



*Women
in Super*

*Wāhine
Whakamoamo*



RETIREMENT SAVINGS POLICY

9 JULY 2002

Retirement Savings Policy

Background

Women face a number of challenges when planning for their retirement income. It is important to consider the changes in demographics and its effect on women. Some of the factors affecting women include:

- Women have a longer life expectancy than men. The evidence shows that women currently live 3 ½ years longer than men at age 65ⁱ.
- Married women are on average two years younger than their partnersⁱⁱ and are therefore likely to outlive their partners by five or more years.
- The difference in life expectancy is reflected in the proportion of men and women over 65. In the 65 to 74 age group, proportions of men and women are nearly equal. However, women make up 61% of the 75 to 84 age-group and outnumber men more than two to one in the over 85'sⁱⁱⁱ.
- The great majority of women reaching retirement have both been married and had children. Only 6% of women over 65 have never been married and only 14% of women over 65 have never had children. Superannuation for women therefore needs to be viewed principally in a household context with the proviso that a significant proportion of women will be a surviving spouse approaching and during retirement or may be living alone due to a relationship breakdown.

Financial factors are also changing in society:

- Student debt is an important issue affecting many women. Women often earn less during their careers and therefore take longer to repay debt.
- Women today are part of the 'sandwich' generation – not only are they paying off student loans and caring for young children, but they are also looking after elderly parents^{iv}.
- Health costs are on the rise and women not only are the predominant users of the health system but use the health system more extensively as they get older.
- In previous years, defined benefit schemes have dominated, meaning that married women have had the benefit of a pension when their husband died. Now that direct contribution schemes are prevalent, this is no longer the case.
- Fewer people now own their own home at retirement.

These demographic and financial changes raise issues for men also because if the situation for women worsens, men will be required to provide a wider safety net for women.

Dedicating superannuation savings to retirement income prevents dissipation of these savings through adverse life events. For example, for those whose marriages end, given the financial constraints on a female partner with lower potential to earn (because of child-care, interrupted career or education) there will be a demand to spend accumulated, including retirement, savings. In this situation retirement living standards are being sacrificed for present living standards. Non-superannuation assets are likely to be paid to the partner who is not the superannuation plan member because of difficulty in getting early payment, particularly of employer monies. Non-superannuation money is much more likely to be treated as present income when determining eligibility for other benefits.

Women in Super consider that money could be diverted from marital settlements for retirement purposes. Additionally, a portion of marital benefits could be diverted to long-term savings. This would increase the level of support required in the short term but would provide a basic lifestyle in the present and retirement benefits for the future.

In addition, *Women in Super* would support the development of superannuation and savings products which allow portability of an interest, meaning that an investment interest can be retained rather than having to be paid out to a spouse, should a member's relationship end. In particular, *Women in Super* recognise the importance of a spouse's interest in a scheme being either retained separately in the scheme in the spouse's name, or re-settled into another scheme without penalty (unless later withdrawn incurring penalty). Schemes could develop the ability for spouses to become members of the scheme with a voluntary contribution account, in the case of a member's relationship break-up.

Women in Super support the World Bank / OECD three-pillar framework for retirement income:

Pillar I – Safety-net basic state pension

Pillar II – Workplace superannuation

Pillar III – Voluntary provision

We support a specific superannuation savings regime for Pillars II and III with savings dedicated to providing retirement income.

Women in Super aim to achieve these goals via the following:

- Education
- Incentives For Saving
- Safety-net basic state pension.

Education

Public superannuation education programmes are necessary and must make women aware of the particular issues faced by women in retirement. Women may not be as financially informed as men, particularly women who delegate family finances to their partners. However, financial awareness and planning is vital for women both individually and in the family context given the higher likelihood of their living alone.

Women in Super support a two way commitment to education, focusing on both public education for women and industry education of issuers of financial products. For example, issuers should be encouraged to remain aware of issues relevant to women, such as the concept of flexible retirement income options rather than a strict lump sum cash payout.

Women in Super support the development of workplace schemes, which can offer benefits of tax deferral and preservation. Women who do not have access to workplace schemes need access to individual superannuation schemes, which can offer the same benefits of tax deferral and preservation as we support being introduced into employer schemes.

An emphasis on workplace superannuation provision will disadvantage non-wage earners and those who do not have access to workplace schemes, women receiving superannuation or other monies as part of a matrimonial settlement.

In particular, *Women in Super*:

- **Support** the continued work of the Retirement Commission in this area. The Retirement Commission needs to be adequately funded to meet this educational objective.
- **Stress** the need for women to be able to obtain good quality, affordable financial advice from professional advisers and agents of issuers in the retail market.
- **Stress** the need for women to also be able to access good quality information through their workplace as bad advice and unexpected losses to retirement savings are unrecoverable once employment ceases.
- **Support** initiatives to make education in relation to financial planning, budgeting and superannuation a compulsory part of the New Zealand secondary school curriculum.

Incentives for Saving

Women in Super want to see some encouragement and/or incentives introduced to assist savings. *Women in Super* support:

- Mandatory provision by employers of, as a minimum, a payroll deduction facility to allow direct contribution by employees to a savings scheme;
- Promotion and encouragement of workplace superannuation schemes; and
- Tax efficiencies.

Deduction at Source

Mandatory provision of a payroll deduction facility by employers would provide the ability to create an expectation of a portion of income to be directed to savings. This mechanism allows all income actually received to be used for daily living with the knowledge that savings have already been taken care of.

Women in Super support lower costs of distribution, ease of deduction, group benefits, which include lower administration fees, and access to low cost wholesale investment management charges.

As an example, employers in the United Kingdom, unless exempt, must provide access to a stakeholder pension scheme to their employees and must provide a facility to have employee contributions deducted from their pay. The pension schemes are designed for example to be low cost and flexible as to contributions, investors can stop contributing occasionally without penalty, and there are limited changes and certain tax relief.

Workplace Superannuation

- *Women in Super* want to see encouragement of workplace superannuation schemes for all, in particular accommodating part-time workers and in the context of specific superannuation savings vehicles.
- Employer superannuation contributions should fully vest when a parent ceases work to have a child or care for dependants and/or employers should be encouraged to meet administration fees for a reasonable period of time during any such period of leave so fees do not erode savings while the member is unable to contribute. *Women in Super* recognise that in order to obtain such benefits savings, should be locked in until retirement.
- Employers are encouraged to have scheme designs that meet women's variable needs; e.g. variable personal contributions, continuation of insurance cover when members are on maternity or parental leave.
- Ability to transfer and consolidate superannuation accounts must be a compulsory feature of superannuation schemes. It will typically be more efficient for savers to have one account than a number of small balances with different providers. There is also reduced risk of owners losing their accounts.

Women stop working to have children and, when they return to work, it is usually to be employed part-time and in lower paying jobs. A married mother's income is likely to be secondary family income and therefore more likely to be saved for a couple's retirement. Coverage of workplace superannuation schemes has reduced and it is uncommon for part-time workers to have any access. However, workplace access to superannuation saving is cost efficient, particularly for the lower paid.

On the other hand, there is a significant tax penalty for those earning less than \$38,000 saving through a Registered Superannuation Scheme – see 'Taxation' below.

Taxation

In the short term

Women in Super would support action towards the removal of the inequities of the current tax rules for those who earn less than \$38,000 pa.

In the longer term

Women in Super would support action towards a tax deferral regime for dedicated retirement savings accounts where no tax is paid until a draw down on retirement income.

Women in Super support compulsory lock in, where the member receives benefits for locking in. If there are no benefits it is likely that savings will be invested in other tax efficient alternatives.

The inequity of taxing superannuation savings as present income is particularly acute for women who are not principal income earners.

As women's income levels are lower than men's and given the predominance of women in part-time work, the present tax regime for Registered Superannuation Schemes generally affects women more adversely than men. Currently investment income tax and Specified Superannuation Contribution Withholding Tax penalises these people by taxing employer contributions and investment income at 33% compared with the personal tax rate of 19.5% for income under \$38,000.

Employer superannuation scheme membership is likely to be in the name of the principal family income earner. There is no scope for members of employer schemes to 'savings split' with their spouses to recognise lower personal tax rates of a part-time earning spouse (this can be compared with New Zealand Superannuation, which is paid equally to both partners and taxed individually). The inequity of the present tax system is illustrated by a woman who has been principal caregiver for her children and who separates from her partner in middle age. She will be entitled to half her partner's superannuation that has accumulated during the relationship but this will have been taxed at 33% (the 'anti-incentive' argument would have it taxed at his marginal tax rate, possibly 39%).

Safety Net

While *Women in Super* support voluntary saving and employer superannuation schemes, they also recognise that many people will still remain unable to save a sufficient amount to provide for their retirement. *Women in Super* therefore advocate a government safety net of retirement income that is available to all New Zealanders.

Specifically, *Women in Super* recommend that the government provide a base level of retirement income for each New Zealander, with a top-up for those people whose total income from other sources is below a certain amount. For example:

Single Person Living Alone:

- A base amount of 65% of average ordinary time earnings (based on both male and female income); plus
- For those people whose total income from other sources is less than a specified amount an additional 20c for every dollar below that specified amount. For example, if the specified amount is set at \$10,000 and a person has a total income from other sources of \$5,000, then they will receive an additional \$1,000 (i.e. 20c x \$5,000).

Other rates (e.g. married couple rate) will maintain present relativities to the base rate and will also receive the top-up if they qualify.

New Zealand Superannuation is not a generous benefit. It is related to average individual earnings male and female combined. Women's ordinary-time earnings are 84% of men's^v. The level of New Zealand Superannuation therefore has a much lower relationship to the level of household income (and therefore expected standard of living) than the bald percentages suggest; that is 42.5% of average ordinary time earnings for a superannuitant living alone.

57% of single superannuitants have savings and investments of less than \$10,000^{vi}. Given the predominance of single women over 65, the level of New Zealand Superannuation is the major contributor to the living standards of women over 65.

ⁱ New Zealand Abridged Life Table 1998 - 2000 - Statistics New Zealand. *Women in Super* recognises that this is expected to decrease over time because men of 85 years of age were exposed to such adverse events as the Second World War.

ⁱⁱ Marriage and Divorce in New Zealand - Statistics New Zealand March 2001

ⁱⁱⁱ New Zealand Now, Over 65 1998 Edition - Statistics New Zealand. *Women in Super* recognises that the disparity in proportions at older ages at present is due in part to adverse past events such as 20th century wars particularly affecting men and is therefore subject to change in future.

^{iv} Massey University study

^v Quarterly Employment Survey November 2001 - Statistics New Zealand

^{vi} Living Standards of Older New Zealanders - Ministry of Social Policy 2001