

# ASIA-PACIFIC REGULATORS' AND INDUSTRY DIALOGUE

## *Session 4*

### Protecting the Interests of Pension Users

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## **SUMMARY PAPER**

### **Women and pensions**

Three main demographic dynamics are driving the ageing of populations globally: people are living longer, they are having fewer children and they are retiring earlier. The importance of these dynamics in the current context is the increased proportion of the population that is in retirement and the increased age dependency ratio, the fiscal consequence of the first phenomenon. It is worth noting that these dynamics are occurring at different rates across different countries. In the Asian region more than 910 million people will be over 65, up from around 250 million today (Piggott, 2007).

Women's participation in the workplace, expectations underpinning family structures and gender defined roles within the family are changing. These changes have been quite profound in Western countries and offer insights and perhaps raise issues for countries in the Asian region where change is also taking place. Population trends underscore the differential impact of imperfect planning for retirement for men and women. Over the past 50 years the life expectancy (at birth) of Australian men and women has increased by ten years to 77 and 83 respectively.

Prior to the introduction of the SGC, those accumulating retirement savings were primarily male, white collar professional or management employees, usually in public sector employment. Women were particularly disadvantaged. In the early 1980s, less than 20% of female employees in private sector employment received superannuation entitlements. In many companies – even in some sectors of government employment – explicit forms of discrimination existed. Now, as a result of equal opportunity legislation and other social and legal factors women are not discriminated against in terms of provision of superannuation benefits.

Nevertheless, women in general are not as well off as men, partly as a result of the legacy of policies prior to the introduction of the SGC in 1992, but also because of work and employment patterns for women compared to men. The average retirement payout for 2006-2007 was estimated by The Association of Superfunds in Australia (2007) to be around \$130,000 for men and around \$45,000 for women, with the estimate for the average accumulation amount for men (women) of \$68,000 (\$29,000). Assuming only compulsory super the projected payout for a man (woman) in the 35-44 age group (in 2007) and retiring at age 60 is \$183,000 (\$93,000), with around 70% of people in the cohort having a lower amount in their superannuation balance.

## **Women tend to be disadvantaged**

As contributions are usually linked to earnings, many women will be unable to accumulate adequate retirement savings over the course of their working lives.

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. Mechanisms for overcoming and dealing with longevity risk may be more important for women as a result. The real challenge for coping with the financial burden of longevity were to accumulate a reasonable level of retirement savings, a reasonable net return on investments during the retirement phase, and to find means of dealing with the financial risk associated with longer than average life expectancy. ASFA views the greatest challenge as accumulating a reasonable level of financial savings by the time of retirement.

The increasing incidence of divorce and 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.

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.

Are women more disadvantaged because they tend to be over represented in the part-time and casual workforce? Multiple superannuation accounts may impose higher costs and fees on the superannuant. Research undertaken by The Association of Superannuation Funds of Australia (2007) suggests that only a small proportion of workers changing jobs elect to keep their old fund when they start a new job.

## **Solutions**

Ignoring the legacy of past practices, the best way forward to remove disparity in pension savings between men and women is to encourage greater employment during working lives with the help of active labour market policies for women. This will be the most effective policy tool in raising women's pensions in the future. 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. Moreover, working careers for older women, through equalisation of pension age, and through work incentives in public pension schemes,

are possible partial solutions. Measures to reduce the gender pay gap contribute towards both increasing earnings and employment for women.

The first pillar in the Australian system, the means tested Age Pension, provides a safety net for the elderly and women tend to be benefitted disproportionately (because there are 25% more women than men above the age of 65 and also because women on average have lower accumulated wealth)

To recognise the value of caring services offered by women, some mechanism of pension crediting for genuine absences from the labour market is needed. Pension crediting is part of reform in many European countries, especially for mothers with caring responsibilities and for carers of disabled or elderly family members (more often women than men). Sweden has a generous system that grants credits to the pension scheme for child-carers. Are further amendments to the current structure of superannuation required in order to allow those not in the paid workforce to accumulate superannuation assets in their own name?

The low level of understanding and commitment in the community – by women and men – towards superannuation and retirement savings can be addressed by way of extensive consumer education programs. In addition to the dissemination of easy to understand and effective information, investment options based upon female models of lifetime earnings should be made available to women.

Superannuation fees and charges diminish superannuation retirement savings and women are disproportionately affected because they tend to hold small balances. Even so they are less likely to hold multiple accounts (Clare, 2007).

An increase in the average retirement age is one ideal solution to the problem of an ageing population. Reforms designed to slow and reverse trends to early retirement are being implemented here and in other countries.

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 needs to be expanded.

## **References**

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