CHAPTER 8:

ANNUITIES FOR WOMEN

Because women are expected to live longer than men they are required to pay more for the same level of lifetime annuity.

Annuities

8.1 An annuity is a series or stream of payments made at regular intervals, usually purchased by paying a lump sum in advance to an insurance company. The most common use of annuities is to provide retirement income.[1]

8.2 Annuities provide a way of using current assets to buy a future income stream. From July 1 1994, retirement income streams became a way of increasing the amount of superannuation on which favourable taxation treatment is available.[2] They can also be used in the arrangement of assets and income to qualify for a part social security pension and be eligible for the associated fringe benefits.

8.3 The cost of providing a particular annuity depends on the income required and how long the person is expected to live. The annuity provides an income while the annuitant lives, but is rather an inflexible investment and cannot be left to anyone.[3]

Life expectancy and annuity rates

8.4 Annuities are generally calculated with regard to actuarial data and selected characteristics of the individual purchasing the annuity. Currently, different rates of income are provided by life insurers for males and females for a given capital sum. The rationale for this difference is that females have a longer life expectancy than males, and therefore a longer payment period to be funded by the lump sum is anticipated. Jacques Martin indicated that this effect impacted most severely on those with smaller capital amounts who, as a result of their career patterns, are very often women.[4]

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1 Quinlivan, B 1994, *The Dictionary of Superannuation*, p 8

2 Section 140ZD of the *Income Tax Assessment Act 1936* provides for more generous Reasonable Benefit Limits for pension benefits than for lump sum benefits.

3 SW Sub No 70

4 SW Sub No 17

8.5 In Table B of Appendix 4 of their submission, LIFA set out *Annuities - Expectations of Life in Years*. The Table demonstrates the difference in life expectancies between men and women. Women at all ages have a greater life expectancy than men. The commentary by the Institute of Actuaries of Australia (IAA) suggests that the price for annuities may be much closer for males and females than the ratios between male and female life expectancies. IAA explained that this is due to factors such as the length of any minimum guarantee period, the provision of a return of premium on death and presence of a second life.[5]

What are the going rates?

8.6 In a supplementary submission, Jacques Martin Hewitt provided an example of present annuity rates for males and females aged 65, with a purchase price of $100 000 and with the annuity indexed annually at 5 per cent.

- Male: $9 230 per annum;
- Female: $7 840 per annum.[6]

8.7 They also gave the example of a joint life and last survivor annuity, with a purchase price of $100 000, indexed at 5 per cent and, on the death of the annuitant, continuing at 2/3 of the annuity to the surviving spouse. Indicative annuity amounts were very similar:

- Male age 65 with female age 63: $7 420 per annum;
- Female age 65 with male age 67: $7 310 per annum.[7]

8.8 LIFA also presented data that demonstrates the similar rate of instalments for males and females for a joint life annuity.

Is there discrimination?

8.9 Clearly women and men are treated differently when purchasing annuities.

8.10 Gender-based actuarial tables provide the statistical proof of the longer life expectancy of females. Section 41A(1) of the *Sex Discrimination Act 1984*

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5 SW Sub No 70

6 SW Sub No 17 (Supp)

7 ibid

specifically provides for exemptions 'based on actuarial or statistical data from a source on which it is reasonable for the discriminator to rely'. The Treasury submitted that 'in actuarial terms, there is no discrimination'.[8]

8.11 However, the Sex Discrimination Commissioner, Ms Sue Walpole, in a 1994 Seminar paper pointed out that 'statistical generalisations do not predict how long any individual man or woman might live'.[9] She cited an industry authority for the example of a female investing $50 000 and retiring at age 59, getting $500 less in the first year than a man investing the same amount, $6 000 less over ten years, and $16 000 less over 20 years.[10]

8.12 It could be argued that, due to the longer average life expectancy for women, a female with the same value annuity can expect to receive the same return on her annuity investment as a male, but over a longer period. That is, a female who invests the same amount as a male would receive a lesser amount annually than a male, but for a greater number of years. However, there are contrary arguments of opportunity costs foregone, and lack of option, which the Committee believes outweigh the proposition of equal returns.

8.13 In relation to the use of actuarial data to justify lower annuity amounts for women Ms Walpole stated:

> The question ... should be why do we use sex-based actuarial data at all? It has never been considered reasonable to use data based on the links between race and longevity, or data based on the links between economic class and longevity. If this were so, upper class whites would have to pay more into annuity-based pensions, and poor blacks would pay less. Yet it seems to [be] accepted as part of the natural order of things that the links between sex and longevity should provide a basis for actuarial data.[11]

8.14 In her 1994 Paper, Ms Walpole said that American cases have held that actuarial tables based on sex were not found to be valid for setting contributions or payments for occupational pensions. A case she cites as the *Manhart case* is quoted:

> [W]hen insurance risks are grouped, the better risks always subsidise the poorer risks. Healthy persons subsidise medical benefits for the less healthy; unmarried workers subsidise the

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8 SW Sub No 90

9 *Women and Superannuation*, EPAC Background Paper No 41, August 1994, p124

10 Legal and General, *Annuity Presentation*, 28 January 1994, cited in *Women and Superannuation* op cit

11 SW Sub No 89

> pensions of married workers; persons who eat, drink or smoke to excess may subsidise pension benefits for persons whose habits are more temperate.
>
> Treating different classes of risks as though they were the same for purposes of group insurance is a common practice that has never been considered inherently unfair. To insure the flabby and the fit as though they were equivalent risks may be more common than treating men and women alike; but nothing more than habit makes one 'subsidy' seem less fair than the other.
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> The size of the subsidy involved in this case is open to doubt, because the Department's plan provides for survivor's benefits. Since female spouses of male employees are likely to have greater life expectancies than the male spouses of female employees, whatever benefits men lose in the 'primary' coverage for themselves, they may regain in 'secondary' coverage for their wives.[12]

8.15 The above commentary provides some support for the proposition that the differential treatment that is afforded to women in annuity pricing should be replaced by unisex schemes, possibly having the effect then of a subsidy paid by men. Jacques Martin cited the analogy of a 'discrimination' or 'subsidy' in life insurance premiums where females are often charged less than males for the same level of cover.[13]

A commercial decision

8.16 Mr Donald Duval, of the Insurance and Superannuation Commission (ISC), said the Commission considered the price of annuities should be a commercial decision by the providers. Imposition of unisex annuities would impose a cross-subsidisation and would result in women purchasing more and men less, so that over time the price of annuities would rise. He added:

> Generally speaking, it is our view that underwriting decisions are best left to the commercial judgment of the marketplace and interfering with these decisions by introducing a measure such as community rating can have quite profound consequences on the operation of the market.[14]

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12 *Women and Superannuation*, op cit

13 SW Sub No 17

14 Evidence, p 626

8.17 The Life Insurance Federation of Australia (LIFA) in its submission agreed, saying the insurer would be left with women clients whose 'underlying cost exceed the premiums charged', and eventually the premiums would increase.[15] Treasury said the removal of the differential would be likely to cause more men to opt out of annuities and so drive the price back to the level presently paid by women.[16]

8.18 The Committee considers these comments reflect the narrow view of the economics of the annuity problem since the annuity system is full of cross-subsidies. It may be that the industry itself could and should do more to make the purchase of annuities more attractive to men and women, and to remove the imposition of gender differentials may well assist in that process.

Costs of Living

8.19 The Committee considered community expectations of retirement incomes in providing recipients with the means to meet costs of living. In that respect the costs for women are not less than for men and, as Mr David Vernon of Jacques Martin pointed out, there is no differential in the age pension amount paid between men and women.[17]

A unisex solution

8.20 Jacques Martin submitted that that it was appropriate that the distinction between male and female annuity rates be removed, given the need to maximise the benefits to those with interrupted career pattens. They argued that males, with their generally higher levels of accrued benefits, were in a position to afford the reduced benefits as a result of equalisation.[18]

8.21 Jacques Martin Hewitt in a later submission indicated that:

> If 'unisex' rated were adopted, insurers could do one of three things:
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> (a) adopt the male rates, thus making annuities cheaper for females, which would be unlikely to be viable for insurers as females live longer.

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15 SW Sub No 70

16 SW Sub No 90

17 Evidence, p 61

18 SW Sub No 17

> (b) adopt the female rates, thus making annuities more expensive for males, which would disadvantage males who have a shorter life expectancy.
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> (c) adopt something in between, which would be regarded as an artificial solution, with some of the problems of both (a) and (b).[19]

8.22 The Committee considers that insurers could do something rather different. Instead of relying on gender-based actuarial or other discriminatory data, insurers could establish annuities geared toward particular needs of individuals in the same way as they market any other financial service. Mr Ray Connolly gave his personal view that:

> If one provider of annuities was, for their own marketing purposes, to average out costs [of] providing annuities to males and females, then that is their choice to offer that product and to see how the market responds to that. I do not know what the argument could be to force the industry to come up with an average.[20]

Research on the use of actuarial data

8.23 Ms Walpole pointed to the lack of research undertaken on the sex-based nature of actuarial or morbidity tables. However, she noted that the Association of Superannuation Funds of Australia (ASFA) and the Institute of Actuaries are now 'starting to take an active interest in this issue through their research programs' and she recommended that the Committee 'support and encourage such work'.[21]

8.24 ASFA told the Committee that they had been asked by the Human Rights and Equal Opportunities Commission to sponsor research into the gender bias in actuarial tables.[22] ASFA has funded a project titled 'The use of gender-related differences in mortality in Australian superannuation funds,' to be undertaken by Susan Clarke, Shauna Ferris and Leonie Tickle, lecturers in actuarial studies in the School of Economic and Financial Studies at Macquarie University.[23]

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19 SW Sub No 17 (Supp)

20 Evidence, p 504

21 SW Sub No 89

22 Evidence p 204

23 *Superfunds*, October 1995, p 4

Reversionary Options

8.25 Ms Kerry Flanagan, of the Department of Social Security, advised that the Department had canvassed the events following the death of a partner and found that annuities which contain reversionary benefits are either 'much more expensive than single annuities or that they provide a lower income stream'. The Department is involved in an interdepartmental committee on the interaction of superannuation and the age pension. In looking at income streams they will be:

> perhaps trying to advantage income streams that have particular features that we might want to foster...we think that this might particularly advantage women...[24]

8.26 Ms Flanagan said one of the reasons the option of a reversionary pension is not taken up is that it reduces the amount of the annuity, and that it may be necessary to provide an incentive, through the tax or social security system, 'if that is the way we want people to go'.[25]

Conclusions

8.27 The Committee notes that despite a number of lifestyle factors such as race, health, smoking, and socio-economic background having the potential to impinge upon an individual's life expectancy, gender appears to be given greater prominence as a criterion for paying different annuities.

8.28 The Committee considers that there is gender based discrimination in the annuities available to women and encourages the providers of annuities to look beyond this discrimination in their marketing. The Committee remains unconvinced that the gender and morbidity actuarial tables justify different annuity rates.

8.29 The main justification for this discrimination is the gender and morbidity actuarial tables used by life companies. Research into the value or otherwise, and the structure, of these actuarial tables should be encouraged, and the Committee supports the initiatives of ASFA and the Institute of Actuaries in this area.

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24 Evidence, p 613

25 Evidence, p 616

Recommendation 8.1:

The Committee recommends that the Government encourage and monitor research on the use of gender and morbidity actuarial tables in respect of the provision of annuities with a view to either:

- **amending the *Sex Discrimination Act* 1984 to exclude the exemption for actuarial or statistical data, or**
- **declaring the gender based actuarial tables to be not covered by the exemption,**

if it is discovered that reliance on these tables cannot reasonably justify the resulting discrimination.