Women in Super
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Retirement Savings Policy

Executive Summary

Saving enough for an adequate income in retirement should be an important focus for all New Zealanders. In particular, women face some significant challenges from demographic and financial factors, making it hard for many of them to make provisions for their own retirement savings and financial security. The result is likely to be a higher number of women totally dependent on New Zealand Superannuation (NZS) in their retirement. Given that 43% of women over 65 years live alone, *Women in Super* recommend that NZS policy shifts from being based on a married couple to being based on an individual.

Women in Super supports:

- Promotion and encouragement of KiwiSaver and other **workplace superannuation and savings schemes**.

- **Flexible financial product designs** which meet women's variable employment situation. In particular, the ability to transfer and consolidate non-KiwiSaver superannuation account balances.

- **Tax efficiencies of KiwiSaver and Portfolio Investment Entities**.

- Encouragement for the development of 'decumulation' products to ensure there are suitable products available for women to convert lump sums into secure income streams.

- A **base level of retirement income** for each New Zealander.

- **Public education programmes** to increase financial awareness and retirement planning both for women individually and in the family context.

- Initiatives to make education in relation to financial literacy a **compulsory** part of the New Zealand **school curriculum**.

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. At age 65 the life expectancy for men is 16.7 years and for women is 20 years. [1].

- The difference in life expectancy is reflected in the proportion of men and women over 65. In the 65 to 74 age group, women make up 51% of the population, in the 75 to 79 age group, women are 54% of the total and by the 85 to 89 age group, they make up 66% of the total. [2]

- As women generally marry men older than themselves (the gap between the median ages at first marriage for men and women in 2005 was 1.9 years[3]) they tend to outlive their partners by five or more years.

- Women are now less likely to marry than in the past and marriages are more likely to end in divorce[4].

- In 2005 the divorce rate was 12.4 divorces per 1,000 estimated existing marriages.[5] The breakdown of a marriage, civil union or long-term relationship is a significant factor in the ability to make provision for retirement income, particularly for women on lower incomes.

- One third of New Zealanders who married in 1979 had divorced before their silver wedding anniversary (25 years).[6]

- In 2001 43% of women aged over 65 were living alone.[7]

Superannuation for women therefore needs to be viewed principally in an individual context, recognising that a significant proportion of women spend some, if not all, of their retirement years living alone.

Financial factors are also changing in society and the increasing likelihood of 'life shocks' before retirement reduces the chances of starting retirement with a reasonable nest egg:

- Student debt is an important issue affecting many women. Women often earn less during their careers which affects their ability to repay debt.

- Women are society's caregivers - not only are they establishing their own financial foundation, but they also tend to be the ones looking after children and elderly parents. This can impact on their earning capacity and tenure of employment.

- Post-retirement income needs to include provision for health costs (eg health insurance) unless elderly women are to rely entirely on the public health system. There are more women than men covered by health insurance up to the 55-59 year age group[8] but then the rate of coverage for women decreases. At the same time the average cost of claims increases with age[9].

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[1] Statistics NZ Life Tables 2000-2002, Table 2. *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.
[2] Statistics NZ, National Population Estimates Tables, June 2007
[3] Statistics NZ, Demographic Trends 2006
[4] Statistics NZ, Demographic Trends 2006, p.57
[5] Ibid.
[6] Statistics NZ, Demographic Trends 2006
[7] Statistics NZ, Focusing on Women, 2005, p.39
[8] Health Funds Association statistics, March 2006
[9] Health Funds Association, *An Insight into the Health Insurance Industry*, 2001

- Fewer people now own their own home, or reach retirement with a mortgage-free home, and are more likely to experience divorce, unemployment and underemployment and excessive levels of debt.

- Historically many superannuation schemes were defined benefit schemes with a benefit paid in the form of a pension which sometimes continued at a reduced rate for the spouse after the death of the member (husband). This created an attitude in some women of "their husband took care of retirement savings and therefore they didn't need to." Most schemes now pay a lump sum on retirement and there is consequently no guarantee that funds will not be spent rather than being available as an income for a surviving spouse.

- The growth of funds in KiwiSaver schemes is likely to increase the demand for decumulation products to be developed.

We Support:

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

Pillar I — Safety-net basic state pension
Pillar II— Workplace superannuation
Pillar III — Additional voluntary saving

We Support KiwiSaver as a means of giving more New Zealand workers access to workplace superannuation, with many of the features we have identified as important for women:

- Membership open to part-time workers
- Enhancement of funds with member tax credits
- Exemption of employer contributions from SSCWT
- The introduction of compulsory employer contributions
- Facility for contribution holidays in the case of parental leave and financial hardship
- Ability to transfer and consolidate superannuation accounts. It will typically be more efficient for savers to have one account rather than a number of small balances with different providers. There is also reduced risk of owners losing their accounts.
- Mandatory provision of a payroll deduction facility by employers provides 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 some retirement savings have already been made.
- Lower costs of distribution, ease of deduction, group benefits, which include lower administration fees, and access to low cost wholesale investment management charges.
- Allowing members to be taxed at their own tax rate in KiwiSaver Schemes.

We would like to see additional enhancements made to KiwiSaver to better meet women's variable needs, for example the ability to select from a range of contribution rates

In view of the lower incomes earned by many women, and the fact that women have breaks in employment, it will not be appropriate in all cases for women to contribute to KiwiSaver at the minimum rate of 4%. We recommend the facility for employees to select a contribution rate of 2%, as an alternative to the default rate of 4%. In such cases the minimum compulsory employer contribution should match the employee's rate (of 2 or 4%). This would then still achieve the Government's 4% minimum contribution rate. We would suggest that this should be introduced in April 2009, to coincide with the proposed introduction of the minimum compulsory employer contribution rate of 2%, and to replace the transitional option of allowing 2% employee contributions and 2% employer contributions to meet the minimum 4%.

We would encourage all women who are able to contribute 4% or more to consider doing so.

We believe the offer of insurance as an additional benefit should be encouraged in KiwiSaver schemes, without diverting existing minimum KiwiSaver contributions to meet premium payments.

We support the continued work of the Retirement Commission. In particular, the Retirement Commission needs to be adequately funded to meet the educational objective.

We support initiatives to make education in relation to financial literacy a compulsory part of the New Zealand school curriculum.

We support families proactively encouraging their children to develop good savings habits from an early age.

We support those women who can contribute 4% or more to do so.

We support the regulation of financial advice and the ability for women to obtain good quality, affordable financial advice from professional advisers and agents of providers in the retail market.

In summary, *Women in Super* supports:

- Safety-net basic state pension
- Incentives for workplace saving
- Development of suitable products for accumulation and 'decumulation'
- Education on the need for long-term saving

***Women in Super* recommends** the following actions:

New Zealand Superannuation

Women in Super considers NZ Superannuation to be essential for the security of women in retirement and would strenuously oppose any proposal to reduce or means-test NZ Superannuation, or create individual accounts that may lead to differential entitlements. The universal payment of NZ Superannuation benefits those who have been unable to accumulate much in the way of savings, and women have a disproportionately high representation in that group.

In 2004 the median disposable income for a single older person was $14,000 pa and the median private income (before tax) for singles was $260 a year[10]. This demonstrates the importance of New Zealand Superannuation to the living standards of women over 65.

New Zealand Superannuation is not a generous benefit. It is related to average individual earnings, male and female combined. The level of New Zealand Superannuation therefore is a much lower percentage of household income (and therefore general standard of living) than the bald percentages suggest. For a superannuitant living alone NZS represents 42.5% of average ordinary time earnings which impacts on many women as 43% of women over age 65 live alone.

Women in Super recommend that the government continues to make a commitment to a basic income for each person over the age of entitlement. That commitment recognises that a certain amount of income is required to enable a person to participate in society and older New Zealanders have fewer options for earning income.

We note that indexation of NZ Superannuation to the Consumer Price Index means that the retired maintain their relative purchasing power, while the floor of 66% and ceiling of 72.5% (for a couple) of average weekly earnings retains a link with general income levels. It is essential that the level of NZ Superannuation maintains its purchasing power in relation to the elderly covering their basic cost of living requirements including healthcare costs that tend to increase for the elderly.

We recommend that the NZ Superannuation and Retirement Income Act 2001 be amended to set the standard rate of NZ Superannuation at an individual rate and remove reference to a couple rate. The public references to ‘65% at 65’ give a misleading impression of the level of income to be expected from NZ Superannuation. For a single person living alone (as 43% of women will be in retirement) the base amount of NZ Superannuation is currently around 42.5% of average ordinary time earnings (based on both male and female income).

We also recommend that further flexibility be considered with the introduction of a facility for people to opt to defer receipt of NZ Superannuation in preference for taking it at an enhanced rate at an older age.

Taxation

Women in Super acknowledges that KiwiSaver effectively has a tTe tax treatment.

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[10] Ministry of Social Development, Positive Ageing Indicators 2007, p.118

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

As women's income levels are lower than men's, and given the predominance of women in part-time work, Women in Super welcomes the PIE tax regime which allows superannuation savings to be taxed at the saver's own personal tax rate capped at 30% from 1 April 2008.

Compulsory Contributions

Women in Super supports encouragement for superannuation saving and considers that employee contribution to superannuation schemes should become compulsory. Ease of access to KiwiSaver schemes for part-time workers, tax efficiency and education on the benefits of saving for retirement will make superannuation saving more accessible and attractive for women. However, in view of the lower incomes earned by women, it will not be appropriate in all cases to contribute to KiwiSaver at a minimum rate of 4% and, as noted earlier, we recommend the facility for employees to select a contribution rate of 2%, as an alternative to the default rate of 4%. This would then still achieve the Government's 4% minimum contribution rate. We would suggest that this should be introduced in April 2009, which is when the proposed compulsory employer contribution rate reaches 2%.

We would encourage all women who can contribute 4% or more to do so.

Education

Public education programmes on superannuation are necessary and should make women aware of the particular issues they may face in retirement. A financial knowledge survey in 2005 indicated that women were not as financially informed as men[11]. However, financial awareness and planning is vital for women both individually and in the family context, given the higher likelihood of their living alone in retirement.

Women in Super supports a two way commitment to education, focusing on both public education for women and industry education of issuers of financial products. For example, providers should be encouraged to develop new products for flexible retirement income options, so that there are decumulation products available, rather than solely a lump sum cash payout.

Women in Super considers this is particularly important with the introduction of KiwiSaver, which will mean all employees are enrolled in a superannuation scheme unless they opt out. It will be essential for all employees to be able to make an informed decision on whether or not to opt out and, in the event that employee contribution becomes compulsory, a greater proportion of the population will have savings when they reach retirement.

In addition, families should be encouraged to develop good savings habits in the home with children from an early age.

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[11] The ANZ – Retirement Commission Financial Knowledge Survey, 2005, page 10

Focus on Retirement
The introduction of KiwiSaver has provided much-needed encouragement for retirement saving.

However 'life shocks' such as relationship breakdown are becoming more common and. given the financial constraints on a female partner with lower potential to earn (because of child-care, interrupted career or education) she is likely to be under pressure financially and sacrifice retirement savings in order to maintain present living standards.

In a relationship breakdown there may be some difficulty in getting early payment from a non-KiwiSaver superannuation schemes particularly if there have been employer contributions. Women in Super suggest that in cases like this that transfer provisions to a KiwiSaver scheme for the partner be introduced and encourage education of the long term benefit of this.

Savings in a KiwiSaver scheme will be considered as relationship property under the Property (Relationships) Act 1976. *Women in Super* supports the development of superannuation and savings products (such as KiwiSaver) which allow portability of an interest, meaning that an investment interest can be split between both parties within KiwiSaver rather than having to be paid out to a spouse, should a member's relationship end.

updated: 22nd April 2008

We welcome your feedback to women-in-super-auckland@xtra.co.nz ;