WOMEN'S ECONOMIC SECURITY IN RETIREMENT

Economic security for women in retirement is an important issue.

Despite increasing workforce participation by women, there still remains a significant disparity between the retirement incomes of men and women.

Both the incidence of having superannuation and average account balances are higher for men than for women. By way of example, in 2015-16 men held around 61.2 per cent of total account balances compared with around 38.7 per cent for women.[1] Some further information with respect to the relative amounts of superannuation of men and women can be found in the Annexure.

There are a number of factors which adversely affect women's security in retirement:

- broken working patterns
- the gender pay gap
- increasing casualisation of the workforce
- longevity risk
- structural issues in the superannuation system
- adequacy of superannuation overall
- domestic violence
- practical issues with family law and superannuation splitting.

The following paper outlines some measures that could, or do, assist in addressing these factors.

1 Broken working patterns

People spend periods out of paid employment, or work part-time/casually, for a variety of reasons:

- to care for family – especially children but can extend to other family members, such as parents
- due to illness or injury
- to study
- as a result of redundancy or an inability to find suitable employment
- to have a career break.

While the phenomenon of experiencing time out of the workforce is not confined to women, caring for children, and on occasions for parents or other family members, is most often performed by women.

Furthermore, people returning from parental leave (generally women) frequently return to the workforce on a part-time basis, especially on the birth/adoption of a second or subsequent child.

According to the Australian Bureau of Statistics (ABS), in 2016-17 the labour force participation rate of people aged 20-74 years was 66% for women and 78% for men. Women are much more likely than men to be working part-time-almost half of employed women worked part time (45%), compared with 16% of employed men, with this proportion rising to three in five (61%) of employed women with a child 5 and under, while less than one in ten fathers of young children worked part-time (8.4%)[2].

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[1] ASFA, *Superannuation account balances 2017*, Page 5 and Page 20

[2] ABS 4125.0 - Gender Indicators, Australia, Sept 2017

ASFA recommends that the Superannuation Guarantee should apply in all circumstances where income is replaced as a result of a workplace or legislative entitlement to receive a salary or wage, such as paid parental leave, salary continuance payments or worker's compensation.[3]

Given that a number of people, especially women, will spend some time out of the work force it is critical that they are given the opportunity to be able to 'catch-up' on their contributions to superannuation, if possible, when they return to the workforce.

In the 2016-17 Budget an unused concessional cap carry forward measure was announced. The measure was to address the effect of an annual cap on the ability of people with interrupted work patterns-for example women or carers-to accumulate superannuation balances commensurate with those who do not take breaks from the workforce.

With effect from 1 July 2018, individuals with superannuation balances under $500,000, who have not reached their concessional contributions cap in previous years, will be able to make additional concessional contributions. Unused concessional contributions cap amounts accrued from 1 July 2018 will be able to be carried forward, on a rolling basis, for a period of five consecutive years.

ASFA welcomes the introduction of the unused concessional cap carry forward measure, which comes into effect from 1 July 2018. In our view consideration could be given to extending the time period.

2 The gender pay gap

To the extent possible the design of the superannuation system needs to reflect the fact that, on average, women earn significantly less than men and as result have lower superannuation account balances.

In 2016, according to the ABS, the average female wage was 89% of the average male wage (non-managerial adult hourly ordinary time cash earnings), while the median female wage was 92% of the median male wage, this gap having remained relatively steady over the past decade.[4]

Concessional contributions to superannuation (generally those made by employers before tax is deducted) are taxed at a flat rate of 15%.

Given that

- for a member earning up to the tax-free threshold ($18,200) – the rate of income tax is zero
- for a member earning $37,000 per annum - the average rate of income tax they would pay is 9.65 per cent

taxing concessional contributions at the nominal/headline rate of 15 per cent means that, for those members, superannuation was not concessionally taxed – it was in fact taxed punitively.

As part of the 2010-11 Budget the Low Income Super Contribution (LISC) was announced, under which an individual with an adjusted taxable income up to $37,000 (beginning of the third income tax bracket) received a refund of an amount equivalent to the contributions tax paid on their concessional contributions, up to an annual maximum of $500.

[3] ASFA, *The future of Australia's super: a new framework for a better system,* November 2014, Page 27

[4] ABS, 4125.0, Op cit

After the Coalition government came into power in September 2013 it announced it would abolish the LISC after the 2012-13 year, however, as part of the deal to secure the passage of the bill to repeal the Mineral Resources Rent Tax the abolition of the LISC was deferred until the 2016-17 financial year.

In the 2016-17 Budget the government abolished the LISC and replaced it with the Low Income Superannuation Tax Offset (LISTO).

According to ASFA Research and Resource Centre approximately 3.1 million people will benefit from receiving the LISTO in 2017-18. It estimates that about 63 per cent of the beneficiaries will be women and that they will receive around $260 on average. Around 15 per cent of the recipients of the LISTO are aged 30 to 39.

For a person earning just $37,000 a year, aged 30 and retiring aged 67, if the LISTO applies over their working life it would boost their superannuation balance, in today's dollars, by around 15 per cent, from $222,700 to $255,000.

ASFA strongly supports the role played by the Low Income Superannuation Tax Offset (LISTO) in making superannuation fairer for those on low incomes by refunding the tax on their superannuation contributions.

Any changes to taxation arrangements should be reflected in the design and operation of the LISTO to ensure individuals never pay more tax on their superannuation than they do on their take home pay.

As the amount of any LISTO is determined by the ATO and paid directly into the superannuation accounts of those who have low incomes, the LISTO is an especially well targeted, effective measure that is efficient to administer. Given this, the LISC is an ideal mechanism which could be extended to provide targeted 'top-up' payments to the superannuation of low income individuals with small account balances, who would not be in a position to make additional contributions themselves, to enable their superannuation account to establish a material balance and benefit from compounding from an earlier point in time.

Consideration could also be given to extending the scheme to help address the issue of small superannuation balances through some form of 'top up' payment to low income individuals with small account balances.[5]

ASFA will be undertaking some work on the merits and implications of an additional 'top-up' for low income earners with small account balances to determine the feasibility and efficacy of introducing such an extension to the scheme over coming months.

3 Increasing casualisation of the workforce

In the Superannuation Guarantee (SG) regime there is a threshold of $450-a-month before SG contributions become payable. This has the effect of penalising low income earners and has a particular effect on those workers who work part time or combine a number of part time jobs. While this is not unique to women it does have a tendency to affect roles predominately performed by women, such as the caring professions, hospitality, retail, and cleaning. Often this affects women who desire to work part time due to child raising, or who are forced to do so through a lack of adequate or affordable childcare.

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[5] ASFA, Submission to the Senate Standing Committees on Economics on its inquiry into *Economic Security for Women in Retirement,* 17 December 2015, Page 6

ASFA recommends removing the $450-a-month threshold for superannuation guarantee.[6]

ASFA estimates that around 365,000 individuals (220,000 women and 145,000 men) would benefit from the removal of the threshold through higher retirement savings.[7]

4 Longevity risk

A woman at retirement at age 65 can be expected to live 3 to 4 years longer than a man.

This means that, all things being equal, a woman and woman with an equivalent amount of superannuation savings at retirement will see the woman either

- receiving a lower income throughout her retirement; or
- running out of her superannuation with a longer period left to live solely on the age pension

when compared with the man.

ASFA recommends employers should be able to contribute more for women without being considered to have breached anti-discrimination legislation.[8]

Amending the legislation would enable employers to make higher levels of contributions for their female employees, thereby boosting their superannuation, without having to apply to the Human Rights Commissioner for approval.

5 Structural issues in the superannuation system

There are structural issues in superannuation that can adversely affect the security of women in retirement. These include that

- superannuation is not compulsory for the self-employed; and
- employer compliance with the SG regime needs to be improved.

The self-employed account for around 10% of the Australian workforce.[9]

On average, the self-employed have lower superannuation balances than employees across the entire age distribution, and in general, self-employed women have relatively low balances. Around 20 per cent of the self-employed have no superannuation, compared with only 8 per cent of employees. Many of the self-employed who have some superannuation would have accumulated their balances when they were an employee at some stage in their working career.[10]

In the run up to retirement (people aged 60 to 64), the self-employed have around half the superannuation of employees. Only 30% of the self-employed aged 60 to 64 have more than $100,000 in superannuation, compared with almost 60% of employees.[11]

For both men and women, the self-employed have lower balances than employees across the entire age distribution.

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[6] ASFA, *A new framework*, Op cit, Page 26
[7] ASFA, *Pre-Budget Submission for the 2018-19 Budget*, February 2018, Page 5 and Page 16
[8] ASFA, *A new framework*, Op cit, Page 28
[9] ASFA, *Superannuation balances of the self-employed*, March 2018, Page 4
[10] Ibid
[11] Ibid

The average superannuation account balance for self-employed males in the 60 to 64 age cohort is around $143,000, compared with around $283,000 for male wage and salary earners.

For women, the disparity is even starker. The average balance for self-employed women aged 60 to 64 is around $83,000, compared with around $175,000 for wage and salary earners.

Across age cohorts, in general, female self-employed have significantly lower superannuation balances than both female employees and the male self-employed. In the run-up to retirement, the average balance for self-employed women is around half that of female employees and the male self-employed[12].

The issue of inadequate retirement savings of the self-employed will become increasingly important with the rise of the gig economy. The number of gig economy workers in Australia (those who use web-based platforms on a regular basis to obtain work and generally are self-employed) is likely to increase rapidly over coming years from the current 150,000 workers.[13]

ASFA recommends that compulsory superannuation should be extended to the self-employed.[14]

On 1 December 2016, the Senate referred an inquiry into the Superannuation Guarantee (SG) to the Senate Economics References Committee. In its report *Superbad – Wage theft and non-compliance of the Superannuation Guarantee*, released May 2017, the Committee was of the opinion that even a low percentage of SG non-compliance is a serious issue.[15] In their report the Committee made 32 recommendations intended to address the significant problem of SG non-compliance.

ASFA recommends that unpaid SG entitlements be included in the definition of unpaid employment entitlements for the purposes of the Fair Entitlements Guarantee.[16]

ASFA recommends that the ATO should have adequate systems, processes and people to ensure employers comply with their superannuation guarantee obligations with respect to their employees.[17]

6 Adequacy of superannuation overall

The current levels of superannuation savings do not provide economic security in retirement for a significant proportion of the Australian population. In 2015-16 the median amount of superannuation for those aged 60 to 64 was $110,000 for men and $36,000 for women, well below the $545,000 (single) and $640,000 (couple) needed for a comfortable retirement according to the ASFA Retirement Standard.[18]

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[12] Ibid, Page 5

[13] Ibid, age 6

[14] ASFA, *A new framework,* Op cit, Page 29

[15] Senate Economics References Committee, *Superbad – Wage theft and non-compliance of the Superannuation Guarantee*, May 2017, Paragraphs 3.24 and 3.26, Page 23

[16] ASFA, *Pre-Budget Submission for the 2018-19 Budget*, February 2018, Page 20 and ASFA, Submission to Treasury on the *Tax Laws Amendment (Taxation and Superannuation Guarantee Integrity Measures) Bill 2018*, 16 February 2018, Page 3

[17] ASFA, *A new framework,* Op cit, Page 30

[18] ASFA, *Retirement Standard,* 2018, Page 4

As the compulsory superannuation system matures both the proportion of retirees with superannuation and average balances will rise. There remains a need, however, to ensure the level of superannuation savings is sufficient to enable at least half the population to cover their expenditure, and have a 'comfortable' standard of living in retirement (as described in the ASFA Retirement Standard), by 2050.[19]

Any measure which lifts superannuation savings overall will serve to increase economic security in retirement for women and men alike.

ASFA recommends that the rate of Superannuation Guarantee should be increased from 9.5 percent to 12 percent as soon as possible.[20]

In 2011 the Allen Consulting Group analysed the effects of the proposed increase of the SG from its then level of nine per cent to 12 per cent and concluded:

- it would be beneficial for future retirees and so for current Australian workers
- the Age Pension alone is not enough
- a nine per cent superannuation guarantee is not enough
- the increase to 12 per cent would be acceptable to workers
- the increase to 12 per cent would be affordable for employers; and
- the increase in the superannuation guarantee to 12 per cent is affordable for the taxpayer.[21]

ASFA notes the Intergenerational Report provide an opportunity every five years to review the SG settings and model whether the prevailing rate of SG contributions will result in adequate income in retirement.

Increasing the rate of SG to 12 per cent will have a material impact on retirement security for women. By way of example, for a thirty-year old who earns $60,000 per year, and currently has a superannuation balance of $20,000, increasing the SG rate to 12 per cent by 2025 will mean that she will have $422,000 in superannuation savings at retirement (age 67), around $66,000 more than if the SG were to remain at its current rate.

Once the legislated increase in SG to 12 per cent of salary commences, ASFA projects that 50 per cent of Australians will reach the ASFA comfortable retirement standard by 2050, just over double the current proportion.

There is clear evidence that the ASFA comfortable retirement standard is what a large proportion of the community need and want. The large and ongoing Household, Income and Labour Dynamics in Australia (HILDA) Survey of the Australian population obtained information from people aged 45 and over, who were not yet retired, about their expectations for the (after-tax) income they will require in retirement in order to have a standard of living which they regard as satisfactory. These expectations on average aligned remarkably closely with the ASFA comfortable retirement standard. Importantly, the HILDA researchers concluded that, based on pre-retirement spending, people do not have unreasonably high expectations of their income requirements in retirement.

[19] ASFA, *A new framework*, Op cit, Page 3

[20] ASFA, *A new framework,* Op cit, Page 32

[21] The Allen Consulting Group, *Enhancing Financial Stability and Economic Growth, The Contribution of Superannuation*, August 2011

7 Domestic violence – potential early release

While early release of superannuation tends to reduce the amount available in retirement there are exceptional circumstances, such as those detailed in the provision relating to compassionate grounds and financial hardship, which warrant the early release to a member of some of their superannuation.

Of particular relevance in the context of women is the scourge of domestic violence. Given that domestic violence largely is directed against women, it has an effect not only on the security of women in retirement but potentially on their very survival. According to White Ribbon an average of one woman per week in Australia is killed by a current or former partner.[22] Domestic violence is the principal cause of homelessness for women and their children, with one in four children being exposed to domestic violence at some point in their lives.[23]

Often domestic violence is accompanied by financial abuse, that result in women experiencing financial hardship and ending up in a downward spiral of debt and poverty that, among other things, affects their ability to leave the relationship[24]. Obviously being caught in a poverty trap as a result of financial abuse will also have a direct, significant, detrimental effect on security in retirement.

ASFA supports the inclusion of domestic violence in the provisions with respect to the early release of superannuation. We suggest eligibility criteria be prescribed, applications be supported by evidence the member has accessed domestic violence support services and the amount released be restricted to sufficient to cover a bond to obtain new accommodation, together with short-term living costs.[25]

8 Practical issues with family law and superannuation splitting

Women's' Legal Service Victoria (WLSV) established the *Small Claims, Large Battles* project to investigate the barriers to fair financial outcomes in the family law system for vulnerable and disadvantaged women, many of whom had experienced family violence[26].

The WLSV found that:

- particularly for low-income households with few assets, superannuation can sometimes comprise the greatest share of the property pool because of compulsory contributions
- for 21% of women in the Small Claims project, superannuation was the only significant asset
- while the Family Law Act 1975 (Cth) (Family Law Act) recognises superannuation as a relationship asset, the process for obtaining superannuation splitting orders is too complex for vulnerable parties to navigate
    - without a former spouse voluntarily disclosing the name of their superannuation fund, there are no other mechanisms by which an individual can find the fund of their former partner
    - the complex, legalistic format of orders and procedural requirements make it extremely difficult to obtain superannuation splitting orders without legal assistance.[27]

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[22] *https://www.whiteribbon.org.au/understand-domestic-violence/facts-violence-women/domestic-violence-statistics/*
[23] Ibid
[24] Former Australian Domestic and Family Violence Clearinghouse (ADFVC), now part of the Gendered Violence Research Network at the University of New South Wales, *Research on the impact of family violence on women's financial security*, 2011
[25] ASFA submission to Treasury on Consultation Paper, *Early Release of Superannuation Benefits,* 12 February 2018
[26] Women's Legal Services Victoria, *Small claims, large battles: Achieving economic equality in the family law system*, March 2018
[27] Ibid, Page 5

Amongst other things, the WLSV recommended:

- an administrative mechanism to find the name of a former partner's superannuation fund
- a simplified form for superannuation for unrepresented parties
- as an interim measure, the Australian government should enable registrars at the family law courts to provide assistance to unrepresented parties to draft orders for a split of superannuation[28].

ASFA supports appropriate amendments to the family law regime to ensure people are able to access their entitlements, including splitting superannuation on separation/divorce.

[28] Ibid, Pages 7 & 8

ANNEXURE

Extent of issue

Economic security for women in retirement is an important issue. Despite increasing workforce participation by women, there still remains a significant disparity between the retirement incomes of men and women.

Average balances

The average superannuation balances achieved in 2015-16 for all persons 15 years of age and over were $111,853 for men and $68,499 for women. Among only those people with superannuation (which excludes persons with a nil balance) the average balance for males was around $153,000, while for females it was around $102,000.[29]

Approaching retirement (age 55 to 59)

HILDA survey sample data for 2014 of men and women aged 55 to 59 (together with some longitudinal data) reveals some statistical information with respect to this age cohort as they approach retirement.

Of women approaching retirement in 2014, about 50 per cent had a low balance (nil to $49,999) while for men it was 33 per cent. Only 18 per cent of women had a high balance ($200,000 or over) while 37 per cent of men did[30].

Of those with low account balances (nil to $49,999) the incidence of being in receipt of low wages (below $50,000) is more prevalent for women (42 per cent) than for men with low balances (27 per cent). Women with low superannuation balances are also less likely (0.3 per cent) to have an income $100,000 or over than men (4.7 per cent)[31].

For those with large superannuation balances ($200,000 or over) the data shows 21.6 per cent of women earned $100,000 or over, while 42.3 per cent of men did.

At retirement (aged 60 to 64)

Average superannuation balances at the time of retirement in 2015-16 were $270,710 for men and $157,050 for women. Median superannuation balances are significantly lower, at $110,000 for men and only $36,000 for women, which reflects the substantial proportion of people who have nil, or very little, superannuation.[32]

Around 65 per cent of women within the 60 to 64 age group had superannuation balances less than $100,000, with around 50 per cent of women having nil or less than $40,000. For men in that age group, around 50 per cent had balances of less than $100,000.

For men in the 60 to 64 age group with more than $100,000 in superannuation, the average balance was around $505,000, while for women in that cohort the average balance was $426,000.[33]

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[29] ASFA, *Superannuation account balances by age and gender,* October 2017, Page 4

[30] HILDA, Wave 14 (2014), *Characteristics of males and females with low superannuation balances near retirement ages*, Table 1

[31] Ibid, Table 2

[32] ASFA, *Superannuation account balances 2017*, Op. cit. Page 5 and Page 13

[33] Ibid, Page 5 and Page 16

Around 27 per cent of men and 33 per cent of women reported having no superannuation. Around 45 per cent of women aged between 65 and 69 have no superannuation. Some of the women in this age group will never have had superannuation, while others will have had superannuation at some stage but will have withdrawn their benefit.[34]

Both the incidence of having superannuation and average account balances are higher for men than for women. **Men held around 61.2 per cent of total account balances in 2015-16 compared with around 38.7 per cent for women.**[35]

[34] Ibid, Page 5 and Page 12
[35] Ibid, Page 5 and Page 20