

Senate Inquiry into the economic security for women in retirement

## Introduction

*'It's my responsibility, but also the responsibility of my employer and the government, particularly as a female...it's a shared responsibility and a social responsibility to ensure women are financially secure.'*

*Victorian Women's Trust survey participant, 2014.*

The Australian superannuation system is a strong social and economic pillar supporting the economic security of retirees. However, by rewarding long and continuous periods of employment, and penalising breaks from the paid workforce, it does not reflect the lived experiences of many Australian women over their lifetime. Further, the superannuation system is reflective of the individualised 'adult worker' model which simplifies significant gender equity issues by assuming men and women participate on equal terms in the workforce.<sup>i</sup>

Although the superannuation system was designed to be 'universal', there are many women who fall through its safety net. It is neither universal in terms of equal coverage and fairness.

The superannuation system's entrenched assumptions about gender 'sameness' and universality has done little to address the systematic disadvantage to women in the workforce where the voices of ordinary women tend not to be heard, articulated or sought.

As the Senate Inquiry has noted, although women's increasing workforce participation has contributed significantly to Australia's economic productivity and to women's financial independence, significant socio-economic disparity remains between men and women, illustrated by the pay gap between men and women with a superannuation pay gap at 46.6 per cent.<sup>ii</sup>

Increases in women's workforce participation and superannuation savings have not lead to meaningful discussion and resolution of the wider societal and cultural expectations which constrain women's social equality and financial security. These expectations include women's caring responsibilities, unpaid work, occupational choices, women's safety in society and the gender pay gap, among others. The Victorian Women's Trust has been interested in these issues for a long time and is also addressing these in other current work.

We have identified the many factors that affect women's potential security in retirement including their unpaid work, wage inequality, under-saving, not planning for retirement at all or planning in later life as well as confusion around the superannuation system. The superannuation system is not working for women.

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The superannuation system cannot be said to be working for women when:

- The enormity of women's unpaid work contribution as primary carers to Australian society and the economy is still not properly recognised and goes without adequate material recompense;
- 1 in 3 women will retire with no superannuation at all.<sup>iii</sup>
- Around 250,000 Australians miss out on super due to the \$450-a-month-Super-Guarantee (SG) threshold, most of them women.<sup>iv</sup>
- Most of Australia's single-parent families (87%) are headed by women.<sup>v</sup> Single female parents are more likely than other household types to be reliant on the full aged pension as their sole source of income and are at greatest risk of persistent poverty.<sup>vi</sup>
- More than half of women currently aged 25-59 will retire on incomes below a comfortable standard.<sup>vii</sup>
- The average amount of superannuation held by men is close to double that of women.<sup>viii</sup>

In this context, the Senate Inquiry is a welcome opportunity in which to engage with these issues and we are confident they will feature in the Inquiry at many levels. For our purposes here, our particular interest is to make sure that the superannuation issues affecting young women are neither downplayed nor overlooked.

This submission responds to the following terms of reference for the Senate Inquiry:

1. The extent of the gender retirement income gap and causes for this gap including potential drivers and;
2. What measures would provide women with access to adequate and secure retirement incomes.

### **Young Australian women and superannuation**

This submission draws on previous research and other initiatives undertaken by the Victorian Women's Trust over the past decade or more to highlight the issue of young women's levels of financial literacy and relative disengagement with the superannuation system.

Cameron (2013) has remarked that 'nowhere is the extent of gender inequality more starkly revealed than in the lifetime earnings and superannuation savings of men and women.'<sup>ix</sup> Retired women and those currently embedded in the superannuation system have already been significantly disadvantaged by this inequity, revealed by the 46.6 per cent superannuation gender pay gap.

Young Australian women are not confident and knowledgeable enough about the superannuation system and how to effectively plan their retirement. This is more pronounced in women with lower education levels, those who live in regional areas and those on a low income.<sup>x</sup>

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A 2014 research project *Super Young Women* undertaken by Ruth Gale for the Trust concluded that women, particularly young women, are in a vulnerable position in terms of their long-term financial security due to gender inequity in the superannuation system combined with some of the lowest levels of financial literacy.

This submission argues that any discussion of the economic security of women in retirement needs to consider that young women are left behind early on in their engagement with both the workforce and superannuation system.

### **The sharp and limiting paradox of women's unpaid work as primary carers**

Over many decades, millions of Australian women have enjoyed less economic security than others for their roles as unpaid primary carers simply because our society has not validated their contribution and instituted formal strategies for adequate financial recompense.

More immediately, and important to stress now, is an economic dilemma faced by many young women.

On one hand, there are increasing numbers of young women who have successfully invested in tertiary education and entered the paid workforce. As such, they have begun to engage with the superannuation system through their own and their employer's contributions. When it comes time for them to start a family, they face the prospect of discontinued contributions or compromised and slower growth of their superannuation amount. In the absence of any practical, countervailing measures, when a younger woman then takes significant time out of the paid workforce to raise children, they are more often than not seriously disadvantaged in their ability to recover earnings and grow their potential retirement income for later life.

On the other hand, there are young women who do not enter the paid workforce, or who are at engagement levels which do not attract superannuation contributions. Given that many of these women undertake primary care for others across much of their adult their lifetime, they are left with relatively less economic capacity to support themselves in later life by limited engagement with the superannuation system.

This dilemma is often labelled in society as a 'choice'. Is it fair for young women to be financially disadvantaged by their socially constructed role as carers when the same disadvantage is not usually shouldered by men?

Without efforts to come to terms with the issue of unpaid work, access to superannuation reinforces a social and economic divide between the retirement incomes of those who work and the retirement incomes of those in unpaid work.

Given the knowledge we have about the current superannuation system's inequities, policy makers and our national parliament are in a powerful position to resolve these heavily gendered inequities for those currently building their retirement savings.

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**Senate Inquiry terms of reference**

**1. The extent of the gender retirement income gap and causes for this gap including potential drivers**

**A. Younger women's superannuation disadvantage**

The Association of Super Funds Australia (ASFA) has identified that young Australian women are at disadvantaged early on in a system where young people are already challenged in funding their own retirement:

*'The gender gap is closing, but women still lag substantially when it comes to average account balances at all ages...young people entering the workforce today, many of whom will receive the full benefits of the increase in the Superannuation Guarantee (SG) to 12 per cent still need to contribute over and above compulsory contributions to their superannuation to ensure that they have adequate retirement savings.'*<sup>xii</sup>

Industry Super Australia, in their superannuation modelling report with Rice Warner released in June 2015 also commented that 'younger women face a difficult future' as more than half of women currently aged 25-29 will retire on incomes below a comfortable standard.<sup>xiii</sup>

ASFA has calculated that one in three women will retire with no superannuation at all. Further, that around 250,000 Australians, most of them women, miss out on super due to the \$450-a-month-SG-threshold. This is a substantial negative and potentially life-long predicament for young women as they enter the superannuation system. It is vital that these inequities are rectified now rather than perpetuate deficiencies in the system which imposes hidden costs on individuals and society at large.

**B. Average super balances 2011-12**

It has been widely recognised that there is a superannuation pay gap yet many studies comment on this gap at retirement. It must be understood that young women remain behind their male counterparts in terms of super balances from the time they enter the workforce at 15 as shown below.

Indeed, young girls are learning early on that their work isn't worth as much as boys. The Heritage Bank 2015 Pocket Money Survey revealed that girls are rewarded on average 11 per cent less than boys for completing their chores.<sup>xiv</sup> There are deeply-embedded cultural assumptions and issues here which require contestation and remediation.

**Average superannuation balances of different demographic groups in 2011-12 by gender calculated by ASFA.**

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	Male	Female	Persons
Age	Mean superannuation balance (\$)		
15 to 19 years	603	398	503
20 to 24 years	5,533	4,403	4,981
25 to 29 years	18,899	13,399	16,168
30 to 34 years	32,819	22,765	27,772
35 to 39 years	53,221	36,142	44,592
40 to 44 years	66,503	43,826	55,020
45 to 49 years	102,358	60,618	81,231

Source: ASFA 2014

Ali and colleagues (2014) undertook Australia’s first in-depth, large-scale academic study examining superannuation knowledge, behaviour and attitudes among the general population of young adults in 2014.<sup>xiv</sup>

Of the 994 participants (aged 14-34) who completed their survey, the median superannuation balance was \$22,000 with a \$4,000 superannuation savings gap between male and female participants.<sup>xv</sup>

Further, the study found that while nearly one quarter (24 per cent) of male surveyed had under \$10,000 in superannuation, nearly one third (32.4 per cent) of females had under \$10,000 in superannuation.<sup>xvi</sup>

This early gender inequity in the superannuation system combined with some of the lowest levels of financial literacy points to many barriers for young women working to achieve financial security in retirement.

### **C. Super Young Women**

In 2014, the Victorian Women’s Trust undertook research into the functional superannuation literacy of 115 women in their 20s and early 30s using an online survey called *Super Young Women*.<sup>xvii</sup>

The aim of *Super Young Women* was to evaluate what young Australian women actually know and feel about their superannuation in order to explore ways to improve young women’s own financial planning and security.

The survey was completed online using the web-based program Survey Monkey. The survey was divided into three sections: thoughts and impressions, general knowledge and future expectations.

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Five questions related to the participants understand of superannuation and how they felt about it. Nine questions related to general knowledge of the superannuation system as well as specific details relating to the participant's super fund. Three questions related to planning for retirement and future expectations.

Overall, *Super Young Women* found that young women generally identified themselves as being accountable for their own retirement income but in the absence of targeted information, they did not possess the functional literacy to be able to make informed decisions about their own super or improve their superannuation.

- Areas of difficulty for survey respondents included:
- how contributions to superannuation are taxed
- the minimum age when superannuation is accessible
- how the system works
- where to find information on pensions and funds
- confusion about superannuation terminology.

When asked detailed questions aimed at revealing their functional understanding of the superannuation system, the majority of respondents displayed a relatively low level of functional literacy on their superannuation.

For instance:

- 77.9 per cent (85 individuals) did not know the fees they paid;
- 58.9 per cent (64) did not know the monetary amount their employer contributed;
- an overwhelming 89 per cent (96) did not know the current SG contribution;
- 54.7 per cent of respondents has lost super;
- 73.5 per cent (74) had not made voluntary contributions; and
- up to 86 per cent of respondents had not tried to figure out how much they needed for retirement.

The Trust's survey population was not randomly selected and as such, we do not claim representativeness. However, it does contain useful data regarding young Australian women's knowledge and opinions. There are important insights to be gained from studies such as this which bring to light young Australian women's experiences with superannuation. The findings of *Super Young Women* are also reflected in larger studies into young Australian adult's knowledge, behaviour and attitudes towards superannuation.

Ali and colleagues (2014) commented in their study that 'young people generally lack a basic understanding of how superannuation operates, do not engage much with their superannuation funds and have poor or uncertain expectations about their prospects for retirement and superannuation's place within the overall retirement plan'.<sup>xviii</sup>

The typical young Australian has stayed with the same fund; uses the default investment option; does not make voluntary contributions and; is less well informed than the general population about superannuation.<sup>xix</sup>

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Although young Australians are generally less engaged in the superannuation system than older Australians, young Australian women are less confident and less knowledgeable than their male counterparts about the superannuation system and how to effectively plan their retirement. This is more pronounced in women with lower education levels, those who live in regional areas and those who are on a low income.<sup>xx</sup>

HSBC's global report *The Future of Retirement: A balancing act* released in January 2015 also found young Australians to be under-confident regarding retirement and superannuation. According to HSBC's report 56 per cent of Australians fear financial hardship in retirement with those aged 25-44 being most likely worldwide to hold that fear. Sixteen per cent of Australians expect that they will never be able to fully retire. Of those, 64 per cent of Australians believe they will never be able to fully retire because they cannot afford to.<sup>xxi</sup>

These results indicate that there is serious need for government, employers, and superannuation funds to address the disengagement, anxiety, illiteracy and disinterestedness in superannuation among young Australians and especially young women. As expressed by one *Super Young Women* survey participant, ensuring that women are financially secure is a shared responsibility.

Giving women the best opportunity to benefit from the superannuation system is a core component of their financial security in retirement. There are wide-ranging benefits of economic security for women into their older age – peace of mind, mental health and well-being, lifestyle (including housing, travel, other leisure pursuits) choices which impact positively on the livelihoods of others.

### **2. What measures would provide women with access to adequate and secure retirement incomes?**

Below are recommendations to the Government for actions which would help provide women with access to adequate and secure retirement incomes.

- **Target communication at women in partnership with Super Funds**  
Research tells us that super funds and Government are not effectively communicating knowledge to women or supporting their decision-making in regard to retirement.  
Firstly, here is a real need for both Government and Super funds to tailor their communications and strategies on superannuation to reflect realities and in particular the lived experience of Australian women. Women may have unexpected career breaks, caring responsibilities, relationship statuses and health issues, among other, which impede their ability to build their superannuation balances.  
Assumptions and language that does not reflect these realities, coupled with financial jargon creates barriers to women gaining relevant and useful superannuation information that enhances levels of financial literacy.

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- **Motivate and encourage women to engage with their superannuation**

It is vital that young women value the importance and benefits of engaging with their retirement savings. Strategies that women respond well to such as a personalised approach and learning in small groups may be a way to engage women and build superannuation confidence. Fifteen years ago the Trust ran women's finance seminars on economic security for women including superannuation. The Trust has also pioneered a "kitchen table" model of dialogue with women, helping them to articulate their interests and concerns. School programs may help children learn basic superannuation concepts to kick-start engagement in superannuation early on. Other initiatives such as personalised one-on-one meetings between superannuation insurers and individuals in workplaces may be effective.

- **Government outline core objectives of the superannuation system and build certainty into Government superannuation policy**

As commented by the current Treasurer Scott Morrison, 'when you're asking people from a very young age to set aside what they've earned for 20 to 30 years, they need to have confidence and certainty about what will happen in 20 to 30 years from now.'<sup>xxii</sup> Clearly stated objectives of the superannuation system with built in certainty by legislators are crucial in allowing women to confidently plan for their retirement from a young age.

- **Consider extending the low income super contributions (LISC) scheme beyond 30 June 2017**

Industry Super Australia has calculated that restoring the LISC combined with scheduled increases in the Superannuation Guarantee will lift retirement incomes for women by up to 10 per cent.<sup>xxiii</sup>

- **Consider higher contribution rates for women as recommended in Anup Basu and Michael Drew's article submitted to the Senate Inquiry (submission 1).**

Basu and Drew concluded in their article that, 'the contribution rates for women need to be set considerably higher than the current mandatory rate to mitigate the gender inequality in wealth outcomes at retirement.'<sup>xxiv</sup> This is an important point for the Government to consider as not all workers are created equal under the current superannuation system.

- **Include Superannuation contributions in the paid parental leave system**

ASFA has calculated that including superannuation in paid parental leave could add thousands of dollars to a woman's final retirement balance.<sup>xxv</sup> According to ASFA, six months of superannuation guarantees applied to the parental leave of a 35 year old women earning \$50,000 could \$10,000 to her final super balance.<sup>xxvi</sup> Raising children is a significant life event which disadvantages many women in retirement as primary carers of their children. Mitigating this disadvantage through superannuation contributions built into paid parental leave is one way to improve women's financial security in retirement.



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## Conclusion

The financial security of women in retirement is a significant issue in Australia. The Victorian Women's Trust identifies that many factors affect women's potential security in retirement including wage inequality, under saving, not planning for retirement at all or planning in later life as well as confusion around the superannuation system. Young women, despite lifelong engagement with the superannuation system, are in danger of financial insecurity in their later retirement due to the gendered inequities that are currently built into the system and which will not away without effective and sophisticated structural intervention.

The Trust's research project *Super Young Women* found that the superannuation system to date has not effectively engaged young Australian women. Wider research has found that young Australians and young women in particular have little knowledge or confidence in planning their retirement. Targeted communication and minimising of jargon will allow more young women to make informed decisions about their own superannuation and improve their financial outcomes in retirement. Wider engagement strategies by fund providers and Government may also help young women become more actively involved with their super.

The Government needs to make the case to young women that the superannuation system is designed to help them fund their retirement. In communicating a clear and consistent superannuation policy to individuals, that reflects the lived experiences of Australian women and benefits them, more women will come to believe and invest in the system from a young age.

Changes to the superannuation system such as extending the LISC scheme, supporting higher super contributions to women and including superannuation contributions in the paid parental leave scheme would all improve women's economic security in retirement.

The Trust believes that there is a need for government, employers, superannuation funds and the broader community to take on the shared responsibility of women's economic security in retirement.

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<sup>i</sup> Ingold, J & Etherington, D 2013 'Work, welfare and gender inequalities: an analysis for activation strategies for partnered women in the UK, Australia and Denmark', *Work, employment and society*, vol. 27, no. 4, pp. 621-638.

<sup>ii</sup> Smith, L 19 August 2015, 'Senate inquiry into economic security for women in retirement', Sole Purpose Test website, viewed 1 October 2015, <http://www.solepurposetest.com/news/senate-inquiry-security-women/>

<sup>iii</sup> Smith, L 2 March 2015, *ASFA encouraging women to boost their superannuation*, ASFA, viewed 15 Sep 2015, <<http://www.solepurposetest.com/news/asfa-women-boost-superannuation/>>

<sup>iv</sup> Ibid.

<sup>v</sup> ABS 2007, Australian Social Trends, viewed 8 September 2015, <http://www.abs.gov.au/ausstats/abs@.nsf/0/F4B15709EC89CB1ECA25732C002079B2?opendocument>

<sup>vi</sup> ANZ July 2015, *Women's Report: Barriers to Achieving Financial Gender Equality*, ANZ, p.67, viewed 8 September 2015, <[www.women.anz.com/content/dam/Women/Documents/pdf/ANZ\\_Womens\\_Report\\_July\\_2015.pdf](http://www.women.anz.com/content/dam/Women/Documents/pdf/ANZ_Womens_Report_July_2015.pdf)>

<sup>vii</sup> Industry Super Australia June 2015, *Nearly half of Australians will not have a comfortable retirement*, viewed 6 October 2015, <http://www.industrysuperaustralia.com/publications/reports/nearly-half-of-australians-will-not-have-a-comfortable-retirement/>

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- <sup>xv</sup> Ibid., 42.
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- <sup>xix</sup> Ibid., 96.
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