

SUBMISSION TO THE PRODUCTIVITY COMMISSION REGARDING THE DRAFT RESEARCH REPORT 'ECONOMIC IMPLICATIONS OF AN AGEING AUSTRALIA

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Retirement.**

INTRODUCTION

First and foremost I would like to commend the Productivity Commission for their very timely and very useful and important Report. This document provides an important advance and builds upon the findings and recommendations of the 2002 Intergenerational Report.

However, once again I find there is a most disturbing neglect of the issues of gender in this Report. While I applaud the recognition of gender differences in the section of the Report concerning the impacts on labour supply and economic growth, I must draw to the attention of the Productivity Commission what I consider to be very significant omissions regarding gender aspects which are necessary to address in consideration of the economic implications of an ageing Australia.

There are important issues regarding gender which must be recognised in any considerations of the future economic, social and personal futures of Australian men and women and of Australian society into the future. These are issues which will continue to affect the life chances and lifestyles of all Australians and it is a requirement that they be addressed.

In this submission I only address the issue of Australian women's continuing disadvantage in regard to the accumulation of retirement savings and the difficulties which this will present for women and their families and for the Australian Government in having to cope with the increasing demands of the growing proportions of older women on health welfare and other government services.

ISSUES OF ADEQUACY AND EQUITY FOR WOMEN IN AN AGEING AUSTRALIA

Australian women, on average, will retire from the paid workforce with about half as much retirement savings as men. Women on average live longer than men and increasing numbers of women in Australia are expected to live well into their 80s and 90s (ABS, 2048.0, 2001). Additionally, as they age, more women will live alone and be

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

In an occupation-linked system of superannuation, women accumulate considerably less retirement savings than men. A complex array of constraints – broadly summarised as industrial; institutional; legal/political; social/cultural and attitudinal – impact upon women's retirement savings options and opportunities for financially independent and comfortable retirement lifestyles.

Why are women disadvantaged?

As compulsory retirement-income savings schemes are dependent upon an individual employee's paid employment profile and wage level, many women are unable to accumulate adequate retirement savings over the course of their working lives. The problem is not enough time and not enough money.

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

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

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

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

The majority of women will accumulate significantly less superannuation than men for the following reasons:

1. Women are far more likely to work part-year, part-time or in casual positions and to work fewer hours than men. In 1999-2000, 43% of female employees worked part-time, compared to 13% of male employees and women accounted for only 35.8% of the total hours worked per week. Average working hours per week recorded for women was 28.4 hours, in comparison to 39.5 hours for males. (ABS, Cat 4153.0)
2. Even when working full-time, women's average earnings amount to only 89% of male average full-time earnings. While the earnings gap between men and women has reportedly remained relatively stable in the past 10 years, a recent Australian study argues that a less than benign picture is evident beneath these aggregate trends. Growing disparities in average earnings between part-time/casual and full-time/permanent work and an increasing dispersion of wages within occupations (measured on equal pay female/male comparisons, like comparable worth) suggest diminishing incomes for women. These factors are resulting in further erosion of women's wages – in effect women continue to 'swim upstream'.
3. Women are concentrated in the lower-paid sectors of the workforce. Many are in low-paying, low-status occupations such as cleaners, teachers and nurses. Such low-paid employment sectors are particularly at risk in terms of non-compliance by employers. The Australian Tax Office (ATO) reports a lack of awareness in relation to SGC entitlements for casuals and part-time employees amongst many employers. Non-compliance is more common in industries with high levels of female employees, such as hairdressing. Female contractors and part-time female employees are particularly at risk according to the ATO (ATO Superannuation Guarantee Audit, 1998). Most importantly, individuals who are paid less than \$450 per month are not entitled to employer superannuation contributions. Many women's total earnings exceed \$450 per month, but if they work for several different employers, not one of those jobs may reach the \$450 benchmark. Consequently, no superannuation is received. Even within professional occupations, such as law and medicine, women are over-represented in lower paid positions.
4. Interruptions to women's paid employment are frequent, of varying duration, and are inevitable throughout the life course. Due to 'carer' obligations – children and elderly, or ill relatives – the only realistic option for most women is part-time and/or casual paid work for certain periods. Women who are sole parents are particularly disadvantaged. As a direct result of absence from the paid workforce, apart from the loss of lifetime income and superannuation, women also suffer from deterioration of their marketable skills and impaired promotional patterns. These disadvantages are compounded when

combined with other factors such as low skill levels; non-English speaking backgrounds resulting in poor language and literacy; Aboriginality and the effects of acute or chronic disability.

5. With such broken work patterns, women are not in the paid workforce for sufficient periods to accumulate adequate superannuation savings. According to the most recent estimate – based on the 1999 OECD Economic Survey of Australia by the Association of Superannuation Funds of Australia (ASFA) – on average, women are currently in the workforce for a full-time equivalent of 20 years, while men work for 38 years. Research predicts that even with an expected increase in the female labour force participation over the next 30 years, women's working lives will only total an average of 28 years by 2030.
6. Although increasing numbers of women are re-entering the paid workforce when their families become relatively independent, superannuation contributions late in life (or for short periods) cannot accumulate compound interest advantages. Furthermore, current taxation imposts – such as the additional contributions surcharge – discourage additional voluntary contributions over short periods.
7. Women from non-English speaking backgrounds are particularly at risk of being denied superannuation contributions. Unemployment rates are high amongst women from such backgrounds and those in employment are more likely to work in manual, unskilled jobs without proper entitlements. Some are known to be victims of exploitation – labouring in 'sweat shop' conditions – where they are denied access to even a minimum wage. Under these circumstances, the likelihood of receiving any superannuation benefit is remote (Olsberg, 1997).
8. The same is true for Aboriginal women, who consistently suffer from underemployment and unemployment and rarely have the opportunity to accumulate any retirement savings. The shameful tragedy is that the shorter life expectancy of Aboriginal women reduces the pressure of providing for their income needs in old age.
9. The position of women who are not in the paid workforce or who are registered as unemployed is particularly invidious as they continue to have no superannuation entitlements at all.

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

in comparison to men – and will accumulate insufficient retirement savings to be financially independent and secure in their old age.

Solutions

The low level of understanding and commitment in the community – by women and men – towards superannuation and retirement savings, in general, must be addressed by way of extensive consumer education programs. This becomes particularly relevant with the imminent introduction of Choice of Fund for Australian employees on July 1, 2005. In addition to the dissemination of easy to understand and effective information, details of retirement savings outcomes and the effects of fund charges must always include gender sensitive information, such as outcomes based upon female models of lifetime earnings.

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

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

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

Further amendment to the current structure of superannuation is required in order to allow those not in the paid workforce to accumulate superannuation assets in their own name. The extension of spouse contributions – complemented by a provision allowing an employee to enter into an arrangement with his/her superannuation fund to contribute regularly to the scheme on behalf of his or her spouse with little additional cost has been beneficial. But more reforms are necessary.

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

Superannuation fees and charges diminish superannuation retirement savings and women are disproportionately affected. Firstly, because they tend to hold small balances and secondly, because they are likely to have multiple accounts.

The government has already taken steps to ameliorate the impact of fees and charges on small accounts. Other countries have developed and implemented new products to solve these problems. It is important that tried and tested overseas initiatives be explored for their relevance in the Australian context.

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

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

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

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

It is important to have a broader representation of women in decision-making positions across all sectors of superannuation, but particularly on the trustee boards of the funds that have particular member-focused responsibilities. The role of women in the governance of Australia's superannuation and retirement system must be expanded. Women are actually needed in the system. Female managers are better able to reconcile the dynamic tensions of change in organisations that are impeded by tradition-bound inertia.

Consideration of the special economic implications of an ageing Australia for Australian women is an undeniable right, and it is not so much for women to argue for such consideration, as for men to justify the continued denial of such consideration.

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Further exploration of these issues is available in the following publications by the author of this submission.

Women and Superannuation: Still Ms...ing Out in Journal of Australian Political Economy, Number 53, June 2004, pp 139 –160.

Women, Superannuation and Retirement: Grim Prospects Despite Policy Changes, Just Policy forthcoming 2005.

Ms...ing Out? Australian Women and Retirement Savings. Research Monograph published by UNSW Research Centre on Ageing & Retirement. September, 2001.

Ageing & Active: Australia in the 21st Century, Diana Olsberg (ed) UNSW, ISBN 0 73340717x. 2000

'*Making Economic Decisions at Retirement*' in Diana Olsberg (ed) *Ageing & Active: Australia in the 21st Century*, UNSW, ISBN 0 73340717x. 2000.

Ageing and Money: Australia's Retirement Revolution, Allen & Unwin, Sydney, ISBN 1 86448 047 5 1997.

'*Australia, A World Leader in Retirement Income Policy-making*' in *Sociology of Aging*, International Sociological Association, 1996.

"*New Directions in Corporate Governance: Women On Trustee Boards of Superannuation Funds*" in Economic Planning & Advisory Committee (EPAC) Background Paper No 41, *Women & Superannuation*, AGPS, Canberra, August, 1994.