Australian Government
Department of Family and Community Services

SUBMISSION 38

Box 7788 Canberra Mail Centre ACT 2610
Telephone (02) 6244 7023
TTY 1800 260 402
Facsimile (02) 6244 7983
www.facs.gov.au

Ms Bev Forbes
Committee Secretary
Standing Committee on Economics, Finance and Public Administration
Parliament House
CANBERRA ACT 2619

Dear Ms Forbes

INQUIRY INTO IMPROVING THE SUPERANNUATION SAVINGS OF PEOPLE UNDER AGE 40

I refer to your letters of 7 June 2005 in which you invited the Department of Family and Community Services (FaCS), and the Australian Government Office for Women (now part of FaCS) to make submissions to the above Inquiry.

Please find enclosed a copy of FaCS' submission to the Inquiry. The contact officer for this submission is Nick Hartland, Branch Manager, Seniors and Means Test Branch, telephone (02) 6244 6068.

Yours sincerely

David Kalisch
A/g Deputy Secretary

22 August 2005

Encl.

Australian Government

Department of Family and Community Services

Department of Family and Community Services Submission to the House of Representatives Standing Committee on Economics, Finance and Public Administration

Inquiry into improving the superannuation savings of people under the age of 40

August 2005

Contents

Department of Family and Community Services Submission to the House of Representatives Standing Committee on Economics, Finance and Public Administration inquiry into improving the superannuation savings of people under the age of 40

Executive Summary

The retirement income system and continuing role of Age Pension

The ageing of the Australian population requires policy responses that ensure the retirement income system remains affordable into the future, and that people's financial aspirations in retirement can be met.

Australia's retirement income system is designed to achieve these objectives by encouraging greater self-provision in retirement, while maintaining the Age Pension safety net. In addition to the usual three pillars of our retirement income system - compulsory employer-provided superannuation; private savings; and Age Pension - retirees are also encouraged to supplement their income with earnings from employment where they are willing and able to do so. Projections indicate that the current policy parameters will ensure that Australia's retirement income system remains affordable (Treasury 2002).

Asset holdings are an important element of retirement incomes. These holdings are growing, with the wealth of Australian households increasing by an average of 3.9 per cent per year since 1993. Australians hold significant wealth in assets such as the family home and shares, which are drawn on to boost standards of living in retirement. Superannuation is becoming an increasingly significant component of the wealth portfolio of Australians, as the Superannuation Guarantee system matures. Higher superannuation balances will mean that many Australians currently in the under 40 age cohort will rely less on Age Pension in retirement and more on superannuation and private savings.

Women's increasing labour force participation rates are improving their ability to accumulate superannuation. However, the link between paid employment and superannuation means that women tend to be disadvantaged in their ability to save for retirement. In particular, women generally have significantly lower superannuation balances than men, primarily due to work patterns (family and caring responsibilities) and wage levels.

Over the next 45 years, there is expected to be a marked decline in the proportion of people receiving the maximum rate of Age Pension and a corresponding increase in the proportion receiving a part-rate pension or nil rate of pension, due to increased wealth. It is expected that one-third of the Age Pension population (down from just over half now) will continue to rely on the maximum rate of Age Pension in retirement, the largest proportion of whom will be women.

Terms of Reference

The terms of reference for this inquiry relate to improving the superannuation savings of people under the age of 40. Notwithstanding the strengths of Australia's retirement income system as described above, research indicates that people under 40 may have unrealistic expectations about the amount of income they will have in retirement, and their level of preparation for retirement.

Term of Reference 1
Superannuation savings will be an important component of future retirement incomes. Superannuation balances are a function of a number of factors, including being in paid employment, the length of time a person remains in paid employment, their level of earnings, and attitudes towards making voluntary superannuation contributions.

Barriers or disincentives to superannuation saving can include factors such as caring responsibilities (especially affecting women), unemployment, illness or disability, family breakdown, education or skill levels, location (especially affecting those in rural or remote areas, including Indigenous Australians), poor financial literacy; competing demands on income (particularly affecting young families); superannuation preservation rules and the complexity of superannuation.

A key vehicle for overcoming these barriers, and enhancing the retirement income circumstances of vulnerable groups, is maximising workforce participation throughout the lifecourse. FaCS is involved in a number of activities designed to achieve this including: Welfare to Work initiatives; funding financial literacy programmes targetted at pre-retirees, retirees and Indigenous Australians; and providing favourable means testing treatment of superannuation for social security purposes.

Term of Reference 2
Many incentives to encourage voluntary superannuation contributions lie primarily within the responsibility of other portfolios. In view of this, the FaCS Submission simply describes some of the key incentives, focussing on those with particular relevance to women. Such initiatives include: the Super Co-contribution Scheme; the Superannuation spouse contribution tax offset; measures that allow superannuation to be divided after divorce; provisions encouraging spouse contributions; removal of the work test rules for those under 65; abolition of the superannuation surcharge; and the introduction of Super Choice.

Term of Reference 3
An important factor in increasing retirement incomes is awareness of the importance of saving early for retirement, through improved financial literacy. While Australia is a financially literate society, levels of financial literacy are comparatively low amongst certain sectors of the population including women, those on low incomes, people with lower educational attainment, the young and the very old.

FaCS makes a strong contribution to financial literacy through the Financial Information Service (delivered by Centrelink) and the National Information Centre on Retirement Investments Inc. These services provide free and independent information to all Australians, and are designed to assist people to plan effectively for retirement, and maximise their retirement income.

Introduction – scope of Submission

This Submission focusses on those issues that are relevant to the House of Representatives inquiry's terms of reference, and are of specific interest to the Australian Government's Family and Community Services (FaCS) portfolio. FaCS recognises that other government portfolios (such as the Treasury) also have significant responsibilities with regard to superannuation policy. This Submission does not attempt to address issues that fall primarily within the responsibility of other agencies.

This Submission focusses on the following matters:

- background to the retirement income system;
- FaCS' role in improving retirement savings;
- the impact of improved superannuation savings by young people on Australia's retirement income system, particularly Age Pension;
- saving for retirement – the current environment; and
- responses to the three terms of reference, including a focus on issues of particular relevance to women.

The Australian Government Office for Women (OfW), now part of FaCS, was also invited to make a submission to the Inquiry that focussed on improving the superannuation savings of women under 40. This Submission incorporates the response to that request.

Background on the retirement income system

Australia's ageing population

Like most other developed countries, Australia's population is ageing. This is occurring as a result of a number of factors, including increased life expectancy, a decline in the total fertility rate (although cohort fertility analysis suggests that the 'completed' fertility rate is stabilising at around replacement rates (Tesfaghiorghis 2005)), and the movement of the large 'baby boomer' generation into the over-65 age groups.

These demographic changes mean that the balance of people of retirement, workforce, and younger ages, is shifting. Structural ageing will see the proportion of people aged 65 and over rising from 12 per cent in 1999 to 26 per cent by 2051 (2.3 million in 1999, 6.6 million in 2051). (Of this group women, on average, will live longer than men with female life expectancy projected to increase from 82.6 years in 2003 to 87.7 years by 2051.) Conversely, the proportion of people aged 15-64 will fall from 67 per cent to 59 per cent (12.7 million in 1999, 16.1 million in 2051), while the proportion of people aged 14 and under will fall from 21 per cent to 14 per cent (FaCS 2003).

The age dependency ratio (the proportion of people aged 65 and over to people aged 15-64) is currently about 5 people of workforce age for every person aged 65 and over. As a result of the demographic changes outlined above, the dependency ratio is expected to decrease to only about 2.5 people of workforce age for every person aged 65 and over by 2050 (ABS, quoted in FaCS 2003, p15).

It has been recognised that such developments require policy responses that ensure that the retirement income system remains affordable into the future, and that the financial needs of individuals and families can be met in retirement. Australia's retirement income system has been designed to respond to these developments by encouraging greater self-provision in retirement, while maintaining the Age Pension safety net. Projections indicate that the current policy parameters will ensure that Australia's retirement income system remains affordable into the future (Treasury 2002).

Structure of the retirement income system

The objective of Australia's retirement income system is to facilitate adequate retirement incomes (FaCS 2003). Specifically, the system encourages people to maximise private income in retirement, while maintaining an adequate safety net.

This is achieved by structuring the retirement income system around three complementary components or 'pillars':

- compulsory superannuation contributions, which are paid by employers to employees under the Superannuation Guarantee;
- voluntary superannuation contributions, and other private savings, accumulated by individuals and families; and
- Age Pension and the associated supplementary payments.

The system is also structured to encourage workforce participation beyond Age Pension age through initiatives such as the Pension Bonus Scheme, the structure of the means test on Age Pension, tax concessions, and the recently announced transition to retirement measure.

The Pension Bonus Scheme provides a tax-free lump sum bonus to people who continue to work after Age Pension age and defer claiming Age Pension. Payment is based on the rate of pension a person receives when they eventually claim Age Pension, and the amount of time they have accrued a bonus.

The Age Pension is subject to a generous income 'free area' and taper rates. The relaxation of the means test taper (from 50 cents to 40 cents for each dollar of income over the free area) and increases in the free area, introduced as part of the tax reform changes ('A New Tax System', 2000), helped to increase incentives for people to earn income.

The tax concessions offered include the Senior Australians' Tax Offset and Mature Age Workers Tax Offset. The Senior Australians' Tax Offset ensures that Australians over Age Pension age pay less tax relative to other Australians. The Mature Age Workers Tax Offset, announced as part of the Government's election commitments, is available to people aged 55 and over, and provides a maximum annual rebate of $500 on a person's income from working. Both of these tax concessions help strengthen incentives for workforce participation.

In addition, the transition to retirement measure improves access to superannuation while still working, giving people more options in moving from work to retirement and removing the incentive to retire simply in order to access superannuation.

The Organisation for Economic Cooperation and Development (OECD) and the World Bank recognise the effectiveness of Australia's multi-pillar system, including its comprehensive coverage, long-term sustainability, and cost effectiveness. It provides a mix of earnings replacement (superannuation) and flat rate payments (Age Pension), at relatively low cost, and provides a targeted safety net for those in need (FaCS 2003).

Age Pension

The Age Pension is a core component of the retirement income system in Australia. It is unusual amongst developed countries in that it is non-contributory, funded from general revenue, paid at a flat rate, and means tested. Its key objective is to provide an adequate basic level of income in retirement, and to provide a supplement to those with modest superannuation and private savings. In contrast, most other OECD countries administer insurance-based, contributory schemes.

As Australia's Age Pension is not based on previous earnings or past contributions, it provides a significant degree of protection for individuals and families at risk of not being able to accumulate significant savings for retirement (for example through superannuation).

The Government will spend approximately $20.8 billion in 2005-06 providing Age Pension to over 1.9 million recipients (which equates to 2.9 per cent of Australia's Gross Domestic Product (GDP)). Projected expenditure in 2041-42 is 4.6 per cent of GDP. The projected increase over this period is relatively modest compared with most other OECD countries, and will remain affordable to the budget (Treasury 2002).

Asset holdings by Australians

Overview

Asset holdings are an important element of retirement incomes. Australians hold significant wealth in the family home and other assets, which are drawn on to boost standards of living in retirement. Table 1 shows the estimated range and value of assets held by Australians, by age group, in 2000.

Table 1: Estimated average family wealth by asset type and age, 2000

	Total asset value held ($)					
Age of family head	**Cash deposits**	**Shares**	**Equity in home**	**Rental property equity**	**Superannuation**	**Net wealth**
15-19	900	0	0	0	500	1,400
20-24	2,200	200	600	200	3,500	6,600
25-29	5,700	2,300	7,100	900	13,400	29,400
30-34	9,300	9,200	27,400	2,700	24,300	72,800
35-39	9,900	20,800	53,300	7,300	37,800	129,000
40-44	11,000	36,800	86,200	13,000	55,900	271,000
45-49	14,000	49,300	114,700	17,500	75,500	271,000
50-54	17,600	59,200	151,400	19,400	93,100	340,700
55-59	20,700	61,300	165,000	18,900	91,700	357,500
60-64	30,100	37,500	164,600	12,900	89,100	334,200
65-69	53,000	19,900	151,300	12,200	33,500	270,000
70-74	48,900	13,700	139,400	10,500	9,400	221,800
75+	24,400	4,900	104,000	5,200	1,000	139,500
Average	16,600	23,400	82,100	8,800	39,400	170,200

Source: NATSEM - Kelly, 2003, p17

At an aggregate level, Australia is becoming an increasingly wealthy country. On average, the wealth of Australian households has increased by 3.9 per cent per year since 1993.

Home ownership

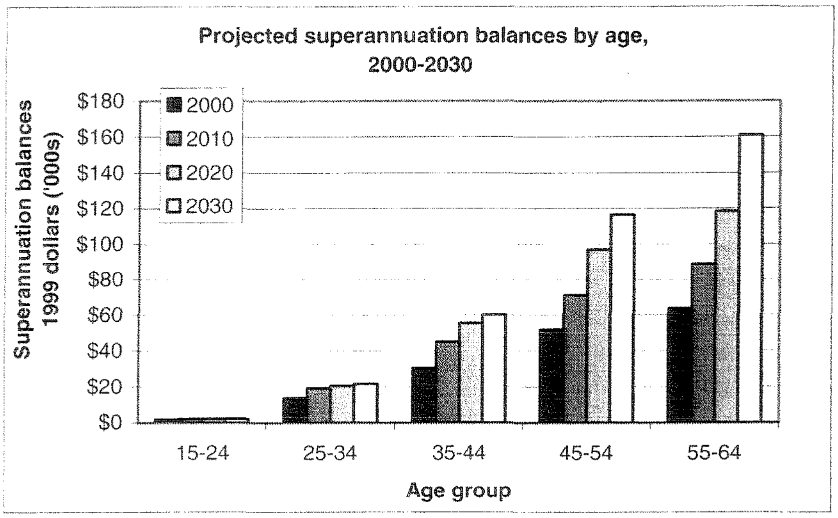
Home ownership holds a unique place in Australia's retirement incomes system. It reduces the cost of accommodation in retirement, and so makes an important contribution to the adequacy of incomes, and standards of living in retirement. Australians value owning their own home, and research suggests that those who do not own their home are more at risk of financial hardship.

Ownership rates in Australia are high – currently 70 per cent for all adults, and 83 per cent for households where the head is aged over 65 (ABS 2005a). The significance of home ownership is reflected in the Age Pension assets test, which exempts the primary home for means test purposes.

Superannuation savings

Superannuation balances are improving over time, and are becoming a more significant component of the wealth portfolio of Australians. Figure 1 shows how superannuation balances are expected to grow for different age cohorts as the Superannuation Guarantee system matures. By 2030, when many individuals will have accumulated significant Superannuation Guarantee savings, superannuation balances will be more than double those observed in 2000 in real terms.

Figure 1:



Source: NATSEM Projections in Kelly, 2003, p19
The estimates assume future Superannuation Guarantee contributions are made at the 9 per cent rate.

The importance of increasing superannuation savings

While current projections indicate that the Australian three pillar retirement income system will remain affordable into the future, and result in adequate retirement incomes for all, it is desirable to develop policies that will encourage people to further increase their superannuation savings. This is because increased superannuation balances will enhance both the standard of living of individuals and families in retirement, and the sustainability of the Age Pension.

FaCS' role in improving retirement savings

FaCS recognises that events across the lifecourse influence the retirement incomes of individuals and families, and therefore the extent to which they rely on Age Pension. FaCS policy and program responsibilities span all aspects of the lifecourse, and many FaCS initiatives have the capacity to improve the retirement savings of those under 40. FaCS, through the Australian Government Office for Women, is a central point of advice on the impact of policies on women for the whole of government.

A summary of these initiatives is included in the response to Term of Reference 1.

Impact of improved superannuation savings by young people on Australia's retirement income system, particularly Age Pension.

Age Pension is the foundation of the retirement income system, and provides a safety net that underpins the other pillars of the system.

As the superannuation system matures, higher superannuation balances will mean that many Australians currently in the under 40 age cohort will rely less on Age Pension and more on superannuation and private savings. This will contribute to the continued sustainability of the Age Pension, and improve the standard of living of many Australians.

Notwithstanding this, Age Pension is expected to continue as a major source of income for many Australians in the future. People who may remain reliant on Age Pension include those who cannot accumulate superannuation, as they have little or intermittent participation in the workforce due to disability, caring responsibilities, or severe labour market disadvantage. Those who accumulate some superannuation, but the amount is insufficient to allow a fully self-funded retirement (eg due to disrupted labour force participation, or low income - both these factors particularly affect women), will continue to access some support through part-rate Age Pension.

Table 2 shows the projected changes in the type of income received by the Age and Service Pension populations between now and 2050.

Table 2: Age/Service Pension populations by income type – now and in 2050

Income type	2004	2050	Change
Maximum rate Pension	54%	33%	-21%
Part rate Pension	26%	42%	+16%
No government pension	20%	25%	+5%
Total	100%	100%	NA

Source: Treasury projections and FaCS data

This table illustrates an expected decline in the proportion of people receiving the maximum rate of Age/Service Pension, and corresponding increases in the proportion receiving a part rate pension, or no pension at all.

These changes reflect the impact of increased wealth flowing from the fully mature Superannuation Guarantee, and growth in other savings (eg equity in the family home), on the retirement incomes of those currently under 40. The table demonstrates that while self-provision in retirement is expected to increase markedly, one-third of the Age/Service Pension population will continue to rely on the maximum rate of Pension in retirement.

Age/Service Pension is therefore expected to continue to have a dual role into the future. For some, it will continue to be the sole source of income in retirement, while for others, it will supplement private income.

Women currently make up the greatest proportion of those who remain solely reliant on Age Pension, and on current trends this may be expected to continue into the future[1]. Factors including interrupted workforce participation due to caring responsibilities; part-time and casual employment; lower average rates of pay; and low levels of financial literacy, all reduce the income and assets (including superannuation) that women can accumulate for use in retirement.

Other factors that result in a higher number of women than men receiving Age Pension include women's longer life expectancy, women's lower qualifying age for Age Pension (although this gap is closing) and the fact that fewer women then men receive service pensions, so receive Age Pension instead. In June 2004, 59.4 per cent of Age Pension recipients were women, while 65.5 per cent of women receiving Age Pension received the full-rate, compared with 61.6 per cent of men (FaCS 2004).

Saving for retirement – the current environment

Expectations about superannuation savings

The terms of reference for this inquiry relate to improving the superannuation savings of people under age 40. Notwithstanding the strengths of Australia's retirement income system as described above, research indicates that people under 40 may have unrealistic expectations about the amount of income they will have in retirement, and their level of preparation for retirement.

[1] Current public debate on work and family argues that greater sharing of caring responsibilities between women and men across the life course may promote future changes to these patterns which are strongly embedded in Australian culture and experience.

The *Report on Community Attitudes to Saving for Retirement - National Survey of the 30-69 Population,* prepared for the Association of Superannuation Funds of Australia Limited (ASFA) in 2001, indicates that for 30-39 year olds:

- 58 per cent believe they are very or quite well prepared for retirement;
- 32 per cent estimate they will need at least $50,000 per annum in retirement, whereas the report states '*In reality, less than 5% are likely to achieve a retirement income of $50,000 pa or more*';
- 20 per cent expect to receive the Age Pension, whereas forecasts predict that 33 per cent will receive the maximum rate of pension, and 42 per cent a part rate;
- 86 per cent are covered by the Superannuation Guarantee, and 71 per cent are homeowners;
- 60 per cent are relying on home ownership and the Superannuation Guarantee as the most important forms of retirement saving – less focus is being placed on voluntary superannuation contributions; and
- 52 per cent of men compared to 41 per cent of women (non-retired) expect paid work in retirement, whereas 50 per cent of women compared to 38 per cent of men anticipate voluntary work.

Women's superannuation: the current scene

The average superannuation balances of women across the lifecourse are lower than those of men. On average, when women retire from the paid workforce they will have half as much superannuation as men (Olsberg et al. 2001). Fifty per cent of women who have either retired, or will retire within the next ten years, have less than $20 000 in superannuation, while 20 per cent have less than $5,000 (Austen et al 2002).

Balancing this is the impact of significant increases in women's labour force participation rates. The National Centre for Social and Economic Modelling estimates that average female superannuation assets will "increase from 45 per cent of the average male balance in 1993 to 70 per cent by 2030" (Kelly, Percival and Harding 2001).

In the meantime however, the private finances available to women in retirement are reduced, especially as women live longer than men on average. The current life expectancy of women is 82 years while men can expect to live to 78 years (Olsberg et al. 2001). This means that the smaller retirement incomes of women will also need to last longer. Higher divorce rates are likely to result in more women living alone and being dependent on their own financial resources in their retirement (Goward 2004).

Table 3 provides a breakdown of superannuation balances between different age cohorts. It shows that for all age groups, the average account balance is lower for women than men. The differences between men's and women's superannuation account balances are less pronounced for the younger age cohorts. However, as the cohorts age this disparity increases.

Table 3: Average superannuation balances for people with superannuation

	Men		Women	
Age Group	% with superannuation	Average balances for those with superannuation ($)	% with superannuation	Average balances for those with superannuation ($)
15-24	59.3	6,800	55.3	4,300
25-34	92.2	27,200	82.5	20,800
34-44	91.7	65,400	78.3	37,600
45-54	86.8	122,300	77.0	67,500
55-64	68.8	183,600	53.4	94,700
65+	26.6	184,900	12.6	124,300

Source: The Association of Superannuation Funds of Australia (Clare 2004)

These disparities reflect the differences in women's and men's labour force experiences. One possible explanation for the significant difference between women's and men's average superannuation balances, commencing at the 34-44 year age group, is the peak childbearing years. Alternatively, this may reflect generational change. The effect of having lower superannuation balances nevertheless compounds from this point.

Further, a recent survey of women, conducted by Security for Women (S4W), shows that many women know little about superannuation and the importance of saving for retirement. Key findings of the survey include: 51 per cent of women surveyed were unaware of the Superannuation Guarantee Contribution entitlements, 62 per cent did not know how their superannuation was taxed, 55 per cent had two or more superannuation accounts, 43 per cent had never made a voluntary superannuation contributions, and 68 per cent did not know how much superannuation they needed to retire comfortably. In addition, a recent ASFA survey into the attitudes of Australians towards saving for retirement found that women were most likely to expect to receive Age Pension in retirement.

Responses to Terms of Reference (ToR)

ToR 1: Barriers and/or disincentives to contribute to superannuation

General Issues

Superannuation balances are a function of:
- being in paid employment – award and Superannuation Guarantee contributions are paid by employers;
- the length of time a person remains in paid employment – superannuation savings are accumulated over time;
- level of earnings – this dictates whether the employee is eligible for Superannuation Guarantee contributions and the value of the employer's Superannuation Guarantee contribution, and also whether the individual can afford to make voluntary contributions; and
- attitudes towards making voluntary superannuation contributions.

Barriers to obtaining paid employment can include:

- caring responsibilities – women often have significant caring responsibilities in respect of young children, and increasingly, elderly parents, which may inhibit their ability to undertake paid employment;
- education or skill levels – people with low education levels may not be able to obtain employment in a competitive labour market, while others may have skills that are outdated or do not match local employment opportunities;
- location – in some instances there can be fewer employment opportunities in rural or remote locations, or locations with a narrow employment base – Indigenous Australians in remote areas are often particularly disadvantaged in this regard; and
- health issues – people may be unable to work due to severe disability or serious illness.

Factors that can affect the length of time a person remains in paid employment can include:

- caring responsibilities – for example women may have substantial periods out of the workforce to care for children, and such periods reduce their length of service for superannuation purposes – this is particularly relevant to women under the age of 40;
- unemployment – this can result in non-contributory superannuation periods (ie no employer Superannuation Guarantee contributions are payable while a person is unemployed, and the individual is unlikely to have sufficient personal income to make substantial voluntary contributions);
- illness or disability – these events may disrupt a person's working life and result in non-contributory superannuation periods. Alternatively, permanent disability may result in premature retirement, reducing the timeframe over which superannuation can be accumulated;
- delayed entry to employment – this may occur where people spend many years in education, and do not begin working until they are in their mid-to-late 20s or even later (although higher education can translate to higher income during working life); and
- family breakdown – this can result in one or both parties becoming reliant on income support due to increased caring responsibilities and/or a sudden drop in income, and hence a disruption to their superannuation contribution period.

The main factors that can impact on level of earnings are:

- casual or part-time work – work patterns may affect the level of Superannuation Guarantee contributions received, as employers are only obliged to pay superannuation contributions if the employee has earnt more than $450 per month; and
- education and skill levels, as higher paid work often requires, or is undertaken by those with high levels of educational attainment.

The attitude of individuals and families towards making voluntary superannuation contributions can be a barrier to contributing to superannuation. Commentary suggests that:

- some people may feel that employer provided award and Superannuation Guarantee contributions (possibly in combination with Age Pension) will provide them with sufficient income in retirement, and that additional contributions are unnecessary;
- there may be a lack of lack of knowledge about the advantages of making voluntary contributions, due to low levels of financial literacy;
- families and individuals under 40 typically have different demands on their income than older people – for example mortgage repayments, education expenses and the costs of raising children. As a result, some in this age cohort may:
  - simply not have any surplus income to invest in voluntary superannuation; or
  - have spare income, but consider that it is more appropriate to invest in their mortgage, their children's education, or other investment vehicles (eg interest bearing deposits, investment property, or their own business);
- there may be distrust of institutionalised savings mechanisms because of failed investment funds, and the poor performance of some superannuation funds in recent years;
- the superannuation preservation rules may concern some, as they prevent people from accessing superannuation savings until preservation age (except in limited circumstances). This inflexibility may prompt some to invest money in alternative vehicles, which allow access to the funds; and finally
- some may find the rules governing superannuation confusing.

Finally, some sectors consider that the social security means test may act as a disincentive to saving, and an incentive to dissipate savings or over-invest in exempt assets such as housing, in order to qualify for social security assistance. Analysis shows that people are financially better off maximising their overall income, rather than foregoing income to qualify for a small amount of pension and the associated benefits. Having this concept understood and accepted by the community will assist in reducing disincentives to save that result from misconceptions about the means test. The Government communicates this message at every opportunity.

With regard to possible disincentives flowing from government policy parameters, it is important to recognise that each policy is meeting certain objectives, and it is inevitable that there will be trade-offs involved in meeting these objectives.

Women's issues

Increases in women's employment rates are improving their ability to accumulate superannuation. The number of women in paid work has increased from 49.6 per cent in 1996 to 54.2 per cent today (ABS 2005b). Support for families with children has enabled many women to choose to combine both employment and the care of their children. Over 60 per cent of all mothers with children aged under 15 years are employed, and in couples with children of this age, 63.6 per cent of women have jobs (ABS 2005c).

However, many women can be disadvantaged in relation to superannuation as it is tailored towards a working pattern more commonly followed by men than women – that is, of continuous full-time work and with steady progression towards higher remuneration.

There are several factors that act as a barrier to women adequately contributing to superannuation and saving for retirement:

- women tend to be lower paid than men as a result of wage differences, industry and occupation gender segregation, disrupted working patterns which limit women's opportunity for advancement, and family responsibilities which may require women to work on a part-time or casual basis;
- caring responsibilities for children or elderly family members limit women's capacity and the extent to which women can participate in paid work;
- financial literacy – women of all ages, and especially women under 40, need to be educated about the importance of retirement savings generally – limited knowledge about superannuation terms and concepts, including basic compulsory superannuation entitlements[2]; and
- the under-representation of women in the corporate governance of Australia's superannuation and retirement income systems which can lead to the funds being less responsive and lacking understanding about women's lives.

In 2000-2001, women's seasonally adjusted full-time adult ordinary earnings were 84 per cent of men's earnings (ABS 1995, 2001). Women are also more likely than men to work on a part-time or casual basis and to work fewer hours. In 1999-2000, 43 per cent of female employees worked part-time, compared to 13 per cent of male employees and women accounted for only 35.8 per cent of the total hours worked per week.

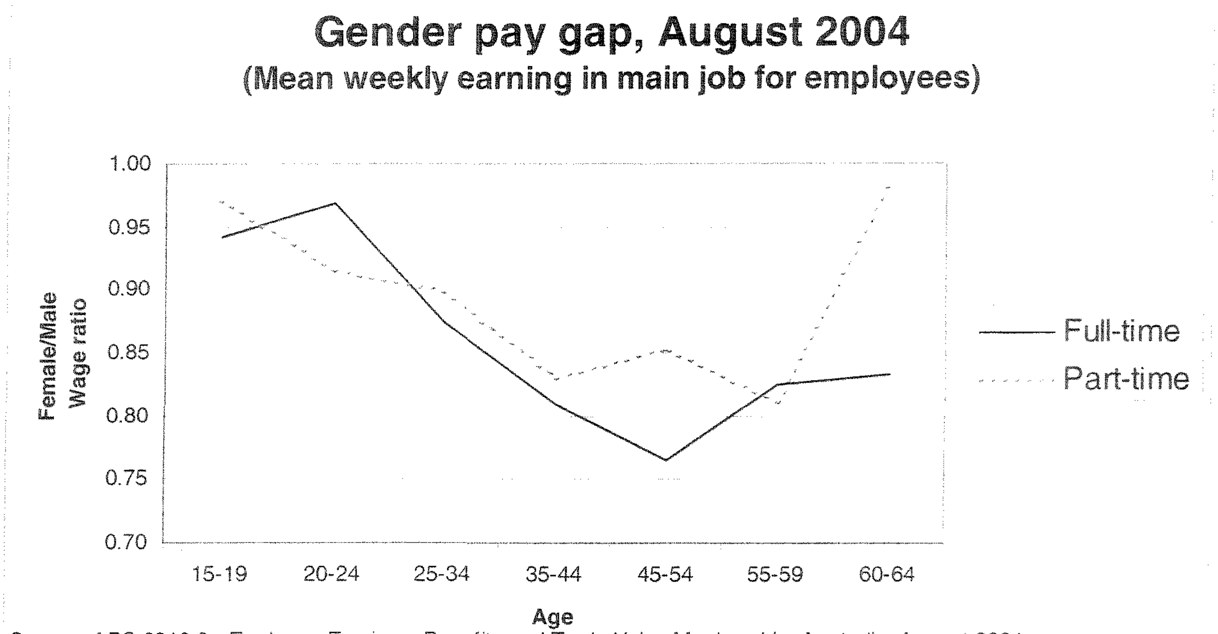
The gap between male and female earnings varies significantly by age (see Figure 2). For full-time employees, the greatest difference in wages occurs at 45-54 years of age. There are a number of explanations for this change in the wage gap by age, including:

- "women who withdraw from the labour force to raise children or perform other caring roles may forgo or postpone promotion-based increases that men of the same age may receive through continuous employment in an occupation"(ABS 2005a);
- women may do different types of jobs when combining work and family which result in lower earnings compared to men (ABS 2005a); and
- there may be "fewer gender differences in educational attainment and employment opportunities" among younger age groups (ABS 2005a).

The first of these two explanations will continue to occur while women remain the primary carers for children, and the ones who adjust their labour force participation in order to perform this care. This has a direct impact on their ability to contribute to superannuation. To the extent that there are greater labour force opportunities available to younger women, these women will be better able to accumulate superannuation.

[2] As shown by research undertaken by Security 4 Women.

Figure 2:



Source: ABS 6310.0 - Employee Earnings, Benefits and Trade Union Membership, Australia, August 2004

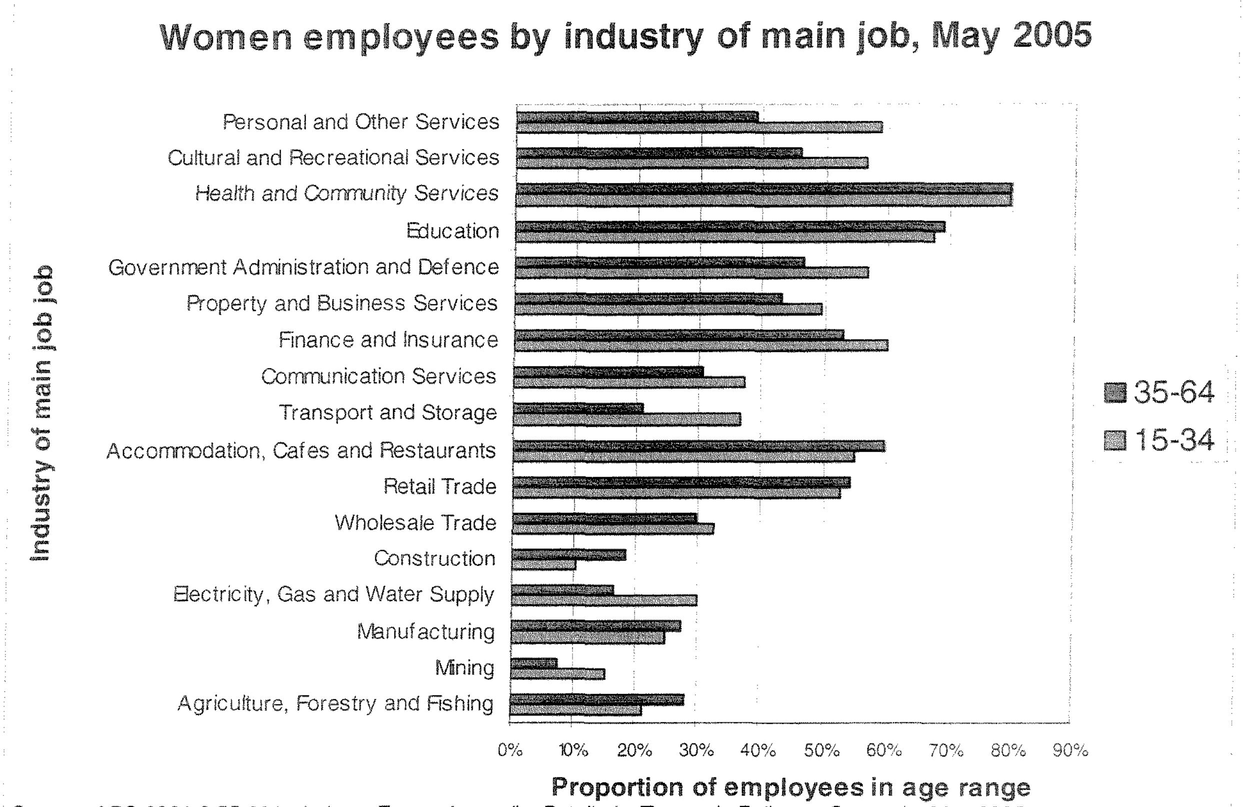
Women are concentrated in lower paying occupations and industries with approximately 73 per cent of men working in 'traditional' occupations[3], compared to only 47 per cent of women (Clare 2001). Occupation and industry gender segregation affects women's earnings, and their likelihood of being paid overtime[4]. This acts as a barrier to women contributing to superannuation. Gender segregation in the labour force also has ramifications for superannuation accumulation as employees in traditionally male dominated occupations are more likely to have a high incidence of compulsory superannuation through the Superannuation Guarantee and other employer sponsored initiatives compared to female dominated industries and occupations (Clare 2001).

As illustrated in Figure 3, while there has been some movement in women's employment by industry, the Australian workforce remains highly gender segregated. As such, the impact of gender segregation in the labour force on women's ability to acquire superannuation will continue to be an issue for women currently under 40.

[3] 'Traditional' occupations are defined by the Australian Bureau of Statistics as employees who have on-going full-time employment, do not receive remuneration through a labour hire firm, and have both paid sick and holiday leave.

[4] Men earn significantly more overtime earnings than women because of the predominance of men in occupations such as manufacturing, mining and construction where overtime rates are more common. ABS 2003, *Average Weekly Earnings*, Australia: 2003, (Cat No. 6302.0), Canberra

Figure 3:



Source: ABS 6291.0.55.001 - Labour Force, Australia, Detailed - Electronic Delivery, Quarterly, May 2005

Small business operators tend to have less superannuation contributions than employees. Averaging at $27,400, female small business operators have about 1.7 times less superannuation than male small business operators. Small business operators do however have higher per person net wealth than employees, with female small business operators having a personal (non-business) wealth of $216,000 compared with only $142,000 for female employees. Nevertheless, women in small business will have considerably less income from their superannuation in retirement than their male colleagues as well as their employee counterparts (Chin et al. 2005).

Financial literacy, that is, a person's ability to make informed and confident decisions regarding all aspects of their budgeting, spending and saving (ANZ 2003) can impact on a person's attitude towards saving for early retirement and can act as a barrier against contributing to superannuation.

The Commonwealth, States and Territories and New Zealand Ministers' Conference on the Status of Women is currently considering options to improve women's financial literacy and women's understanding of superannuation and the importance of retirement savings.

<u>FaCS activities that currently address barriers to contributing to superannuation</u>

While various strategies are required to overcome different barriers, the key vehicle for enhancing the retirement income circumstances of vulnerable groups is maximising their workforce participation throughout the lifecourse. This enhances people's capacity to accumulate assets, including superannuation, for use in retirement.

Other initiatives that can assist in boosting retirement savings include education, and incentives to encourage people to maximise their workforce participation and self-provision.

Table 4 summarises the Government initiatives provided through FaCS that support retirement savings, and identifies those initiatives that have the capacity to directly support the superannuation savings of people under 40.

Table 4:

Life Event	**FaCS policy responses that support retirement savings**	**Initiatives that directly support the superannuation savings of those under 40**
Workforce participation	Supporting families to balance work and family through provision of child care, and support for child friendly communities.	√
	Supporting carers by providing them with the opportunity to train, study and work.	√
	Supporting people with disabilities through Disability Employment Business Services.	√
Financial information and planning for retirement	Supporting individuals and families to make financial choices appropriate for them, including how to best manage their money and encourage and support retirement planning (through Centrelink's Financial Information Service and the National Information Centre on Retirement Investments Inc).	√
	Ensuring the concessional treatment of superannuation for social security means testing purposes, for example through the beneficial treatment under the ordinary income test of salary sacrificed into superannuation for people under Age Pension age.	√
Retirement transitions	Providing choice, flexibility and opportunities for gradual retirement via the Age Pension means test free areas and tapers.	
	Providing incentives to continue working, through the Pension Bonus Scheme.	
Retirement	Providing concessional means test treatment of certain types of income streams.	
	Encouraging self-provision through the granting of concessions to eligible self-funded retirees not eligible for Age Pension.	

ToR 2: Current incentives in place to encourage voluntary superannuation contributions

Key incentives to encourage voluntary superannuation contributions lie primarily within the responsibility of other portfolios. Those incentives with particular relevance to women are noted below.

The effectiveness of these measures is dependent upon women being aware of the initiatives and choosing to take them up, and choice being supported by widespread advertising and public awareness campaigns.

The Super Co-contribution Scheme

The Super Co-contribution Scheme (the Scheme) provides government matching of personal contributions made to superannuation funds by qualifying employees. The Scheme directly boosts the retirement savings of low to middle income employees who make personal superannuation contributions. It is envisaged that the Scheme will be of particular benefit to women, because women in general tend to be concentrated in lower paid industries and occupations, and/or be working part-time or casually due to caring responsibilities. As at the beginning of February 2005, around 63 per cent of co-contribution payments had been made on behalf of women with an average payment of $570 (FaCS 2005a).

Superannuation spouse contribution tax offset

The superannuation spouse contribution tax offset provides an incentive to make voluntary contributions for low-income or non-working spouses, by allowing taxpayers to claim an 18 per cent tax offset on superannuation contributions of up to $3,000 made on behalf of their low-income or non-working spouse. The behavioural response to this initiative is likely to benefit women, due to the fact that women are more frequently the primary provider of family and caring duties and are therefore more likely to be eligible to receive contributions that will provide their spouse with a tax offset.

Division of superannuation upon marital separation

Under amendments that came into force in December 2002, married couples that separate are able to divide superannuation by agreement or, where they cannot agree, by court order. Parties are able to determine in what proportions their superannuation will be divided, if at all. These reforms fundamentally change the way in which superannuation is treated upon marital breakdown, and can ensure that both parties have access to superannuation benefits in retirement.

Although the family law amendments do not directly encourage people to voluntarily contribute to superannuation, the changes do support women's superannuation accumulation. The changes help ensure an equitable split of superannuation within separating couples, recognising that both parties to a marriage can be expected to have contributed to the marriage, and hence should be able to share in financial assets of a marriage upon separation.

Splitting superannuation between spouses

The Australian Government is committed to the splitting of superannuation contributions by individuals to their spouse for contributions made on or after 1 July 2006. This voluntary initiative will provide a way for couples to share their superannuation benefits, and enable a low-income or non-working member of a couple to have their own superannuation, and hence income in retirement. This initiative particularly benefits women, who are most often the ones who stay at home or work part-time to look after children and who, as a consequence, have lower levels of superannuation accumulation.

Removal of work test

On 1 July 2004, the 'work test' rules, which govern who can contribute to superannuation, were removed for anyone under the age of 65 years. Previously, there was a requirement that a person work a minimum of ten hours in a week some time in the past two years in order to contribute to superannuation. This change assists women who are temporarily outside the workforce to better save for retirement, by encouraging women to make voluntary superannuation contributions to build up their superannuation savings, even if they are out of the workforce.

Abolition of Superannuation Surcharge

Abolition from 1 July 2005 of the surcharge payable on individuals' surchargeable contributions and termination payments provides an incentive for individuals to make additional voluntary superannuation contributions, and hence increase their retirement income.

Introduction of 'Super Choice' and Portability

'Super Choice', introduced by the Australian Government on 1 July 2005, allows more Australian employees to choose the superannuation fund that future employer Superannuation Guarantee contributions will be paid into. This change to superannuation legislation will assist some women to consolidate and better manage their superannuation balances.

Complementing the 'Super Choice' policy is the Government's Portability policy, which commenced on 1 July 2004. This policy allows members to move their superannuation savings from one fund to another, thus providing a vehicle to allow the consolidation of multiple superannuation accounts. Whilst this measure has a broad application it is of particular use to women who are more likely to have had broken working patterns and to have therefore accumulated small amounts of superannuation in multiple accounts.

ToR 3: Improving awareness of the importance of saving early for retirement

General Issues

Over time, general awareness of the importance of retirement planning has improved. Despite this, many individuals and families do not develop and implement a plan to ensure that their retirement savings will be sufficient to allow them to maintain their standard of living. Few Australians know how much money they will need in retirement, and whether their current savings strategy will result in the accumulation of sufficient assets to achieve their desired standard of living (ASIC 2004, p75).

Often, serious retirement planning does not begin until people are close to retirement age (ASIC 2004, p34). For some, this leaves a very short period in which to accumulate additional savings, which may not be sufficient to achieve the standard of living they desire. In this context, further efforts to improve financial literacy are a priority.

Women's issues

Women face different financial literacy challenges than men, particularly at points of transition such as separation and divorce or widowhood, and have specific information needs.

A recent study found that a lack of accessible information that is perceived as credible is a significant constraint on women's ability to save and plan for retirement (Jefferson et al 2004). A recent stocktake by the Consumer and Financial Literacy Taskforce (CFLT) of available consumer and financial information initiatives and programmes in Australia found that only 7 out of 711 initiatives were specifically targeted towards women (CFLT 2004).

Sole mothers are another group that has particular needs. Preliminary research being undertaken by Women's Health Australia has found that a significant proportion of sole mothers surveyed believed that money management was impossible or difficult all of the time. This research also indicated that in the first year after a relationship breakdown, women may decrease paid work or cease working in order to meet family responsibilities, will often dispose of assets such as houses and superannuation, and use short term credit facilities to alleviate immediate financial pressure. These financial choices at difficult stages of a woman's life can affect her future financial position, well into retirement.

Commonwealth, States and Territories and New Zealand Ministers' Conference on the Status of Women

The Women's Ministers are working to champion women's understanding of superannuation and the importance of saving for retirement. Their work will go towards addressing women's overall financial literacy and their understanding of and appreciation of the importance of superannuation savings.

FaCS activities that currently improve awareness of the importance of saving early for retirement

FaCS makes a strong contribution to financial literacy through the Financial Information Service (FIS) (delivered by Centrelink), and the National Information Centre on Retirement Investments Inc (NICRI).

Financial Information Service (FIS)

FIS comprises a telephone and face-to-face interview program and public seminars. The FIS interview program was introduced in 1989, and seminars commenced in 1995. The aim of FIS is to provide an accessible and effective information service to individuals and families that:

- assists people to understand the interrelationship between investments, social security entitlements, home and residence choices and taxation; and
- encourages and assists people to maintain or improve their standard of living by:
    - planning effectively for their retirement; and
    - maximising their overall retirement income.

FIS seminars are used as a vehicle for disseminating information from a range of government or government-funded agencies involved in superannuation matters, including the Australian Taxation Office, the Australian Securities and Investments Commission, the National Information Centre on Retirement Investments Inc, the Public Trustee, and others.

During the 2004/05 financial year FIS officers conducted approximately 218,800 telephone calls and over 83,000 face-to-face interviews. Over the same period over 76,000 people attended seminars run by the FIS Seminar program.

The FIS seminars are strongly focused on assisting and encouraging pre-retirees to commence planning for retirement. For this reason at least 50 per cent of participants are required to be under age 55. There is no age target for the FIS interview program and 88 per cent of interviewees are over age 55.

A number of evaluations of FIS have been conducted, some of which have explored the behavioural effects of attending a FIS interview or seminar. These evaluations have found that FIS does have a positive effect on levels of financial literacy amongst participants, and prompts positive action with regard to planning for retirement. A selection of evaluation findings is outlined below.

2004 - FIS Seminar Advertising Evaluation (Centrelink 2004)
During this evaluation conducted in 2004, 75 per cent of the participants indicated that they had a better understanding of how to plan for their retirement as a result of attending the FIS seminars.

2000 - FIS Seminars Quantitative Evaluation (Centrelink 2000)
A majority of evaluation participants reported a greater willingness and level of motivation to develop a plan for their retirement future. Also, a majority felt better equipped to do so as a result of having attended FIS seminars.

The proportion of attendees indicating an increase in knowledge across a range of topics was between 55 per cent and 76 per cent, with knowledge increases more frequent in those areas on which the seminars focussed. Topics included social security payments and entitlements tests, government policies, financial products and services, and tax issues related to investments or retirement.

1999 – FIS Seminars Impact – A Behavioural Study (Centrelink 1999)
Ninety three per cent of FIS seminar participants had started to think about their financial future prior to attending a seminar. Over half of the participants reported that the FIS seminar had made them think differently about their financial future, and that the seminar made them actually do something different.

National Information Centre on Retirement Investments Inc (NICRI)

NICRI is an independent body funded by the government (through FaCS) to provide the public with free information on planning and saving for retirement, investment options and effective use of financial resources in retirement. NICRI also distributes information leaflets on a range of issues including investment, financial planning and preparation for retirement.

During the 2004/05 financial year, NICRI addressed 111 FIS or retirement seminars (94 FIS, 17 other), distributed 205,695 information leaflets, and responded to 6,931 inquiries from the general public, financial advisers and FIS officers. Over the same period, NICRI's website was accessed 27,663 times.

A 1998 evaluation (NICRI 1998) revealed that individuals who had used NICRI services generally reported a high level of satisfaction with them. Many had increased confidence in proceeding to seek advice and to make investment decisions.

Indigenous financial literacy programs

FaCS runs a number of pilot programmes designed to improve the level of financial literacy of Indigenous Australians. Examples of these programs include the Cape York Family Income Management Project, the Indigenous Financial Management Programme and the National Agenda for Indigenous Money Management.

In addition, the 'MoneyBusiness' initiative was launched in July 2005. This programme aims to help Indigenous people better understand money matters, manage debt, save for the future and make better deals for themselves and their families when they shop. MoneyBusiness is a joint initiative of the Federal Government and the ANZ Bank.

The focus of these programmes is on developing basic money management skills, rather than on superannuation and planning for retirement. However they are useful in developing saving and budgeting skills which have a future focus.

End

References

AMP Banking and Real Estate Institute of Australia 2005, *AMP/REIA Home Loan Affordability Report June 2005*, Sydney.

ANZ Banking Group 2003, *ANZ Survey of Adult Financial Literacy in Australia, report prepared by Roy Morgan Research,* Sydney. <http://www.smithfamily.com.au/documents/ANZreportMay03_6B798.pdf>, viewed 4 July 2005.

Association of Superannuation Funds of Australia (ASFA) 2001, *Report on Community Attitudes to Saving for Retirement: National Survey on the 30-69 Population*, survey conducted by ANOP research services, Sydney.

Austen, S.; Jefferson, T. and Preston, A., 2002, *Women and Australia's Retirement Income System*, Women's Economic Policy Analysis Unit, Curtin University of Technology, Western Australia.

Australian Bureau of Statistics (ABS), 2004*, Employee Earnings, Benefits and Trade Union Membership, Australia, August 2004*, Cat No. 6310.0, Commonwealth of Australia, Canberra.

Australian Bureau of Statistics (ABS), 2005a*, Australian Social Trends 2005*, Cat No. 4102.0, Commonwealth of Australia, Canberra.

Australian Bureau of Statistics (ABS), 2005b*, Labour Force, Australia, Detailed – Electronic Delivery, Monthly, June 2005,* Cat No. 6202.0.55.001, Table 2 Seasonally Adjusted, Commonwealth of Australia, Canberra.

Australian Bureau of Statistics (ABS), 2005c*, Labour Force Status and Other Characteristics of Families, Australia, Detailed – Electronic Delivery, Annual, 2004-05,* Cat No. 6224.0.55.001, Commonwealth of Australia, Canberra.

Australian Securities and Investments Commission 2004, *Consumer Decision Making in Retirement,* report prepared by Chant Link and Associates, Sydney.

Cameron, R. 2004, *What do consumers think? Attitudes towards Super, Savings, Retirement and Choice*, Sydney. <http://www.asfa.asn.au/policy/ASFA2004_cameron_r_paper.pdf>, viewed 7 July 2005.

Centrelink 1999, *FIS Seminars Impact, 1999: - A behavioural study assessing whether FIS seminars motivated attendees to alter their financial plans*, Commonwealth of Australia, Canberra, report prepared by Market Solutions P/L.

Centrelink 2000, *FIS Seminars June 2000: A quantitative evaluation*, Commonwealth of Australia, Canberra, report prepared by Eureka Strategic Research.

Centrelink 2004*, Financial Information Service Seminar Advertising Evaluation*, Commonwealth of Australia, Canberra.

Chin, Kelly and Harding, National Centre for Social and Economic Modelling Pty Ltd 2005, *Small Business in Australia 1995 - 2004*, Canberra.

Clare, R. 2004, *Why can't a women be more like a man – gender differences in retirement savings*, Sydney. <http://www.asfa.asn.au/policy/rc0411_gender-differences.pdf>, viewed 7 July 2005.

Clare, R. 2001, *Women and Superannuation*, Sydney. <http://www.asfa.asn.au/policy/women&super.pdf>, viewed 7 July 2005.

Consumer and Financial Literacy Taskforce 2004, *Australian Consumers and Money*, Sydney. <http://cfltaskforce.treasury.gov.au/content/discussion.asp?NavID=4>, viewed 4 July 2005.

Department of Family and Community Services 2003, *Occasional Paper Number 11 – Inquiries into retirement and superannuation.* Submissions to the Senate Select Committee on Superannuation, Commonwealth of Australia, Canberra.

Department of Family and Community Services 2004, *Annual Report 2003-2004*, Commonwealth of Australia, Canberra.

Department of Family and Community Services 2005a, *Retirement incomes for vulnerable groups – an Australian perspective*, Commonwealth of Australia, Canberra. Paper presented by D. Kalisch to International Conference on Social Security, Singapore, 14th and 15th July 2005a.

Department of Family and Community Services (Office for Women) 2005b, *What the Australian Government is doing for Women*, Commonwealth of Australia, Canberra.

Department of the Treasury, 2002. *Intergenerational Report 2002-03*, Commonwealth of Australia, Canberra.

Department for Work and Pensions 2005, *Financial plans for retirement: women's perspectives*, United Kingdom.

Goward, P., *Woman and Savings*, Speech by Pru Goward at the ASFA 2004 National Conference and Super Expo, Adelaide, 11 November 2004, <http://www.hreoc.gov.au/speeches/sex_discrim/savings.htm>, viewed 7 July 2005.

Jefferson, T., Austen S., Preston A., 2004, *Life, work and saving for retirement: Western Australian Women's perceptions and plans*, Western Australia. <http://www.cbs.curtin.edu/research/wepau>, viewed 5 July 2005.

Kelly, S. 2003, Forecasting wealth in an ageing Australia – an approach using dynamic microsimulation, paper presented at the 7th Nordic Seminar on Microsimulation Models, Helsinki, Finland, 13 June 2003.

Kelly, S., Percival, R., Harding, A, National Centre for Social and Economic Modelling, 2001, "Women and superannuation in the 21st century: poverty or plenty", in Eardley, T. and Bradbury, B., *Refereed Proceedings of the National Social Policy Conference 2001*, SPRC Report 1/02, April 2002, http://www.sprc.unsw.edu.au/nspc2001/refereed/index.htm, viewed 1 August 2005.

National Information Centre on Retirement Investments Inc (NICRI) 1998, *Evaluation into NICRI Service*, Sydney, report prepared by the Australian Pensioners' and Superannuants' Federation.

Olsberg, D. 2004, *Women and Superannuation: Still Ms...ing OUT*, Sydney. <http://www.arts.unsw.edu.au/ageing/downloads/AJAPE_paper_2004.pdf>, viewed 5 July 2005.

Olsberg, D. & Ferris, S., 2001, *Ms...ing Out? Women and Retirement Savings*, Sydney, <http://www.acst.mq.edu.au/research_papers/200101_women_and_retirement_savings.pdf>, viewed 4 July 2005.

Tesfaghiorghis, H. 2005, *Australia's Fertility: A HILDA based analysis*, Canberra.