

## CHAPTER 3:

# INCOME IN RETIREMENT

*It was drummed into me that you have to start thinking about retirement at 40. [But] I think you probably need to start thinking [about it before that]...but at 20 it is the last thing people think of.<sup>1</sup>*

3.1 Changes to superannuation legislation over recent years have increased access to and membership of superannuation schemes by women. However, superannuation represents only one aspect of retirement income. For many, especially those on lower pay, the overall benefits may be minimal. The recency of superannuation will also limit the benefits for those who are near to retiring age. The full benefits of superannuation will accrue to those who are of younger age and still have many years ahead of them in which they will be able to accumulate superannuation assets.

3.2 Other choices of retirement income for women include the age pension, based on the expectation that the government will provide an adequate retirement income for the aged in the community, personal investment in housing and other assets, and other financial arrangements to ensure their well-being.<sup>2</sup> The concern that women have, in particular, to ensure housing needs are met was consistently presented to the Committee during the course of this inquiry, as well as during the Committee's previous inquiry on the use of accumulated superannuation for the purchase of housing.<sup>3</sup> This issue is discussed in more detail in Chapters 13 on Divorce and 9 on Education.

3.3 In October 1992, for women, the main source of income at the start of their retirement was either government benefits or 'someone else's income', with slightly more than a third coming from each source. On the other hand, 50 per cent of men had retired with government benefits as their principal income source. Twenty-two per cent of men compared to 14 per cent of women retired with income mainly from their investments and savings. For superannuation, the respective figures were 16 per cent and 4 per cent.<sup>4</sup>

3.4 The main source of income at retirement also differed depending on whether people had retired early. 'Someone else's income' was the main source

<sup>1</sup> Alexander E, Evidence, p 144

<sup>2</sup> Office of the Cabinet, Queensland, SW Sub No 48

<sup>3</sup> Senate Select Committee on Superannuation, *Super and Housing*, May 1994

<sup>4</sup> Australian Bureau of Statistics, Catalogue No. 4124.0, *Australian Women's Year Book*, 1994, p 105

of income for 46 per cent of women who retired at age 45-59 years, compared to 13 per cent of women who retired aged 60 years and over. Regardless of the age at retirement, men were more likely to have retired with superannuation, life assurance or another retirement scheme providing their main source of income.<sup>5</sup>

### Age pension

3.5 The unfunded age pension was introduced by the Federal Government in 1909 and has had, for most of its history, a primary objective linked to the alleviation of poverty amongst the aged. The pension is paid from Consolidated Government Revenue each year and, as such, it represents an unfunded retirement income system. The pension is currently payable from age 65 for males and 60.5 for females and the Government is currently increasing entitlement age for females incrementally to 65.<sup>6</sup> That policy is examined in Chapter 15.

**Table 3.1: Main source of income and age at retirement, 1992**

Main source of income at retirement	Women		Men	
	45-59 years %	60 years & over %	45-64 years %	65 years & over %
Superannuation, life assurance and other retirement schemes	3.3	7.3	19.0	10.9
Government benefits	25.6	58.3	44.4	63.9
Investment and savings	12.2	16.7	23.5	17.4
Someone else's income	46.4	13.3	3.2	1.1
Other income	12.6	4.5	9.8	6.6
Total	100.0	100.0	100.0	100.0

Source: *Australian Women's Year Book 1994*. ABS Catalogue No. 4124.0

3.6 The maximum level of the pension that can be received by a person is not linked to the individual's lifetime earnings but is set by the Government and is equal to approximately 25 per cent of the average wage for a single

<sup>5</sup> *ibid.*, pp 105, 106

<sup>6</sup> Knox D, *The Relationship Between the age pension and Superannuation Benefits, Particularly for Women in Women and Superannuation: Selected Seminar Papers*, EPAC Background Paper No 41, August 1994, p 51

person and 40 per cent of the average wage for a married couple. The income and assets tests reduce or negate age pension entitlement for those who have significant superannuation or other income or assets.<sup>7</sup>

3.7 In summary, the means tested age pension provides a reasonable safety net for Australians over the pension age and thereby limits the level of poverty amongst the aged population.<sup>8</sup>

3.8 In June 1994, there were 1 034 127 female age pensioners compared to 544 571 male pensioners.<sup>9</sup>

3.9 Of the women that receive the age pension:

- just under two-thirds are paid at the single rate, reflecting the increasing proportion of widows amongst the older aged. Whilst almost 70 per cent of women aged 60-64 are married, virtually the same proportion of women aged over 75 are widows;
- just over two-thirds of women are paid at the full rate, that is, they do not have sufficient private income to reduce their age pension;
- around 10 per cent have no other income than the age pension; and
- the main source of private income for age pensioners is interest on bank accounts, with the average received only around 16 per cent per week.<sup>10</sup>

## Superannuation

3.10 The amount of superannuation an individual will accrue is largely dependent on his or her employment history. Typically, an individual will accrue, over his or her lifetime, a superannuation benefit the size of which is largely dependent on both income and length of employment. Generally, the largest benefits are accrued by those who have superannuation from the time they first enter the workforce, achieve earnings equal to or above average weekly earnings, and are continuously employed for 40 to 45 years. However, superannuation will increase overall retirement income. The Retirement Income

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<sup>7</sup> *ibid*, pp 51, 52

<sup>8</sup> *ibid*, p 52

<sup>9</sup> Department of Social Security, *DSS Quarterly Survey* (yet to be published), in *DSS Clients - A Statistical Overview, 1995*

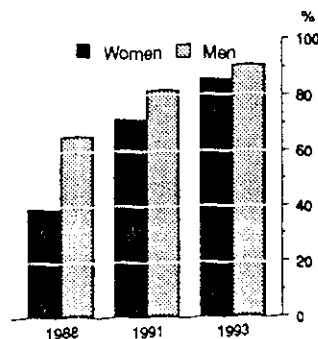
<sup>10</sup> Clare R, *Women and Superannuation*, in *Women and Superannuation: Selected Seminar Papers*, EPAC Background Paper No. 41, August 1994, p 14

Modelling Task Force estimates that two individuals, aged 25 and 60 in 1992, who retire at the age of 65 and who receive employer Super Guarantee contributions, would respectively receive a net retirement income, comprising a superannuation and age pension component, of 168.8 per cent and 103.8 per cent of the full age pension.<sup>11</sup>

3.11 Employees with non-traditional employment patterns, that is, those who spend a number of years outside the paid labour force or in part-time employment, will inevitably accrue far less superannuation than those employees who follow a more traditional employment pattern. Generally speaking, those members of the community most likely to have non-traditional employment patterns are women who temporarily leave the labour force to raise children, or who work part-time because of their family responsibilities.<sup>12</sup>

3.12 Between 1987 and 1992, the proportion of employees with superannuation cover has doubled (from 39.9 per cent to 80.3 per cent), with a near trebling in the coverage of women employees (23.9 per cent to 76.2 per cent), a consequence of the spread of industrial award superannuation and the introduction of the Superannuation Guarantee (SG).<sup>13</sup>

**Figure 3.1 Superannuation coverage of employees**



Source: *Australian Women's Year Book*, 1994, p 96

3.13 However, as pointed out by Professor Linda Rosenman and Dr Sharon Winocur in their paper *Women's Work Patterns and the Impact Upon Provision*

<sup>11</sup> SW Sub No 103

<sup>12</sup> AMP Superannuation, SW Sub No 55

<sup>13</sup> Brown C, *The Distribution of Private Sector Superannuation Assets by Gender, Age and Salary of Members*, Conference Paper 94/2 Retirement Income Modelling Task Force, 1994, pp 3.6

for Retirement, at any time only about 52 per cent of women of working age are in paid employment in comparison with 74 per cent of men. Therefore, the actual rates of coverage of the total female population by superannuation are obviously much lower.<sup>14</sup>

3.14 In 1994, the Retirement Income Modelling Task Force studied the distribution of private sector superannuation assets and contributions categorised by gender, age, salary level of fund members. The preliminary report of this study revealed that women had substantially lower average superannuation asset accumulations than men:

- on average, male members of superannuation funds had superannuation assets 2.7 times those of women. Before the age of 30, men had around 1.5 times the superannuation assets of women, mainly reflecting the differences in their relative earnings. From age 30 until middle age, the relative disparity in average superannuation assets widened as the workforce participation patterns of men and women diverge; and
- on average, women superannuation fund members of *retirement age* (over 55) had less than half the superannuation assets of their male counterparts - in the range \$21 000 to \$31 000 compared to \$50 000 to \$67 000.<sup>15</sup>

3.15 A 1991 ABS Survey indicated that 56 per cent of the lump sums received by women were less than \$5 000, with over 75 per cent less than \$20 000.<sup>16</sup>

3.16 Factors contributing to the asset accumulations detailed above include:

- women's lower average earnings (since SG contributions are based on a percentage of employees' salaries, the dollar amount of contributions for women will be lower on average than those for males);
- women's higher incidence of part-time work;
- past levels of superannuation coverage;
- lower total contribution rates of women employees (4.8 per cent of salary for males compared to 3.5 per cent for females) (see Table 3.2); and

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<sup>14</sup> Rosenman L, and Winocur S, *Women's Work Patterns and the Impact Upon Provision for Retirement in Women and Superannuation: Selected Seminar Papers*. EPAC Background Paper No. 41, August 1994, p 99

<sup>15</sup> Brown, op cit, pp 4,5

<sup>16</sup> Clare, op cit, p 14

- women's broken workforce participation patterns mean that they have fewer years of contributory service and are more likely to dissipate benefits due to lack of vesting and preservation of benefits on changing employment or workforce.<sup>17</sup>

3.17 Fewer women than men supplemented their employer's mandated superannuation contribution with contributions of their own. In November 1993, 44 per cent of women made personal contributions while 61 per cent of men did so. The difference is due to employee contributions per week of \$20 or more, with only 27 per cent of women compared to 44 per cent of men making this level of contribution. This may be partly explained by women's lower earnings.<sup>18</sup>

**Table 3.2: Contributions of people aged 15-74 years with superannuation coverage, 1993**

Weekly contribution	Women	Men
	%	%
<i>Makes personal contribution (a)</i>	44.0	60.6
Under \$10	4.0	3.0
\$10 and under \$20	11.4	11.9
\$20 and under \$50	21.7	31.5
\$50 and over	5.8	12.7
Employer/business contributions only	56.0	39.4
Total	100.0	100.0

(a) Includes those who do not know what contributions were made

Source: *Australian Women's Year Book 1994*, ABS Catalogue No. 4124.0

3.18 The Government has introduced measures over the past decade which have significantly improved the position of women in the superannuation system and overcome direct and indirect forms of discrimination. These measures include:

- support for employer superannuation contributions (3 per cent of wages) under industrial awards, introduced in 1986, which resulted in rapid extension of superannuation coverage in the late 1980s;

<sup>17</sup> Brown, op cit, 1994, pp 13,15

<sup>18</sup> Australian Bureau of Statistics, Catalogue No. 4124.0, *Australia Women's Year Book 1994*, p 107

- introduction of the SG arrangements in 1992 which require employers to make superannuation contributions for their employees, to 9 per cent of wages by the year 2002-03. These contributions are fully vested<sup>19</sup> so that women who resign from employment do not have lower entitlements to these employer-funded benefits, as can occur with long vesting periods;
- provision in the *Superannuation Industry (Supervision) Act 1993* for people to contribute to a superannuation fund for up to two years while outside the paid workforce. In June 1994, the Government announced that the *Superannuation Industry (Supervision) Regulations 1994* would be amended to enable funds to accept contributions for up to seven years from people who are on leave without pay for childrearing purposes (where the person has the right to return to their previous employment);
- changes to the Reasonable Benefit Limits rules from limits based on the 'highest average salary' to flat dollar limits, which apply equally to fund members irrespective of their salary level;
- changes to the *Sex Discrimination Act 1984* (Commonwealth) to limit the general exemption which previously applied to superannuation funds and which allowed them to discriminate on the grounds of marital status and gender in the provision of superannuation benefits;
- the development of measures to ensure that small amounts in superannuation funds are not eroded by fees and charges; and
- the establishment of a Government Working Group to develop a streamlined scheme for splitting the superannuation entitlements of a contributing spouse on marriage breakdown.<sup>20</sup>

3.19 These measures are discussed in subsequent chapters.

3.20 There is cross-party support for the measure announced in the 1995-96 Budget<sup>21</sup> supporting the inclusion of provisions for employee superannuation contributions beginning at 1 per cent of earnings in July 1997 and rising to 3 per cent of earnings by July 1999 and government matching of dollar for dollar contributions paid by most employees.

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<sup>19</sup> *Full vesting* is the inclusion in an employee's superannuation benefit of the total amount of the employer's contribution: *County NatWest Dictionary of Investment Terms*, 1994, 3rd ed.

<sup>20</sup> Insurance and Superannuation Commission, SW Sub No 37

<sup>21</sup> Appropriation Bill (No.1) 1995-96, First Reading

3.21 It should be noted that the Committee has yet to complete its inquiry into increasing SG from 9 to 12 per cent and the role of employee contributions in this process.

3.22 In its report on asset distribution in private superannuation funds, the Retirement Income Modelling Task Force pointed out that, even with the improvements in superannuation coverage under the SGC, women might still only accrue around half the superannuation benefits of men because of the differences in average earning levels and workforce participation levels.<sup>22</sup>

3.23 The presentation of the relative superannuation assets such as that provided above by the Retirement Income Modelling Taskforce clearly articulates the substance of the concern at the heart of the Committee's inquiry and provide benchmarks against which progress can be assessed.

### **Integration of superannuation and social security benefits**

3.24 In the course of the inquiry, the issue of integration of superannuation with social security benefits was raised. The Institute of Actuaries of Australia argued that a means tested age pension discouraged voluntary savings for retirement as the means tests rewarded those who disposed of their savings before retirement and who did not receive income from other sources. The Institute recommended that incentives be increased and barriers be removed to encourage individuals to supplement their provisions to make up any shortfalls.<sup>23</sup>

3.25 Jacques Martin Hewitt supported the need to 'fine tune' the system so that people with smaller lump sums received a fair level of overall income in relation to their circumstances. Jacques Martin Hewitt argued for a progressive cut-off of social security pension as other income and assets rise, structured in such a manner that there was still incentive for even small balances to be accumulated for retirement.<sup>24</sup>

3.26 Ms Helen Martin, a member of the Institute of Actuaries of Australia, Superannuation Practice Committee, presented a paper to the ASFA 1995 National Conference in which she expanded on the argument presented in the submission made by her organisation. She suggested a modification of the means test to exclude superannuation income up to, say, 25 per cent of average

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<sup>22</sup> Brown, *op cit*, 1994, pp 3,6

<sup>23</sup> SW Sub No 61

<sup>24</sup> SW Sub No 17



weekly earnings, with the exclusion assessed on a 'combined family income'. The exclusion would only be available for benefits taken as non-commutable pensions. She argued that this proposal would remove some of the disincentive to contribute to superannuation, with the additional contributions more likely to result in an improvement in total retirement provision rather than simply reducing age pension entitlements.<sup>25</sup>

3.27 Ms Martin acknowledged there would need to be adequate controls to minimise manipulation and ensure that it was appropriately targeted to those on lower income and superannuation levels. She also recognised that there may be additional costs to Government and that, to be effective, such a proposal would need to be considered as part of a broader package so that savings in some areas can offset costs in other areas.<sup>26</sup>

3.28 The Committee recognises the importance of ensuring effective integration of the social security system and superannuation so that any barriers, perceived or real, inhibiting an individual's incentive to contribute to superannuation can be minimised.

### **Change will benefit all**

3.29 The future of women's retirement incomes generally, and superannuation assets particularly, will depend on changes in the pattern of their workforce participation and earnings, as well as changes to the retirement incomes support system. These will, in turn, be influenced by changes in the economy and community expectations.

3.30 Throughout the report there are indications that community expectations about women's lives have changed dramatically, and will continue to change. It is difficult to even imagine, for example, what it was like for women when they were unable to obtain a bank loan in their own right. Legislation, such as the Sex Discrimination Act, and the establishment of such agencies as the Affirmative Action Agency, provide a clear demonstration of the community's support for equal opportunity.

3.31 However, it must be acknowledged that some women's working patterns will never be such that occupationally linked superannuation will be sufficient to provide for them in their retirement. Making changes which accommodate

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<sup>25</sup> Martin H, *Superannuation and those who can't find full life-time employment*, presented at the ASFA '95 National Conference, Melbourne, 2 November 1995

<sup>26</sup> *ibid*

this reality will also have benefits for the increasing number of males who also do not have traditional work patterns.

### **Challenging the status quo**

3.32 During the course of the inquiry it has become clear that the past and present experience of women, and their capacity to provide for their retirement, is such that it would be irresponsible for any government to ignore the arguments for change and allow the status quo to continue.

3.33 It has also become clear that resolving the obstacles inherent in the superannuation system which mitigate against many women achieving a retirement income that will ensure a dignified standard of living will benefit all members of society, both male and female and paid and non-paid workers alike.

3.34 Despite the success of the SG in increasing superannuation coverage, there are still some obstacles to be overcome. The Committee is aware that many solutions will be found in areas outside the scope of this inquiry. However, the challenge remains to ensure that the superannuation system that Australia carries into the 21st century is the most equitable system possible so that in future years it will be judged resoundingly as a significant contribution towards ensuring equality and dignity for all members of the community.