

# *Retirement savings and gender: an Australasian comparison*

---

**Helen Hodgson<sup>1</sup> and Lisa Marriott<sup>2</sup>**

## **Abstract**

*The issues associated with low levels of retirement savings for women are well established. This study quantifies the extent of the problem in Australia and New Zealand and investigates the primary causes of the issue. It subsequently canvases approaches adopted or proposed internationally to assess the likelihood that the issue may be ameliorated with an amended policy approach. We suggest that a combination of policy tools may be adopted in each country to help address the issue.*

*In New Zealand, a combination of carer credits or changes to the co-contribution model, plus introduction of superannuation splitting and lifetime contribution caps is likely to improve levels of retirement savings for women, along with lower income earners in general. In Australia the existing tools used to assist low income earners could be extended to be available to carers while they are unable to participate in the workforce. Adoption of these approaches would ensure that New Zealand, with a retirement savings gender gap of 25 per cent, which is significantly less than Australia's gap of 77 per cent, can learn from Australian experience and introduce policies earlier to ensure that the problem does not become as large as in Australia.*

---

1 Helen Hodgson is a Senior Lecturer in the School of Taxation and Business Law, Australian School of Business, University of New South Wales, Australia. Contact details: h.hodgson@unsw.edu.au, telephone +61 2 9385 9560.

2 Lisa Marriott is a Senior Lecturer in the School of Accounting and Commercial Law, Victoria Business School, Victoria University of Wellington, New Zealand. Contact details: Lisa.Marriott@vuw.ac.nz, telephone +64 4 463 5938.

This paper was accepted for publication on 5 June 2013 and is based on the law as it stood at that date.

# 1 INTRODUCTION

Gender inequality is a well-established economic and social issue. The problem is effectively captured by the OECD: 'women continue to earn less than men, are less likely to make it to the top of the career ladder, and are more likely to spend their final years in poverty'.<sup>3</sup> It is the last of these points that is the topic of this article: levels of retirement savings for women. It is well known that women will enter retirement savings with lower levels of both work and privately accumulated retirement savings than men. Moreover, these lower levels of retirement savings have to support women for longer periods, as women on average live for four years longer than men. This results in women over 65 years of age throughout the OECD being 1.5 times more likely to live in poverty than men of the same age.<sup>4</sup>

Australia has a compulsory employment-related retirement savings scheme: the Superannuation Guarantee. This was introduced in 1992 and currently has approximately A\$1.5 trillion in accumulated retirement savings.<sup>5</sup> New Zealand has a relatively new non-compulsory retirement savings scheme: KiwiSaver, which currently has retirement savings of NZ\$12.9 billion.<sup>6</sup> While New Zealand's scheme has been in place for nearly six years, a pattern of higher KiwiSaver balances for male participants is already visible. In 2012 males, on average, had balances of just over NZ\$10,000, while female members had NZ\$8,000; that is males had 25 per cent higher balances on average than females.<sup>7</sup> Moreover, KiwiSaver balances are lower for women than men from the age of 16.<sup>8</sup> In 2009-10, the average superannuation balance for men in Australia was A\$71,645, while for women it was A\$40,475: that is, men had accumulated, on average, 77 per cent more retirement savings than women.<sup>9</sup> Furthermore, average superannuation payouts for women in Australia in 2009-2010

---

3 OECD, 2012, *Closing the Gender Gap: Act Now*, Paris: OECD Publishing, p.15.

4 Above, n.3, p.229.

5 Australian Superannuation Funds Association, 2013, *Superannuation Statistics – February 2013*, Available at <http://www.superannuation.asn.au>, Retrieved April 2013.

6 Inland Revenue Department, 2012, *KiwiSaver Annual Report 5, 1 July 2011 – 30 June 2012*, Available at <http://www.ird.govt.nz>, Retrieved April 2013.

7 Infometrics, 2012, *The Potential Impact of KiwiSaver on the New Zealand Capital Market*, Report prepared for the Financial Services Council, Available at <http://www.fsc.org.nz>, Retrieved April 2013. This data is based on a sample of Financial Services Council members that operate KiwiSaver funds, thus should be interpreted as a preliminary indication of different levels of savings between male and female KiwiSaver members.

8 BT Funds Management (NZ) Ltd and Westpac New Zealand Limited, 2013, *Submission to the Ministry of Business, Innovation and Employment on the Review of KiwiSaver Default Provider Arrangements Discussion Document*, 14 January 2013, Available at <http://www.med.govt.nz>, Retrieved April 2013.

9 Above, n.5.

were just over half of those of men and a large proportion of Australian women approach retirement with little or no superannuation savings.<sup>10</sup>

The traditional private retirement savings model is tied to employment: individuals in employment make contributions to retirement savings funds at a rate proportional to earnings. However, this model does not reflect the differences in employment patterns of women and men. In addition, the tradition in most OECD countries of providing generous tax concessions for retirement savings '*disproportionately benefits higher income earners who make higher contributions to their superannuation*',<sup>11</sup> thus further entrenching the issue of disparities in retirement saving among men and women.

This article examines the issue of gender inequality in retirement savings policy in Australia and New Zealand. First, the study quantifies the extent of the problem. Second, it examines international approaches to ameliorate the issue, with the objective of informing the current policy debate in both countries. While making some suggestions for reform, the study also suggests that New Zealand has the opportunity to learn from Australian experience and implement policy tools to ensure the current retirement savings difference of 25 per cent does not increase to the Australian level of 77 per cent.

The structure of the article is as follows. Section two commences by providing background information on the Australian and New Zealand policy arrangements, in order to establish the contextual environments for the following discussion and analysis. Section three outlines the problem and provides data relating to the extant differences in retirement savings accumulated by men and women in each country, as well as the OECD. Section four examines a range of tools that have either been implemented in other countries or recommended as potential options for addressing the different levels of retirement income savings among men and women. Section five analyses the appropriateness of each of these tools in the Australian and New Zealand environments and makes recommendations for future policy. The article concludes in section six.

## 2 BACKGROUND

This section provides the contextual background on retirement income savings in Australia and New Zealand. It provides a brief historical account of the development of retirement savings over the past 20 years, in order to explain the history of, and primary influences on, extant policy arrangements.

---

10 Australian Human Rights Commission, 2013, *Investing in Care: Recognising and valuing those who care*, Volume 1: Research Report 2013, Sydney: Australian Human Rights Commission, p.6.

11 Above, n.10, p.10.

## 2.1 Australia

Australian retirement income policy is structured around the three pillars approach, consisting of: a means-tested age pension; a mandated superannuation contribution paid by employers; and voluntary private savings, including superannuation.<sup>12</sup> Other factors that impact on the standard of living in retirement include government infrastructure and access to goods and services, including health, education, disability and community services<sup>13</sup> and home ownership.<sup>14</sup> Superannuation and home ownership have been granted tax preferred status, through a range of tax concessions to encourage investment in assets that will support individuals in their retirement. The age pension is both income- and asset-tested, with different levels of asset-tests applied to homeowners and non-homeowners, thus it is anticipated that as the system matures, fewer individuals will be reliant on the age pension as their primary source of income after retirement.

The Superannuation Guarantee scheme commenced in 1992, building on the superannuation reforms introduced over the 1980s under the Accord between the Labor Government and the unions, which included the introduction of award based superannuation in 1985 when the unions agreed not to pursue wage increases in exchange for a three per cent contribution into superannuation in respect of their members. The 1992 Superannuation Guarantee scheme extended beyond the award based schemes to mandate that all employers pay a prescribed proportion of each employee's wage into superannuation on behalf of that employee. This should not be regarded as an additional cost to the employer, but a redirection of the employee's earnings: a deferral of remuneration with the employer liable for an additional charge if the required contributions are not paid. The required contribution has been increased twice: the starting rate in 1992 was three per cent, which increased over the next decade to reach nine per cent by 2002; and a further increase is being phased in from 2014 to reach 12 per cent by 2020.

There have been a series of reforms to the taxation of superannuation, with the latest significant reforms applying from 1 July 2007. The points at which superannuation may be taxed are at the time of contribution, on earnings of the fund and on withdrawal. Unlike most OECD countries, Australia taxes superannuation on a t,t,E basis: contributions into superannuation and earnings of the fund are taxed at a flat rate of 15 per cent, which is a concessional rate when compared to the lowest marginal tax rate on the personal income tax scale, currently 19 per cent.<sup>15</sup> Following the 2007 reforms, withdrawals from the fund are tax-exempt provided that the member is over 60.

---

12 Commonwealth of Australia, 2004, *A More Flexible and Adaptable Retirement Income System*, Canberra: Commonwealth of Australia.

13 Harmer J., 2009, *Pension Review Report*, Canberra: FaHCSIA.

14 Yates, J., and Bradbury, B., 2010, 'Home ownership as a (crumbling) fourth pillar of social insurance in Australia', *Journal of Housing and the Built Environment*, 25 (2), 193-211.

15 Although this disregards the effect of the Low Income Tax Offset of four per cent.

The Superannuation Guarantee establishes the mandatory savings pillar, but under the current taxation structure voluntary superannuation contributions are also encouraged as a tax-preferred form of private savings.<sup>16</sup> In order to limit the amount that can be accumulated in this tax preferred environment, annual contribution caps apply: concessional contributions are currently capped at A\$25,000 per annum, and taxed at 15 per cent in the fund. Superannuation contributions by a self-employed person or paid by an employer are concessional contributions, but the compulsory component can be supplemented through a salary sacrifice agreement under which an employee negotiates with their employer to have an additional proportion of their income paid as superannuation, while non-concessional contributions, paid from after-tax income, are capped at A\$150,000 per annum, but not taxed in the fund. Such contributions will generally be from a non-taxable source, for example a windfall gain, or have been taxed in the hands of the contributor, for example a capital gain will have been taxed, albeit on a concessional basis. The caps are regulated through the application of an excess contributions tax on breaches.<sup>17</sup>

The system is not yet considered to be a mature system, as many workers retiring now are likely to have been covered by superannuation for about half of their working life, and the contribution rate for the first decade of coverage was not adequate to replace the age pension as the primary source of income in retirement. As the system matures, coverage among younger workers is increasing and, by 2007, 66 per cent of people had some superannuation coverage, although only 50 per cent of individuals over the age of 55 had superannuation cover compared to 87 per cent of people aged between 24 and 55. The balance in superannuation accounts increased with age, with the median balance for people aged 55 – 64 being A\$71,731. However the effect of the maturing superannuation system can be seen: although the median balance in superannuation increases for older cohorts, the progression is not linear, with younger cohorts having proportionately more superannuation than their older counterparts.<sup>18</sup>

For this reason, the reforms of 2007 incorporated transitional measures that allowed a person to make a non-concessional contribution of up to A\$1 million in the first year, and doubled the concessional cap for members over the age of 50 for the first five years of the new system. This increased cap was to be extended for members with account balances under A\$500,000, however the proposed change did not have industry support and accordingly when the transitional measures lapsed, older workers lost the ability to make higher contributions. In April 2013, the government

---

16 For an examination of the effect of the lower tax applied to superannuation, see Henry K., Harmer J., Piggot J., Ridout, H., and Smith G., 2010, *Australia's Future Tax System: Final Report* (The Henry Review), Canberra: Commonwealth of Australia.

17 Although the government has announced that the excess contributions tax will be replaced by the application of the member's personal marginal tax rate: Swan, Wayne (Deputy Prime Minister and Treasurer), 2013, Media Release No 039 *Reforms to Make the Superannuation System Fairer*, 5 April 2013, Available at <http://www.treasurer.gov.au/>, Retrieved May 2013.

18 Australian Bureau of Statistics, 2007, *6361.0, Employment Arrangements, Retirement and Superannuation, Australia*, Canberra: Australian Bureau of Statistics.

announced that the concessional cap will be increased to A\$35,000 for older workers, without reference to the balance in their superannuation account.<sup>19</sup> This increased cap will be available to members over 60 years of age from 1 July 2013, and extended to workers over 50 years of age from 1 July 2014.

The 2012 Tax Expenditures Statement notes that superannuation concessions comprise about a quarter of all tax expenditures, and is similar in scale to housing concessions – the top four tax expenditures in 2012-13 related to superannuation or principal residence concessions. In the 2011-12 income year, superannuation tax expenditure was estimated to be A\$30.3 billion (27.1 per cent of total tax expenditures), with principal residence measures estimated at A\$31 billion (27.8 per cent). By 2015-16 it is estimated that tax expenditures on superannuation will rise to A\$44.8 billion (32.6 per cent) with housing remaining steady at A\$30.5 billion (22.2 per cent).<sup>20</sup> In December 2012, the industry had A\$1,507.8 billion under investment.<sup>21</sup>

## 2.2 New Zealand

New Zealand's retirement savings history is unique among OECD countries. It has not followed the traditional three pillar approach common throughout the OECD and adopted in Australia. For the past 20 years the primary component of retirement policy has been New Zealand Superannuation, which is a universal pension paid on reaching the age of 65. Unlike pensions in most countries, including Australia, New Zealand Superannuation is not means- or income-tested. There is not even a requirement to be 'retired' to gain the pension: the only qualifications are a residency test and that the recipient is over 65 years of age.<sup>22</sup>

Unlike Australia, New Zealand has not had a long association with compulsory or employment-related retirement savings. The only time that New Zealand has attempted to introduce mandatory retirement savings was in 1975; a scheme that was abolished within two years of inception. In addition, and also unlike Australia, the acquisition of a home does not attract any tax benefits in New Zealand.<sup>23</sup>

---

19 Swan, Wayne, above n 17.

20 Australian Treasury, 2013, *Tax Expenditures Statement 2012*, Canberra: Australian Treasury, Table 1.1.

21 APRA, 2012, *Statistics: Quarterly Superannuation Performance*, Available at: [www.apra.gov.au](http://www.apra.gov.au), Retrieved May 2013.

22 Individuals must be either a New Zealand citizen or permanent resident, and have lived in New Zealand for at least ten years since the age of 20, including five after the age of 50.

23 However, housing is effectively tax preferred in New Zealand as there is no comprehensive capital gains tax.

New Zealand is also unique for its relatively long history of not having tax incentives for retirement savings.<sup>24</sup> Prior to 1988, New Zealand did have tax incentives for retirement savings.<sup>25</sup> However, in 1988 contributions to superannuation schemes lost their tax exempt status, all superannuation fund income was taxed at a rate approximating the marginal tax rate of the member, and withdrawals were tax free. Thus, retirement savings effectively became taxable on the same basis as any other form of financial investment in New Zealand. This scheme was to remain in place, primarily unchanged, for nearly 20 years.

A major change in New Zealand retirement savings policy was visible with the introduction of the KiwiSaver scheme in 2007. KiwiSaver is a work-based retirement savings scheme. It has a number of unique features, including automatic 'opt-in' (i.e. automatic enrolment) and voluntary 'opt-out' of the scheme when an individual commences a new job. This approach is often referred to as 'soft compulsion'. It is not compulsory, but does require some deliberate action on behalf of the employee to opt-out, which must occur within eight weeks of commencing employment. The automatic enrolment is premised on the behavioural economics indication that inertia will result in a higher uptake when the default position is enrolment, that is, where individuals do not have to engage in any effort to enrol in a savings scheme.<sup>26</sup>

While tax incentives are associated with KiwiSaver accounts, these are small and have proven to be politically volatile over the short life of the KiwiSaver scheme. A number of financial incentives were associated with the initial KiwiSaver scheme. These included a NZ\$1,000 government contribution to each new KiwiSaver account; annual fee subsidies of NZ\$40; an employer tax exemption; and a government-funded employee co-contribution (up to NZ\$20 per week, or NZ\$1,042.86 per year) in the form of a member tax credit paid to the KiwiSaver account. In order to qualify for the full member tax credit, the member must have contributed at least the equivalent amount of the tax credit to their KiwiSaver account. Once the scheme had been operating for nine months, a compulsory matching employer contribution commenced, starting at one per cent of the employee's income in 2008, with the

---

24 That is, no deliberate tax incentives were provided: for a time, there was a tax advantage for those paying the top marginal tax rate of 39 per cent who were investing in savings vehicles that had a maximum tax rate of 33 per cent.

25 Personal contributions to superannuation funds were tax deductible for individuals and employers, fund earnings were not taxed, and lump sum payments from superannuation schemes were not taxed on withdrawal. Pension streams were taxed as part of personal income on withdrawal, although some portion of pensions could be converted in some part to a lump sum on retirement and thereby avoid tax. In the early 1980s, lump sum pensions did become taxable, and some of the personal tax exemptions for superannuation contributions were removed.

26 Thaler, R.H., and Benartzi, S., 2004, 'Save More Tomorrow: Using Behavioral Economics to Increase Employee Saving', *Journal of Political Economy*, 112 (1), 164-187; Thaler, R.H., and Sunstein, C.R., 2007, *Nudge: Improving decisions about health, wealth and happiness*, New Haven: Yale University Press.

intention that this would increase by one per cent a year, reaching four per cent in 2011. Employer contributions also received a matching tax credit of NZ\$20 per week.

Additional incentives also exist with KiwiSaver, such as the potential to use the funds for a deposit towards a first home purchase and home mortgage diversion of up to half the contributions, under certain conditions. As at August 2012, when the KiwiSaver scheme had been operational for five years, 4,940 applications had been made for withdrawal of funds for the purchase of a first home and of these 55 per cent had been approved.<sup>27</sup> This represents a small proportion of total KiwiSaver members, at 0.14 per cent.

In November 2008, the newly elected National Government made significant changes to the KiwiSaver scheme, which took effect from April 2009. The employer co-contribution, which under the original scheme was to increase to four per cent in 2011, was capped at two per cent. Furthermore, employee contributions were also changed to include a two per cent option, together with the four and eight per cent options that were implemented at scheme inception. The tax exemption on employer contributions was also reduced to two per cent and the annual fee subsidy was removed. Subsequent changes further pared back the attractiveness of KiwiSaver as a retirement savings vehicle. With effect from 1 July 2011, the member tax credit was halved and thereby reduced to a maximum of NZ\$521.43 per year. In addition, all employer contributions became subject to employer superannuation contribution tax from 1<sup>st</sup> April 2012. This tax is equivalent to an employee's marginal tax rate.

The most recent changes were introduced on 1<sup>st</sup> April 2013. These amendments yet again changed policy direction. In its short life, KiwiSaver was introduced with an expected minimum contribution level of four per cent, which was subsequently reduced to two per cent. From 1<sup>st</sup> April 2013, the two per cent increased to three per cent. Therefore, employees and employers who were contributing at the two per cent level would have their contributions increased to the new minimum level of three per cent. Higher options of four or eight per cent remain available. These frequent changes to the relatively young KiwiSaver scheme undermine its sustainability and attractiveness to potential members, by decreasing certainty of the design of the scheme into the future.

Despite the policy changes, KiwiSaver has been successful in attracting members. New Zealand currently has 1.97 million people enrolled in KiwiSaver funds, which is 49 per cent of the eligible population.<sup>28</sup> Of those enrolled in KiwiSaver, 68 per cent of members opted-in to the scheme, i.e., they were not automatically enrolled.<sup>29</sup> Of those that were automatically enrolled, 255,935 opted out of the scheme.<sup>30</sup> While the scheme has had some volatility with rate changes, and there is no reporting on the

---

27 Above, n.6, p.21.

28 Above, n.6, p.3.

29 Above, n.6, p.3.

30 Above, n.6, p.3.



most recent rate increase to three per cent, as at 30 June 2012, 59 per cent of members were contributing at the lowest rate of two per cent.<sup>31</sup>

To date, Crown contributions are in excess of employer contributions, both on an individual year and aggregate basis. Crown contributions are in the form of member tax credits and initial government contributions of NZ\$1,000. In the year ended 30 June 2012, NZ\$866 million of employer contributions were made, while NZ\$1,045 million Crown contributions were made.<sup>32</sup> Similarly, in the year ended 30 June 2012, accumulated employer contributions were NZ\$2.7 billion, while accumulated Crown contributions were NZ\$4.7 billion.<sup>33</sup> Thus, of the NZ\$12.9 billion (approximately A\$10.6 billion) currently in KiwiSaver managed funds, 36 per cent has been contributed by the Crown.

### 3 THE PROBLEM AND ITS CAUSES

Australia and New Zealand both have legal and policy frameworks that protect individuals against discrimination. However, the differences in retirement savings among men and women are typically the result of different life choices made, together with a range of other multiple and complex factors, rather than any one factor that can be easily addressed by regulatory change.

New Zealand and Australia both have policy tools in place intended to mitigate for the potential for retired individuals to live in poverty. For example, both countries provide pensions for those who are aged above the retirement age. In New Zealand this is a universal provision and in Australia it is provided based on the needs of the individual. Nonetheless, the impact of both these policies is similar: retired Australians and New Zealanders should not have to live in poverty. However, in both countries, additional savings are required if a standard of living above a modest level is desired.

Table 1 outlines the pension replacement rates for men and women in Australia and New Zealand. Replacement rates are important as they provide an indication of how effectively a country's pension system will replace earning in retirement. What is visible from Table 1 is that the New Zealand pension system provides a higher replacement rate for both males and females only for lower income earners, represented by those on half of average earnings, and only for the gross replacement measure. When average and above-average income earners are taken into account, the Australian system is more effective at replacing pre-retirement income. The net replacement rate is higher in Australia at all levels of income. When male and female participation rates are compared, replacement rates are lower for females in Australia.

---

31 Above, n.6, p.3.

32 Above, n.6, p.3.

33 Above, n.6, p.3.

In New Zealand, replacement rates are the same, as males and females have equal entitlement to New Zealand Superannuation.

**Table 1: Pension Replacement Rates in Australia and New Zealand (2008)**<sup>34</sup>

	Male						Female					
	Gross Replacement Rate <sup>35</sup>			Net Replacement Rate <sup>36</sup>			Gross Replacement Rate			Net Replacement Rate		
x AWE	0.5	1.0	1.5	0.5	1.0	1.5	0.5	1.0	1.5	0.5	1.0	1.5
Aust	73.32	47.29	38.61	82.53	58.91	47.05	70.83	44.81	36.13	79.73	56.90	45.27
NZ	77.49	38.74	25.83	79.43	41.50	29.40	77.49	38.74	25.83	79.43	41.50	29.40

The Commission for Financial Literacy and Retirement Income in New Zealand has proposed ten factors that are most likely to impact negatively on women's financial wellbeing in retirement. These ten factors are outlined below:

1. The family, neighbourhood and community that the woman was born into;
2. Education, training and ongoing professional development;
3. Structural factors in the workplace that limit promotions for women;
4. Work response to employment breaks;
5. The age that women focus on paid employment, together with the nature of that employment;
6. The nature of the household unit;
7. Endowments received from relationship breakups;
8. The extent to which life cycle changes are taken into account in savings schemes;
9. Assets and liabilities;
10. Cultural and ethnic factors.<sup>37</sup>

34 OECD, 2012, *Pensions at a Glance 2011*, Paris: OECD Publishing. These figures are based on a single individual who has no career break, and enters the retirement system at age 20 and retires at the national age of retirement.

35 The Gross Replacement Rate is the gross pension entitlement divided by gross pre-retirement earnings.

36 The Net Replacement Rate is the individual net pension entitlement divided by net pre-retirement earnings.

37 Commission for Financial Literacy and Retirement Income, 2013, *Women's Retirement Income*, Available at <http://www.clfri.org.nz>, Retrieved April 2013.

This is a comprehensive list. However, many of these factors cannot be addressed through retirement savings policy. Typically the primary explanations proposed for lower levels of retirement savings for women are workforce participation; the amount of unpaid or 'caring' work undertaken by women;<sup>38</sup> and overall lower earnings experienced by women over their career. Each of these is discussed in more detail below.

While there are greater numbers of women in the workforce, and both Australia and New Zealand have high levels of female workforce participation,<sup>39</sup> they are likely to 'experience more difficulty than men in finding a first job, earn less than them, and are more likely to work part-time'.<sup>40</sup> Moreover, research suggests a key factor impacting on savings and wealth accumulation for women is their responsibility for the majority of 'unpaid work', such as raising and caring for children, which limits their access to economic resources.<sup>41</sup> The impact of foregone earnings due to unpaid caring roles is described by the Australian Human Rights Commission as 'very substantial'.<sup>42</sup> This problem is well-established in the OECD and is further exacerbated with what the OECD refer to as 'gender segregation in the labour markets' where women are over-represented in fields such as health and welfare, that typically are lower paid.<sup>43</sup> As work-based retirement savings schemes are usually based on a proportion of earnings, women with lower earnings consequently have lower aggregate savings on retirement.

The problem of insufficient retirement saving by women is intensified with the known issues that women work less than men, as well as earning less than men.<sup>44</sup> In OECD countries women, on average, earn 16 per cent less than men, while female high income earners earn 21 per cent less than their male colleagues.<sup>45</sup> In addition, only around one-third of managerial positions are held by women and 25 per cent of women work in part-time jobs, while only 6 per cent of men are in part-time employment.<sup>46</sup> This is subsequently reflected in pension streams to individuals where, on average, women receive pensions that are 34 per cent lower than men.<sup>47</sup>

---

38 Caring roles incorporate providing care for children, but also extends to looking after those with disabilities or illness, and the elderly.

39 Above, n.3, p.235.

40 Above, n.3, p.15.

41 Heathrose Research Limited, 2012, *Women's Retirement Income: A summary of key issues from the literature*, Report prepared for the Commission for Financial Literacy and Retirement Income, 24 March 2012. Available at <http://www.cfrli.org.nz>, Retrieved April 2013.

42 Australian Human Rights Commission, 2013, *Investing in Care: Recognising and valuing those who care*, Volume 1: Research Report 2013, Sydney: Australian Human Rights Commission, p.6.

43 Above, n.3, p.15.

44 OECD, 2010, *Gender Brief Prepared by the OECD Social Policy Division*, Paris: OECD Publishing, p.12/13.

45 Above, n.3, p.15.

46 OECD, 2013, *Overview of Gender Differences in OECD Countries*, Available at <http://www.oecd.org/> Retrieved April 2013.

47 Above, n.3, p.231.

The gap in average income earnings of men and women is equally visible in New Zealand and Australia. In New Zealand, the average weekly income from wages and salaries for men is NZ\$854, while it is NZ\$657 for women.<sup>48</sup> Moreover, most New Zealand women do not participate in KiwiSaver at a sufficiently high level to receive the full member tax credit, with 40 per cent of women receiving the full tax credit and 60 per cent of women receiving only a partial tax credit.<sup>49</sup> Approximately 50 per cent of men receive the full tax credit and 50 per cent receive a partial tax credit.<sup>50</sup>

While Australia has a compulsory superannuation scheme, it is employment-focused, with the obligation placed on an employer. Therefore, those who are not employed do not benefit from mandatory coverage. A person who is not employed may make personal contributions to superannuation, but such contributions are only tax deductible if the member is self employed: a person who is outside the workforce, for example while caring for children, receives no immediate tax benefit.<sup>51</sup> Figure 1 shows the differences in males and females with no superannuation coverage in Australia. What is visible in Figure 1 is that while fewer males than females have no superannuation coverage, the difference becomes particularly stark after the age of 55.

Figure 2 outlines the average superannuation balances as at 2009-10 in Australia. Again, these figures show the differences in accumulated retirement savings funds between men and women. Average retirement payouts in 2009-10 in Australia are A\$198,000 for men and A\$112,600 for women: men's retirement payouts are approximately 76 per cent higher than women's.<sup>52</sup>

---

48 Dwyer, M., 2012, *To What Extent Do Individual Superannuation Schemes in New Zealand Address Needs for Retirement Income in a Gender-Neutral Manner?* Report to the Commission for Financial Literacy and Retirement Income, Available at <http://www.cflri.org>, Retrieved March 2013.

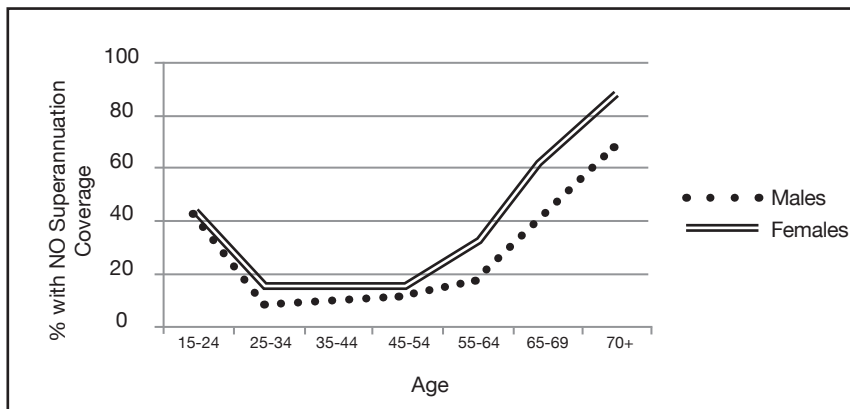
49 Above, n.48, p.13.

50 Above, n.48, p.13.

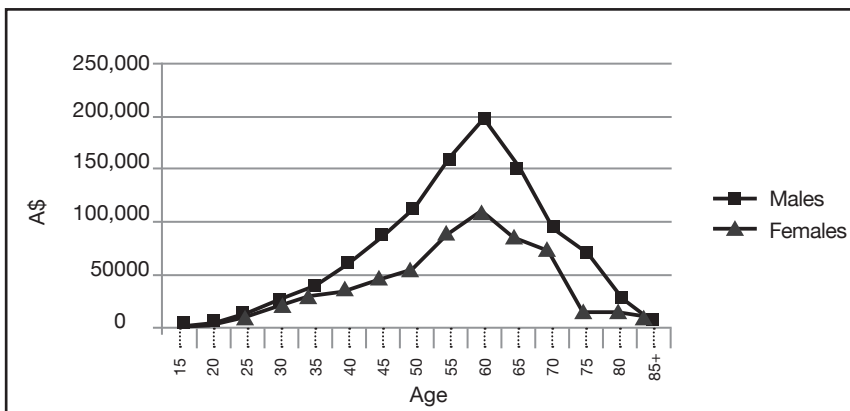
51 Although such contributions are non-concessional contributions and tax preferred when withdrawn from the fund.

52 Clare, R., 2011, *Developments in the Level and Distribution of Retirement Savings*, Sydney: Association of Superannuation Funds of Australia, p.7.

**Figure 1: Individuals in Australia without Superannuation Coverage (2007)<sup>53</sup>**



**Figure 2: Average Superannuation Balances in Australia (2009-10)<sup>54</sup>**



It is also evident that differences in attitudes towards saving between men and women do not appear to be contributing towards the different levels of retirement savings. Recent research from the Financial Literacy Foundation<sup>55</sup> finds similar levels of saving habits and behaviours between men and women. However, fewer women report the ability to invest money than men (63 per cent versus 75 per cent), and fewer

53 Australian Bureau of Statistics, 2009, *Employment Arrangements, Retirement and Superannuation, Australia, April to July 2007*, Available at <http://www.abs.gov.au>, Retrieved April 2013.

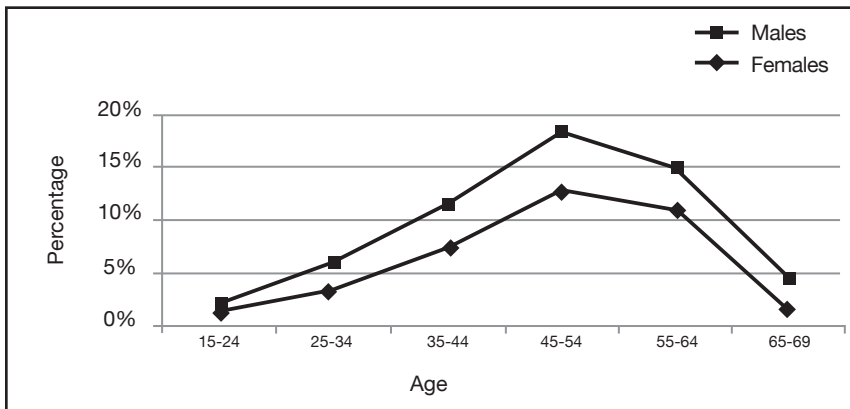
54 Above, n.52.

55 Financial Literacy Foundation, 2008, *Financial Literacy: Women understanding money*, Canberra: Commonwealth of Australia.

women report the ability to plan for their long-term future than men (77 per cent versus 84 per cent).<sup>56</sup> There is some evidence that women make different investment decisions from men, returning less investment income in their income tax returns.<sup>57</sup> In particular, single women hold a higher proportion of their assets in their home than single men, and divorced women have significantly lower asset balances than widows.<sup>58</sup>

As can be seen in Figure 3, women are less likely than men to take advantage of salary sacrificing to increase the level of superannuation, particularly among the age groups from 35 to 55. However, among older women the rate of salary sacrificed contributions does not drop off as quickly as among men, suggesting that women are attempting to catch up with their superannuation savings after they have finished child rearing.

**Figure 3: Proportion of Persons Making Salary Sacrificed Superannuation Contributions: Australia (2007)<sup>59</sup>**



It is important to acknowledge that there are issues relevant to this topic that this article will not attempt to address, as they are either outside the scope of this study or they have been comprehensively addressed by other researchers. Perhaps the two most relevant are the gender pay gap<sup>60</sup> and the somewhat artificial delineation

<sup>56</sup> Above, n.55, p.2/3.

<sup>57</sup> Rosenman, L., and Scott W., 2009, 'Financing Old Age: Why is There Still Gender Inequality?' *Australian Social Work*, 62 (2): 287-298.

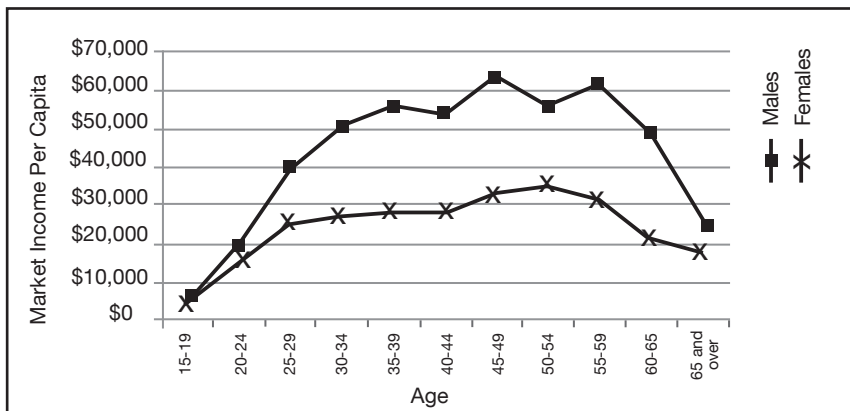
<sup>58</sup> Cobb-Clark, D.A., and Hildebrand, V.A., 2011, 'Portfolio Allocation in the Face of a Means-Tested Public Pension', *Review of Income & Wealth*, 57 (3): 536-560, p.550.

<sup>59</sup> Australian Bureau of Statistics, 2007, 6361.0 Employment Arrangements, Retirement and Superannuation, Australia, Canberra: Australian Bureau of Statistics, Table 8. These figures include persons making concessional contributions only, and both concessional and non-concessional contributions.

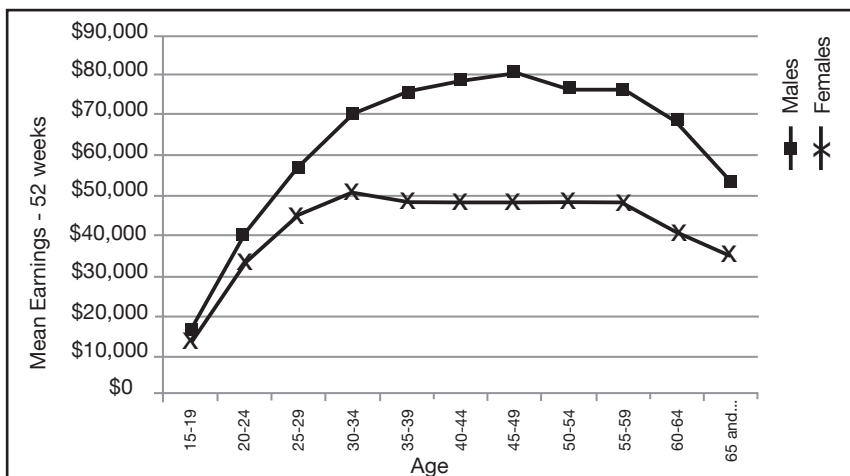
<sup>60</sup> Above, n.3; Cassells, T., Miranti, R., Nepal, B., and Tanton, R., 2008, *She Works Hard for Her Money: Australian Women and the Gender Divide*, AMP Natsem Income and Wealth Reports, Sydney: NATSEM; Daley, J., McGannon, C., and Ginnivan, L., 2012, *Game-Changers: Economic*

between work, labour and economic activity that determines that unpaid roles are not part of the productive economy and therefore have no ‘value’.<sup>61</sup> The gender pay gaps in New Zealand and Australia are illustrated in Figures 4 and 5, and clearly illustrate the differences in average earnings between males and females. While these two issues will not be discussed further in this study, their influence on the problem is clear.

**Figure 4: Market income per capita by gender and age group: New Zealand (2010)<sup>62</sup>**



**Figure 5: Mean earnings in main job by gender and age group: Australia (2011)<sup>63</sup>**



Reform Priorities for Australia, Melbourne: Grattan Institute.

- 61 See Waring, M., 1988, *Counting for Nothing: What men value and what women are worth*, Wellington: Allen and Unwin.
- 62 Aziz, O., Gemmill, N., and Laws, A., 2013, ‘The Distribution of Income and Incidence of Tax and Government Spending Across the Lifecycle for Males and Females’, Forthcoming in *Policy Quarterly*.
- 63 Australian Bureau of Statistics, 2012, *6310.0 - Employee Earnings, Benefits and Trade Union Membership, Australia, August 2011*, Canberra: Australian Bureau of Statistics. Note that earnings have been annualised as 52 times weekly earnings.

### 3.1 Summary

The problems outlined above are not new. Indeed they were identified as an issue in Australia prior to the introduction of the Superannuation Guarantee.<sup>64</sup> Reduced workforce participation, adoption of greater levels of unpaid work and overall lower earnings over a career, significantly impacts on the ability of women to accumulate sufficient savings to support their retirement. These issues have resulted in a general trend across all OECD countries for women to have fewer resources than men in retirement. The OECD observe that this trend significantly widens from the age of 66 onwards, with the risk of relative poverty for women aged 66-75 years of age assessed at 1.2 times that of the general population, increasing to 1.7 times for women above the age of 75.<sup>65</sup> By way of comparison, the risk of relative poverty for men only increases above that of the general population when they are aged over 75.<sup>66</sup> It is also important to acknowledge that these issues will not be resolved in the absence of deliberate policy changes to address them. The issue is becoming particularly urgent in Australia, where the differences in levels of retirement savings are likely to be exacerbated as compulsory retirement savings for workers increase from nine per cent to 12 per cent over coming years.

## 4 TOOLS TO AMELIORATE THE ISSUE

This section outlines a range of tools that have been highlighted by the OECD and other organisations as having the potential to address the gap in retirement savings among men and women. While the OECD suggests that gender inequality in retirement is the result of differences in labour market experience and life expectancy, rather than the design of pension systems,<sup>67</sup> we suggest that there are policy approaches that may assist with the current inequality between men and women in retirement saving. Moreover, while we recognise that policies that facilitate voluntary savings are worthy of consideration, this study suggests that a more targeted approach is necessary to assist women, in particular, to increase their retirement savings balances.

This section also sets out the tools currently available in the Australian and New Zealand retirement income systems to assist low income earners that could potentially be adapted or expanded to address the retirement savings gender gap.

### 4.1 Carer Credits

The Australian Human Rights Commission has outlined a number of tools used in Australia and internationally that may be used to address the issues relating to unpaid caring roles.

---

64 See, for example, Cox, E., 2007, 'Financing Our Futures – How Privatising Retirement Discriminates Against Women', *Academy of the Social Sciences*, 42-50.

65 Above, n.44, p.14.

66 Above, n.44, p.14.

67 Above, n.3, p.229.



These include:

- Flexible work arrangements, including leave arrangements;
- Carer support payments;
- Services for carers, such as early childhood education or disability support;
- Workplace initiatives, such as reduced work hours or changes in work location; and
- Tools within the retirement income system, such as taxation and income support.<sup>68</sup>

Of these potential tools, it is perhaps the carer support payments that are most likely to impact on retirement savings. Certainly, flexible work arrangements and workplace initiatives may facilitate an individual's return to employment, but what is also needed is assistance while individuals are not in employment. Carer support payments may consist of income support during the period that a person is primarily engaged in caring activities, for example through parental leave schemes or carer benefits, but should also recognise the periods spent caring through credits to an individual's retirement savings account through a system of carer credits.

Australia introduced a statutory Paid Parental Leave scheme with effect from 1 January 2011. The current Paid Parental Leave scheme entitles a parent who is the primary carer for a child to receive up to 18 weeks' pay, at minimum wage rate, following the birth (or adoption) of a child in addition to any other leave entitlements of the parent. To facilitate labour force attachment, eligibility is based on labour force participation prior to the birth, and government-funded entitlements are paid through the employer. Workers who earned more than A\$150,000 in the previous year are not eligible, and payments are pro-rated for part-time workers. A further Paid Parental Leave benefit, Dad and Partner Pay was available from 1 January 2013 to allow up to two weeks of paid leave to the partner of the primary carer on the birth (or adoption) of a child. The Productivity Commission recommended that superannuation be a component of a Paid Parental Leave scheme after a three year settling in period,<sup>69</sup> however at this stage there is no indication that the scheme will be extended to include mandatory superannuation.

Other carers may be eligible for income support through the Carer Payment if they are unable to work because of the demands placed on them by caring for a person with a severe medical condition or disability, or who is a frail aged person. There is no retirement savings support available as part of the Carer Payment. A separate

---

68 Above, n.10.

69 Australian Government Productivity Commission, 2009, *Paid Parental Leave: Support for Parents with Newborn Children*, Productivity Commission Inquiry Report No 47, Melbourne: Commonwealth of Australia; Recommendation 2.4

Carer Allowance is available as a supplementary payment to a person with caring responsibilities who may not be eligible for the Carer Payment.

Paid Parental Leave is also provided in New Zealand. This is a government-funded initiative provided to 'eligible working mothers and adoptive parents' when they take parental leave from their employment to care for a new child.<sup>70</sup> The payment may be transferred to a qualifying spouse or partner. The payment, which is available for a maximum period of 14 weeks, is equal to the individual's normal pay before tax for employees, or average weekly earnings for the self-employed. However, the payment is capped at NZ\$475.16 per week (approximately A\$390). Similarly to Australia, these benefits do not provide extra assistance to facilitate retirement savings. Conversely, individuals who have student loans will have student loan deductions taken from Paid Parental Leave payments.

While these periods of financial assistance are valuable, they are only short-term in nature and do not directly address the issues related to retirement saving outlined in section three. The introduction of a longer-term 'carer credit' paid directly to superannuation accounts would encourage individuals to maintain a longer-term retirement savings arrangement.

The Australian Human Rights Commission notes that 'the introduction of carer credits into a country's pension system provides a method of explicitly recognising these years spent providing unpaid care for a child or a family member with a disability, long-term illness or frailty due to old age.'<sup>71</sup> In addition, a carer credit scheme would mitigate, at least to some extent, the tax incentives that are not widely available to carers and currently disproportionately benefit higher income earners.

Many countries provide a link between carer credits and parental leave, or may encourage return to employment by providing carer credits when individuals return or re-enter the workforce.<sup>72</sup> In some cases, these can be used to ensure that an individual's pension contributions are not impacted by their time out of the workforce. The Australian Human Rights Commission notes that a number of schemes that previously limited carer credits to parents, are now extending these to all carers, as well as including carer credits in private or occupational pension schemes.<sup>73</sup> In these cases, the state has the responsibility for ensuring that credits to the individual's pension account are maintained during their time out of the workforce in a caring capacity.

---

70 Inland Revenue Department, *Paid Parental Leave*, Available at <http://www.ird.govt.nz>, Retrieved April 2013.

71 Above, n.10, p.10.

72 Above, n.10, p.10.

73 Including the United Kingdom, Germany, Italy, Finland, Luxembourg, the Czech Republic, Poland, Slovakia, Italy and Norway. Above, n.10, p.54.

## 4.2 Superannuation Co-Contributions

There are currently two schemes in Australia that are targeted to low income earners, under which the government contributes directly to the superannuation balances. The first of these is the co-contribution scheme which requires the member to make a personal non-deductible contribution to a superannuation fund. The government will make a contribution to the person's superannuation fund equal to 50 per cent of the amount of the personal contribution(s) up to A\$500.<sup>74</sup> Eligibility is income-tested: a person earning less than A\$31,920 is entitled to the maximum of A\$500, with the entitlement phased out when income reaches A\$46,920. The second scheme is the Low Income Superannuation Contribution (LISC), which was introduced with effect from the year ended 30 June 2013. The LISC is designed to rebate the tax paid on mandatory superannuation contributions for members earning less than A\$37,000 per annum. The rebate, paid directly into the superannuation fund, is 15 per cent of concessional contributions up to a maximum of A\$500. This reimburses the contribution tax paid by the fund on the mandatory superannuation contributions.<sup>75</sup>

As women are over-represented among low income earners due to the high rate of part-time employees, women are more likely to benefit from these schemes. However although part-time workers can benefit from these schemes, neither is available to members who do not participate in the workforce during the year, including women on unpaid parental leave or in a full-time caring role. Both schemes have a work requirement under which the member must have earned at least 10 per cent of their gross income for the year from employment or business income.

A system of Carers' Credits could be developed to extend these schemes. In particular the co-contribution scheme could be extended to allow a co-contribution in respect of a person who is taking a career break in order to care for children or other family members. However the current co-contribution scheme is based on matching a contribution that has not been tax deductible, which may be financially out of reach for families that are already experiencing a reduction in income due to the changed circumstances. Similarly the LISC is designed to refund the contributions tax payable on concessional contributions. If the contributions are non-concessional contributions, the tax is not payable.

Therefore the proposed Carer Credit scheme would need to be developed independently of the above schemes to provide that a person who is eligible for the Carers Payment receives a Carer Credit at least equal to the maximum amount available to contributors under the co-contribution scheme. Where a person who is eligible for the Carer Allowance has reduced their hours of work in order to meet their responsibilities as a carer, they should also be eligible for a Carer Credit, although in

74 The co-contribution percentage was 150 per cent for the years ended 30 June 2004 to 2009, then 100 per cent for the years ended 20 June 2010 to 2012.

75 The current mandatory superannuation contribution (nine per cent) in respect of a person earning A\$37,000 is A\$3,330. The tax paid by the superannuation fund on those contributions at 15 per cent would be A\$499.50.

this case a work-test and means-test may be required. Eligibility for Carer Credits should not preclude eligibility for the co-contribution or the LISC.

### 4.3 Extended coverage of Mandatory Superannuation Contributions

As women are over-represented among part-time and casual workers, any changes to improve coverage among this sector will have a disproportionate benefit to women. As outlined in section two, New Zealand does not have a mandatory superannuation scheme, while the Australian scheme is based on employment. Two areas that require attention are the appropriate classification of workers as employees within the coverage of the superannuation guarantee, and the current exemption from coverage for workers earning less than A\$450 per month.

In the modern workforce the distinction between employees and contractors has become difficult to enforce, with some industries citing the need for a flexible workforce as a motive for engaging workers on contract instead of as employees.<sup>76</sup> The superannuation legislation applies to all workers engaged on a contract that is principally for the labour of the worker.<sup>77</sup> However, it is common to hear of workers who are engaged as contractors on the basis that they hold an ABN,<sup>78</sup> a practice that effectively shifts the requirement to provide for superannuation from the employer to the employee. In the absence of comprehensive legislation clarifying the difference between employees and contractors<sup>79</sup> this is an education and enforcement issue: employers need a clear understanding of when the contract is a contract of service, and the relevant authorities must enforce compliance.

The second extension that has been proposed is the removal of the exemption from the superannuation guarantee legislation for employees earning less than A\$450 per month,<sup>80</sup> which would particularly assist women in low paid part-time work. This exemption has been in place since the Superannuation Guarantee (Administration) Act passed in 1992 when it was intended to reduce the compliance burden on employers. Modern payroll systems have reduced the compliance burden to the extent where the exemption can no longer be justified on this basis alone, and there is anecdotal evidence that employers are limiting the hours offered to casual employees to remain below the threshold.<sup>81</sup> However,

---

76 Australian Building and Construction Commission, 2011, *Sham Contracting Report 2011*, Available at <http://www.fwbc.gov.au/sites/default/files/ShamContractingInquiryReport-1.pdf>, Retrieved May 2013.

77 *Superannuation Guarantee (Administration) Act 1992*, s.12(3).

78 Above note 76 at 94

79 The *Independent Contractors Act 2006* regulates the power of State and Federal governments in respect of independent contractors, but it does not attempt to define the difference between a contractor and an employee.

80 *Superannuation Guarantee (Administration) Act 1992*, s.27.

81 Coleman, M., and Hodgson, H., 2011, *Women's Voices*, National Womens Alliances, Available at, [http://www.nfaw.org/wp-content/uploads/2012/06/Womens-Voices\\_21-September-2011.pdf](http://www.nfaw.org/wp-content/uploads/2012/06/Womens-Voices_21-September-2011.pdf), Retrieved May 2013.

the practical effect of removing the exemption would be minimal, with a worker on A\$450 per month being entitled to A\$456 over a year.

#### 4.4 Spousal Superannuation Splitting<sup>82</sup>

Women's economic security is best developed by encouraging some degree of financial autonomy,<sup>83</sup> but in Australia and New Zealand the male breadwinner model still predominates with women working part-time while men continue to work full-time,<sup>84</sup> contributing to lower balances on retirement. The current superannuation system is based on a system of personal accounts. Although some older defined benefit schemes still incorporate spouse benefits that transfer to a spouse, most accumulation style accounts provide for family beneficiaries through insurance policies and death benefits. In contrast, the means-tests that apply to the Age Pension are still based on family income levels.

Women are at significant financial risk following marriage breakdown. Where there are children it is likely that the female partner has reduced her workforce participation during the relationship, with a corresponding impact on her superannuation balance relative to that of her partner. Superannuation balances of both spouses are taken into account when dividing assets following separation,<sup>85</sup> which increases the pool of assets to be divided, however superannuation splitting is relatively uncommon. In many cases the assets of the relationship consist principally of the family home and superannuation accounts. When the assets are divided the female partner often retains the home with superannuation balances allocated to the holder of the account as the alternative would require the sale of the family home.<sup>86</sup>

Single women, including divorced and widowed women, are at particular risk of poverty. As women progress toward financial partnership with their spouse through increased workforce participation, this financial partnership should extend to retirement with women having access to their own superannuation instead of being reliant on their spouse or the Age Pension in retirement.

---

82 Australian legislation applies an extended definition of spouse that incorporates de-facto and same sex partners in the definition of spouse. Accordingly the term "spousal" is used in this broad context.

83 De Henau, J., and Himmelweit, S., 2007, 'Struggle Over the Pie? The Gendered Distribution of Power and Subjective Financial Well-Being Within UK Households', *GeNet Working Paper 2007-27*, Retrieved May 2009; Himmelweit, S., 2002, 'Making Visible the Hidden Economy: The Case for Gender-Impact Analysis of Economic Policy', *Feminist Economics*, 8 (1): 49-70.

84 Craig, L., and Mullan, K., 2009, 'The Policeman and the Part-Time Sales Assistant: Household Labour Supply, Family Time and Subjective Time Pressure in Australia 1997-2006', *Journal of Comparative Family Studies*, 40 (4): 545-561.

85 *Family Law Act 1975*, Part VIIIIB

86 Sheehan, G., Chrzanowski, A., and Dewar, J., 2008, 'Superannuation and Divorce in Australia: An evaluation of post-reform practice and settlement outcomes', *International Journal of Law, Policy and the Family*, 22 (2): 206-230.

In Australia there is currently little incentive to encourage a breadwinner to make contributions into the account of a spouse who is not participating in the paid labour market.<sup>87</sup> A person who has made contributions into a superannuation fund can apply to split those contributions with their spouse.<sup>88</sup> The amount that can be transferred into a spouse account is based on the contributions that the contributor made in the prior financial year, net of the 15 per cent contributions tax imposed on concessional contributions. There is no explicit incentive for members to apply to split contributions, although where there is an age difference between spouses there may be a benefit based on the date that each spouse may be able to access preserved superannuation benefits or the age pension.

Contributors could be encouraged to split contributions with a low income spouse through an extension of the LISC. The existing LISC is available to low income workers without reference to the income of a spouse. Subject to our previous recommendations in relation to the work requirement, contributions transferred from a spouse account could be included as eligible contributions for the LISC, effectively reimbursing the contributions tax that had been paid by the spouse when first contributed, prior to being transferred to the spouse contribution account. Alternatively the contribution cap could be extended where benefits have been transferred to a spouse account.

Although there is an explicit tax rebate available where a taxpayer makes a contribution in respect of a low income spouse<sup>89</sup> this rebate is very limited: the spouse must earn less than A\$13,800 pa, and the maximum contribution is limited to A\$3,000, giving a maximum rebate of A\$540. It is clearly ineffective and with a limited effect in encouraging contributions by a taxpayer on behalf of a non-working spouse. In the 2009/10 year 15,970 claims were made, at a total cost of A\$6,464,663, or an average rebate of A\$405,<sup>90</sup> equating to about A\$2,250 as the average contribution made to spouse superannuation accounts.

## 4.5 Contribution Caps

The contributions caps are based on annual contributions, a change which was intended to simplify the system, which previously was based on Reasonable Benefit Limits. However the system of annual caps does not assist women, who have a different pattern of workforce participation. When a woman first enters the workforce she will work similar hours to her male counterpart, however her hours of workforce participation typically drop over her 30s to 40s.

---

87 Self Managed Superannuation Funds allow more flexibility, particularly if used in conjunction with a family owned business where both spouses are employed, however concessional contributions are still based on work status or tax deductibility.

88 *Superannuation Industry (Supervision) Regulations 1994*, part 6.7.

89 *Income Tax Assessment Act 1997*, s.290-230.

90 Australian Tax Office, 2012, 'Taxation statistics 2009-10', Australian Taxation Office: Canberra, Available at <http://www.ato.gov.au/>, Table 5.

There is evidence that women increase their rate of savings into superannuation in their 50s in an attempt to catch up for the years when their contributions were restricted.<sup>91</sup> This can be seen in the increase in the level of superannuation savings, and the increased rate of voluntary contributions through salary sacrifice arrangements at this age. While women still lag behind men of the same age, the gap does narrow.<sup>92</sup>

The most significant limitation on the ability for women to catch up is the gender pay gap. Among older women the gender pay gap is influenced by discrimination experienced earlier in their career, and the opportunities not available to them due to disrupted work patterns. However where a woman does have the financial capacity to make significant superannuation contributions, the caps operate as a further barrier. It has been suggested that a lifetime cap would be fairer to workers with 'lumpy' income, including women,<sup>93</sup> however managing a lifetime cap could face the same criticisms of complexity levied against the previous reasonable benefit limit system.

## 5 ANALYSIS AND RECOMMENDATIONS

Section three of this article establishes the problem that women will, on average, retire with significantly lower levels of retirement savings than their male counterparts. Section four outlines some policy suggestions that have the potential to alleviate the issue. This section discusses each of the policy suggestions with reference to their potential suitability and likely acceptance in Australia and New Zealand. The tools outlined below are primarily discussed from the perspective of facilitating increased levels of retirement savings by women. However, the policy tools raised are equally likely to benefit lower income earners as well as individuals who have time out of the workforce.

The policy suggestions for Australia fall into two categories, which will benefit different groups of women. Suggestions to modify superannuation caps and encourage spousal contributions on behalf of a low income spouse would only be used by households with the capacity to save. The benefit of these proposals is that they encourage financial autonomy for women, independent of their spouse. This would provide an independent source of income in retirement, and improve the financial security of women if their circumstances change through death of a partner or divorce.

The second group of proposals are based on increasing superannuation contributions through government subsidies and employers. Any change to the system that assists low income earners will help to redress the gender imbalance, as women are over-represented in this group of workers. However, any proposals to increase mandatory contributions, such as the proposal to remove the exclusion for wages under A\$450

---

91 Australian Bureau of Statistics, 2009, *6361.0.55.004, Employment Arrangements, Retirement and Superannuation, Australia, April to July 2007*, Canberra: Australian Bureau of Statistics.

92 Above note 91; Table 21.

93 CPA Australia, 2013, *Pre Budget Submission 2012 – 2013*, CPA Australia, Available at: <http://www.cpaaustralia.com.au/>, Retrieved May 2013.

per month, must be approached with caution; as superannuation is regarded as a form of remuneration, increases in the mandatory contribution are usually reflected in wages paid. There may not be a drop in cash wages, but there is likely to be a trade-off in future wage increases, with an adverse impact on low-wage workers.

Proposals for carer credits would be funded by the government. If pegged to the existing co-contribution, and taking into account fiscal constraints, the amount that would be paid on an annual basis would be minimal: \$500 invested for 20 years would triple in value, but is still a minimal contribution to retirement savings. The importance of a carer credit is symbolic: it shows that society values carers, and the credit maintains the connection that the carer has with the retirement income system.

Unlike Australia, for over 20 years the New Zealand tax environment has been underpinned by a philosophy of neutrality, that is, policies to deliberately influence particular behaviours have been unpopular. Also unlike Australia, New Zealand does not publish a tax expenditure statement. This reflects the New Zealand environment where tax incentives are insufficient to warrant highlighting and discussion. KiwiSaver was a significant change to retirement savings policy. However, the scheme is not compulsory and considerable resistance remains to both making it compulsory or increasing the minimum levels of saving. Given this background, the New Zealand environment is likely to remain unresponsive to policies that are intended to both target a specific group and introduce a benefit in the form of a tax incentive. While this policy approach may appear to indicate a disregard for supporting those in their retirement, retirement policy is supported by the presence of New Zealand Superannuation: no New Zealander who meets the residency requirement will retire after the age of 65 without a state-provided pension. Thus, the political argument has historically been that as the state provides a pension, further assistance in the form of tax incentives is unnecessary. Given this background, each of the policies raised in the previous section is discussed below from the perspective of their likely benefit in Australia and New Zealand.

## 5.1 Carer Credits

Neither Australia nor New Zealand currently provides carer credits. The introduction of carer credits into either superannuation system would ensure that those people who spend time out of the workforce in caring roles are not financially disadvantaged when they retire. Not only does this approach recognise the value of unpaid caring roles in the community, it also signals the importance that the government places on ensuring people are financially independent when they retire. Different models of carer credits have been adopted throughout the OECD. However, the most common model is when the state credits an individual's pension account while they are out of the workforce in a caring capacity. The value of the credits may be linked to earnings prior to leaving the workforce, but the most common approach is that it is based on a proportion of minimum or average earnings. This approach would clearly have a cost implication. However, if Australia and New Zealand wish to improve the overall



standard of living for women in retirement, it will be necessary to incur some financial costs in implementing policies to achieve this.

## 5.2 Superannuation Co-Contributions

In Australia, direct government contributions are currently limited to the co-contribution scheme and the LISC. As noted in section four, and in contrast to the New Zealand scheme, the major restriction on providing these contributions to carers is the requirement that the recipient be in the workforce. These schemes should be extended to include carers. The co-contribution could be extended to carers by removing the work requirement for carers that meet certain established criteria. The criteria could be aligned with the criteria currently existing for the Carer Payment or Carer Allowance, but extended to include the parents of young children. Extending the LISC to carers would require a more substantial change, as proposed in section 5.4 below, as it is based on rebating the tax paid by the fund on concessional contributions, which generally require a nexus to employment.

At the present time, the New Zealand government will make an annual 'member tax credit' contribution to the KiwiSaver account of a contributing member. The tax credit is paid annually to complying funds. At the present time, the member tax credit is NZ\$521.43 per annum, which is paid in full when members pay NZ\$1,042.86 into their KiwiSaver account on an annual basis. While the tax credit is available to those who are not in paid employment, unlike Australia, there are no concessions to assist low income earners in making their own contributions, either voluntarily or through an employment-based scheme. The New Zealand government could consider directly assisting lower income earners, either by lowering the co-contribution required for low income earners to gain the full member tax credit, or adopting the Low Income Superannuation Contribution approach of Australia, which rebates the tax paid on retirement savings contributions for low income earners. This rebate is then paid directly into the KiwiSaver fund to help meet the balance required to gain the member tax credit.

## 5.3 Extended Coverage of Mandatory Superannuation Contributions

In Australia, the extension of mandatory superannuation contributions to include workers who earn less than A\$450 per month would be particularly beneficial to those workers who rely on a number of low paid, casual jobs. Although the annual amount that would be contributed to superannuation is currently less than A\$500 (rising to A\$648 by 2020) this amount is similar in scale to the current government co-contribution or LISC. However, the implementation issue would be to ensure that there was no reduction in the take-home pay of these workers, who in most cases are unlikely to have any capacity to save. One solution would be to address the issue through the minimum wage however employers are likely to resist the resulting significant wage increase. Accordingly the change would need to be phased in, with some level of government subsidy required.

Extended coverage of mandatory superannuation contributions is less relevant in New Zealand. New Zealand does not have the exemption of coverage for lower income earners that is present in Australia. However, the issue that does remain in New Zealand is encouraging lower income earners to participate in the KiwiSaver scheme. Methods discussed in sections 5.1, 5.2, 5.4 and 5.5 are intended to assist with this issue.

#### 5.4 Spousal Superannuation Splitting

In Australia, the current offset for contributions to a spouse's superannuation account is clearly ineffective. To be effective the rebate should be restructured to encourage higher contribution rates by increasing the income level at which the spouse qualifies for the offset; the maximum amount of contributions rebated and/or the amount of the rebate. However the offset was designed under the pre-2007 superannuation regime, accordingly other spousal splitting arrangements may be more effective.

The ability to split superannuation contributions between spouse accounts currently attracts no direct incentive, and is designed to be tax neutral. If the LISC was extended to apply to contributions transferred from a spouse account, this would place carers in a similar position to low income workers. Currently if a family is a typical 1.5 earner family, both would be covered by the superannuation guarantee levy with the secondary earner eligible for the LISC. If the family were a single income family with the capacity for the earner to split superannuation with the carer, the superannuation outcome would be similar at a minimal additional cost to the government.<sup>94</sup>

At the present time in New Zealand there is no facility for an individual to split their KiwiSaver contributions with a spouse or partner. KiwiSaver accounts will be considered as joint relationship property when relationships end. Therefore, it could be argued that an equitable split of assets is likely to result at the point where a relationship terminates. However, in the event that either individual in a relationship would wish to maintain an independent financial situation, and minimise the potential for retirement savings to be diluted in the event that a relationship ends, spousal superannuation splitting is a practical solution. There would be no additional cost to the New Zealand government in the form of contributions and instead would offer greater flexibility to the current scheme and its members.

#### 5.5 Contribution Caps

In Australia, maximum benefit limits exist to limit the amount of tax concessions that may be claimed for retirement saving. The frequent changes in the level of the caps has been criticised as a source of instability in the system, but the annual basis

---

94 Assume that the first family earns A\$120,000, split between the earners as A\$35,000/A\$85,000. The superannuation guarantee levy (at 9 per cent, after 15 per cent tax) would be A\$2,677.50/A\$6,502.50, with the secondary earner entitled to a LISC of A\$472.50. If the earner in the single income family earned A\$120,000 the superannuation guarantee contribution would be A\$9,180, which could be split on the same basis as the first family.

of these caps is unsympathetic to anyone with a “lumpy” income pattern, including self-employed persons as well as carers. Although a case could be made for a lifetime cap, this could encourage a person to roll forward contributions as a tax minimisation strategy if a person has an unusually high income early in their working life; which would increase the balance in the fund, and the compounding nature of the returns would have the effect of multiplying tax concessions in later years.

Accordingly adjustments to the caps should not be based on a lifetime cap but allow them to be rolled forward for each year that a person is a primary carer. The rollover period would need to allow for the fact that the transition back into full-time work can be lengthy, and for much of that time the family faces higher costs including childcare and schooling of the children. This could be linked to a system of carer credits with a carer credit also available in years that the cap is rolled forward.

Another option, linked to spousal contributions (discussed in 5.4), would be to allow concessional contributions over the cap to the sole earner in a single income family, on condition that the additional contributions were split to the spouse. This would clearly be skewed to families where the sole earner was on a high income, and would be a difficult proposal to sustain on the grounds of vertical equity.

No limits on superannuation contributions exist in New Zealand, as the maximum amount of tax concessions that may be claimed is relatively low. However, the tax concession is limited on an annual basis, that is, the matching co-contribution from the government is contingent on the employee making an individual financial contribution. A mechanism to ameliorate for those who have periods of time out of the workforce, whether through undertaking carer responsibilities, unemployment, illness, or other events, is to provide an opportunity to add contributions to KiwiSaver accounts, up to a maximum lifetime limit. That is, the annual government matching tax credit could be amended to be a lifetime limit, which would allow individuals to take advantage of periods in their working lives that would allow for retirement savings. While it is desirable for individuals to create saving patterns throughout their working lifetime, this proposed change recognises that this ideal is not always achievable for many individuals. It would also benefit the system by introducing greater flexibility and acknowledging the different circumstances of many workers.

## 5.6 Summary

This discussion assesses how well each policy tool may work in the Australian and New Zealand environments. While there are considerable differences in retirement savings policy in the two jurisdictions and different appetites for using the tax system to influence behaviour, each of the policy tools raised is likely to go some way to alleviating the disparities of retirement savings among men and women. Indeed, there is an argument to be made that adoption of the majority of the suggestions would provide an optimal outcome.

## 6 CONCLUSION

This article discusses the well-established issue of lower levels of retirement savings for women. There is a fundamental difference in the design of the retirement savings systems in each country as the Australian mandatory contribution component is based on earnings, but in both countries the capacity for voluntary savings is also related to current earnings. We acknowledge that any government support, whether through contributions or tax expenditures, will be more beneficial to families that have a greater capacity to save, and would thus breach principles of vertical equity. However this is a fundamental flaw in the design of retirement income systems that are based on the capacity to save, and principles of horizontal and gender equity that recognise the role of the carer should be invoked in this debate to ensure that carers are not further disadvantaged through the design of the system.

A number of policy suggestions are made with the intention of raising possible options that may go some way to alleviating the disparities of retirement savings between men and women. While the aim of the study was to suggest individual policy tools that may assist women in increasing their retirement savings, the tools that are discussed in the article are likely to be more effective if they are not adopted in isolation. For example, in New Zealand, a combination of carer credits or changes to the co-contribution model, plus introduction of superannuation splitting and lifetime contribution caps is likely to produce an optimal outcome.

In Australia the optimal approach would involve the extension of the existing co-contributions and LISC to carers, incorporating a mechanism based on splitting spousal contributions. The parameters of eligible carers would need to be defined, but should be consistent with the Carer Payment, with the inclusion of carers of young children. The exemption of low income earners should also be phased out, with net wages protected through the minimum wage system combined with employer subsidies.

What is apparent is that this issue is unlikely to disappear in the absence of deliberate policy tools to address the situation. Australia already has a gap of 77 per cent of retirement savings among men and women. New Zealand's gap is 25 per cent. New Zealand has the opportunity to take advantage of Australian experience and introduce policies to ensure that the problem does not grow further. However, Australia must also take deliberate action to address the problem.