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# Additional submission attending the appearance before the House of Representatives Standing Committee on Ageing Hearing Thursday, July 3, 2003 of Dr Diana Olsberg, Director University of New South Wales Research Centre on Ageing & Retirement (RCAR)

In the submission to the Standing Committee on Ageing I have particularly addressed the present and future experiences of the ageing of Australian females. One area in which I have done extensive research and about which I have particular expertise to speak to the Committee concerns the factors which constrain the adequacy, access, equity and economic and social justice for women in Australia's current retirement income system. The future lifestyles, social, economic and personal wellbeing of large numbers of ageing Australian women I believe are at considerable risk if policies are not introduced which recognise women's current disadvantaged position with regard to superannuation. Through no fault of their own, Australian women have much less accumulated retirement savings than men – on average half the amounts accumulated by men. And in the current period of investment volatility, many superannuation funds are producing negative or extremely low returns. So, on current savings trends, only a small minority of ageing women will be able to confidently look forward to a comfortable, financially independent retirement lifestyle.

With the ageing of the population, increasing proportions of women will be in older cohorts. Also, women will continue to live longer than men, and so there will be increasing numbers of women in their eighties and nineties in Australia. And unlike in earlier periods, increasing numbers of those women will be entirely dependant upon their own and government resources - not just for their own financial requirements but for the welfare of families in general. Contrary to the images we see in retirement village and financial investment advertisements, more women will age alone. As well, the number of older single women shouldering family responsibilities for still dependant children and dependant grandchildren has increased greatly over the 1980s and 1990s.

It appears that our current retirement income system is likely to fail in its task of providing adequate resources for many older women. What can be done to improve the situation?

The problem requires concentrated efforts on the part of policy decision-makers in governments, in public and private support services, in the financial services sector, by superannuation funds and by employers and through action by women themselves. In the submission, I canvass some possible policy strategies to address women's currently disadvantaged position. Today, I want to highlight what I see as the most possible. We can have grand ideas about what we might like to see happen but it is important to focus on what is possible in legislative and policy terms and what is administratively feasible and likely to be successful with the general public.

I shall focus upon four strategies

1. Greater equity for women in the paid workforce.
2. Education and incentives to Save - so education about savings, about superannuation and about investment
3. Assisting women to maximise what superannuation savings they do have
4. Providing an increasing role for women in the corporate governance of Australia's superannuation and retirement income system

**1. Greater equity for women in the paid workforce.**

Essentially superannuation is not a retirement issue. It is a workplace issue. The system of superannuation is an occupation-linked system, and women's accumulation of superannuation benefits is intrinsically connected to their lifetime income in the paid workforce. Although many women have become financially independent during the 1980s and 1990s, not all women gained equally. Women in full time jobs became better off, but women in part-time employment became worse off relative to the average.

My own research has demonstrated that when women do have sizeable superannuation and other savings they are even more assiduous in their retirement planning than are men. The problem for women is not that they are remiss about savings, investment knowledge and retirement savings, but that most women have insufficient time and money in the paid workforce to accumulate sufficient savings.

The best way in which we can address women's continuing disadvantage is through workplace reforms - through assisting women to stay longer in the paid workforce; by ensuring that women are paid equitably, have access to career development despite broken patterns of paid work, and that if necessary they are able to continue working past normal retirement age. We must also assist women who are out of the paid workforce shouldering responsibilities for children and grandchildren and caring for the sick and the elderly. These women must not continue to be disadvantaged even unto old age by their absence from the paid workforce.

At present, it is very difficult to combine family responsibilities with paid work. Most women who try to do so find it an exhausting task. In some other countries, female workforce participation is much higher than that recorded in Australia. Because these nations make it much easier for women to combine motherhood with paid work.

In Australia, 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 will lead to an increase in female workforce participation, which will be good for employers as well as for women and will result in women accumulating much more adequate superannuation savings.

**At the very least, women should be entitled to continuing Superannuation Guarantee contributions from their employers while they are on maternity leave. This will give them continuity of savings despite broken periods of employment.**

## Carers' Benefits

And what about women who are out of the paid workforce caring for others? In some countries, the social security system already recognises the contributions of women in caring for young children and the disabled, by giving age pensions credit for carers.

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

There are 1,306,200 female carers in Australia, 317,000 of these women are primary carers. But only 57,190 carers are 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.

Family responsibilities affect women and men too across the lifecourse. Women and men of all ages must be educated about the importance of retirement savings, be given information which is understandable. And they must be encouraged to save.

## 2. EDUCATION and INCENTIVES TO SAVE

How can we convince women and men to save save save in a media saturated culture when billions of advertising dollars tells them to spend spend spend. 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 on public education as being alert to possible terrorist activity or the introduction of the GST.

Education campaigns focusing on financial choices or decision-making cannot be universally appropriate, relevant or effective. Smiling suntanned silver haired couples enjoying houses at the beach and overseas holidays are just not the norm. **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 personal circumstances, and different levels of financial expertise. Creative programs that are culturally diverse and appropriate for people with different levels of financial awareness and language skills must be developed. There is a need to create an understanding and appreciation of the relative and intrinsic importance of savings.** 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. Let us not be seduced by the simplicity and slickness of national, one-off television advertising campaigns.

Such education campaigns 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.**

INCENTIVES TO SAVE - INCREASING VOLUNTARY CONTRIBUTIONS

In the current period superannuation funds are experiencing considerable investment volatility, and many people have been experiencing negative returns on their retirement savings. Despite much discussion about the probable inadequacy of the 9% compulsory Superannuation Guarantee Contribution by employers, on current indications there will be strong opposition from the government and employers to further compulsory increases in contributions. Is it possible therefore, to take steps to increase voluntary contributions? Voluntary savings should be encouraged and taxation should be designed to provide a clear incentive to save.

One of the most significant disincentives is 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.

## INCENTIVES TO SAVE

Co-contributions
By government – instead of tax cuts
By employers – matching, profit sharing

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 to encourage 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**

Other countries have introduced 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. Germany's experiment provides tax benefits and direct subsidies. And in the United States former US Vice President Al Gore offered a different proposal, specifically aimed at encouraging voluntary contributions from low and middle-income earners. With these proposals as possible models, the option of a co-contribution by government must be considered.

Employers in the United States are also pro-active in offering inducements to employees for voluntary contributions to retirement savings. 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.

## REDUCING TAXES

So far, I 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. Clear arguments in favour of this proposal are in the submission I have made to the Standing Committee .

More particularly, many women re-enter the paid workforce in their 40s and 50s as their children become independent. Latest statistics show that while employment rates for older men continue to fall, employment rates for older women age are increasing. Many of these women earn high incomes, would like to make additional savings to enhance their superannuation but are penalised by the additional 15% superannuation surcharge.

SUPERANNUATION SURCHARGE - An opportunity for action

**The additional superannuation surcharge should be assessed on the basis of total savings in superannuation funds rather than on current income. So for example anyone (women and men) who have superannuation savings of less than $300,000 should be exempt from paying the additional 15% superannuation surcharge. This would significantly enhance the possibilities of women coming back into the workforce to top-up their retirement savings.**

With increasing numbers of Spouse Accounts and Family Law changes, the numbers of women not in the paid workforce with superannuation accounts is growing. **Superannuation fund structures and regulations must be amended to provide for irregular and flexible rate contributions so that women not in regular paid**

**employment may be encouraged to make additional voluntary contributions to their superannuation accounts.**

## 3. 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.

My own research has demonstrated that when women do have sizeable superannuation and other savings they are even more assiduous in their retirement planning than are men. The problem for women is not that they are remiss about savings, investment knowledge and retirement savings, but that most women have insufficient time and money in the paid workforce to accumulate sufficient savings.

**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.

Clearly too, there is a pressing need for new financial products to assist Australians in managing their finances when they reach retirement. As people are living longer it is important that post retirement products be developed which provide growth opportunities and encourage pension stream options. In the

Position Paper we have raised some options which are offered overseas and could be adapted for Australia.

## Financial Planning

Women report they frequently have problems getting good financial planning advice.

- Good financial planning advice is expensive

- Financial planners are mostly male and usually work with male savings projection models.

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

- Finding a good planner is 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 advisers 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).
- Many financial planners work for financial institutions and this will naturally influence their recommendations
- Financial planners are not prepared to provide advice for people with low amounts of savings or to develop 'no-frills' but effective savings plans.
- It is very difficult to find female financial planners.

**Government must provide increased resources to the very successful Centrelink Financial Information Service (FIS), the National Information Centre on Retirement Investments (NICRI) and the Department of Family and Community Services. These information services , currently little known in the community, must be promoted as part of the national education campaign on retirement savings.**

**There is a pressing need for government encouragement and promotion of financially registered financial planners who provide financial planning advice on a fee-for-service basis rather than commission-based advisory services.**

## 4. 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 (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 for they have particular member-focussed responsibilities.

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.

**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.

## PARTICULAR OVERSEAS STRATEGIES WHICH DESERVE ATTENTION

### UK

Stakeholder pensions annual administration charge must not exceed 1% of member's account

Member must be able to transfer in and out of stakeholder pension or stop paying for a time without paying an extra charge

### United States

US Government SAVER Act (Savings Are Vital to Everyone's Retirement) – started with National Summits on retirement savings to ensure bipartisan approach to savings education. Requires Department of Labor/ Treasury and 65 public and private organizations (Retirement Savings Education Campaign) to provide education and outreach on retirement and savings

SMART workplace program.
You may contribute when you are not working or someone else may contribute for you.

USA SmarT program – people procrastinate about allocating more to superannuation. US program – before next pay increase workers are invited to participate in a plan whereby a portion of their pay increase is contributed to super – say one third or one half of their pay increase. By timing the increase to coincide with the pay increase employees are assured that their take home pay 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 at the increased rate of contributions.

US profit sharing by companies - % goes into employees superannuation

### Germany

Government co-contribution – tax incentives and direct subsidies for low income earners.