented by additional savings - whether through superannuation or other investments, according to Minister Rod Kemp. (CMSF speech, 29/3/2000)

> *"The SG and age pension provide a solid base for retirement income, but individuals can, and are encouraged to increase their retirement income further on a voluntary basis…Australians are taking an increasing responsibility for their retirement needs…People seeking greater benefits than available through SG and the age pension should be encouraged to have higher voluntary superannuation contributions as well as non-superannuation savings."*

The government argues that people should make their own decisions about the trade-off between their present consumption and their post-retirement standard of living. The government will simply provide some tax concessions to promote savings.

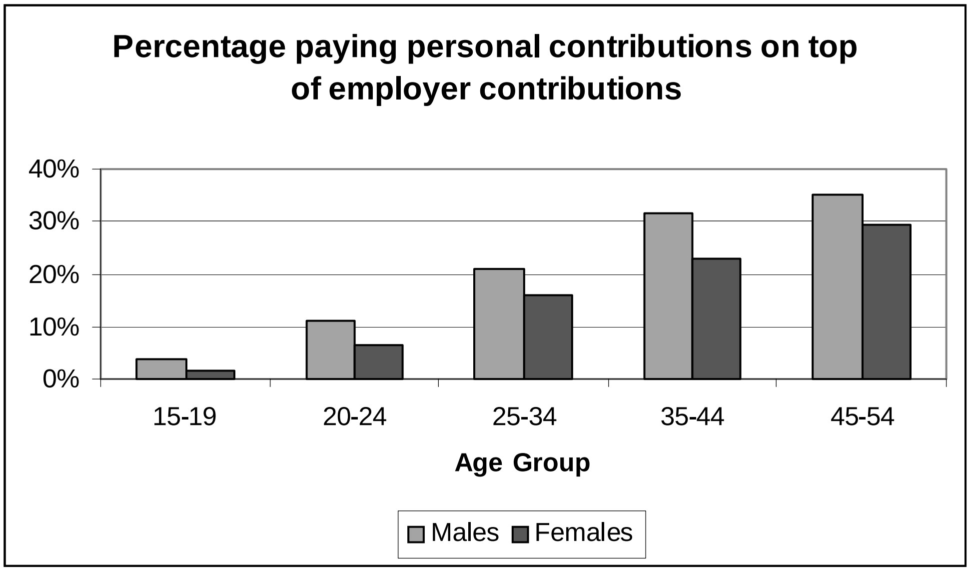
3.1 Are Australians currently saving enough for retirement?

According to superannuation industry statistics, both employer contributions and member contributions have been growing steadily in recent years. Minister Kemp points out that member contributions have doubled over the past three years. He argues that:

> "*Sustained voluntary contributions to superannuation reflect confidence in the system and also an appreciation of the tax incentives involved."*
> (CMSF speech, 29/3/00)

How many people are making additional contributions and how much are they contributing? The ABS data shows that there is considerable room for improvement – for both women and men. In 2000, only about 36% of employees made personal contributions to superannuation – and this percentage refers only to employees with leave entitlements who were not working on fixed term contracts. The percentages are much lower for casuals and those working on short-term contracts.

The number of Australians' contributing varies according to both age and salary: people contribute more as they get older and individuals on incomes between $40,000 and $80,000 contribute more than those on lower incomes. (see table below ABS 6360.0 June 2000)



This situation raises two questions:

- What factors encourage people to make additional voluntary contributions?
- Which factors prevent people from making contributions?

3.2 What factors encourage people to make additional voluntary contributions?

Many personal contributions are not entirely voluntary. Some public sector funds require members to make contributions. For example, most University staff are required to make a 7% salary contribution to Unisuper. Many of the old-style defined benefit schemes also require member contributions. However, many of these older schemes have been closed to new members and have been replaced with SG-only accumulation schemes. Therefore, this level of additional contributions may not be continued in the future.

Most funds do not compulsorily require any member contributions – they are purely voluntary – and the level of voluntary contributions is often quite low. Some funds provide a financial incentive for members to make voluntary additional contributions by offering a ‘matching’ process. That is, the employer’s contribution is linked to the level of member contributions - the greater the member contribution, the more the employer contributes. This process leads to a higher rate of voluntary contributions.

3.3 ‘Matching’ from employers

Some Australian funds already offer matching for additional voluntary contributions. This type of arrangement is most common in public sector funds, but a few company funds have similar arrangements. A study of some of the larger public sector funds found that most members would make contributions at the rate required to maximise their employer's contribution. (Ferris,, 2000)

In the United States, most 401(K) plans include some form of 'matching'. Research indicates that the level of 'matching' strongly influences the rate of participation and the level of member contributions. (See box: The Influence of 'Matching' on 401(K) scheme participation)

The influence of 'matching' on US 401(K) scheme participation

Matching schemes are relatively uncommon in Australia (apart from public sector schemes). However, they are very common in the United States. This is partly due to the tax laws. For some types of fund, the tax benefits are not available for the plan if the financial benefits are skewed in favour of high-income earners. So the plan sponsors have a vested interest in ensuring the participation of a wide range of employees.

As an example, Rank America will pay $3.00 into the fund for each $2.00 the member contributes. The company brochure states:

"Think of it as a 150% tip...
For those of you who haven't got it yet, THIS IS FREE MONEY".

Studies of contribution patterns show that many employees are very aware of matching arrangements – they contribute just enough to maximise the employer contribution. This is particularly true for younger workers (older workers tend to contribute at either the maximum rate allowed by the plan or the maximum amount they can afford)

Participants in 401(K) schemes were asked how they decided how much to contribute:

- 31% said it is as much as they can afford.
- 17% said it is the maximum amount matched by their employer.
- 11% said that it is the maximum allowed by the plan.
- 9% said the match percentage declines after this point.

3.4 Incentives to Save: Industry Educational Initiatives

Indeed, many superannuation funds in Australia have devoted a considerable amount of time and energy in attempts to persuade members to make extra contributions. Current experience demonstrates the difficulties of encouraging additional voluntary contributions under present taxation arrangements, particularly for low-income earners.

One of the largest industry funds, the Retail Employees' Superannuation Trust (REST), launched a major campaign to encourage voluntary contributions by their members – totalling over one million people – 85% are women and the majority are low-income earners. Using case studies and very clear promotional material (an example appears below) REST achieved an increase in voluntary additional contributions by employee members. Note however, that REST makes it extremely easy for members to contribute, even in very small amounts. Their publication includes an article designed to encourage even small contributions – as low as the price of a sandwich.

Increasing your super – it's a snack!

"You don't have to pay big bickies to enjoy the benefits of having super. Just by bringing your lunch from home once a week and paying the difference into REST you could add nearly $80,000 to your retirement benefit."

How successful are these type of advertising campaigns?

The voluntary contributions to REST have increased rapidly over the last five years – commendable given that many REST employees are in low-income jobs and might find it difficult to make extra contributions.

Year	Voluntary Contributions	REST members
1996	$8.359 million	20,184
1997	$9.303 million	19,756
1998	$10.952 million	21,633
1999	$17.699 million	22,176
2000	$19.958 million	29,629

However, the level of contributions and number of members contributing is low. On average, estimated voluntary contributions amount to only 0.3% of salaries. In 2000, REST received about $530 million in employer contributions, compared to $20 million in voluntary member contributions.

Other industry funds and superannuation providers – such as life offices – disseminate similar material. A number of funds also provide websites with 'Retirement Planners' to help members work out the amount of contributions required to achieve certain targets.

3.5 What are the Barriers to Saving?

If we want to encourage more voluntary contributions, we need to consider the barriers to saving. Why don't people make more voluntary contributions? The ABS asked this question and found that the most common reasons were:

- "I can't afford it." (38%)
- "I never thought about it." (18% overall, but higher for young people)
- "I belong to a fund, but I'm not eligible to make any personal contributions." (8%)

Given this information, how can we encourage women and men to save more?

A number of possibilities have been suggested:

- Co-contributions from government and/or employers.
- Improved tax incentives for member contributions.
- Educational initiatives from the government.

- Educational initiatives from employers.

3.6 Incentives to save: Co-contributions

People tend to save more if they are given financial incentives to do so. These incentives may be provided by government or by employers. Certainly, taxation incentives are essential in encouraging women to sacrifice current spending in order to put money away for preservation until retirement – savings that cannot be accessed for family or household contingencies such as house mortgages, health or children's needs.

Co-contributions from the government

In 1995, the then Federal Labor Government proposed a policy designed to increase retirement savings. Employees would be encouraged to pay up to 3% in voluntary contributions and the government would provide a co-contribution to match. The benefit would be income-tested, so that people on low-incomes would gain the greatest benefit with a 100% match. The co-contribution would be phased out for those on higher incomes.

This plan was never implemented as Labor lost the election. However, the same policy may be reconsidered if the Opposition wins power in the next election.

Other countries have also considered government co-contributions targeted at individuals on low incomes and those with family commitments.

- In Germany, the government has recently introduced a co-contribution for voluntary pension contributions. (See box: Germany's Experiment)

- Former United States Vice President, Al Gore, proposed a government scheme to encourage retirement savings with government co-contributions. However, it is unlikely to be implemented since he failed to be elected. It is nonetheless interesting as a model for government co-contributions (See box: US 'Matching Proposal).

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Germany's Experiment

Like many European countries, Germany faces a demographic time bomb. Retirement incomes are provided through a Pay-As-You-Go social security system and the population is ageing rapidly. Retirement benefits are funded by a tax on employees and employers: the tax rate was only 14% in 1957, it is now more than 20% and (without reform) it is predicted to rise to 26% by 2030.

The government considered this rate to be unacceptably high. As a result, they decided to adopt two measures:

- The level of old age pension payments would be reduced. (phased in)
- Employees would be encouraged to make additional contributions to private pension plans.

To encourage additional voluntary contributions, the government provides tax benefits and direct subsidies. The new system is being phased in and will be fully effective in 2008.

Employees will be able to contribute up to 4% of their salary into an approved pension fund. Contributors will be permitted to claim a tax deduction for their contributions and most high-income earners will do so. However, the tax deductions are not very attractive to low income-earners. Consequently, they will be given the option of a direct savings subsidy from the government.

The amount of the subsidy will depend on the level of employee contributions.
If the member contributes a full 4% of income, he or she will be entitled to:

A basic subsidy of 300 DM (per single person) or 600 DM (per couple).
An annual child allowance of 360 DM per child.

The employee may claim the benefits through the tax office, which will then pay the grant directly into the individual's pension fund.

The cost of these subsidies is expected to be about 20 billion DM.

This is a huge experiment. No one is sure what the rate of take-up will be. One analyst has pointed out that:

"The reform can only be successful in preventing old-age poverty, if especially low income earners can be persuaded to channel 4% of their income into private pension schemes. Some experts doubt, however, that this aim can be reached by incentives. They favour mandatory contributions to supplementary pension schemes."

The government has indicated that it may be forced to consider mandatory member contributions if the incentives do not create sufficiently high voluntary contributions.
(Bertesmann Foundation Report 2001)

United States 'Matching' Proposal

The United States Social Security system is also facing financial pressures – in the long-term, social security will not be able to continue providing the current level of retirement benefits. A number of proposals have been considered – including a plan to allow employees to divert some of their social security contributions into individual private accounts. President Bush favours this plan, although it is opposed by many women's organisations.

Al Gore, the former Vice President, offered a different proposal, specifically aimed at encouraging voluntary contributions from low and middle-income earners. Under the Gore plan, individuals would make voluntary contributions into investment accounts and the government would provide a matching contribution, subject to a maximum total contribution of $2000 per annum (for singles) or $4000 per annum (for couples).

The match would be at the rate of three-to-one for a low-income earner. That is, an individual earning less than $30,000 or a couple earning less than $60,000 might contribute $500 in one year. The government would then pay $1500 into the same account. The match rate would be lower for those on higher incomes, phasing out so that couples with incomes above $100,000 would receive no matching benefit.

The contributions would also be tax deductible.

Vice President Gore wanted to make it particularly easy to save. He proposed to set up procedures to allow people to make small weekly deductions, and to change income tax forms, so that taxpayers could simply tick a box to divert any tax refunds into a retirement savings account. Contributors would also be allowed to withdraw money from the accounts to meet health expenses, to buy a first home or to pay for a college education. For someone saving at the maximum rate of $2000 per annum, the total retirement income could exceed $200,000 by the date of retirement.

According to opinion polls, this proposal was more than acceptable to the public. However, it is now unlikely to be implemented.

3.7 Incentives to save: Tax Incentives for Voluntary Contributions

In Australia, the government provides tax incentives that are designed to encourage voluntary member contributions. At present, Australian low-income employees (earning below $31,000) are entitled to a rebate equal to 10% of their own contributions and subject to certain limits. The maximum rebate is $100 per annum and applies to individuals earning less than $27,000.

Theoretically, this may be equivalent to 10% ‘matching’ (since the rebate may subsequently be deposited as an additional contribution). It seems doubtful that this rebate provides enough incentive to attract significant extra contributions. Given the low level of superannuation knowledge in the community, it is likely that many people are simply unaware of this entitlement.

Superannuation investment income is also taxed at the concessional rate of 15%. This makes superannuation attractive to those on higher incomes, but the advantage is much smaller for those on lower marginal tax rates. One study (Rothman, 2000) found that superannuation was still tax effective as an investment (relative to other investments), however:

- For an individual in the highest marginal tax bracket, paying contributions by salary sacrifice, superannuation has a relative advantage of 39.5% over a 10-year term.

- For an individual in the middle tax bracket, paying member contributions from after-tax salary, superannuation has a relative advantage of only 2.3% over a 10-year term.

Furthermore, people on low incomes may be discouraged from saving due to the interaction of the social security and the superannuation systems. The Institute of Actuaries of Australia (IAA) explains the problem well:

> *"The income and assets tests, which are intended to reduce reliance on Government assistance at the time of retirement, have in fact had the opposite effect on long term plans for retirement, especially for those whose earnings are low – those below national average earnings. The broad reason is obvious – the system is set up so that the more benefit is provided through the efforts of an individual or an employer, the less is received as Age Pension provided by the government" (IAA, 1992)*

For part-pensioners, each additional dollar of income produced from superannuation, results in a 40 cents reduction to the old-age pension. Effectively, this might be regarded as a tax on savings. In the case of low-income earners, the tax incentives are small – and for many people, a small tax incentive is probably insufficient to overcome the disincentives for saving.

3.8 Incentives to save: Government Educational Initiatives

As noted earlier, many people simply don't plan for the future. When asked why they do not make any voluntary contributions, many say:

> *"I never thought about it"*
> *"I'm too young"*
> *"I'm not interested"*
> *"I can't afford it"*
> *"I'm not eligible to make extra contributions to my fund"*

These comments suggest that an educational campaign might help people to recognise the need for retirement saving. In Australia, the government seems content to rely on the superannuation industry to provide education to members. As Minister Kemp says:

> *"The superannuation industry could itself increase voluntary saving by playing a more active role in promoting the benefits of such savings to individuals".(Speech to CMSF 29/3/00)*

In the United States, government recognised the urgent need to encourage people to save – and they decided to do something about it. (See box: The SAVER Act in the USA)

The SAVER Act in the USA

The government of the United States has decided to be proactive in encouraging savings. In 1998, the US Congress passed the SAVER Act (Savings are Vital to Everyone's Retirement).

The SAVER Act initiated a series of National Summits on Retirement Savings to develop a bipartisan approach to savings education. The first was held in 1998 and brought together a wide range of public and private sector participants. A second summit is scheduled for later this year (2001).

The SAVER Act also requires the Department of Labor (DOL) to provide education and outreach on savings and retirement. The Department of Labor works in partnership with the Department of the Treasury and with 65 public and private organisations. The alliance is called the Retirement Savings Education Campaign.

The Campaign has targeted three groups who traditionally display lower participation in pension plans:

- Women
- Minority Groups (Hispanic and African-Americans)
- Small Businesses

The activities specifically directed at women include:

- Preparing brochures on various retirement issues for women (including rights on a share of the retirement savings on divorce).
- Sponsoring conferences that aim to educate women about financial issues at the grassroots level.
- Producing articles for newspapers, recordings for radio and videos for television, which are specifically targeted at women (also produced in Spanish).
- Running a website and a hotline for enquiries.
- Providing a simple financial planning tool – the "Ballpark Estimate."

As an example, they advertise their brochures to readers of "Dear Abby" – a highly popular personnel-advice column published in hundreds of newspapers across the country.

Some of their ideas are quite innovative: for example, each year they grant the Oseola McCarty Super Savers Award recognising low income wage earners who have successfully saved a large amount of money. Oseola McCarty is presented as a role model for low-income women:

> *"She quit school at age 12 and began taking in laundry for a living, never charging more than $10 per bundle. For the next 50 years, she worked hard*

and pinched pennies. When she retired she had saved more than $280,000 and she gave more than half of it to the University of Southern Mississippi for a scholarship fund."

The SAVER Act in the USA (contd)

The participants at the National Summit had expressed concern about the poor savings ethos of many young people – so the DOL decided to work with the Girl Scouts. The Girl Scouts distribute a DOL information pack that stresses the importance of starting to save early and the Labor Secretary makes speeches at Girl Scout meetings.

The DOL also works with employers. Many women who are not in pension plans work for small businesses, so the DOL offers advice to help small businesses to set up pension plans. Since many women are self-employed, the DOL decided to work with the National Association of Women Business Owners to encourage members to start savings plans.

The DOL also supports the American Savings Education Council (ASEC). ASEC regularly conducts research to monitor women's attitudes to retirement (a summary of the latest results is available at www.asec.org/media/pr125b.htm)

More information about the Retirement Savings Education Campaign is on the website at www.dol.gov/pwba/public/pubs/rstimeln.htm and at www.asec.org

3.9 Incentives to Save: Innovative Approaches

A number of methods to increase the level of voluntary contributions have been adopted overseas:

Profit Sharing

In the United States, extra employer contributions are often negotiated as part of profit-sharing arrangements. When the company does well, a percentage of profits will be directed into the pension fund. These arrangements are negotiated between the union and the employer

Taking Advantage of Inertia: "Automatic Enrolment"

Behavioural psychologists know that once a person has grown accustomed to a certain level of income, it is difficult to accept any reduction. Therefore, if you want an employee to contribute, it is better to start the contributions from day one. Following this approach, new employees are informed that the default rate of contribution is, say 5% of salaries – they may choose to pay at a lower rate, but they must actively make a request to do so. In American studies, this approach is remarkably successful in increasing member participation. One fund found that participation rates for new employees rose from 49% to 86%.

The SmartT Program for procrastinators

Most people know that they should be making higher contributions – but they put off making a definite decision to do so. This month is too difficult – the house insurance is due, the electricity bill was too high and the children need new clothes. Tomorrow always seems to be a better date to start saving – but tomorrow never comes!

Richard Thaler and Shlomo Beanrtzi are interested in the psychology of financial decision-making (which is generally much more irrational than you might expect!) They decided to apply their theories to pension funds. The result was the 'Save More Tomorrow' program (Also called the SmarT program), which relies on the human tendency to procrastinate. Here's how it works:

> *"A few months before the next scheduled pay increase, workers are invited to participate in a plan whereby a portion of their pay rise is contributed to the saving plan – say, one third or one half of their pay increase. By timing the increase to coincide with the pay increase, workers are assured that their pay check will not fall."*

Since the starting date is a few months away, most people are willing to sign up. Then inertia keeps them in the program.

In 1999, this program was tested at a manufacturing company with 315 employees. Initially, they were offered the opportunity to talk to a financial advisor to seek his advice about the appropriate level of contribution. Although most members were willing to talk to the financial advisor, relatively few (28%) took his advice. The advisor usually recommended a high contribution rate. The advisor reported:

> *"The majority of workers live pay check to pay check, and can barely make ends meet, and they tell you that immediately…. As a practical matter, when the average worker receives a recommendation from the financial advisor (recommending a high contribution rate), he or she shuts down and does nothing."*

People who rejected the financial advisor's recommendation were offered the SmarT plan – 78% agreed to go along with the plan and 80% of these participants stayed in the plan for the next three years – contributing a higher amount with every pay rise. At the end of the study, 28 months later, the SmarT plan participants were contributing at an average rate of 11.6% of earnings. Far higher than the people who had simply followed the financial advisor's advice – contributing at 8.7% on average.

The researchers concluded that:

> *"Increasing the saving rate of employees is indeed easy."*

(Thaler and Benartzi, November 2000,).

3.10 Disincentives to Voluntary Savings

One of the most significant disincentives is the preservation requirement. As of 1 July 1999, ALL new contributions, plus ALL investment earnings must be fully preserved. This may not be a problem for those on high incomes – if an unexpected loss of income is encountered, they are more likely to have access to alternative financial resources. However, for those on low incomes, the lack of access to superannuation funds may pose a serious problem. Preservation rules have the most severe impact on young people: a women aged 20 is locking away her contributions for at least 40 years.

This problem is compounded by the distrust many people feel towards the government. There is a perception that the rules have changed too often and that the government might easily decide to increase taxes on superannuation again, the next time the Treasurer needs to fill a hole in the budget.

The financial community has often tried to persuade the government to improve incentives for voluntary contributions. In October 2000, a number of organisations published a set of framework principles for the Australian Retirement System. The signatories included trade unions, financial planners, accountants, actuaries, business leaders, lawyers, superannuation trustees and fund managers. The framework principles suggested that voluntary savings should be encouraged and taxation should be designed to provide a clear incentive to save. (Framework Principles for the Australian Retirement Incomes System, October 2000, available on ASFA website www.asfa.asn.au)

4. FINANCIAL PLANNING, INVESTMENT PRODUCTS AND MAXIMISING WOMEN'S INVESTMENTS

Women have lower amounts of superannuation than men, but there are possibilities for women to maximise their existing savings. The need for access for women to leading edge, financial investment consultation and information must be recognised as an important issue – pre and post retirement. This is essential if women are to enhance the effectiveness of their economic decision-making.

Australian's superannuation funds are legally required to provide certain information, such as member booklets, annual reports and member benefit statements. However, they do not usually provide individual, financial planning advice. Indeed, legal registration requirements make it difficult for funds to do so. Some funds would like to provide more advice to members (particularly pre-retirement planning for members who are over age of 50). This is a growing area of importance for funds seeking to provide good member services and many funds are already planning to accommodate legal obstacles. (Super Funds, October, 2000)

Several studies have shown that people have little idea of the amount they should save each year in order to achieve a comfortable retirement. If they knew, they would probably save more. Actuaries have proposed that each fund ought to be required to provide projections for members to assist with financial planning. This is already a requirement for UK pension funds:

> "*There is a need to enhance employees' focus on and understanding of the value of the benefits provided by Defined Contribution plans at retirement.*
> *Many individuals now have access to projection software (on their fund's or a financial institution's or advisor's website) that can be used to estimate future benefits.*
>
> *While this is a welcome development, in our view, a more comprehensive solution would be to encourage or require each superannuation fund or provider to annually supply projections of retirement benefits on prescribed key assumptions, or access to allow members to generate such projections on tailored software. The material or software should include suitable explanations of the projections, and in particular the effect of any "inflated dollar" projections shown.*
>
> *We note that in the UK, from 2002, there will be a legislative requirement to provide annual benefit projections to defined contribution fund members on a specified set of assumptions."*(Reform of Australia's Superannuation System, by Nick Callil, Colin Grenfell, Glenn Langton, Stephen Partridge, and Colin Westman, IAAUST Convention 2001)

4.1 Improving Savings and Investment Products for Women

Major banking, investment houses and funds managers must be encouraged to develop products which are suitable and offer maximum investment opportunities for people with savings that - fluctuate across the life course, for which there are occasional breaks in contributions and for people who have lesser amounts of money to invest. People who have broken periods of savings, but who wish to have continuity in savings products must be catered for. Most of these people will be women – emphasising the pressing need for 'women-aware' products. As the amount which women have saved increases, product and investment service providers who do respond to women's special needs will be richly rewarded. Education programs offered by organisations such as the Australian Stock Exchange (ASX) could also ensure that greater attention is given to investment options for individuals with small accounts.

4.2 Financial Planning

Unfortunately, our superannuation system is so complicated that many people find it difficult – or even impossible – to make adequately informed choices. But people wish to know more about how to maximise their superannuation options – in terms of variable contributions, salary sacrificing, maximising benefits etc. The popularity of magazines, television programs such as *The Money Show*, radio programs and special money and investment sections of major newspapers, demonstrate the growing public interest in financial issues and investment. As discussed earlier, long-term financial and investment decisions are plagued with uncertainty, so that both women and men find such decisions to be fraught with confusion, difficulty and anxiety. To remedy this problem, they will require knowledge of:

- The available investments.
- The tax implications of their decisions.
- The social security implications of their decisions.

In the face of uncertainty, people put their trust in others, a social device often used by those making choices when they are unsure of the best option. As a result, when women <u>do</u> have savings, they seek professional advice.

There are a few organisations such as the Australian Retirement Income Streams Association (ARISA) and the National Information Centre on Retirement Investments (NICRI), which provide useful educational material. Many employers and/or superannuation funds also offer pre-retirement seminars for their employees. However, when making decisions, women mostly seek the advice of financial planners, investment advisers and accountants. But, according to women, there are some drawbacks (Olsberg, 2001):

(i) Good financial planning advice may be expensive and most financial planners work primarily with the wealthier members of the community.

(ii) Financial planners are mostly male and usually work with male savings projection models.

(iii) As a result, they do not take account of women's different employment patterns, career profiles or lower availability of surplus income.

(iv) Finding a good planner may be difficult. Firstly, some planners simply don't know enough to provide sound advice. Secondly, some planners seem not to be working in the best interest of the clients. Women comment they have concerns that some advisors may be:

- Recommending the product with the highest commission, even though it may not be suitable for the client.
- 'Churning' investments (i.e. encouraging people to switch from one product to another in order to generate additional commissions).

(v) Many financial planners work for financial institutions and this will naturally influence their recommendations

Governments should consider introducing legislation requiring a complete separation between financial planners and commission agents. However, there may be some difficulties in obtaining public acceptance for 'fee for service' financial planning advice in the face of seemingly, 'free advice' offered by commission agents and investment house advisors. Interestingly, many women interviewed were unwilling to pay $100 an hour for independent advice. However, they were seemingly unconcerned about $2,000 paid to the agent in up front or trailing commissions on their financial product. (Olsberg, 2001)

An education campaign encouraging people to seek independent professional financial advice before making retirement decisions is recommended in the absence of far-reaching strategies to introduce registration for independent financial planners only. From a policy perspective, it is important that:

(a) As far as possible, tax and social security rules should be simple enough for the average person to understand.

(b) Educational material should be widely distributed to people approaching retirement age, possibly through their own employers and/or superannuation funds.

(c) ASIC and other regulatory bodies should be given adequate funding to enable them to encourage and enforce high standards in the financial planning industry.

(d) Financial planners must recognise the different employment patterns and career profiles of women.

(e) Financial planners must be prepared to provide advice for people with low amounts of savings and to develop ‘no-frills’ but effective savings plans.

(f) The pressing need for more female financial planners is addressed.

Many employers and/or superannuation funds offer pre-retirement seminars for their employees. This would seem sensible, since members are accustomed to seeking advice from their superannuation fund and they often prefer to receive advice from someone they know and trust. However, there are some legal obstacles:

- APRA has issued a circular warning that provision of advice may breach the sole purpose test unless it is specifically related to the fund.

- There are legal requirement for investment advisors, i.e. advice must only be provided by properly licenced and competent people.

- Many trustees are concerned that the fund may be sued if the advice leads to financial losses.

Some funds are finding it possible to circumvent some of these restrictions, for example, by working with an external financial planner. (‘Superfunds, November 2000.)

4.3 Improving Post-retirement Products for Women

Most of our policy analysis has been devoted to the accumulation phase of retirement planning – but, of course the resulting benefits must be invested in order to last for perhaps 40 years of retirement. A retirement lump sum will be the largest sum of money owned by most Australians’ – and the decision in relation to the allocation of these funds is crucial.

Post-retirement, there are four major risks facing most retirees:

(a) Investment risks – the risk that returns on assets will be low, or capital lost through poor investment decisions.

(b) Inflation risks – the risk that wealth will be eroded by price increase

(c) Longevity risks – the risk that people will live too long, outlasting their savings.

(d) Health risks – the risk that health-related expenses will drain resources.

At present, our social security and health insurance systems (including nursing homes) provide insurance cover against all four risks.

In the United States, health-related risks are a serious problem for the elderly. Surveys show that many retirees are confident that they can meet normal day-to-day expenses, as long as they remain healthy. However, they are very concerned about the possibility of major health-related expenses. The Australian government currently provides a better level of financial support for those with health problems and/or those who need nursing home care. However, considerable concern exists in relation to the ability to maintain adequate standards of funding in the future as the population ages. If the government reduces public funding for health-related expenses – forcing elderly people to pick up the difference – the adequacy of retirement savings will inevitably affected. And of course, the majority of nursing home patients are women. (ABS, Cat 4109.0, 1999)

Longevity risk – outliving one's savings – is likely to be a serious problem for many women. ABS statistics show that when people first retire, they may derive a reasonable proportion of their income from superannuation and other investment income streams. However, as time goes by, more and more people become dependent on the old-age pension for an increasing proportion of their income. (ABS, Cat 4109.0, 1999)

4.4 Encouraging Pension Stream Products

According to some actuaries:

> "*Longevity risk is about to come of age as a serious financial problem. In the past, the most significant financial risk faced by a young family was the early death of the breadwinner. Today, the main financial risks are occurring at the other end of life."*
>
> *"Today's retirees must balance their current spending against their future financial security. The more they spend today, the greater their enjoyment of retirement but the less they will have for their future. The less they spend today, the greater their security for the future, but at the very real expense of a lower standard of living."*
>
> "*The reticence that a retiree feels for spending money, for fear of not having anything left later in life, is becoming very real and appears to be progressively more justified in the face of emerging social and demographic changes."*
> *(*'Wakeling and Andy Yang, 2001.)

A private sector product that provides protection against investment, inflation and longevity risk does exist – a lifetime pension. Indeed, in most overseas countries, people are required to take all or part of their superannuation in the form of a lifetime pension. Despite the apparent advantages, at present these products are very unpopular amongst Australians. Why?

Part of the answer is historical. In the past, taxes on pensions were much higher than taxes on lump sums – so, naturally most people preferred lump sums. Although the tax and social security rules have now been amended to remove this anomaly, the 'lump sum mentality', or as some suggest a 'lump sum mythology' persists.

Tax and social security rules have been introduced to make income streams relatively more attractive: approximately 25%-30% of lump sums are converted into income streams. Most of the money being moved into allocated pensions. Allocated pensions have many attractive features – but they do not provide any protection against investment, inflation, or longevity risks. Many people purchasing these products today will outlive their savings and fall back on the old-age pension.

Lifetime pensions provide protection: but at a price. And at present, many people consider that this price is too high. When a retiree buys an annuity from a life office, the life office usually invests the lump sum purchase price in fixed-interest investments. This reduces risk for the life office – but it also means that the annual income provided by the annuities is rather low – especially compared with the higher rates of return available on equity investments.

ARISA and IFSA are advocates for a new type of annuity, called 'growth annuity'. The lump sum purchase price would be invested in a mixture of assets, including equities that produce higher returns. A proportion of this extra return would be provided to the investor. The amount of the annual payment would vary – higher or lower (within limits) – depending on the investment returns earned on the underlying assets. Part of the investment risk would be passed on to the investor – but the payments would still be guaranteed for life.

These products are relatively common in other countries (See box: With profit Annuities Overseas). However, at present, regulations prevent insurers from offering such products in Australia, as complying lifetime pensions are not permitted to include payments that fluctuate from year to year. ARISA and IFSA have been attempting to persuade the government to amend the regulations – so far, with little effect. ('Pressure growing for new retirement products', *AFR*, 27 December, 2000; 'Industry impatient over retirement income reform', *AFR*, May 7, 2001; 'Canberra given the hurry-up', *AFR*, 7 May, 2001; 'Undercurrent of discontent on retirement income streams', *AFR*, May 22, 2001.)

ARISA argues that a change in regulations would benefit the public purse in the long run, by encouraging more retirees to invest in lump sums instead of pensions. Such a change would also promote more investment in equities, increasing the long-term returns for retirees. Hence, the level of income received over their retirement years and the level of government outlay would be reduced ('*Money Management*, October 12, 2000.) These suggestions, amongst others, for new types of post-retirement product have been forwarded to the Productivity Commission, which is currently holding an enquiry into legislation affecting the superannuation system.

It is worthwhile to observe that other countries are also considering changes to legislation, with a view to creating a more efficient, flexible annuity market – enabling individuals to choose products that are most suitable for their own circumstances. (Retirement Incomes Working Group Report, March 2000, available on www.pension-institute.org)

‘With Profit’ Annuities Overseas

Many countries permit ‘with-profit annuities’ (also called variable annuities or participating annuities). How do they work?

In most European countries, ‘with profit’ annuities are the most common type of annuity (in fact, you can’t buy a fixed rate annuity at all). The life office earns the initial annual amount of the annuity –calculated by assuming a low rate of return –. If the return in any year is higher than expected, part of the excess is applied to increase annual payments in the future. However, if the interest rate is lower than expected, the annuity is not reduced. This means that most insurers still invest in bonds rather than equities. (Blake, Burrows, and Orszag, 1999)

In the United States, there are a few extra features available:

- The customer deposits a lump sum with an insurance company.
- The customer can specify the asset mix for his or her investment.
- The payments are guaranteed for life, but the annual payment will vary from year to year, depending on investment performance.
- To protect against the risk of adverse investment performance, the customer can buy a guarantee: for example, the minimum payment may be set at 80% of the amount paid in the first year. The customer can choose the level of the guarantee, depending on his or her own risk preferences. However, the higher the percentage, the higher the fees charged by the life office.
  (Cybulski, undated, www.insure.com)

Another type of variable annuity is called the CREF annuity (because it is sold by the TIAA-CREF organisation in the USA). This type of annuity allows the annuitants to share both the investment risks **and** the mortality risks. Basically, the survivors profit if their fellow annuitants die off more quickly than predicted! (Salvador Valdes-Prieto, World Bank, February 1998)

Variations of 'with profit annuities' are also available in England, Argentina and Singapore. (Palacios and Rafeal Rofman, March 2001, James and Vitta, World bank website, September 1999)

4.5 Unisex Pensions

When pension benefits are provided by the state, the pensions are usually unisex. Men and women who make equal contributions will receive equal pensions. As women live longer (on average), the value of a woman's total lifetime benefit is likely to exceed the value of a man's benefits. Essentially, unisex pensions provide extra protection against longevity risk.

In Australia, our second and third pillars are privately run, primarily on a defined contribution basis. If women seek protection against longevity risk, they must take their lump sum benefits and buy an annuity from a life office – and these annuities are generally offered using gender-based rates. As we noted in Section One, this means that a female will have a much lower retirement income than a man, even if the same lump sum has been accumulated.

Under the Sex Discrimination Act, gender based annuity rates are permissible, because they are based on objective actuarial data. It has been suggested, from time to time, that the Sex Discrimination Act should be amended to ensure unisex rating for annuities.

After all, many other countries have unisex pensions, including Canada, the USA, the UK and most members of the European Community. However, the unisex requirements often only apply to annuities that are provided by employer-sponsored pension plans. Since the benefits are provided as part of remuneration, they are covered by equal pay legislation (Ferris, 1997).

In the UK, the Equal Opportunities Commission has recently proposed an extension of the unisex requirements to cover all annuities – even those purchased from private retirement savings, such as stakeholder pensions. ('Annuity Rules Attacked as Unfair to Women', by Robert Budden, *Financial Times*, April 3, 2001; 'To Have and Have Not: Women are Widely Discriminated Against by Providers of Financial Services', by Patrick Jenkins and Robert Budden, *Financial Times*, April 14, 2001.)

However, life offices argue that gender-based ratings are not only fair – they are a necessity. If unisex annuities were offered, they would provide a poor deal for men – so men might decide to take a lump sum benefit instead of buying an annuity. On the other hand, unisex annuities would be a good deal for women – so women would be more likely to buy such annuities. To protect themselves, life offices would probably assume that most customers would be females – and hence, the 'unisex' annuity rate would be close to the rate for females. Therefore, females would derive little benefit from unisex rates in the longer term. This is called the theory of adverse selection (i.e. only those with the highest longevity risk would select the annuity alternative).

Now adverse selection is most likely to occur when retirees are given a choice – when they may choose between a pension and a lump sum. When pensions are compulsory, adverse selection is not an issue. Hence, the introduction of unisex pensions would be more feasible if pensions are compulsory.

At present, life offices would strongly oppose the introduction of unisex pensions (and indeed they have done so at various HREOC inquiries in the past). Although there are certainly those who would not accept the arguments presented by the life offices, it is questionable whether the introduction of unisex pensions would greatly improve the retirement incomes of Australian women – lifetime pensions are not at all popular in Australia and relatively few people purchase them.

New products for releasing equity are needed

Clearly, there is a pressing need for new financial products to assist Australians in managing their finances in old age. Olivia Mitchell and Zvi Bodie describe a selection of these innovative products. ('Mitchell & Bodie, 2000)

As an example, consider the problem of an elderly couple: they own their own home, but their income is derived from meagre savings plus the old age pension. Suppose that they wish to increase their expenditure. They might be able to achieve this by selling their home, moving to a unit and then investing the difference. However, many are very reluctant to do so.

Under the Department of Social Security's Pensions Loans Scheme, Australian pensioners can arrange a loan. A part-pensioner can 'top-up' his or her pension payments – up to the level of the full age pension – by borrowing from the government. These reverse mortgage products are also available from some Australian financial institutions, but are not aggressively marketed. In the UK and the USA, similar products are also available from financial institutions. In the USA they are known as ‘Reverse Annuity Mortgages’ and in the UK they are known as ‘Equity Release Schemes’. These products have achieved some market success in these countries.

5. SUPERANNUATION SHARING

The Women's Action Alliance (WAA) has put a proposal forward that has received widespread support throughout the community – from financial service and investment organisations and from some women's and community organisations. This strategy calls for further amendment to the current structure of superannuation to allow those not in the paid workforce to accumulate superannuation assets in their own name. The extension of spouse contributions would be complemented by a provision allowing an employee to enter into an arrangement with his/her superannuation fund to contribute regularly to the scheme on behalf of his or her spouse with little additional cost. Effectively, the earning spouse's SGC would be split into two memberships, one in his or her name and the other in the name of the non-earning partner. Any additional employer contributions could be similarly split between the two memberships. Existing tax benefits would apply to each membership, as contributions are made and at the time of dispersal.

Such a strategy:

- Enables the superannuation accounts of women to be kept active while they are out of the paid workforce.
- Provides women in the unpaid workforce with death and disability insurance.
- Gives the single income family the ability to eliminate the taxation disadvantage, as two superannuation schemes would be entitled to two tax-free thresholds.
- Ensures some provision for the wife should the marriage breakdown at a later date. While the husband may discontinue payments after a marriage break up, the money already in her account would be preserved until retirement. This may avoid the necessity for dividing superannuation interests at the time of divorce.
- Acknowledges that women caring for their families are full-time workers, albeit unpaid. It accords them one of the non-wage benefits that other workers receive.
- Gives women a greater awareness of their superannuation assets, as they would receive their own regular account statements. This would also serve an educative function.

Another model that has been proposed by Women in Super would be for an earning spouse to contribute 3% of his or her superannuation into the non-earning spouse's name. This could be topped up with a contribution by the government of 3% of Average Weekly Earnings, giving both partners 6%. Women in Super believes that this provision should be restricted to those in receipt of the Additional Parenting Payment or a Carer's Payment.

6. REDUCING TAXES

So far, we have considered ways to increase the amount flowing into superannuation funds. But of course, final benefits would increase considerably if we could only persuade the government to reduce the amount of tax that is taken out.

Most employees are eligible for 9% SG contributions – but the government immediately takes 15% of this amount in contribution taxes – or even more if the worker falls into the surcharge net. Therefore, the net contribution is only 7.65% of salary, at best. ASFA estimates that this contributions tax amounts to about $2.5 billion.

At the very least, the first 15% contributions tax on superannuation contributions paid into a person's fund should be concessionally taxed – or even eliminated altogether – for those with below average incomes. A large proportion of Australians who would benefit from such a tax reduction would be women. Thenceforth, they would have more money accumulating long-term returns in their superannuation accounts.

ASFA has advocated the removal of the contributions tax. The arguments in favour of this proposal, as presented by ASFA, are as follows:

(i) It would simplify the tax system.

(ii) It would improve the adequacy of retirement savings. For someone on Average Weekly Earnings for 30 years, the lump sum benefit would increase by about $55,500, corresponding to an increase in annual retirement income of $2,700 per annum.

(iii) Since the end benefits would be higher, some of the foregone tax would be recouped when the benefit is paid. Economists agree that taxation of benefits is more equitable than a contributions tax.

(iv) The government would initially receive lower tax revenue, but revenue would increase in the future (along with reduced social security costs) Demographic projections indicate that the government will need more money in the future in order to cope with the ageing population.

(v) It involves no cost to employers and would have no inflationary impact.

This tax change would cost the government about $2.5 billion, which is approximately equal to a $6 per week tax cut for someone on Average Weekly Earnings. ASFA's public opinion surveys suggest that most Australians are concerned about the adequacy of their retirement savings and would prefer a reduction in superannuation taxes, instead of a reduction in income taxes. (ASFA, 2001.)

7. REDUCING FEES & CHARGES

Administration fees and charges diminish superannuation savings. The impact of such charges will affect women disproportionately – firstly because they hold small balances and secondly, because they are likely to have multiple accounts.

The government has already taken steps to ameliorate the impact of fees and charges on small accounts. The SIS Act now includes member protection rules that limit the administration fees for accounts with balances below $1000 – the fee should not usually exceed the investment earnings credited to the account for the year. Effectively, this situation forces the larger accounts to bear a higher share of the overall administration costs.

The government also introduced Retirement Savings Accounts, which are intended to provide a low-cost, low-risk alternative for retirement savings. RSAs were only introduced in 1997, and as yet they only account for a small proportion of the overall market (less than 2%).

Administration fees are multiplied if members have several accounts and the transfer protocol has been introduced to simplify the amalgamation of member's accounts. Portability also helps to minimise the incidence of multiple accounts. Members of industry funds can generally keep contributing to the same fund, even when they change jobs.

Other countries have also developed new products to solve these problems – for example, Stakeholder Pensions have been introduced in the UK (See box: Stakeholder Pensions)

Stakeholder Pensions in the UK

The UK pensions industry has suffered through some difficult times over the last decade – particularly in relation to the pensions 'miss-selling scandal'. Life insurance companies (providers of personal pensions) have experienced a great deal of negative publicity and some criticism has been directed at the high level of charges embedded in many life office products.

As a result, the UK government decided to introduce a new type of product called a stakeholder pension. The main features of this product are:

- The annual administration charge must not exceed 1% of the member's account.
- Members must be able to transfer in and out of a stakeholder pension, or stop paying for a time, without facing an extra charge.
- You may contribute when you are not working, or someone else may contribute on your behalf.

- All stakeholder pension schemes must accept contributions of £20 or more (some may even accept smaller payments).

- Stakeholder pension schemes must be run in the interests of the ir members.

Many employers will be required by law to offer their employees' access to a stakeholder pension scheme – this applies to any employer with more than five employees, who does not provide an adequate company occupational pension plan. (Department of Social Security Website www.dss.gov.uk, and Pensions for Women, Trades Union Congress, March 2001)

Although stakeholder pensions clearly have many advantages for women, the UK regulator has expressed some concerns. The cap on administration fees will put pressure on providers to cut costs, which may result in a lower level of service. Women may find it more difficult to obtain advice and assistance. (Financial Services Authority Consumer Research Report #7, April 2001)

Financial institutions might make a loss on some customers – for example, administration costs may exceed fees for customers who make frequent small deposits. If so, the financial institutions may decide to dispense with these unprofitable customers – there are many ways of making a customer feel unwanted.

8. INCREASING FEMALE WORKFORCE PARTICIPATION

If women spend a longer period of time in the paid workforce and work longer hours, their superannuation savings will inevitably increase. This is difficult to achieve for many women whose family responsibilities continue to demand their time. Clearly, this problem will be alleviated if women have smaller families, or even no children at all. And in the absence of any better solutions, it is likely that many women will choose this option – in fact they are already doing so. High-income earning female employees are already making that choice according to a recent *Australian Financial Review* survey. (*AFR*, July 27, 2001)

Additionally, jobs may not be available and affordable and accessible childcare is also a consideration. The possibility of increasing female workforce participation depends upon the adoption of genuinely 'family-friendly' policies in the workplace. Such policies include flexible working hours, part-time work, job sharing, home-based work, career breaks, leave for people who need to care for family members, paid maternity leave and paternity leave. While extension of fully paid maternity leave may be difficult, the provision of continuity of employer contributions of SGC for women on maternity leave would be a welcome and economically viable option.

Many mothers do not want to work. Most Australians believe that mothers should stay at home to look after children when they are young – because this is in the best interests of the children.

> *"Surveys conducted this year by Mariah Evans and Professor Jonathan Kelley from Melbourne University show only 25% of people believe women with children*

under six should work part-time, with 6% supporting full-time work for these mothers. The majority view seems to be that mothers are contributing to human capital by caring for their children..” (SMH, 21/6/01)

Surveys confirm that most women with young children do not want to work longer hours – in fact, many stated that they would prefer to be working shorter hours or to be out of the workforce entirely. (‘Glezer & Wolcott, Australian Institute of Family Studies Briefing, 4 September 1997). Working mothers report high levels of stress, as a result of trying to juggle family responsibilities and workplace demands. The ABS time-use study found that 53% of parents with dependent children reported that they were always or often pressed for ti me (ABS Cat 4153.0, 1997) Qualitative studies report similar findings – working mothers are just plain exhausted. (Pocock,2001)

If women are to spend more time in paid employment, we can either:

- Encourage women to have fewer children, or
- Make it easier for women to combine paid work and family responsibilities.

8.1 Fewer Children?

It seems that more Australian women are deferring childbirth and reducing family size, in order to increase participation in the workforce. The average age at which women have their first child has increased, fertility rates are falling and according to demographers’ projections, a high proportion of women will never have children. A HREOC report suggests that:

“Low fertility is not the result of people rejecting the idea of having a family in principle. Rather, it suggests that the failure of workplace practices to accommodate the realities of pregnancy and family responsibilities affects the decision to have children.” (National Pregnancy & Work Inquiry, 1999)

Well-educated women with good career prospects, have the most to lose – financially – from motherhood. One study followed a group of high school graduates: when leaving school, they had high expectations about the number of children they wanted. Subsequently, the reality fell short of expectations: the average number of children was roughly half the number originally desired. The shortfall was greater for the women with higher levels of education. This pattern is consistent with evidence from Europe and the United States. (National Pregnancy & Work Inquiry, 1999) Is this a satisfactory solution?

Of course, a smaller family might help a woman to achieve greater retirement security; but on the wider scale and in the long run, lower fertility rates will only exacerbate the problem of an ageing community.

Based on international data, fertility rates are linked to the economic cost of child rearing. Scandinavian countries provide a greater level of financial support for parents and they maintain higher fertility rates. In southern and eastern European countries and Japan, there are relatively fewer adjustments to allow women to combine work with family responsibilities - and fertility rates are lower (National Pregnancy & Work Inquiry, 1999)

8.2 Family Friendly Workplaces?

Women will have access to higher retirement incomes if they are able to increase their workforce participation rates after having children – that is, they return to work sooner and work longer hours.

At present, it is very difficult to combine family responsibilities with paid work. Most women who try to do so find it rather an exhausting task. In some other countries, female workforce participation is much higher than that recorded in Australia – why? Perhaps, it is because these nations make it much easier for women to combine motherhood with paid work. (See box: Sweden)

Case Study: Sweden

In Sweden, a number of policies that encourage women to have children and to combine paid work with family responsibilities, have been adopted. Ann Crittenden describes the situation of a Karin, the Swedish mother of a 12-month old child:

The government provides paid parental leave for the first year of a child's life – in the case described by Crittenden – Karin received a weekly cheque from the government equal to 75% of her former salary. After returning to work, Karin would return to her old job, but working an 80% schedule working hours. This is the legal right for any parent with a child under the age of eight. Working hours are also very flexible.

The government has a policy of ensuring access to high quality childcare for all. They pay part of the cost of child-care for low-income families.

The Swedish system also encourages fathers to be more involved in caring for their children: Fathers are given ten days paternity leave when a child is born. Also, fathers can share in the care of the child during the first year. The government provides a total of 12 months paid leave, which may be shared between the father and the mother. Initially, men were slow to take up this opportunity – so in 1994 the rules were changed. One month of the 12 months paid leave is only available to the father, not the mother. Since then, most fathers take at least one month of paid leave during the first year of their child's life at 80% of pay. Fathers also have the legal right to work part time - the parent of any child under age 8 can work on an 80% schedule.

What is the result? Female workforce participation rates are very high.

"By 1986, more women were combining paid work and motherhood in Sweden, than in anywhere else in the world. Some 90% of mothers of children under age 16 were working outside the home. The proportion of women quitting their jobs after childbirth fell to less than 10%. Among university educated Swedish men and women, the rates of participation in the labour force are now virtually the same."(Crittenden, 1999, 247)

Men are performing more of the unpaid work, reducing the burden on working mothers. Time-use studies confirm that Swedish men participate in unpaid work to a degree unmatched anywhere outside Scandinavia.

If we want to increase female workforce participation, we must ensure that workplaces adopt ‘family-friendly’ policies such as flexible working hours; part time work; job sharing; home based work; career breaks; leave for people who need to care for family members; paid maternity and paternity leave.

The introduction of family friendly policies is likely to lead to an increase in female workforce participation, which may be good for employers as well as employees:

> *“One large enterprise noted that, after the implementation of a comprehensive parental leave policy, including paid maternity leave and flexible work practices, its retention rate for staff taking maternity leave increased from 52% in 1995 to 94.5% in 1998.”* (National Pregnancy & Work Inquiry, 1999)

Our legislation does recognise the need to protect parents. For example, the Workplace Relations Act (WRA), states that employers may not generally terminate the employment of an employee for reasons involving family responsibilities. However, in practice, the WRA might not lead to any improvement in the workplace. Under the new law, many workplace issues are excluded from awards and must be determined by enterprise bargaining or Australian Workplace Agreements.

Other countries are placing a high priority on the development of ‘family-friendly’ policies. In the UK, the government has just published a Green Paper entitled *“Work and Parents: Competitiveness and Choice”*, to promote discussion. (www.consumers.gov.uk).

8.3 Maternity Leave and Child-care

Women are more likely to stay in the workforce if they have paid maternity leave and affordable, quality child-care for young children. If child care is too expensive, many mothers will decide that it is simply not worthwhile to return to work.

The recent introduction of paid maternity leave by the Australian Catholic University (August15, 2001) opens the way for these demands across the paid workforce. The newly appointed Sex Discrimination Commissioner, Pru Goward, has announced an inquiry into maternity leave provisions and is calling for submissions. Westpac and some other large employers report the financially beneficial effects of such family friendly policies. At the very least, women should be entitled to continuing SGC contributions from their employers while they are on maternity leave.

How does Australia compare to the rest of the world? (see box: Maternity Leave? International Comparisons)

Maternity Leave? International Comparisons

The following information is taken from a recent OECD report *(June 2001))*

Maternity Leave: With the exception of Australia and the US, mandatory job-protected and paid maternity leave provisions exist in all the countries reviewed by the OECD. The United Nations Convention on the Elimination of All Forms of Discrimination includes a requirement for paid maternity leave – Australia signed the convention, but with the proviso that paid child-care would not be provided. (The government argued that it would be too expensive for employers).

Across OECD countries, the average duration of parental leave is 44 weeks (10 months), with paid leave lasting an average of 36 weeks. The latter period typically includes 14-16 weeks of paid maternity leave supplemented by other forms of parental leave. Benefits are typically funded by a combination of social-insurance funds and general tax revenue and may be supplemented by employers, either voluntarily or as a result of collective bargaining.

The USA is one of the few countries that provides worse benefits than Australia – at least Australia provides 12 months of unpaid leave. In the United States, the law only allows 12 weeks – and this law was only passed after years of delay – overcoming very strong opposition from employer groups.

In Australia, the ACTU supports the introduction of 14 weeks paid leave, and the Sex Discrimination Commissioner, Ms Pru Goward, has announced that she intends to give a high priority to provision of paid maternity leave in the near future, (SMH, 8/8/01). However, a Government spokesperson has stated that the Government does not believe that paid parental leave should be legislated. (SMH, 15/8/01)

Paternity Leave. In Belgium, Denmark, Norway, Portugal and Sweden, fathers are legally entitled to paid paternity leave.

Child Care: In several countries, access to early childhood education is a statutory right from age three (or even younger). The trend in all countries is towards full coverage of the three to six year old age group. Only one-third of Australia’s three-to-five year olds attend pre-school, compared to an OECD average of 60%. *(*Horin, *SMH* 11/8/01).

In almost all countries under review, the government pays the largest share of costs, with parents covering 25% to 30%. The two or three years of ECEC prior to compulsory schooling are often free.

Australia spends just 0.03% of its GDP on formal preschool education, with only two of the OECD’s 30 member countries – Ireland and Turkey – spending less. Britain spends

0.42%, the United States spends 0.36% and Denmark ranks the highest with 0.90%. (Dunn, The Age, 14 June 2001)

9. ENCOURAGING WOMEN TO STAY LONGER IN THE PAID WORKFORCE PAST NORMAL RETIREMENT AGE

If women have not saved enough money to provide a comfortable retirement, then they might decide to keep working long after the standard retirement age.

The New York Times recently reported on a new phenomenon:

> "**Lacking Pensions, Older Divorced Women Remain at Work"**
> **(*New York Times*, by Louis Uchitelle, 26 June 2001.)**
>
> *"Hundreds of thousands of women in their 60's, part of the surge of divorces that started a generation ago, are finding themselves forced to stay in the workforce because they lack sufficient money to retire. Wages in effect are becoming their pensions.*
>
> *Women alone in old age have always been at greater risk of falling into poverty than married women. But until recently, women alone generally meant widows, who at least had the pensions and savings their husbands had left them, and a tradition of living with children. Widows greatly outnumbered older divorced women until the late 1990s, but now for the first time the divorced outnumber the widows.*
>
> *The only advice I can give to divorced older women is to keep working, for as long as they can", said Cindy Hounsell, executive director of the Women's Institute for a Secure Retirement.*

9.1 Working Longer

Many experts argue that an increase in the average retirement age is the ideal solution to the problem of ageing. Ageing populations cause difficulties, because the ratio of dependents to workers increases – this imposes a strain on PAYG social security systems. However, if we can reduce the number of dependents, while increasing the number or workers, the dependency ratio is reduced. In other words, we will have more money and fewer pensions to pay – hence the budget will be balanced. (Some Canadian actuaries have already developed the necessary model for projecting the increases in retirement age -Brown, Damm, and Sharara, 1999)

The OECD is a strong advocate for increases in retirement age and they suggest the following principles for action should be adopted:

1. Public pension systems, taxation systems, and social transfer systems should be reformed to remove financial incentives to early retirement and financial disincentives to later retirement.

2. A variety of reforms will be needed to ensure that more job opportunities are available for older workers and that they are equipped with the necessary skill and competence to take them on.('Maintaining Prosperity in an Ageing Society', OECD, 1998.)

Many of these suggestions, designed to slow and reverse trends to early retirement, have already been implemented overseas (See box: Reforms for an Ageing Society.)

Reforms for an Ageing Society: Changing Social Security

How can the government encourage people to stay in the workforce longer? Some of the options are:

Increase the eligibility age for old age pension benefits: Japan, the UK, the USA, Belgium, Finland, Portugal, Greece, Hungary, Korea and Switzerland have all increased the pension eligibility age in recent years

Make it harder to retire early, by way of unemployment benefits: When unemployment is high, the government may be happy to help older people leave the workforce by allowing them to claim a pension earlier than the normal retirement age. These benefits have been eliminated in some countries such as Germany, Austria, Denmark and Poland

Make it harder to retire early, by way of a disability pension: In the UK during the 1990s, invalidity benefits were claims by almost one quarter of all men who were within five years of pension age – in effect, it was an early retirement pension. The UK has now made it much harder to qualify, reduced the benefit and introduced rehabilitation and back-to-work programs for those over aged 55.

Introduce phased retirement: Encourage older people to keep working part-time after normal retirement age. Governments may provide financial incentives to the workers or to their employers to encourage this. These programs have been adopted in Belgium, Germany, the Netherlands, Luxembourg and Spain.

Increase old age pensions for people who defer claiming: For example, in the USA, for each year you delay claiming Social Security benefits, your benefit increases by 7%
(Reforms for an Ageing Society, OECD Report, 2000.)

Our own Prime Minister has spoken in favour of delayed retirements.

"Australia soon won't be able to afford having all it's over 55s simply putting their feet up.... For social as well as economic reasons, our response (to demographic changes) must include greater use of the skills and experience of the

increasing number of Australians over 55 - Australia's gold collar workers". ('Too soon for boomers to slip their 'gold collars', John Howard, *SMH* 2/8/01.)

Indeed, his comments are entirely consistent with the conclusions of the National Strategy for an Ageing Australia:

"Longer participation by mature age workers will bring a range of economic and social benefits to the Australian community" (November 1999.)

Experts advise that both women and men need to be assisted and encouraged to stay in the paid workforce after normal retirement age. A number of measures have already been adopted to encourage people to remain in the workforce longer:

- The pension eligibility age for women has been increased from age 60 to 65 (subject to transitional phasing in arrangements).

- Preservation rules have been changed, restricting access to superannuation savings prior to age 60 in the future (subject to transitional phasing in arrangements).

- A Pension Bonus Scheme was introduced, which pays a bonus to people who continue working even after attaining pension eligibility age (subject to certain conditions). However, the scheme has not been very successful, with quite a low take-up rate.

- Job placement agencies receive higher levels of funding when they assist people who are difficult-to-place, including older workers.

There is of course, one hitch – people can only work, if they can find a job. And this might not be easy. Although unemployment rates for older workers are relatively low, many of the people in this category are long-term unemployed. Furthermore, the true level of unemployment may be higher than that indicated by official statistics. Many older workers have simply given up looking for work: these people are classified as discouraged job seekers, but they are excluded from unemployment totals.

How can we assist older people who want to work? In the National Strategy for an Ageing Australia, a number of initiatives were suggested:

- Strengthening laws to prevent age discrimination and compulsory retirement.

- Educating employers about the advantages of employing mature workers.

- Offering re-training schemes to help older workers learn new skills.

- Extra assistance and funding to help older, unemployed workers find jobs.

- Encouraging "lifelong learning."

Many of these suggestions are consistent with OECD recommendations, and indeed they have already been adopted in many other countries. However, to a large extent, retirement ages are affected by economic conditions: when demand for labour is strong, older workers can find jobs. When times are tough, older workers may be the first ones to be shown the door: so even if they don't have enough money saved for retirement, they may not be given the option to continue working.

9.2 Phased Retirement And 'Bridge Jobs'

In the past, many people were employed one day and retired the next. More recently, many people are retiring from work gradually. They might change to a less demanding job (known as a 'bridge job' in the USA), or switch from full time to part-time employment. Many leave full time employment, but continue to work on a contract or casual basis.

This may present challenges for superannuation policy. For example:

- At present funds may not accept contributions for people above certain ages. Should this barrier be removed?

- At present employers are not required to make SG contributions for workers above specified ages. Should this threshold be increased?

- At present funds are required to pay out benefits to people who are no longer working at least 10 hours per week – but this is very difficult to manage if people are working on a casual basis.

These rules appear age-discriminatory. It would appear that the government does not want to allow superannuation funds to be used for tax planning and estate planning purposes (i.e. to defer tax or avoid tax entirely).

10. ADJUSTING THE SOCIAL SECURITY SYSTEM

Social Security is a woman's issue.

In Australia, older women depend, to a greater or lesser extent, on social security benefits such as the old-age pension – and this will continue to be true in the foreseeable future. Therefore, maintenance of an adequate level of social security benefits is essential for women. Ideally, the social security system could be used to redress some of the inequities of the earnings-related retirement system described in the first section of this paper.

Australia's retirement incomes system is somewhat unusual, compared to many overseas countries. Our second tier – the compulsory, earnings-related component – is provided by the private sector through the Superannuation Guarantee System. In other countries, the second tier is a state-run, defined benefit system. Employees and employers make contributions via a payroll tax and the state promises to provide retirement benefits.

Now this type of state-run system has an important advantage. Benefits may be adjusted to transfer retirement savings from one group to another in order to meet social objectives. Often, these transfers benefit women. For example:

- Carer’s benefits: higher benefits are provided to those who have been outside the paid workforce, while looking after children or disabled people.

- Unisex pensions: when pensions are provided on a unisex basis, women receive greater protection against longevity risk.

- Spouse benefits: benefits for married couples are higher than for single people, even when both have made the same contributions into the social security system.

- Widow’s benefits: women who survive their husbands may receive a benefit based on their husband’s earnings (which is often higher than the benefit earned by their own contributions).

In several countries, women’s groups have been lobbying for better social security benefits for women. As an example, in the United States the National Council of Women’s Organisations has produced proposals for reforms to the US Social Security System (See box: Strengthening Social Security for Women in the USA)

Strengthening Social Security for Women in the USA

The US Social Security system is under review. As a result of the ageing population, the fund is likely to face a shortfall within about 30 years unless action is taken now.

The National Council of Women’s Organisations (NCWO) is concerned about some of the proposals for reform, as these changes may adversely affect many women. They have developed counter-proposals, suggesting changes that are needed to provide better protection for women. (Strengthening Social Security for Women, NCWO Task Force, July 1999, available on www.women4socialsecurity.org)

Privatisation: The Bush government suggests partial privatisation of retirement savings: workers would be allowed to divert part of their Social Security contributions into private savings accounts. The NCWO opposes this suggestion. Even partial privatisation of retirement savings would undermine the existing system, which is highly progressive. In other words, partial privatisation would make it more difficult to transfer funds to the most needy members of the community. [Note: others agree that privatisation is likely to have negative effects on women – see Superannuating the Second Sex: Law, Privatisation, and Retirement Income, by Dimity Kingsford Smith

Investments: The Bush proposal suggests that an increasing proportion of funds should be invested in high-return assets such as shares.

Across the Board Reductions: Some have suggested an across-the-board cut in benefits and/or a reduction in inflation adjustments. This would adversely affect the most vulnerable members of society, including many women (62% of people on the lowest level of benefits are women). Instead, the NCWO argues in favour of an increase to the minimum benefit levels, i.e. making the system more progressive.

Widows: The NCWO noted that the majority of the elderly poor are widows and that their economic position tends to worsen as they age. They suggest that the survivor's benefit should be increased to 75% of the married couple's joint benefits.

Divorced Women: At present, divorced women are entitled to a pension equal to 50% of their ex-husband's benefit – but only if the marriage lasted at least 10 years. The average duration of a broken marriage is now less than seven years. As a result, many women will receive no Social Security benefits for the years they were married, even if these years were spent out of the workforce, looking after children. The NCWO suggested that the amount should be increased and made available, even when the marriage lasts less than 10 years.

Family Service Credits: The spouse benefit is designed to provide support for women who stay home to look after children, by providing them with a benefit that amounts to 50% of their husband's pension. But this assumes that the child-carer is financially dependent on a husband – clearly this system does not work well when the child-carer is single or divorced, or in a same-sex relationship. Hence, the NSWO proposes that it would be better to provide a Family Service Credit, quite independent of the spousal benefit, for people looking after young children or disabled dependents.

10.1 Carers' Benefits

In some countries, the social security system already recognises the contributions of women in caring for young children and the disabled, by giving credit for carers (See box: Carer's benefits in the UK and Canada).

The rationale for such benefits is:

> *"Although women (and some men) who choose to be homemakers or care for children are not compensated monetarily, many people feel that these duties are important social activities that contribute to the overall well-being of society and should be classified as 'work'.* ('Brown, NAAJ, October 2000.)

It is difficult to see how Australia's superannuation system could be changed to give explicit recognition to the contribution made by mothers – this is one of the drawbacks of our privately run system.

The contributions of those not participating in the paid workforce because they are caring for others, needs to be recognised. There are 1,306,200 female carers in Australia, 317,000 of these women are primary carers. But only 57,190 carers are of working age and formally out of the paid workforce and therefore, receiving a government-provided Carer's Payment (only 0.3% of Australia's population). A majority of those are women. Immediate SGC contributions, paid by the government and additional to the Carer Payment, could provide a means of rewarding caring services.

Or perhaps, a system of credit bonuses could be developed. A credit bonus scheme would allow people out of the workforce caring for others to accrue additions on a pro-rata basis to top-up their age pension. So that, for example, someone who spent their entire working life performing necessary (but unpaid) work would have some additional entitlements when they receive the age pension.

Carer's benefits in the UK, Canada, and Germany

In England, the level of social security benefits depends on the number of qualifying years (i.e. years of contributions into the National Insurance Scheme). The full rate of basic pension will only be available to people who have made contributions for 44 years. Of course, many women fail to meet this requirement because they are not working and hence, not making any contributions.

To overcome this problem, the government introduced Home Responsibilities Protection. Suppose a woman is out of the workforce for ten years, looking after children under the age of 16, or looking after a disabled person. Then she will be able to claim a full basic pension with just 34 years of contributions (44 years – 10 years = 34 years). However, she must contribute for a minimum of 20 years.

The UK government has recently introduced a new State Second Pension, the S2P (on top of the basic pension). Entitlement to the State Second Pension also depends on the number of years of contributions and the level of earnings. The government has decided to give credit to mothers looking after pre-school children or disabled people: they will be treated as if they had earned £9,600 per annum, even though they actually earned nothing.

In Canada, the Canada Pension Plan (CPP) provides earnings-related benefits on top of the basic old-age security pension. Once again, full benefits are only available to people who work for 40 years. But people who stay at home to care for children under the age of seven are entitled to the benefit; the number of years required for full benefits is adjusted downwards (this is called the 'drop out' provision).

In Germany, the social security system is also earnings related, with points awarded for each year of contribution – however, there is a family credit: parents who stay at home to look after a child may be credited with points for the first three years. (The German Pension Reform, by Christel Aranda-Hassel, Sept 2000 , Credit Suisse First Boston Economics Research Report)

The United States, Canada, and Germany have all considered changes to their systems as a means to improve benefits for mothers. Various approaches have been considered: some favour rather complicated modifications to benefit calculation formula; others argue that pension credits should be split evenly between husbands and wives. (The proposals are too complex to cover here, but a useful summary is contained in Robert Brown's paper, 'Including Homemakers in Social Security', *North American Actuarial Journal,* October 2000.)

11. PROTECTING WORKERS' ENTITLEMENTS TO SUPER

Rates of non-compliance (employers failing to contribute SGC on behalf of employees) particularly affect employees of small businesses and part-time and casual workers. Women are over-represented in these categories. Also, there has been much discussion concerning the preservation of workers' entitlements when companies cease operation. The possibility of tightening up the requirements ensuring that employers regularly make contributions for all employees into superannuation funds must be investigated. Then, if and when a company ceases operations, at least employees' superannuation entitlements would be protected.

12. INCREASING WOMEN'S ROLE IN THE GOVERNANCE OF AUSTRALIA'S SUPERANNUATION & RETIREMENT INCOMES SYSTEM

Almost 90% of women in the paid workforce have superannuation, but the role of women in the governance of Australia's superannuation system is very low. While the growth of superannuation as a new industry sector has provided opportunities for many women in superannuation fund administration and investment – little increase has been recorded in the numbers of women representing employers and employee members as trustees of superannuation funds. In some national funds (some with a majority of female members), there are no female trustees or, at best, one or two women sitting on boards of 10. Back in 1991, less than 10% of trustees were women. By 1995 the percentage had risen to 14% (Olsberg, 1997). A recent ASFA survey of 87 major funds with 663 trustees indicated that female representation had risen to only 18% (ASFA, 2001).

It is important to have a broader representation of women in decision-making positions across all sectors of superannuation, but particularly on the trustee boards of the funds that have particular member-focussed responsibilities.

Powerful existing interests may slow, or no doubt may challenge, the processes of change in the retirement savings system. There are valid reasons why it is important to have a broader female representation in decision-making positions across all areas concerning the retirement income regime – at both macro and micro levels. Women comprise more than half the population and have a right to be represented adequately at every level, without having to justify their position.

Women are actually needed in the system. Female managers are better able to reconcile the dynamic tensions of change in organisations that are impeded by tradition-bound inertia. Research suggests that women have particular skills that are clearly valuable to superannuation funds, either as trustees or managers (Olsberg, 1994). Many of these skills are shared with men – and in some, women are superior. Much current human resource management literature argues that there is an identifiable 'women's management style', which firstly supports and empowers people and secondly, has been shown to increase productivity and profit. Transformational management requires this new approach to leadership – the so-called ‘women’s management style’.

It is therefore important that strategies be developed to provide women with the opportunities to gain a greater say in the processes of evolutionary change taking place in Australia’s superannuation and retirement savings system. Women must increase their representation on the trustee boards and management committees of superannuation funds. They must also take a leading role in policy-making processes on any forthcoming review and reform of Australia’s national superannuation and retirement savings and income system. These are rights, and it is not so much for women to argue for their provision, as for men to justify their continued denial.

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APPENDIX 1: BENEFIT PROJECTIONS

A CASE STUDY – COMPARING WOMEN'S AND MEN'S AVERAGE RETIREMENT SAVINGS AND RETIREMENT INCOME

In order to calculate the accumulated lump sum benefit, we have used a simple model which may be implemented on a spreadsheet.

Lump sum = Σ E(x) * H(x) * P(x) * 9% * C(x) - Tax - Admin + Investment

where E(x) is the probability that a person aged x is employed
H(x) is the average number of hours worked by someone aged x
P(x) is the average rate of pay per hour for a person aged x
9% is the SGC contribution rate
C(x) refers to the level of compliance and inclusion in the SG system
Tax is 15% of the contribution, i.e. 15% of [E(x)*H(x) * P(x) * 9%]
Admin includes administration and insurance costs
Investment represents investment earnings
And the summation is over all ages from x = 20 to x = 59

Now these factors are all variables: the level of employment varies, the level of pay increases in line with inflation, investment rates fluctuate from year to year and vary depending upon the type of assets selected, etc. It is impossible to predict these variables over the next 40 years with any certainty. We can only make reasonable assumptions.

In sophisticated models, such as those used by the RIM Group, these variables are projected using analysis of trends and generational changes. For example, they might assume that female workforce participation rates will increase. In our naive model, we will use the most recently available data, based on ABS statistics. We make the unrealistic assumption that the future will be like the present.

Our aim is not to predict the absolute levels of income. Instead, it is to estimate the RELATIVE levels of income for men and women, allowing for different values of E(x), H(x), P(x), C(x), and so on.

We have used the following data, based on ABS statistics, in our projections.

E(x) = The probability that a person aged x is employed.

Note that this reflects both workforce participation rates, and unemployment rates
The following table shows the ratio of employed persons to the overall population, split by age and gender, as at June 2001. (ABS Labour Force Australia, June 2001, Table 18)

1. Employment Rates June 2001

Age group	Male	Female
20-24	75.1%	71.5%
25-34	85.6%	67.2%
35-44	86.9%	68.7%
45-54	83.9%	67.7%
55-59	67.3%	48.9%

H(x) Average Hours Worked for Employed Persons

The following data shows the proportions of employed people who are working part time and full time, split by age and sex, as at June 2001, and the average hours worked for both part time and full time workers split by sex. This may be used to estimate the average hours worked by age and sex (we must assume that the average hours worked by a part timer does not vary significantly by age). (ABS Labour Force Australia, June 2001, Tables 16 and 17)

2. Percentage of Employees Working Part-Time June 2001

Age group	Males	Males	Males	Female	Females	Females
	Part time	Total	Percent	Part Time	Full time	Percent
20-24	118.4	523.4	22.6%	173.8	482.7	36.0%
25-34	108.1	1236.7	8.7%	330.2	973.4	33.9%
35-44	90	1270.7	7.1%	493.8	1014.3	48.7%
45-54	96.8	1113.8	8.7%	378.2	890.6	42.5%
55-59	49.7	341.2	14.6%	124.7	240.2	51.9%

3. Average Hours Worked per Week by Employed Persons, June 2001

Work Status	Males	Females
Part Time	41.6	37.6
Full Time	15.5	16.1

This may be used to estimate the average hours worked by age and sex (we must assume that the average hours worked by a part timer or full timer does not vary significantly by age). The average hours worked is calculated as

Percentage part time * average hours for part timers
+ Percentage full time * average hours for full timers

4. Estimated Hours June 2001

Age group	Male	Female
20-24	35.70	29.86
25-34	39.32	30.31
35-44	39.75	27.13
45-54	39.33	28.47

55-59	37.80	26.44

P(x) Average Rate of Pay per Hour

There are some difficulties in defining pay, for superannuation purposes : some funds use Average Weekly Ordinary Time Earnings, others may use different definitions. So the rates of pay given in ABS data can only be an approximation to the rates of pay used to determine superannuation calculation

The following table show the average hourly earnings of males and females, in their main job, divided by age and sex, as at August 1999. (ABS Australian Social Trends 2000, Income Distribution : Female/male Earnings)

5. Average Hourly Earnings In Main Job, August 1999

Age group	Male	Female	Ratio
20-24	14.00	14.11	1.01
25-29	18.32	17.55	0.96
30-39	20.90	19.30	0.92
40-49	22.21	18.77	0.85
50-59	21.54	17.76	0.82
All ages	19.13	17.08	0.89

By multiplying the hours in table 4 by the rates of pay in table 5, we can get an estimate of the average earnings by age and sex in 1999 dollars. This can be indexed by increases in Average Weekly Earnings to estimate the earnings in June 2001 dollars: we will assume that earnings increase by roughly 8% over this period.

Alternatively, we can use the data on mean weekly earnings for males and females in their main job, split by age, as given in ABS 6310.0 Employee Earnings, Benefits, And Trade Union Membership, as at August 2000.

5. Mean Weekly Earnings ($) In Main Job, August 2000

Age group	Male full time	Female full time	Male part time	Female part time	Male all	Female all
15-24	550	513	196	171	410	327
25-34	839	732	402	336	794	596
35-44	967	751	438	347	933	547
45-54	895	730	432	358	924	568
55-59	802	654	364	317	823	492
All ages	864	688	303	298	697	508

C(x) Compliance and inclusion percentages

This factor represents the percentage of workers who are both eligible for SG contributions, and who actually receive the SG contributions owed (i.e. measuring the extent to which employers comply with their responsibilities). There is little data available, but based on ATO surveys it appears likely that part timers and casual are most likely to miss out. Therefore we have assumed that the factor C(x) is 100% for males and 95% for females - probably erring on the optimistic side.

Administration Fees and Insurance Costs

These will vary widely from one fund to the next, depending on the size of the fund and the amount of insurance provided under fund rules. We will assume about $1 per annum for administration fees and $2 per week for insurance, approximately $150 per year overall. To allow for the fact that women are more likely to be working in multiple jobs and to change jobs more frequently (possibly leading to multiple accounts), we increase the total charge to $200 per annum.

Inflation

Theoretically, pay rates should be increased in line with salary inflation, and the lump sum benefits should be discounted back to reflect price inflation. Historically, over the long term, salary inflation generally exceeds price inflation (i.e. leading to real wage increases): however there is a great deal of variability from year to year. We have assumed that salary inflation is 1% p.a. above price inflation.

Investment Income

ASIC guidelines suggest that projections should be done assuming earnings of 6.25% per annum and inflation of 3% per annum : a “gap” of 3.25% p.a. We have done this calculation assuming that price inflation is 0% and investment returns are 3.25%, i.e. we are using the “real” interest rate adjusted for inflation. This is the rate net of any tax payable on investment income.

If we assume that women invest more conservatively, then we deduct 1/2% from the investment earning rate.

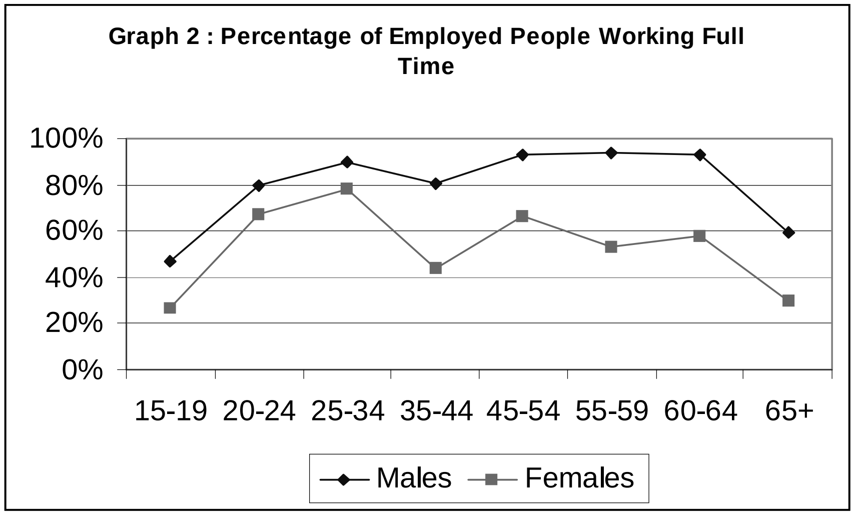
Taxation

We have allowed for contributions tax equal to 15% of the contributions, net of administration charges and insurance costs. We have not allowed for any surcharge.

Annuity rates

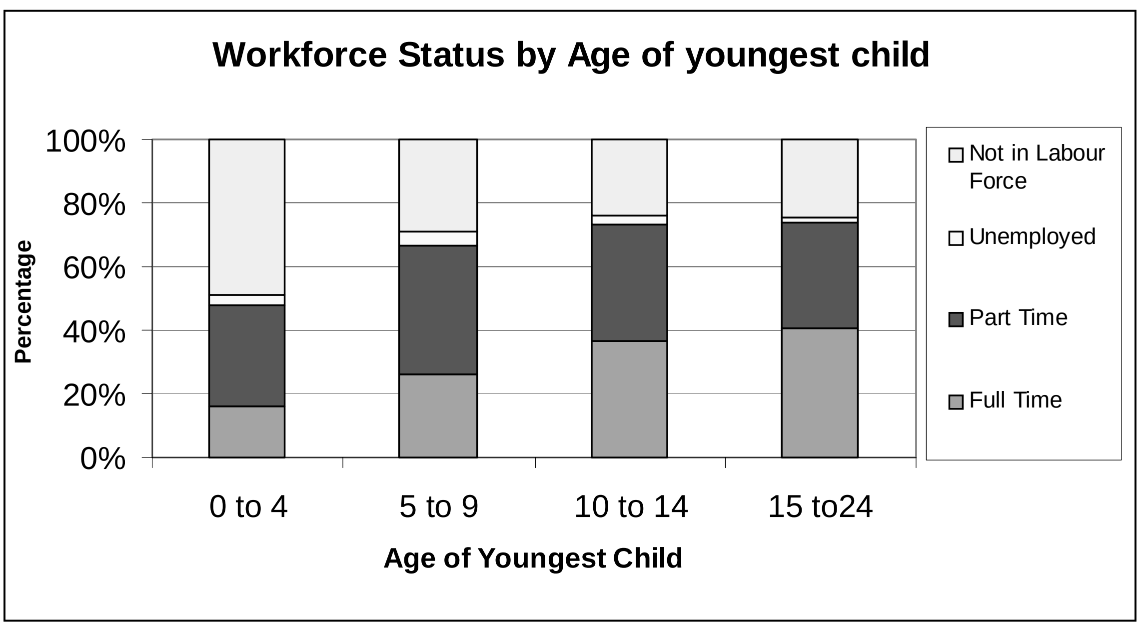
For the purposes of converting a lump sum to a pension, we have used the AMP annuity rates as at June 2000, for a lifetime annuity indexed to the Consumer Price Index, for a person aged 60. For a lump sum of $100,000, the initial annual income would be $5,717 per annum for a male, and $5103 for a female.

APPENDIX 2



(ABS Catalogue 6203.0, June 2001)

APPENDIX 3



(ABS data Catalogue 6224.0 Table 14 - data for couple families with dependents)

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