Women in Social and Economic Research (WiSER)

Submission to the Review of the Australian Retirement Income System

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Women in Social & Economic Research

Submission to the Review into the Australian Retirement Income System

From: The Women in Social and Economic Research (WiSER) group

To: Retirement Income Review Secretariat
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WiSER is pleased to make this submission, prepared by Professor Siobhan Austen (Curtin), A/Prof Ray Broomhill (Adelaide), Dr Monica Costa (Curtin) and Emeritus Professor Rhonda Sharp AM (UniSA), to the current review of the Australian Retirement Income System.

We understand that the Review aims to establish a fact base of the current retirement income system that will improve understanding of its operation, the outcomes it is delivering for Australians, and how it will respond to an ageing society.

This submission draws on evidence on the performance of the Australian retirement income system gathered by the WiSER group over its several decades-long investigations of the system. The submission makes particular use of the results of one of WiSER's current investigations, funded by the Australian Research Council (DP170103297): "*Inside the black box - Intra-household resource allocations of older couples*". This project has generated evidence on how men and women living in retired couple households are experiencing the retirement income system, the level of inequality within and across retired couple households, and the drivers and consequences of inequality in retirement incomes. We trust this evidence will be valuable to the Panel.

WiSER's ongoing work on the retirement income system reflects its broad concern for gender equality in economic outcomes, and its specific concern for the economic outcomes of the growing number of older women in our community, many of whom are economically vulnerable. Our group also focuses on the efficiency of current tax and other policy settings, evaluating whether and to what extent current arrangement are positive for the provisioning of community needs, broadly defined.

Women in Social & Economic Research

Introduction

We start this submission by highlighting that the issues under investigation in the inquiry are especially important for women. The rapid growth in the older population has featured particularly strong growth in the number of older women in our communities. There are currently *1.7 times* as many women over the age of 85 as there are men, and across the total population aged over 50 years there are 9.6% more women than men (Australian Bureau of Statistics (ABS) 2018). The gender gap in the older population is likely to narrow in coming decades as the life expectancy of men and women merge and as the influence of events such as major wars on the population profile abates (ABS 2016a). However, for the foreseeable future women are likely to continue to comprise the majority of the older population in our community. Thus, *the arrangement of the retirement incomes system must be seen as an issue that is of particular relevance to women.*

A related demographic feature of the Australian community is the high proportion of widows. In the 85+ age group, there are 3.8 times as many widows as there are widowers (ABS 2018). This partly results from women's great average longevity but is also the product of an age gap between most marriage partners. The median age at marriage for Australia men who married for the first time in 1984 (and, thus, would be close to 60 years of age now) was 25.1, while for women this age was 22.9 (a 2.2-year age gap) (ABS 1994). Among divorcees and widowers who remarry the age gap at marriage is even larger (at 3.8 years and 8.5 years respectively), reflecting the tendency of men to remarry to younger women (ABS 2016b).

The gender gaps in longevity and widowhood have a number of important consequences for the retirement income system. For one, they result in women being more dependent on the provision of resources from *outside* their home for their own care in later life. Across the population aged 80+, 35.8% of women, as compared to 28.4% of men, live in residential aged care facilities (ABS 2018). Together with the higher representation of women in the older community, their greater need for out of home care leads to severely imbalanced sex ratios in most aged care facilities. In Australia there are currently 26 women for each 10 men over the age of 85 living in either a residential aged care facility or in hospital (ABS 2018). Thus, we argue that, *because the retirement income system determines individuals access to material resources in later life, its capacity to reflect the needs and interests of older women, and especially widows, must be a central concern.*

In this context, the lack of gender equity in the Australian retirement income system is particularly worrying. On the basis of need, given the above patterns, the majority of economic resources from the retirement income system should flow towards women. However, the current distribution of financial resources for retirement strongly favours men.

Gender inequity in the retirement income system largely arises because the superannuation pillar penalises individuals (predominantly women) who perform, and have performed, the unpaid care roles associated with raising children and caring for ill and disabled adults. The pillar is also poorly integrated with other key parts of the policy matrix. The tax/benefit system imposes high marginal effective tax rates on secondary earners in households (most usually women), and it combines with high cost/low quality of many market-based care options to make workforce participation costly for many primary carers. These policy settings limit the ability of primary carers to save for their retirement, and the shift towards superannuation and away from the Age Pension is magnifying rather than ameliorating their effect on retirement incomes.

The shift towards superannuation is also generating inefficiency and instability, and is undermining the sustainability of the retirement income system. The superannuation pillar generates inefficiency in part because it neglects the fundamental *productive* importance of unpaid care work. It threatens sustainability because the pillar’s incentive structure may cause some key care roles to be not performed at all, as is the case when people decide that they cannot afford to have children due to the risks this poses to their retirement savings. In other words, a key deficiency of the superannuation pillar of the retirement income system is its neglect of a major part of the work that needs to be done if our society is going to continue to grow and thrive: the work involved in caring for children, the elderly and people with mental and physical disabilities.

Further fault lines in the retirement income system are arising because the shift to superannuation is individualising key risks and adding to insurance and transaction costs. The shift is also making the system more vulnerable to adverse events. In this submission we draw particular attention to the dangers posed by defined contribution superannuation accounts, which are a somewhat unique aspect of the Australian system. Defined contribution accounts, unlike the Age Pension and defined benefit accounts, leave a raft of key risks with account holders – and the people who depend on them, and these are risks that individuals acting on their own are relatively poorly place to respond to. As more and more individuals move into retirement and seek to draw down their superannuation savings these risks and the threat they pose to the system’s stability will only increase. This creates further strong arguments for rebalancing Australia’s retirement income system back towards the Age Pension.

Summary of Recommendations

Reflecting the above themes, and the content of the detailed discussion of the retirement income system in the remainder of this submission, our full set recommendations are as follows:

1. **Ensure that any evaluation of the retirement income system is gender-sensitive, and that all policy settings reflect and respond to the needs and circumstances of older women.**

2. **Value and support both paid and unpaid contributions to the provisioning of societal needs. This is key in achieving equity, efficiency and sustainability in the retirement income system.**

3. **Rebalance the pillars of the retirement income system in such a way that its dependence on individual defined contribution accounts is reduced and the role of the Age Pension is increased.**

4. **Establish sensible and coherent objectives for Australia's retirement income system, including: higher retirement incomes, dignity, and increased independence for older Australians; increased equality amongst older Australians; and gender equality.**

5. **Evaluate the adequacy of retirement incomes using measures of *relative* income and consumption. The OECD poverty line, which references median earnings, is a useful basic standard for minimum outcomes, whilst the ASFA standard for a comfortable lifestyle is currently relevant to the expectations of many retirees.**

6. **Ensure the adequacy of retirement incomes is assessed in a way that takes account of retirees' costs of living, including their health, aged care and housing costs. Ensure that any standard of adequacy is sensitive to changes in these factors.**

7. **Subject any assessment of current policy settings to scenario analysis – to account for changing economic conditions – and ensure that the assessments reflect both men's and women's patterns of retirement savings.**

8. **Ensure that adequate and cost-efficient insurance coverage for longevity and other late-life risks is achieved.**

9. **Ensure the Age Pension continues to play its vital role in ensuring adequate retirement incomes for <u>all</u> older Australians.**

10. **Ensure that the key role that homeownership plays in ensuring adequate retirement incomes is not put at risk by policy change.**

11. **Closely monitor the performance of defined contribution superannuation accounts to minimise the individual and system-wide risks they pose as more and more individuals move into retirement and seek to draw down their superannuation savings.**

12. **Maintain the Age Pension to help promote equality amongst older Australians and, especially, to help offset the disequalising impacts of superannuation.**

13. **Buttress the Age Pension pillar to help ameliorate gender inequality and to support outcomes for single older women, an especially vulnerable group in our community**

14. **Rein in the tax expenditures on superannuation, especially the expenditures that flow to high earners and wealth holders.**

15. **Ensure continued government funding of health and aged care services.**

16. **Identify measures that will protect the economic interests of dependent partners in older couple households. Possible options include making a joint annuity the default setting for retirement income streams for partnered account-holders, with payments made separately to each party.**

17. **Increase the intra-household transparency of partners' superannuation accounts and their decision-making on superannuation. Following best practice in the financial planning sector, at a minimum, individuals should have oversight of their partners' account balance, insurance settings, binding death nominations, and withdrawals that exceed a set limit or proportion of the fund.**

Evaluative Criteria for the Australian Retirement Income System

In this submission[1] we draw on WiSER's research to discuss the performance of the Australian retirement income system. We organise our discussion around three evaluative criteria:

- **Adequacy**: *does the funding and delivery of retirement incomes and savings policy, in its current form, achieve the 'provision of needs and dignity' for older Australians through all the years of their retirement?*
- **Equality**: *does the system promote income equality amongst older Australians?*
- **Gender equity**: *does Australia's retirement income and savings system produce adequate retirement incomes for both men and women, and are its benefits equally distributed between men and women?*

These criteria are informed by the original goals set for the SG system at its inception, including **higher retirement incomes, dignity, and increased independence for older Australians**:

> A system of more adequate private provision of retirement income sympathetically interfaced with the public pensions system will not only better provide for the aged, but is more likely to preserve the dignity and independence each have enjoyed in their pre-retirement years (Keating 1991: 7).

A further aim for the system was for **increased equality amongst older Australians**, with the ultimate goal of improved social cohesion and happiness: "It will make Australia a more equal place, a more egalitarian place and, hence, a more cohesive and happy place" (Keating 1991: 7). **Gender equality** was an implied goal, with the SG scheme incorporating "particular concessions to women, long disadvantaged as part time or temporary employees" (Keating 1991: 3–4).

To achieve these objectives, the retirement income system originally incorporated a number of design elements. The Age Pension was intended to be "the foundation of equity and adequacy in retirement income arrangements", with the income of private superannuation playing a "complementary" role (Keating 1991). To achieve meaningful improvements in retirement incomes, superannuation contributions were mandated for all employees, and the SG rate was planned to reach 12 per cent by 2000. The intention was for superannuation contributions to be used to fund annuities and surviving spouse benefits, and lump sum withdrawals were discouraged:

> [The 12 per cent rate] will provide a level of benefit exceeding even the most optimistic expectation of the future level of the age pension. For those workers who stay on to age 65 the level of benefit will reach towards 50 per cent of pre-retirement income on an

[1] Our submission is based largely on the results of research that WiSER has conducted into the retirement income system over the last few decades. The various manuscripts that are referred to in the text of the submission are available to the Panel on request.

> annuity basis, with full indexation to inflation, and 70 per cent reversion to the surviving spouse (Keating 1991: 9).

Of course, the Australian retirement income system has since undergone many changes, and key parts of the original vision for the system have been wound back. However, we still find the objectives that were outlined at the SG system's inception directly relevant to the community's aspirations for the retirement income system and see these as a useful guide for assessing current performance.

⇒ **Recommendation 4: Establish sensible and coherent objectives for Australia's retirement income system, including: higher retirement incomes, dignity, and increased independence for older Australians; increased equality amongst older Australians; and gender equality.**

Adequacy

In **Austen and Sharp (2018),** “Budgeting for Women’s Rights in Retirement” we address the question of whether the superannuation pillar of the retirement income system is likely to provision for the needs and dignity of older Australians. We consider two tests of adequacy: a basic test as to whether the system protects older Australians from poverty; and a more ambitious test, as to whether older Australians are afforded a ‘comfortable lifestyle’ (with the means ‘to be involved in a broad range of leisure and recreational activities … purchase household goods, private health insurance, a reasonable car, good clothes, a range of electronic equipment, and holiday travel’ (ASFA 2013)).

Our analysis starts with the evidence produced by Phil Gallagher (2016) in his modelling of the retirement incomes of Australian men and women. Gallagher (2016) explored a number of ‘cameos’ relating to men and women with different patterns of workforce participation[2], wage rates[3] and, thus, lifetime earnings. He showed how patterns of lifetime earnings interact with retirement income policy settings (such as the SG rate, minimum draw downs, etc) and market factors to affect retirement incomes[4].

The key aspects of Gallagher’s results, shown in the table below, are important. They indicate, first, that, if Gallagher’s relatively optimistic assumptions about labour and financial market conditions hold, a mature SG system will pass the basic test of ‘adequacy’. In each of Gallagher’s cameos retirement incomes exceed the OECD poverty line (50 per cent of median earnings) in the base scenario (SG rate is 12.5% and age-based drawdown reflect longevity). However, only men with earnings 2.5 times the average wage achieve a level of retirement income that exceeds the ASFA-defined comfortable living standard in this scenario. Furthermore, the improvements in retirement income for women on low earnings – over what they would receive if they were at the poverty level - are relatively small (4 per cent in the base scenario).

[2] Gallagher assumed that men work full-time for all years between age 22 and 65. However, reflecting common patterns of female workforce participation, the prototypical woman in Gallagher’s analysis works fulltime between age 22 and 30; is absent from paid work between age 30 and 35; works part-time between age 36 and 45; and returns to full-time work between age 46 and 65.

[3] He studied men and women with earnings at the 10th percentile, median and average levels, and those with earnings 1.5 and 2.5 times the male average wage. Wage rates were assumed to grow in nominal terms by 3.8 per cent per year and women’s wage rates were assumed to remain lower than men’s across most of the earnings distribution by an amount equal to the then current gender wage gap (of about 17 per cent).

[4] superannuation funds were assumed to generate positive but conservative rates of return. In the pension phase, all superannuants were assumed to draw down their accounts (set at the age-based minimum plus 7 per cent and a 12 per cent drawdown at age 67) such that the accounts are exhausted at life expectancy (91 for women and 89 for men).

Table 1: Gallagher's modelled outcomes of Australia's retirement income system

	Measure: % of OECD poverty line					Measure: % of ASFA comfortable standard				
Earnings 'cameo'	*10%*	*median*	*mean*	*1.5* mean*	*2.5* mean*	*10 %*	*median*	*mean*	*1.5* mean*	*2.5* mean*
Scenario 1: Base (Age-based minimum plus 7% drawdown; retire at 65; 12.5% SG)										
Female	104.0	112.8	117.5	130.9	155	60.4	65.5	68.2	76.0	90.0
Male	117.7	135.7	142.3	167.5	218.9	68.3	78.8	82.6	97.3	127.1
Scenario 2: Minimum drawdown (Minimum drawdown; retire at 65; 12.5% SG)										
Female	101.1	107.2	109.1	109.6	110.5	58.7	62.3	63.3	63.7	64.2
Male	108.9	108.6	106.7	112.1	149	63.2	63.1	62.0	65.1	86.6
Scenario 3: Retire at 60 (Minimum plus 7% drawdown; retire at 60; 12.5% SG)										
Female	98.5	104.6	108.3	118.4	134.1	57.2	60.8	62.9	68.8	77.9
Male	107.1	120.5	125.1	139.7	172.6	62.2	70.0	72.6	81.1	100.2
Scenario 4: 9.5% SG (Minimum plus 7% drawdown; retire at 60; 9.5% SG)										
Female	99.6	107.1	111.5	123.8	143.1	57.9	62.2	64.8	71.9	83.1
Male	111.1	127.6	133.4	152.0	198.5	64.5	74.1	77.5	88.3	115.3

Source: Gallagher 2016.

Some key lessons from this research include:

- *Any evaluation of the adequacy of retirement incomes must take account of less favourable scenarios for future economic conditions.* Gallagher's modelling extends to scenarios where superannuation pensions are only drawn down at a minimum rate (as in Scenario 2); where people retire at 60 (Scenario 3); and where the SG rate only rises to 9% (Scenario 4). In the initial situation none of the groups of men and women achieve a 'comfortable' living standard, and none of the 'female cameos' achieve a level of retirement income more than 10.5 per cent above the OECD poverty line. Retirement incomes in the other scenarios are also relatively low, with some of the 'female cameos' falling below the OECD poverty line. Holding the SG rate at 9.5 per cent, and having lower-than-predicted rates of full-time work would have similar negative impacts on retirement incomes.

- *Modelled results indicate that most homeowners achieve incomes above the poverty line but few (and much fewer women than men) achieve a comfortable lifestyle in retirement.* Given that the majority of Australians are not working at age 64 and the SG rate is only 9.5 per cent, Gallagher's Scenario 4 is perhaps the most relevant to current conditions.

- Increasingly, *evaluations of the adequacy of retirement incomes must also take account of individuals who do not own their own home.* The ASFA standards assume homeownership and, thus, Gallagher's modelling understates the retirement income needed for a comfortable lifestyle by those who rent or are paying off a mortgage. Fully 42.9 per cent of female non-homeowners aged 65 and over (and 36.2 per cent of men) rate their financial situation as uncomfortable (Productivity Commission 2015). These proportions, which fall to 12.8 per cent and 11.3 per cent respectively in the group of homeowners, show how *retirement incomes are currently inadequate for the growing group of older Australians who do not own their own home.*

- *Evaluations of the adequacy of retirement incomes must also take account of the health and aged care costs that fall on individuals.* Currently most health and aged care services are heavily subsidised by the State, and this helps to ensure that retirees can achieve a basic standard of living from their superannuation savings and pension income. The adequacy of retirement income is thus also vulnerable to any erosion of government subsidies for health and aged care services.

Broomhill, Costa, Sharp and Austen's (nd) "The financialisation of retirement income provision and Australian retiree households" updates WiSER's analysis initial analysis of the adequacy of retirement income. This recently completed study focuses on the predominance of defined contribution accounts within the SG system, and how this transfers the risks of poor financial conditions and poor decision-making onto individuals. It shows how *the achievement of an adequate retirement income is sensitive not only policy change but also individual circumstance, including un(der)employment, low wages, sharemarket collapse, poor financial advice and poor decision-making.*

Broomhill et al's analysis is based on data collected from interviews with older retired couples. The results reveal that whilst some retired households fit the idealised model of an investor that is actively and successfully investing in the market to improve their financial position in retirement, many retirees do not fit this mould. These latter households do not achieve a comfortable standard of living.

The common elements of investor households that have been successful in organising their superannuation assets and are able to enjoy a comfortable and sustainable living standard are described as follows:

> In the first place they tend to be households in which at least one partner had well-paid and continuous employment before retirement and had acquired a substantial level of superannuation savings. These households also tend to be educated in financial matters and well aware of current superannuation investment opportunities. Having a long-term retirement savings strategy was key to the success for some couples and while often it was the male partner who was most influential in driving this, the strategy seemed to be particularly successful for couples who were equally committed to the strategy and successfully communicated about financial matters and decisions. Of great importance often was having access to good financial advice in the accumulation stage of their superannuation savings fund. This was particularly true in obtaining access to the taxation

> concessions that were available for certain types of superannuation investments. Owning their own home was also critical to the household having enough retirement income to be comfortable. We found also that many of those who have been successful in building a substantial basis for their retirement income have actively embraced the 'investor' ideology and identity that is promoted within the superannuation industry and by government. Finally, there was often a degree of luck involved whether through a fortuitous choice of investment or an unexpectedly windfall. In some cases, the size of the household's superannuation asset was greatly enhanced by inheritance.

However, Broomhill et al also found households who had sought to actively pursue their own savings and investment strategy for their retirement but for a variety of reasons did not achieve the goals they had hoped for.

> Many households arrived at the point of retirement simply without sufficient superannuation funds to provide a sustainable living standard. Often this was because the employer-based superannuation savings accumulated by the household were inadequate for what they required. Those whose workforce participation has been limited or interrupted, or who were employed in lower paid work, were more likely to retire with less superannuation. Of course, women are far more likely to be disadvantaged in this way than men. In some cases, we found that couples' difficulties were due to bad investment decisions either through their own judgement or lack of knowledge. A common mistake was for a retiree to convert a secure superannuation pension into a lump sum to invest either in a retail superannuation fund or through their own managed investments. Some household chose to use their superannuation lump sum to purchase an annuity which involved a risky assessment of how much to take as income per year measured against an estimate of how many years the annuity would need to last. Sometimes problems resulted from bad financial advice or in one case from extraordinarily excessive fees from a 'trusted' financial adviser. The occurrence of fluctuations in financial markets was a source of both ongoing anxiety for individuals as well as financial setbacks for households. In particular, the sharemarket collapse during the global financial crisis of 2008 was damaging for many household's savings strategies and in some cases the impact was devastating.

Broomhill et al is at the cutting edge of research into the Australian retirement income system because the study deals with the experiences of the first generation of Australians needing to make decisions about how to use their superannuation savings. The results demonstrate that:

- *The adequacy of retirement incomes under the SG system depends heavily on the realisation of relatively positive scenarios relating to sharemarket performance, the use of allocated pensions (vs lump sums), continuous full-time workforce participation, and more.*
- *Any assessment of the adequacy of current arrangements must take account not only of how the system will perform under optimistic (or even status quo) assumptions, but also*

the systemic (including macroprudential) and individual risks if, for example, the stock market fails or interest rates turn negative.

Austen, Ong and Wood (nd) 'Housing assets and eligibility for the age pension' provides a complementary, but largely theoretical analysis. This work draws on important economic literature to inform a discussion of policies that encourage or expect older individuals to draw on their accumulated *housing* wealth to meet their consumption needs in retirement. It highlights efficiency issues, especially the possible costs and risks of private, as compared to public approaches to retirement income.

Key economic literature emphasises how it is inherently difficult for individuals to respond to 'longevity risk', and how miscalculations on this and other key risks will leave them exposed to shortfalls in their ability to meet end-of-life needs (when they are likely to be most vulnerable and unable to take remedial action). An age pension can deliver significant efficiency gains by pooling longevity and other risks associated with retirement income over a population as a whole (see, for example, Orzag and Stiglitz 1999). Public retirement income schemes, such as the Age Pension, also have the potential to respond efficiently to unforeseen changes in, for example, longevity, by making adjustments that spread costs and risks over multiple generations (see, for example, Diamond 2005).

Means tests that act to limit the number of individuals who are eligible for an age pension recast the insurance role of the pension from longevity insurance to a safety net/residual role, whereby individuals are only insured against the risk of having insufficient means to support a minimal level of consumption in retirement. This re-framing of the pension shifts the direct responsibility for retirement savings back onto individuals, treats the age pension as a form of residual income support, and marginalizes pension recipients. The pension does continue to act as a protection for older individuals against extremely adverse outcomes, however, retirement income becomes more susceptible to health events, market fluctuations, care roles, and judgments and decision-making.

Additional insights to the key insurance issues in the retirement income system are available in the international literature on retired households' use of annuities and housing wealth. A key finding is that annuities are rarely purchased, despite the benefits they offer, because many people seek to preserve their assets as a form of precautionary savings (see Davidoff, Brown and Diamond 2005). Similarly, people rarely draw down (or plan to draw down) the wealth in their family home to meet consumption needs in retirement but, rather, they seek to hold this wealth to ensure that, if needed, sufficient resources will be available to meet their late-life needs (see Venti 2012). This has an important implication for any evaluation of the adequacy of retirement incomes, namely, it is not sufficient to only judge whether a person's retirement income covers a comfortable retirement for their *expected* longevity under *assumptions* about their health and aged care. Rather it is important to consider if the income is sufficient to provide for the person's needs, regardless of their *actual* longevity and health and aged care needs. In other words,

- *It is important to evaluate whether the system provides adequate – and cost-efficient-insurance coverage for longevity and other late-life risks.*

The Australian system currently has safeguards against some of these risks and costs, largely as a result of the strong role of the Age Pension and the exclusion of the family home from the assets means test for the Pension. However,

- *In the presence of uncertainty about the future trajectory of financial and other markets, retaining and, wherever possible strengthening, the Age Pension will be vital to ensuring adequate retirement incomes for all older Australians, and not just for successful investor households.*

- *Homeownership is another key element of adequate retirement income and this should not be put at risk by policy change.*

- *The performance (risks and costs) of defined contribution accounts will need careful monitoring to minimise the individual and system-wide risks they pose as more and more individuals move into retirement and seek to draw down their superannuation savings.*

Summary of Recommendations on the Issue of Adequacy

⇒ **Recommendation 5: Evaluate the adequacy of retirement incomes using measures of *relative* income and consumption. The OECD poverty line, which references median earnings, is a useful basic standard for minimum outcomes, whilst the ASFA standard for a comfortable lifestyle is currently relevant to the expectations of many retirees.**

⇒ **Recommendation 6: Ensure the adequacy of retirement incomes is assessed in a way that takes account of retirees' costs of living, including their health, aged care and housing costs. Ensure that any standard of adequacy is sensitive to changes in these factors.**

⇒ **Recommendation 7: Subject any assessment of current policy settings to scenario analysis – to account for changing economic conditions – and ensure that the assessments reflect both men's and women's patterns of retirement savings.**

⇒ **Recommendation 8: Ensure that adequate and cost-efficient insurance coverage for longevity and other late-life risks is achieved.**

⇒ **Recommendation 9: Ensure the Age Pension continues to play its vital role in ensuring adequate retirement incomes for <u>all</u> older Australians.**

⇒ **Recommendation 10: Ensure that the key role that homeownership plays in ensuring adequate retirement incomes is not put at risk by policy change.**

⇒ **Recommendation 11: Closely monitor the performance of defined contribution superannuation accounts to minimise the individual and system-wide risks they pose as more and more individuals move into retirement and seek to draw down their superannuation savings.**

Equality

A number of studies of income and wealth inequality by the WiSER group suggest that economic inequality is a further important issue in the current retirement income system. As we summarised in **Austen and Sharp (2018)**, little changed in the level of income inequality amongst older Australians between 1986 and 2012. In 1986, the older household at the 90th percentile of the income distribution had equivalised incomes three times those achieved by households at the 10th percentile. In 2012, this ratio was largely unchanged—at 2.9. In older couple households, the 90:10 ratio of incomes rose from 2.0 to 3.3 over the period from 1986 to 2012.

Table 2: Inequality among older Australian households—ratios of the 90th to the 10th percentile equivalised incomes of Australians aged 60 and over

	1986	1990	1995–96	2012
Single women	2.5	2.6	2.4	2.2
Single men	3.0	2.8	3.1	2.8
Couples	2.0	2.9	3.1	3.3
All households	3.0	2.8	2.6	2.9

The data for 1986, 1990 and 1995–96 relate to pensioner households aged 60 and over. Source: Estimates from unit record files, ABS (2012) and Whiteford and Bond (2000, p. 35).

In a more recent analysis **(Austen n.d)** *"Changing levels of inequality in older Australian households"*, data on older (60+) couple households from the Australian Bureau of Statistics' (ABS) Survey of Income and Housing (SIH) in 2011-12 and 2015/16 is used to describe the trend in later-life inequality in Australia. This paper also analyses the effects of changes in the retirement income system on the level of inequality among older households, assessing change in the level of income[5], wealth[6] and economic resource[7] inequality.

The results, summarized in the figure below, show a mixed pattern of change in the level of economic inequality. Across all older couple households, the dispersion of household income (as measured by the change in the Squared Coefficient of Variation (CV^2)[8]) increased by 17.5 per cent, and on male income by 13.5 per cent, but it fell on female income by 1.5 per cent. As could

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[5] private incomes from all sources, including income from the state Age Pension, other pensions and benefits, income from investments, dividends, business income, interest and income from superannuation or private pensions.

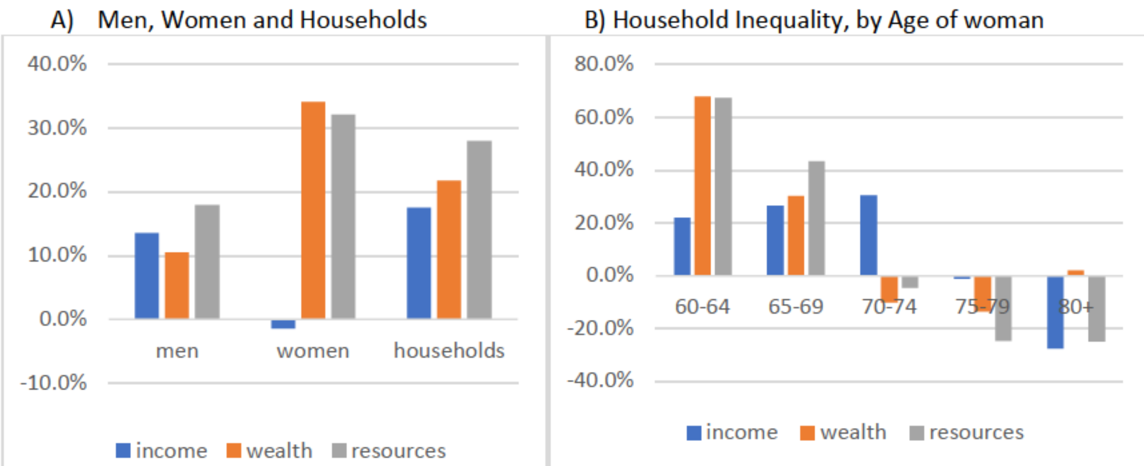
[6] the value of individuals' holdings of shares, bonds and debentures, the value of businesses (net of liabilities), trusts and bank accounts, and the balance of their superannuation (retirement savings) accounts. Because part of the study's focus is on fungible assets and the comparison between men and women, wealth owned jointly, including the value of the primary home, is excluded from the analysis.

[7] income and wealth combined. This measure is accomplished by first converting the stock of wealth owned by each individual is converted to an annuitized equivalent using information on their life expectancy (based on their current age and sex, and data on age/sex mortality rates). Individuals' annual private incomes and the annuitized value of their wealth are then combined to produce the measure of their economic resources in each survey year[7].

[8] because this measure is particularly sensitive to outliers at the top of the income distribution, values above the 99th percentile and below the 1st percentile are replaced with data for each of these percentiles respectively.

be expected, the data reveal much higher levels of *wealth* inequality. Across all older couple households in 2015-16, the CV^2 on household wealth was 4.062, compared to 0.707 on household income. Furthermore, the level of wealth inequality, as measured by CV^2, increased over the study period, rising at the household level by 21.8 per cent, amongst men by 10.5 per cent, and amongst women by 34.1 per cent. As a result, the CV^2 on household *economic resources* (income and annuitized wealth combined) also rose over the study period, by 28.0 per cent; the CV^2 on men's economic resources increased by 17.9 per cent, and amongst women this CV^2 rose by 32.1 per cent. As the data in Figure 1 show, the change in the level of wealth inequality amongst older women was particularly large.

Figure 1: Changes in levels of inequality in income, wealth and economic resources, older Australian couple households and the men and women in these households, 2012-2016, (% change in cvsq)



The results from this investigation also provide insights to the impacts on later-life inequality of the Australian retirement income system, showing a much lower level of inequality in retired households that are in receipt of an Age Pension than in those that are not. For example, the CV^2 on household economic resources in the latter (non-pension) group, at 1.122 in 2015-16, was more than 3 times higher than in the age pension group. The level of inequality in the non-pension group also climbed over the study period, with the CV^2 on household economic resources increasing by almost 30 per cent, whilst in the age pension group the CV^2 on household economic resources fell by 9.8 per cent.

- *With more than 2/3 of retiree households still in receipt of an Age Pension in 2015-16, this part of the Australian retirement income system plays an important role in equalizing the distribution of income across older Australian couple households.*

⇒ **Recommendation 12: Maintain the Age Pension to help promote equality amongst older Australians and especially to help offset the disequalising impacts of superannuation.**

Gender Equity

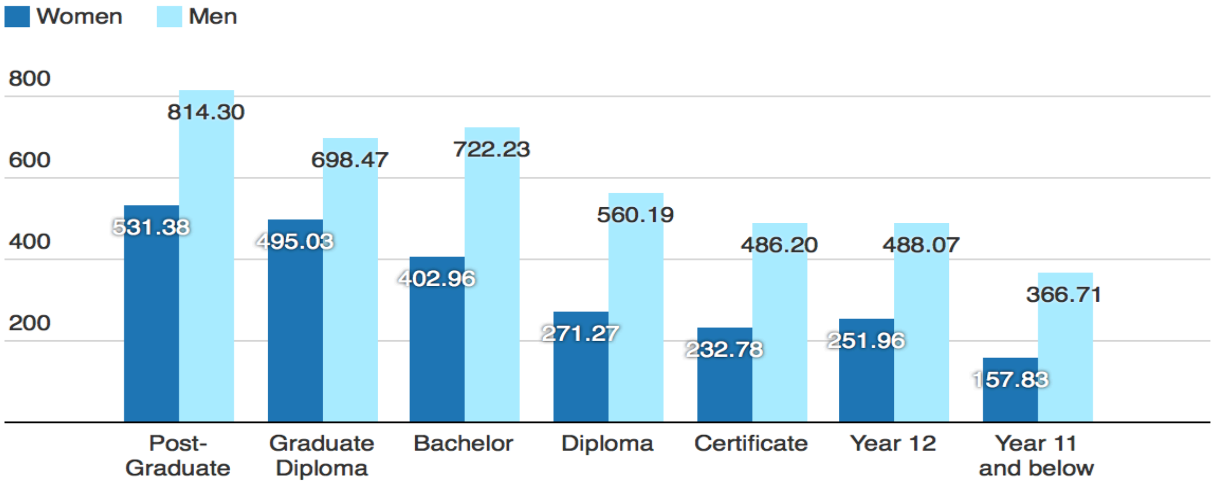
As noted in the introduction to this submission, WiSER identifies the lack of gender equity as a key shortcoming of the Australian retirement income system. The Treasury Consultation Paper provides some insights to the current problem of gender inequality, showing how the gender gap in superannuation favouring men, as measured by Australian Tax Office (2019) data on individuals aged 60-64 with a superannuation account, is 25.7 per cent. However, whilst this number is high it only partially reflects women's disadvantaged position in the superannuation sector. The relatively high proportion of women who have no super[9] is not reflected in the ATO data; and the median figures also do not fully reflect the relatively large number of women with small superannuation balances (and vice versa). When measured by the difference in means, the gender gap in superannuation favouring men is much larger – at 86.3 per cent in the 60-64 age group in 2016-17 (ATO 2019).

Our research shows that the gender gap in superannuation results from the combined influence of gender gaps in wage rates, work hours and participation in paid work on lifetime earnings. As reported in **Austen (2019)**, *"Gender Equality in Later Life"*, the gender gap in weekly full-time earnings that favours men is currently 15 per cent, the workforce participation gap favouring men is about 10 percentage points, and the rate of part-time employment amongst men is only about 1/3 the rate for women (ABS 2018b).

These features of men's and women's experience of paid work combine to produce a large gender gap in lifetime earnings, and this feeds directly into the gender gap in superannuation. Providing insights to the magnitude of gap in lifetime earnings, **Austen and Mavisaklyan (2018)** use data from the Housing, Income and Labour Dynamics in Australia (HILDA) survey to measure over the 15-year period from 2001 to 2015 to measure these effects. They show that women's median total gross earnings over the 15 years was only 49.6 per cent of men's. As shown in the chart below, similar patterns exist in all sub-samples defined by educational qualification. For example, the median long-term earnings of women with a Bachelor degree reach only 55.7 per cent of men's in the same educational group, and the median total gross 15-year earnings of women with a Bachelor degree (at approx. $403,000) is actually *lower* than that attained by men with *Year 12* qualifications (approx. $488,000).

[9] 34.6% of women and 26.1% of men had no superannuation in 2017 (Wilkins 2017: 73)

Figure 2: Median Long Term Earnings of Australian Men and Women, by Educational Qualifications



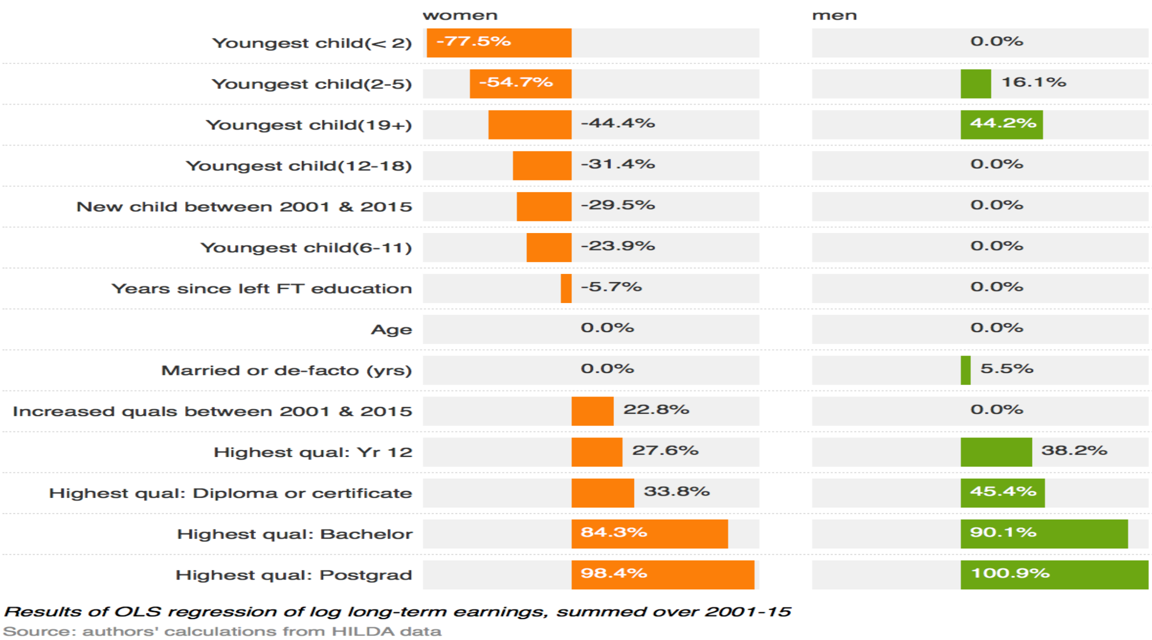
sum of annual earnings for 2001-2015 ('000)

Source: authors' calculations from HILDA data

Austen and Mavisakalyan (2018) also identify strong links between men's and women's long-term earnings and economic resources at retirement. For women, at mean values, a $1 increment in their gross long-term earnings is associated with a $1.51 increase in superannuation wealth; for men this relationship is stronger, with a $1 increase in gross long-term earnings linked to a $5.50 increase in superannuation wealth. These findings add to evidence from a raft of previous studies (see, for example, Preston and Austen 2001, Jefferson and Preston 2005 and Rake 2000) on the strong links between gender and retirement wealth in an earnings-based retirement income system.

Looking at the sources of the gender gap in lifetime earnings and superannuation, a key role can be identified for the gendered division of the unpaid and paid work associated with parenting and other care roles. In additional stages of their analysis, Austen and Mavisakalyan (2018) found that, at mean values, women who had a child under the age of 2 in 2001 (as compared to no children) recorded 77.5% less earnings over the subsequent 15 years. For men, in contrast, becoming a parent was not a statistically significant source of variation in their long-term earnings (see Chart 2 below). In other words, women, much more than men, currently bear the economic costs of parenthood.

Figure 3: Percentage Change in the Long-Term Earnings of Australian Mena and Women, by Contributory Factor



Austen, Sharp and Hodgson (2015) elaborate on these effects in their gender impact assessment of the Australian retirement income system. They first identify gender impacts of the tax expenditures on superannuation, noting that the value of the concessional tax treatment of *contributions* to individuals is proportional to the amount of the contribution and the contributor's marginal tax rate, and women are under-represented in the top tax brackets[10]. At the time of their analysis, close to 50 per cent of the tax expenditures on superannuation contributions flowed to individuals in the top two tax groups (see Figure 4 below), whilst there was no tax advantage associated with making contributions to superannuation for individuals in the lowest tax bracket.[11] As shown in Figure 5, in 2012, only 14 per cent of female taxpayers, as compared to 29 per cent of their male counterparts, were in the top tax groups (ATO 2013). A much higher proportion of female taxpayers are in the lowest tax bracket (36.7%, as compared to 22.6 per cent of male taxpayers in 2012). The measured negative gender impact of the expenditures on superannuation tax concessions increases further when account is taken of individuals (more commonly women) who are not in the paid workforce and, thus, are generally not liable for income tax.

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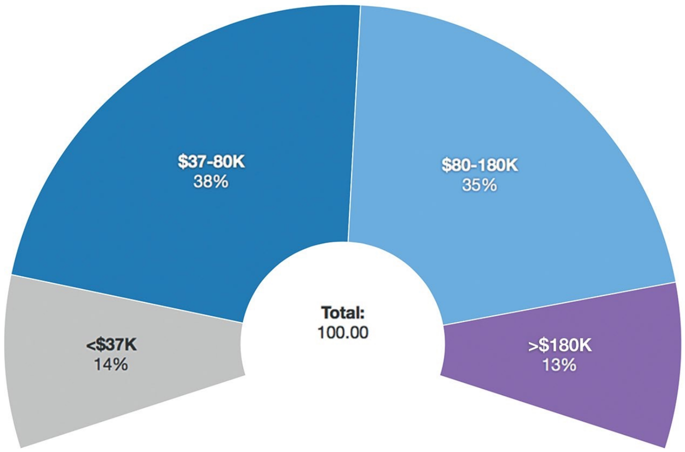
[10] Contribution caps place some limits on these benefits.

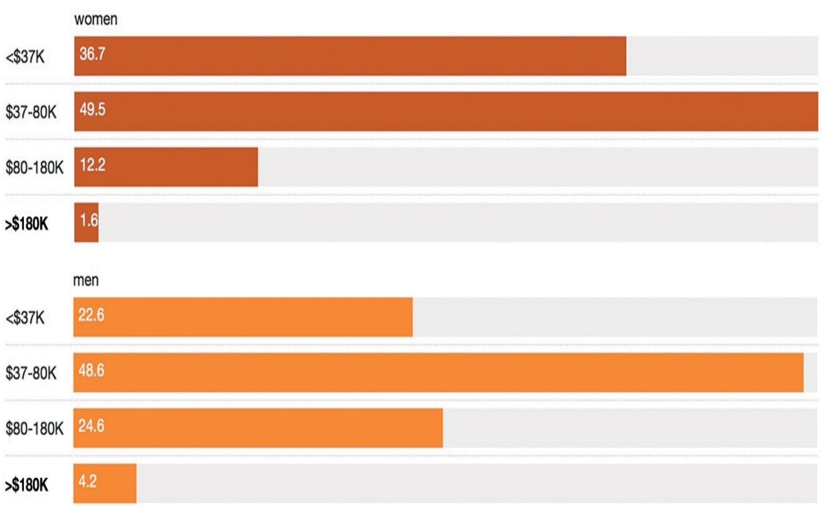
[11] At the time, the Low Income Superannuation Offset was available to taxpayers earning less than $37,000 per annum to ensure that superannuation is concessionally taxed. However, this was repealed with effect from 2017: *Minerals Resource Rent Tax Repeal and Other Measures Act 2014* (Cth).

Figure 4: Distribution of tax concessions for superannuation contributions across taxable income categories



Source: ATO 2013

Figure 5: Distribution of male and female taxpayers across taxable income categories



Source: ATO 2013

Tax expenditures on superannuation *accumulations and disbursements* also have negative impacts on gender equality. Almost two-thirds of the tax expenditures on accumulations flow to individuals in the top two tax groups, where, as shown, women are poorly represented. For both accumulations and disbursements, the value of the tax expenditures is proportional to the balance of the superannuation account, and this works against gender equality given the substantial gender gap in superannuation wealth.

In contrast to superannuation, the Age Pension pillar of Australia's retirement system does not reinforce patterns in the gendered distribution of income and wealth. Payments under the Age

Pension are capped and subject to income and assets tests. As such they are distributed relatively evenly, with the largest (but still very modest) amounts available to those with relatively small assets (outside the family home) and low market incomes. Women, more than men, are represented in these groups. In 2015, women comprised 55.7 per cent of all Australian Age Pension recipients and 60.8 per cent of the Age Pension recipients on the maximum pension rate (DSS 2012).

Summarising the broad results of their gender impact assessment of the retirement income system, Austen, Sharp and Hodgson comment that the shift in focus toward superannuation, and especially the large tax expenditures on superannuation, are key source of heightened levels of gender inequality.

> [Superannuation] exacerbated rather than reduced gender inequality. …Under the current policy settings some retirees, and statistically more men than women, who have accumulated significant assets in superannuation will access large tax-free incomes in retirement and derive the benefits for health and care that this provides. Others, and more commonly women than men, will continue to depend on the Age Pension, which will deliver them an increasingly frugal existence.

- *Because the Age Pension helps to ameliorate gender inequality, its role in the Australian Retirement Income System must be supported.*

- *Reining in the tax expenditures on superannuation, especially the expenditures that flow to high earners and wealth holders is a further necessary policy step.*

Austen, Sharp and Hodgson (2015) identify older single women as a particularly vulnerable group under current policy settings. Single women make up the large majority of households dependent on the full Age Pension, with more than twice as many single women depending on the full Age Pension as men (DSS 2012). As such, this group is especially vulnerable to policy changes that restrict the growth in Age Pension rates and/or increase eligibility limits. As single women, much more than single men, have a 'wealth portfolio' that is heavily dominated by the family home, any moves to include primary home assets in the assets test for the Age Pension will also have a disproportionate negative impact on them (see Austen, Jefferson and Ong 2014); and, due to their relatively low incomes, the group is highly vulnerable to reductions in government spending on health, aged care, transport and other services. Therefore,

- *Protecting the Age Pension and ensuring continued government funding of health and aged care services are vital if we are to ensure outcomes for single older women, an especially vulnerable group in our community.*

Many partnered women have also been adversely affected by the shift towards superannuation. The redirection of fiscal resources away from the Age Pension and towards tax expenditures on superannuation has had the effect of concentrating the money and thus power in couple households in the hands of the primary 'earner'. Whilst Age Pension payments are divided equally between the partners in couple households, and can be paid separately to each of them, money in superannuation accounts is fully ‘owned’ by the account holder and this person has full legal control over how this money is used.

The vulnerability of older partnered women to their partner’s decisions about superannuation and other financial assets are taken up in recent papers by **Costa, Hodgson, Austen and Sharp (nd)**, and by **Mavisakalyan, Austen and Himmelweit (nd)**. These papers argue that the predominance of defined contribution accounts in Australia’s superannuation system creates particularly large risks for older women because, broadly, key decisions about lump sum withdrawals *vs.* income streams, decisions about the amount and type of insurance purchased within superannuation, and (to a lesser degree) decisions about death beneficiaries are largely left with the account holder in a defined contribution system. Decisions on each of these issues can be prejudicial to the economic wellbeing of dependents, including dependent spouses, who may be left without an adequate source of income in retirement. Therefore, a major concern with the current superannuation system is that,

- *Spouses do not have any rights to information about their partners’ superannuation account balances and settings, and there are no provisions in the Australian system to ensure that their interests will be represented in the decision-making process.*

Mavisakalyan, Austen and Himmelweit note that the issues about unequal access to decision-making on household superannuation wealth is especially consequential for women because they will typically outlive their partner and will be adversely affected if household resources are not allocated in a way that ‘covers’ their expected longevity. The authors pursue these concerns, applying regression techniques to HILDA data to examine the relationship between the intra-household distribution of financial decision-making and household saving for retirement. Their results suggest that, under controls for factors such as current income and education, both men and women act to increase *their own* retirement savings when they are the financial decision maker within their household, but they do not increase their partners’ savings to the same extent. This has the important implication that the intra-household distribution of the ownership and control of retirement assets matters to the individuals concerned; that people perceive benefits from having household retirement wealth in their name, and that they act to ensure this outcome. The results cast further doubts on women’s ability to ensure their interests will be reflected in the decisions their partner makes about superannuation.

Costa et al. identify a number of policy options around the default settings and the regulation of defined contribution superannuation accounts to address these concerns. The main options include:

- *Making a joint annuity the default setting for retirement income streams for partnered account-holders. This would at least offer both partners rights in respect of the income stream. One way of strengthening this arrangement would be for the payment to be made separately to each party, in a similar manner to the Australian Age Pension payments.*

- *Increasing the transparency of partners' superannuation accounts and decision-making*.

In relation to this second option, it is noteworthy that the Australian Parliament recently recognised the need for divorcing couples to have access to information on their partner's superannuation, and this expected to result in a fairer division of assets in property law proceedings. Under these changes the Family Court can request information from the Australian Tax Office to facilitate the full disclosure of superannuation holdings in proceedings before the Court (Attorney General's Department 2018). Additional regulations are in place to ensure that the trustee of a superannuation fund implements the orders of the Family Court. Therefore,

- *At a minimum, the account balance, insurance settings, binding death nominations, and withdrawals that exceed a set limit or proportion of the fund should be transparent to dependent partners.*

Costa et al acknowledge that there will be inevitable difficulties involved in establishing who may have the right to information on an individual's superannuation account, particularly where divorce or blended families may change relationships over time. However, they are confident that these hurdles are not insurmountable and note that this type of transparency is already best practice among professionals in the financial advice industry. They argue that it should be possible for individuals to be made aware of the key details of their partner's superannuation accounts where the system provides for default or opt-out settings. This would involve superannuation funds developing mechanisms to prompt a person and their partner to review their superannuation settings when key changes occur or trigger points are reached, including marriage, or becoming a parent, or changing employment. This could be supported by the establishment of an obligation on the trustees of superannuation funds to ensure that spouses are aware of any substantive decisions taken in relation to the member's superannuation account. Information technology could also be developed that would assist partners being involved in decision making at critical points, such as changes in employment. The authors conclude that in the absence of systems that prompt event-based reporting, a mechanism requiring regular review, similar to that already in place for binding death nominations, should be introduced.

More substantial policy action is required to address the unequal ownership of retirement wealth within older Australian households. Costa et al identify some measures within the current system that encourage the transfer of superannuation wealth to a lower income partner, such as tax benefits for households where one of the partners is already at the cap on concessional superannuation contributions and the other is not. However, these tend to largely produce financial benefits for high net worth households. Thus, this is a remaining policy challenge.

The Age Pension, however, remains the best mechanism for both equalising men's and women's incomes in retirement, both within and across households, and for acknowledging and rewarding both paid and unpaid contributions to the provisioning of community needs. These are yet further reasons for maintaining its central role in the Australian retirement income system.

Summary of Recommendations on the Issue of Gender Equity

⇒ **Recommendation 13: Buttress the Age Pension pillar to help ameliorate gender inequality and to support outcomes for single older women, an especially vulnerable group in our community.**

⇒ **Recommendation 14: Rein in the tax expenditures on superannuation, especially the expenditures that flow to high earners and wealth holders.**

⇒ **Recommendation 15: Ensure continued government funding of health and aged care services.**

⇒ **Recommendation 16: Identify measures that will protect the economic interests of dependent partners in older couple households. Possible options include making a joint annuity the default setting for retirement income streams for partnered account-holders, with payments made separately to each party.**

⇒ **Recommendation 17: Increase the intra-household transparency of partners' superannuation accounts and their decision-making on superannuation. Following best practice in the financial planning sector, at a minimum, the account balance, insurance settings, binding death nominations, and withdrawals that exceed a set limit or proportion of the fund should be transparent to partners.**

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