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Budgeting for women's rights in retirement

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Key aspects of Australia's retirement incomes policy focus on needs rather than rights. Unlike most other countries, Australia has an age pension that is a means-tested payment, rather than a universal entitlement. The pension is set with reference to notions of an 'adequate' income, currently defined by the requirements of a 'modest' lifestyle. Private superannuation is earnings-based, and aimed at building improved lifestyles in retirement for individuals with a capacity to save. There are crucial gender implications associated with this policy approach, including aged women compared to men being disproportionately dependent on the age pension and more vulnerable to poverty. In contrast, the generous taxation concessions available for occupational and private superannuation tend to benefit men more than women, with high-income men on average benefiting the most. Whilst the gender inequality in superannuation has been widely noted (see, for example, Austen et al. 2015), few studies have an explicit focus on the gender issues associated with ensuring adequate retirement incomes.

This chapter argues that an analysis of how budget resources are raised and allocated and who benefits from them is a critical part of any evaluation of a retirement income system. Gender impact analysis of budgets, an essential step in the implementation of gender-responsive budgeting, seeks to make visible gender differentiated impacts of government budgets, which provide the basis for bringing about changes in budgetary decision-making processes and priorities (Elson and Sharp 2010, p. 522). An important task for a gender impact analysis of government spending and taxation policies is to assess whether sufficient funds are available to carry out all the measures that will promote gender equality.

Since the early 2000s, research and advocacy on gender-responsive budgeting has also applied a human rights framework for assessing the gender impacts of government spending and taxation policies (Elson 2002, 2006; Norton and Elson 2002; Pillay et al. 2002; Budlender 2004). A rights-based approach to gender impact analysis of budgets aims to identify gender inequalities in budget processes, allocations and outcomes, and to assess what governments are obliged to do to tackle these inequalities (Elson 2006, p. 3). As discussed by Helen Hodgson and Kerrie Sadiq (Chapter 4, this volume), Diane Elson's influential work (2002, 2006) demonstrated the potential of the approach utilising the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW), to which Australia is a signatory, as a standard for assessing government spending and taxation policies. This involves consideration both of whether expenditure is distributed equally and whether sufficient funds are available to carry out all the measures that are vital for the 'full development and advancement of women' (United Nations 1979, Article 4). Notably, it is necessary to go beyond the question of whether there is an equal distribution of expenditure, as it would be possible to have a distribution of funding that is non-discriminatory but insufficient to carry out all the measures important for the fulfilment of CEDAW (Elson 2006, p. 59). Similarly, revenue measures need to be designed to minimise any adverse effects on substantive gender equality. The goal of 'taxing for (gender) equality' and the crucial issue of the adequacy of public finance to achieve gender equality goals is discussed in detail by Kathleen Lahey (Chapter 2, this volume). A tax mix that has a high reliance on progressive income taxation is seen as generally favourable for the implementation of CEDAW (Elson 2006, p. 100). The use of tax concessions that can reduce the progressivity of the income tax system are therefore evaluated negatively in this approach.

CEDAW builds on the International Covenant on Economic, Social and Cultural Rights (ICESCR), which stipulates all parties take steps to achieve 'progressively' the full realisation of rights (Australian Human Rights Commission, n.d.). While this is a recognition that government resources are not unlimited in fulfilling economic, social and cultural rights, and implementation will take time, it does imply that core minimum standards should be met. For revenue measures, the ambition should be to create the 'maximum available resources for the progressive realization' of CEDAW (Elson 2006, p. 101). For expenditure, the ICESCR implies that expenditures are directed toward activities that protect and enhance agreed minimum standards.

Concern with the sufficiency of funds and their proper allocation requires a detailed analysis of the performance of budgets. Since the 1990s, a raft of budgetary reforms have been introduced across the world that facilitate the development of performance criteria and measures. Associated with this has been the adoption of budget formats that report on financial inputs and activities, outputs and outcomes to more closely link budgetary allocations with results. Sharp's (2003) research on utilising performance-oriented budgeting frameworks for gender-responsive budgeting shows there are both dangers and opportunities within these reforms. For example, gender inequality can be potentially reinforced by the typical performance criteria of economy, efficiency and effectiveness as these ignore women's unpaid contributions to public services and the quality of inputs. Still, opportunities include the use of gender-aware output and outcome indicators, and the use of gender equality as a performance criterion (Sharp 2003, pp. 77–78). Furthermore, performance-oriented budgeting offers a format for a gender impact analysis that incorporates a rights-based approach and consideration of the adequacy of funding.

An important part of the assessment of the sufficiency of funding for gender budgeting purposes is agreement on the outcomes to be achieved, including the 'core minimum standard' or 'adequate' outcome for women. This needs to be complemented by detailed analysis of the activities and outputs required to achieve the agreed outcomes and the costs of providing these activities and outputs. A range of factors that may potentially influence the linkages between funding and outcomes also need to be taken into account. For example, without proper management, funding may fail to reach activities; activities might be funded that do not effectively produce outputs; and outputs might fail to deliver outcomes that are judged to be 'adequate'. Analyses of this type are inevitably affected by the type of data that is available on, for example, the efficiency of program delivery. Assumptions will typically be required and should be tested for their influence on results. (See, for example, Pillay et al.'s 2002 study of the sufficiency of funding to meet the housing rights of poor women in South Africa.)

Using this approach, this chapter seeks to assess the sufficiency of the funding available for the retirement incomes of older Australian women and whether the policy contributes to gender equality. We start by briefly describing the *inputs* and *activities* of Australian retirement income and savings policy, focusing on the large and growing allocation of government resources to retirement incomes and how this is distributed between government pensions and occupational superannuation and private savings. We then proceed to an analysis of the *outputs* of this policy (realised levels of retirement income for women and men). We examine the outcomes of the current retirement income system and evaluate its performance, focusing in particular on the question of whether the retirement income available for Australian women is 'adequate', ensuring their 'full development and advancement'.

Inputs and activities of Australian retirement incomes and savings policy

Australia's retirement savings and income policy features a 'three pillars' model: the public age pension; a mandatory private superannuation system organised by a Superannuation Guarantee (SG) levy, currently set at 9.5 per cent of employee earnings; and private savings, some of which can occur through the superannuation system, in the form of voluntary contributions to superannuation accounts (Treasury 2006). Large inputs of government resources are associated with both the age pension and superannuation pillars of the current policy.

The distinctive features of the Australian retirement income system are: a targeted, rather than universal, age pension; superannuation accounts that are typically defined by contribution rather than benefit; and a generous level of tax concessions for superannuation. The Australian age pension entitlement is assessed on the basis of individual need, with reference to the person's level of income and assets. This approach contrasts with the one adopted in most Organisation for Economic Co-operation and Development (OECD) countries, where either a flat-rate age pension is afforded to all citizens (for example, Canada, Netherlands, New Zealand), or an earnings-related age pension is made available to labour force participants (for example, France, Germany). Countries such as Finland, Norway and Sweden combine flat-rate benefits with an earnings-related age pension. The superannuation pillar of the Australian retirement income system is also distinctive in that it features defined contribution accounts, which are not directly linked to an earnings-based pension. In contrast, defined benefit accounts, or a points system linked to earnings, feature in many other jurisdictions. However, in common with a number of other countries, the Australian retirement income and savings system incorporates significant tax concessions for savings in our superannuation system (OECD 2015).

In Australia, mandatory and most voluntary contributions to individual superannuation accounts, and the income earned on account balances, are taxed at a concessional 15 per cent rate, whilst most disbursements from superannuation funds are tax-exempt (members of untaxed funds, such as public sector schemes, are not tax-exempt but pay a concessional rate when they withdraw their superannuation). The 15 per cent rate on contributions compares favourably with the tax rate applied to wage income, which ranges up to 45 per cent, and creates significant opportunities for individuals to reduce their total tax bill by channelling income into superannuation (these opportunities were reduced in a minor way in reforms enacted in 2016). The 15 per cent tax rate that is levied on income earned during the accumulation phase of a superannuation fund compares favourably with marginal tax rates (MTRs) on other forms of income from savings. Pensions and lump sums withdrawn from a taxed superannuation fund are tax-exempt where the member is aged over 60 years, and income within superannuation funds is tax-exempt to the extent that assets are used to pay a pension. Overall, individuals who are able to make contributions to their superannuation accounts save tax on their wage income and savings, and are able to access their accumulated funds tax-free in retirement.

The generous tax treatment of retirement savings is costly, with the Treasury's own estimates putting this figure in 2015–16 at \$16.3 billion for the concessional taxation of employer contributions and \$13.6 billion for the superannuation entity concessions relative to an income tax benchmark (Treasury 2016). The combined cost of the tax concessions is rapidly becoming similar to the cost of the system's other key pillar, the age pension, which had an estimated cost of \$43.2 billion in 2015–16 (Australian Government 2016b). Together, these two cost elements were equivalent to 16.2 per cent of the total forecast expenses of the Australian Government in 2016–17 (Australian Government 2016a).

The links between the various activities associated with retirement income and savings policy and the retirement incomes are critical to system efficiency. Despite its targeted design, expenditure on the age pension contributes in a direct and substantial manner to the incomes of older Australians. In 2011–12, the median fortnightly income from all sources was close to $800 for men aged 65 years and older and $740 for women (ABS 2012). Government pensions and other payments typically made up 70 per cent of the income received by men in this age group and 81 per cent of the income received by women. The full age pension for a single person in 2013 was $827.10 each fortnight, indexed to 25 per cent of male average weekly ordinary time earnings (Treasury 2009). Individuals in couple households on the full age pension received a fortnightly payment of $623.40 (Department of Social Services 2014). At this time, 794,316 women (approximately 34 per cent of all women over 65) and 595,836 men (approximately 28.6 per cent of all men over 65) received the full age pension; a further 511,851 women and 447,924 men received a part pension (Department of Social Services 2014; ABS 2015).

A range of factors complicates the relationship between current tax expenditures on superannuation and the incomes of older Australians. First, a large proportion of the current tax expenditures flow to individuals who are currently still in paid work. As such, even in a mature superannuation system there will not necessarily be a close proportional relationship between current expenditure and retirement incomes. As the SG scheme was only introduced in the 1980s, the relationship between current tax expenditures and the current retirement incomes of older Australians is weaker still. More critically relevant to the relationship between tax expenditures on superannuation and the higher retirement incomes in a mature system is the concentration of benefits within the group of individuals who are able to make contributions to their superannuation accounts. The expenditures deliver no direct benefits for individuals who have not participated in paid work and only limited benefits to those with part-time working hours, low wages and/or interrupted paid work careers. The fees charged by superannuation funds, variations in rates of return on investments and the degree to which money accumulated into superannuation accounts is annuitised also affects the relationship between tax expenditures on superannuation and retirement income.

Reflecting the influence of these factors, in 2013–14 the median superannuation balance for women aged over 65 was $5,586, as compared to $37,032 for men. Reflecting the large degree of inequality in superannuation account balances, average superannuation balances were much higher: $280,183 for men aged over 65, and $215,467 for women in this age group. Fully 45.9 per cent of women and 37.8 per cent of men aged over 65 had zero superannuation assets in 2013–14. These statistics show that retirement income is yet another dimension of the question of whether work pays for women—a question considered by Guyonne Kalb in Chapter 5, while the much lower earnings of women relative to men are illustrated by Mathias Sinning in Chapter 8.

Outcomes and evaluative criteria for Australian retirement income and savings policy

The sufficiency of funding available to support retirement income would ideally be assessed with reference to an agreed set of outcomes for retirement income and savings policy, including the 'core minimum standard' or 'adequate' level of retirement income. Whilst this is seemingly commonsensical, especially given the large volume of public resources devoted to retirement incomes and savings, the objectives of Australia's retirement income and savings system as a whole were only recently enshrined in legislation.

The Turnbull Liberal–National Coalition Government introduced the Superannuation (Objective) Bill and it was enacted by parliament in late 2016. The objective of superannuation is now stated in the law as being to 'provide income in retirement to substitute or supplement the Age Pension' (Section 5, *Superannuation (Objective) Act 2016*; see Parliament of Australia, House of Representatives 2016, p. 3115). This objective was criticised by a large number of key policy players, including the Association of Superannuation Funds Australia (ASFA), the Australian Council of Social Services, the Australian Labor Party and the Tax Institute (Swoboda 2017), in particular for failing to provide criteria for judging the system and the failure to incorporate a concept of adequacy into the policy objectives.

The government's enacted objective for superannuation is a marked departure from the founding vision of the 'three pillar' policy, which although not legislated was articulated on a number of occasions, including a 1991 address by Paul Keating, following his resignation as Treasurer in the Hawke government. These statements provide a richer sense of the planned objectives of the Australian retirement income system, and we utilise them to evaluate the system's subsequent performance. In his 1991 address, Keating emphasised goals relating to 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, p. 7).

The retirement income scheme also aimed 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, p. 7). Gender equality was an implied goal, with Keating claiming that the SG scheme incorporated, 'particular concessions to women, long disadvantaged as part time or temporary employees' (Keating 1991, pp. 3–4).

To achieve these objectives, the retirement income system incorporated a number of design elements. The age pension was maintained 'as 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 on the age pension, 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 annuity basis, with full indexation to inflation, and 70 per cent reversion to the surviving spouse (Keating 1991, p. 9).

Many of these design elements were altered in subsequent years. For example, the SG rate has thus far only reached 9.5 per cent and, whilst lump sum payments were taxed at the individual's MTRs under the original Keating legislation, all income received by people aged over 60 was made tax-exempt under changes introduced by the Howard–Costello Government in 2007. More recently, and perhaps more fundamentally, the role ascribed to the first pillar of the Australian retirement system has been shifted. Rather than the age pension being the 'foundation for equity and adequacy', it is increasingly being recast as a residual element of the system, and as a form of welfare:

> We need, in superannuation, to have a system that ensures that when people get to retirement age they won't be dependent on a welfare payment, [they won't be dependent] on a pension (Australian Treasurer, Scott Morrison: Morrison 2015).

The various changes that have been made to the retirement income and savings system over recent decades undoubtedly affect its current performance. However, Keating's statements on the aims and objectives of the retirement income system remain relevant to its evaluation. The first evaluative criteria implied in the statements is *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? The second criterion is *equality*: does the system promote income equality amongst older Australians? The criterion of *gender equity* cuts across these broad criteria: 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?

Adequacy: Needs and dignity for all the years of retirement

The available evidence on whether the Australian retirement income system protects older people from the risks of poverty is mixed. On the one hand, key measures show that Australia records a very high rate of old age poverty, with the retirement income of one in three older Australians falling below the poverty threshold. Australia has the second-highest level of poverty for persons 65 and over, with only Korea being higher among the 34 OECD countries (see Table 10.1). Against this, a number of influential commentators emphasise the high rate of home ownership amongst older Australians, and how this increases their disposable income relative to other groups (see Bradbury and Gubhaju 2010). Furthermore, the *depth* of old age poverty in Australia—that is, the proportion of older Australians with incomes *substantially* below the poverty line—is relatively small.

Table 10.1: Old age poverty rate: Australia in an international perspective

	Old age poverty rate of all persons 65+ (calculated as % with income < 50% below median income)
Australia	33.5
France	3.8
Germany	9.4
Canada	6.7
Netherlands	2.0
New Zealand	8.2
Finland	7.8
Japan	19.4
Korea	49.6
Norway	4.1
Sweden	9.3

Source: Author's table using information from OECD (2015).

A key driver of old age poverty in Australia is the level of the full age pension. Currently set at around 47 per cent of median income, the full single age pension (including Pension Supplement and Clean Energy Supplement) is slightly below the standard that ASFA sets for a 'modest' lifestyle for a person who owns his or her own home outright and is in 'reasonably good' health. As ASFA acknowledges, this standard, which equates to around $22,365 per year (an amount close to the annual single age pension), makes 'only fairly basic activities' affordable. It allows $74.23 per week for food expenditures and $38.06 per week for health (ASFA 2013). In contrast, ASFA's standard for a comfortable lifestyle specifies a minimum income of $42,158 annually for single people who own their own home (Clare 2014). This standard enables what ASFA defines as a 'good standard of living'. According to ASFA, it provides the means for the older person '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).

A key question is whether the superannuation pillar of the retirement income system will deliver improved outcomes by affording all older Australians a 'modest' or 'comfortable' lifestyle. Recent modelling of the superannuation accumulations of Australian men and women entering paid work in 2015 by Phil Gallagher (2016) provides some important insights. Gallagher explored a number of 'cameos' relating to men's and women's earnings and how these interact with retirement income policy settings to affect the system's outputs. The cameos relate to men and women at different points in the male earnings distribution (those with wages at the 10th percentile, median, average, and with earnings 1.5 and 2.5 times the male average wage, respectively). Gallagher's modelling encompassed an assumption that men work full-time for all years between age 22 and 65. However, reflecting common patterns of female workforce participation, the stereotypical woman in Gallagher's analysis works full-time 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. The modelling assumed that wage rates will grow in nominal terms by 3.78 per cent per year and that women's wage rates will remain lower than men's across most of the earnings distribution by an amount equal to the current gender wage gap (of about 17 per cent). The SG rate was set at 12.5 per cent and 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).

Gallagher's modelling identifies a number of outcomes of the current retirement income system. First, *under the above assumptions*, the second pillar of the system enables higher levels of spending (and, thus, improved lifestyles) for all older Australians. As is shown in Table 10.2, in the baseline scenario, the retirement income achieved by each cameo exceeds the OECD poverty line (50 per cent of median earnings), which is an improvement on current outcomes. However, only single men and couples with earnings 2.5 times the average wage achieve a level of retirement income that exceeds the ASFA-defined comfortable living standard (as described earlier). Furthermore, the improvements in retirement income for women on low earnings are relatively small.

Table 10.2: Gallagher’s modelled outcomes of Australia’s retirement income system

	Measure: % of OECD poverty line					Measure: % of 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: Author’s table using information provided by Gallagher (2016).

Importantly, Gallagher also shows that the predicted outcomes from the retirement income system are sensitive to key modelling parameters. For example, if superannuation pensions are only drawn down at a minimum rate, none of the 'cameos' (relating to men and women with particular earnings characteristics) will achieve a 'comfortable' living standard. Furthermore, as the data in Table 10.2 for Scenario 2 shows, none of the 'female cameos' will achieve a retirement income significantly above the OECD poverty line. Describing this scenario as a 'disaster', Gallagher also notes that it is a distinct possibility, given that 'minimum drawdowns are substantially preferred by Australian pensioners' for reasons that include precautionary motives relating to provisioning for possible health and care costs late in life.

The predicted outcomes of the current retirement income system are also dependent on the length of individuals' paid work careers and the superannuation contribution rate. Gallagher's initial projections were based on scenarios where both men and women retire at 65 and the SG rate is 12.5 per cent. However, currently the majority of Australians are not working at age 64 and the SG rate is only 9.5 per cent. Furthermore, as data presented below show, the rate of full-time employment amongst women falls below the level assumed by Gallagher in several age groups. The modelled outcomes with a retirement age of 60 (Scenario 3 in the Table 10.2) and a 9.5 per cent SG rate (Scenario 4 in Table 10.2) are much lower than in the baseline setting. Reducing the retirement age to 60 causes one of the 'female cameos' to fall below the OECD poverty line. Holding the SG rate at 9.5 per cent has similar negative impacts on retirement incomes. Lower rates of full-time work will also reduce retirement incomes.

Overall, then, the Australian retirement income system currently appears to pass the *basic* test of 'adequacy', with the age pension playing a key role in ensuring that the living standards of older Australian homeowners do not fall substantially below the poverty line. The superannuation pillar should, in a mature system, help to further reduce the incidence of poverty amongst older Australian homeowners.

However, even amongst homeowners, the majority of Australians—other than men on high earnings—will not achieve 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). Furthermore, older Australians remain vulnerable to policy change. Any erosion in government-funded health and aged care services will, at best, force many retirees to hold onto their superannuation assets—to provision for possible late-life needs—and this will limit their ability to use their financial assets to support their living standards in retirement. Similarly, many older Australians are highly vulnerable to policy moves that could further limit the pension to a narrow, safety net role.

The Committee for Economic Development for Australia (CEDA 2015, pp. 76–78) notes that in the immediate period, because policy settings are based on an assumption of homeownership, many non-homeowner older Australians will continue to experience financial stress. 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, highlight a critical gap in the design of the current retirement and income system. Going forward, this deficiency in the system will become more significant, due to falling rates of homeownership, especially among low-income individuals. Divorcees are a further vulnerable group. Almost one-third of male divorcees (and 27.3 per cent of their female counterparts) rate their financial situation as uncomfortable. These rates fall to 19.4 per cent and 18.8 per cent respectively in the group of married individuals aged 65 and over (Productivity Commission 2015), suggesting that the current retirement income and savings system is also poorly equipped to respond to changing household circumstances.

Equality

As noted earlier, the current retirement income scheme was designed to achieve increased equality amongst older Australians (Keating 1991, p. 7). However, as the above discussion implies, and as shown in the tables throughout, the shift toward the superannuation pillar has not been successful on this score. Little change in the level of income inequality has been achieved since 1986. 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.

Table 10.3: Inequality among older Australian households—ratios of the 90th to the 10th percentile equivalised incomes of Australians aged 65 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[1]	3.0	2.8	2.6	2.9

[1] 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).

The distribution of wealth continues to be extremely unequal and, given the rising significance of superannuation, this is making Australia less, rather than more, egalitarian. As shown in Table 10.4, older individuals at the 10th percentile of the distribution of superannuation wealth had zero assets in 2013–14, whilst those at the 90th percentile had superannuation wealth close to $700,000. The older individual at the 90th percentile of the superannuation wealth distribution had fully 34.5 times the wealth of the median older Australian in 2013–14.

Table 10.4: Inequality among older Australian households—superannuation wealth at the 10th, 50th and 90th percentiles for Australians aged 65 and over, 2013–14

	10th percentile	50th percentile	90th percentile	90:50 ratio
All older men	0	$37,032	$768,839	$20.8
All older women	0	$5,586	$610,090	$109.2
All older individuals	0	$20,124	$694,067	$34.5

Source: Authors' estimates from ATO Sample File 2013–14 data on Member Contribution Statements.

Gender equity

The current retirement income and savings system is producing especially poor outcomes for Australian women. Expenditures on superannuation fail the CEDAW test that requires equal distribution. This contributes to a situation where, despite the massive commitment of government resources to superannuation, a significant number of women remain vulnerable to the risks of poverty in old age. As such, current retirement income and savings policy in Australia also falls short of protecting core minimum living standards.

Gender inequity in the current retirement and savings system arises from the (increased) emphasis on the superannuation pillar, the large tax expenditures that support this pillar, and the limited regulation of superannuation contributions and pensions.

Superannuation schemes tie retirement incomes to labour market earnings. As such, they produce larger retirement incomes for men than women, who are, on average, disadvantaged by lower wage rates, lower paid work hours and career interruptions (often brought about by unpaid caring roles). Amongst full-time Australian workers, the gender pay gap favouring men is currently 18.2 per cent; with men, on average, earning $283.20 more per week from their full-time paid work roles than women (ABS 2016). There is also a stark gender divide in both labour force participation rates and work hours. Figure 10.1 presents the labour force participation gap, favouring men, which is close to 10 percentage points. Figure 10.2 illustrates that the female part-time employment rate is five times the male rate. Aspects of the tax-transfer system that produce high effective marginal tax rates on second earners in couple households also contribute to these outcomes, as does the high cost of child care and its limited availability; these issues are discussed in detail elsewhere in this volume, including by Patricia Apps (Chapter 3, this volume; and see Apps 2015) and Guyonne Kalb (Chapter 5, this volume).

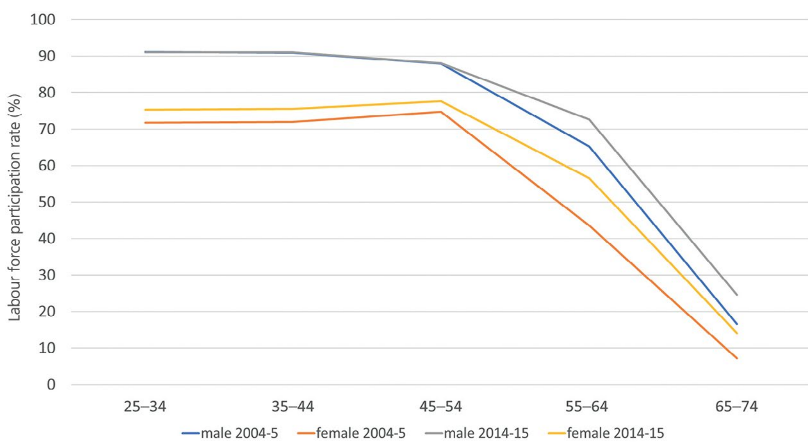

Figure 10.1: Labour force participation rates by gender, trend

Source: ABS (2016).

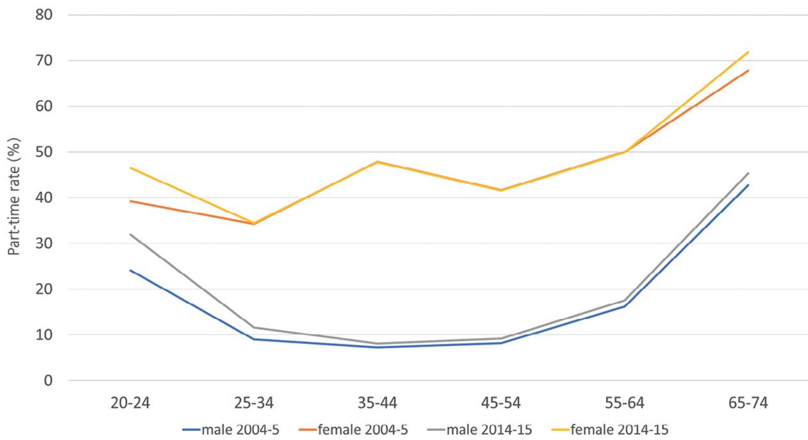

Figure 10.2: Part-time work by gender and age
Source: ABS (2016).

The generosity of the tax expenditures on superannuation, and the limited controls on contributions, magnify the effects of gender differences in paid and unpaid work. The groups most able to benefit from the tax expenditures on superannuation are high-income earners and those with flexible assets that can be moved into the tax-advantaged superannuation system. In 2012–13, 13.2 per cent of the tax concessions for superannuation contributions went to individuals in the top income tax bracket, as shown in Figure 10.3. However, only 1.6 per cent of female taxpayers (and a smaller proportion of all women), as compared to 4.3 per cent of male taxpayers, are in this group. Women, much more than men, are concentrated in lower tax brackets (or pay no income tax due to their non-participation in paid work) and, as such, they receive a relatively small share of the benefits of the increasingly large tax expenditures on superannuation. This gap is illustrated in Figure 10.4.

The consequences of the current policy settings for gender (in)equity in retirement incomes are demonstrated in Phil Gallagher's modelling, as shown in Table 10.2. In the 'base' scenario (where a 12.5 per cent SG rate applies and individuals retire at 65 and then draw down their superannuation assets in accordance with their life expectancy), women's retirement incomes are substantially below men's. At median wage rates, the retirement income achieved by women is less than two-thirds the amount required for a 'comfortable lifestyle', whilst men on median wage rates achieve a retirement income close to 80 per cent of the 'comfortable' level. Gallagher's modelling also demonstrates that women, much more than men, remain vulnerable to the risks of poverty, especially under the scenarios where retirement occurs before age 65 (which is the norm for the large majority of women) and the SG rate remains at 9.5 per cent (which is the current status quo).

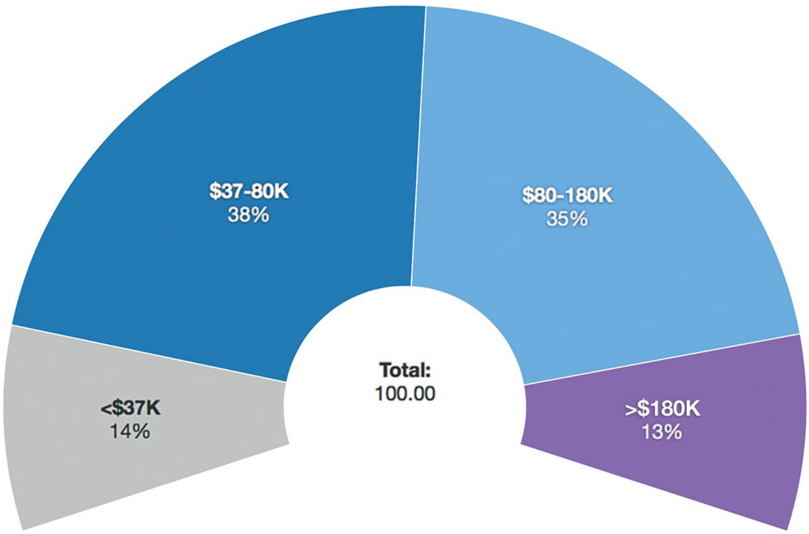

Figure 10.3: Distribution of tax concessions for superannuation contributions across taxable income categories

Source: ATO (2014).

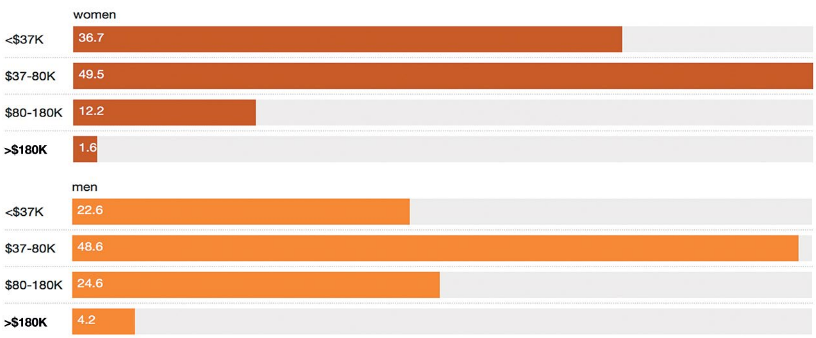

Figure 10.4: Distribution of male and female taxpayers across taxable income categories

Source: ATO (2014).

There is little room for optimism for improvements in gender equity unless the direction of retirement and savings policy changes. In recent years, the upward movement in women's labour force participation rates, full-time employment rates and wage rates has stalled (Austen et al. 2016), reducing prospects for a levelling out in superannuation contributions. There is also a lack of parallel policies such as provisions for SG contributions when on paid parental leave (Broomhill and Sharp 2012, p. 8). As Figure 10.5 shows, the gender gap in contributions emerges in the youngest group, and persists throughout the life course. The overall effect of these gaps and policy settings is to produce consistently lower superannuation account balances for women. Men have more superannuation than women at all ages, but in particular during prime working years 40 to 64, when men have 30 to 50 per cent greater balances than women.

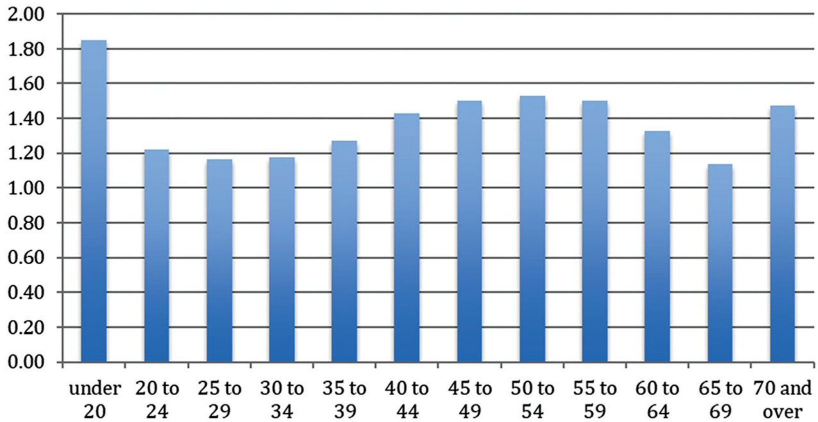

Figure 10.5: Ratio of male to female average superannuation account balances, as measured in member contribution statements

Source: Author's calculations from ATO 2 per cent file data, 2013–14 (ATO 2015).

A report by Feng et al. (2015) adds some important new insights on the sources of these gaps in superannuation account balances. Using administrative data from Mercer Australia, it examined gender differences in super accumulation between 2002–03 and 2011–12 in three age cohorts: individuals born in 1956–58 (age 44–46); 1966–68 (age 34–36); and 1976–78 (aged 24–26). It revealed a number of key gender gaps: attrition rates were higher for women than men in each cohort, reflecting higher rates of departure from paid work; a higher proportion of women than men experienced a reduction in the annual 'employer contribution rate' over the survey period, reflecting reductions in earnings that are associated with, for example, reduced working hours; a relatively high proportion of women missed whole year contributions to their superannuation funds, reflecting, most likely, periods of maternity leave; and, reflecting the influence of women's lower earnings, the super accumulations of women who remained in the fund over the study period were lower than their male counterparts in all but one of the cohorts. The study found that the gender gap in average superannuation balances narrowed over the study period. However, a sizeable gender gap remained in each cohort in 2011–12, and women continued to be over-represented in the lowest contribution groups. Importantly, the position of women in the distribution of individuals—ranked on the basis of their super contributions—worsened between 2002–03 and 2011–12.

Women in couple households

The importance of the large gender gap in retirement income is often downplayed on the grounds that because most women live in couple households they can benefit from their partner's superannuation. This type of argument is deficient on several levels. First, it ignores the substantial risk of widowhood and divorce for older Australian women. At age 65 close to one third of women are not married and by age 75 half of all women are single (Gallagher 2016, chart 4). Thus, the evidence of low superannuation wealth amongst older women that has been outlined in this chapter is directly relevant to the living standards of a large proportion of older Australian women.

Arguments against the importance of the gender gap in retirement income should also be rejected on the basis of their implicit assumption that household resources are pooled and the interests of both partners are taken into account when decisions about these resources are made. In other domains, individual, rather than household, income and wealth are commonly used to assess wellbeing, although account is taken of household size. As Stewart (2011, p. 59) summarises, the Henry Tax Review affirmed the individual tax unit for both efficiency reasons (relating especially to work incentives) and equity reasons, arguing the approach better reflects ability to pay. The review also described the individual tax unit as more stable because 'families change over time, as people partner and separate, and society's conception of what constitutes a couple also changes' (Treasury 2009, Part 2, p. 24).

From an equity perspective, it is vital to focus on individuals' retirement income because maldistribution of the ownership and control of resources within households exposes individuals within the household (more often women than men) to the risks of poor decision-making and inadequate resources. International research by Friedberg and Webb (2006) and Phipps and Woolley (2008) has established the links between the formal ownership of wealth and intra-household processes relating to divestment decisions, and a variety of economic studies have demonstrated the links between men's and women's different life expectancies and household decision-making on consumption and savings in old age (see, for example, Lundberg et al. 2003). Poor decisions about the use of lump sums, the selection of annuity type and housing have been shown to leave women exposed to poor outcomes late in life (Bisdee et al. 2013). These risks are especially important given that older individuals typically cannot respond to poor outcomes by increasing their own involvement in paid work.

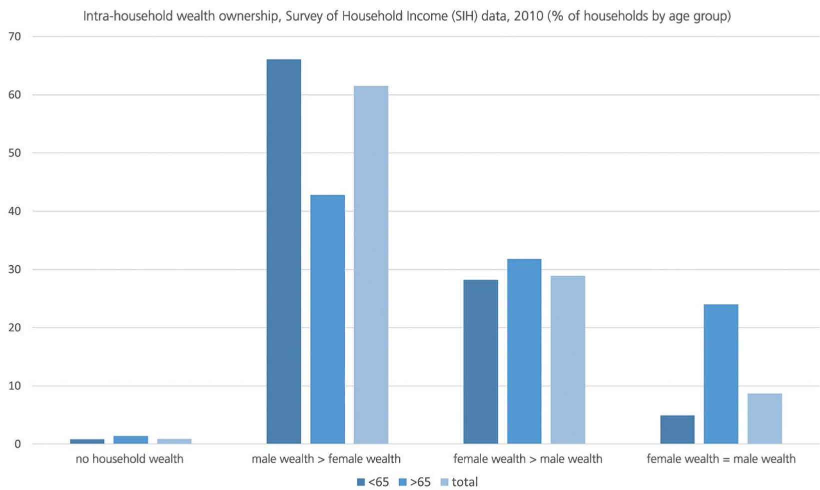

Figure 10.6: Inequality in wealth within couple households, by age

n = 8165 couples age < 65, 2014 couples age 65+.

Source: ABS (2015).

The available evidence on the allocation of resources and decision-making within Australian couple households emphasises the potential significance of these intra-household issues. As shown in Figure 10.6, in the majority (61.5 per cent) of Australian heterosexual couple households, the male partner's (non-housing) wealth exceeds that of the female partner. The same pattern applies to superannuation assets: Figure 10.7 shows that in 52.4 per cent of these households, superannuation assets are greater for the male partner (22.4 per cent of couple households report zero superannuation assets). The size of the gender gaps in superannuation and wealth in couple households is also large. For example, in households where the gap in superannuation assets favours men, the median ratio of the two partners' assets is currently around 330 per cent.

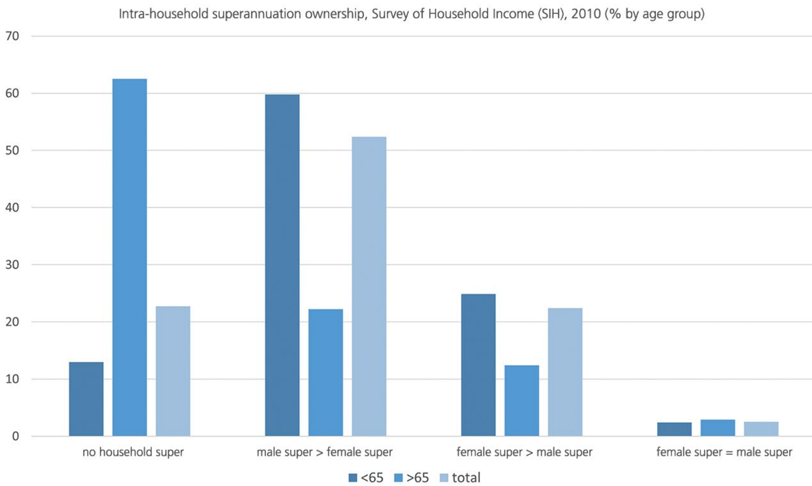

Figure 10.7: Inequality in superannuation within couple households, by age

n = 8165 couples age < 65, 2014 couples age 65+.

Source: ABS (2015).

Survey data on decision-making control in couple households also indicate that the formal ownership of financial resources matters. Data from the recent Productivity Commission survey on Housing Decision-Making, for example, show that 46 per cent of married men aged 65 and over, as compared to only 20 per cent of married women in the same age group, perceive that they controlled most of their household's financial decisions. The proportion of men reporting control of decision-making was higher (at 51.6 per cent) in the group with superannuation as their key source of income, and lower in the group who relied on the age pension (40.4 per cent). The 16.7 per cent of women with superannuation as their main source of income reported that they made most of the financial decisions in their household. The rate was 20 per cent amongst women that relied on the age pension. One possible explanation is that women with superannuation wealth might be more likely to be married to men with this type of wealth. This evidence is in line with the findings of earlier research projects, using qualitative methods, that have demonstrated that working-age households do not necessarily pool and equally share their resources (see, for example, Edwards 1982), and that the distribution of income from the formal labour market and government transfers has an important bearing on household decision-making processes (Euwals et al. 2004).

Conclusion

This chapter applies a rights-based framework for gender equality based on CEDAW to inform a gender impact analysis of current Australian policy for retirement incomes and savings. The analysis presented in this paper is in contrast to much current public debate on retirement incomes policy, which is overwhelmingly focused on fiscal sustainability. Due to its focus on cost containment criteria, the current debate usually subordinates ends to means and encourages a focus on financial inputs at the expense of the ultimate objectives or outcomes of the retirement incomes system.

The rights-based approach that we have used examines whether budgetary policies are sufficient to provide an adequate retirement income for all Australian women for all the years of their retirement, and whether the policies pass tests of gender equality. CEDAW requires that expenditure be distributed equally with funds being sufficient to meet core minimum standards and revenue raising needs to enable the progressive realisation of the 'full development and advancement of women' (UN 1979, p. 2). In line with gender-responsive budget research, our discussion of adequacy has gone beyond consideration solely of the financial inputs of the retirement incomes' budget allocations to examination of the activities, outputs and outcomes of the policy in order to gauge progress towards the implementation of CEDAW.

Our analysis showed that large financial inputs, valued at 16.2 per cent of federal government–planned expenditures for 2016–17, are associated with government spending and taxation on Australia's three-pillar retirement incomes policy. Spending on the targeted age pension is projected to be similar to the cost of tax expenditures on the superannuation pillars in coming years. These financial inputs into the retirement incomes system deliver a pattern of outputs (namely retirement incomes for individuals) that is characterised by a marked gender distribution. The majority of both men and women aged 65 years and older are highly dependent on either a full or a part age pension; however, women are much more likely to be dependent on the age pension than men. As the two-tiered superannuation system is less than 30 years old, the total cost of the tax expenditures cannot be ascribed directly to the current superannuation of older Australians, though it is clear that their benefits are strongly linked to the pattern of workforce participation and incomes. Women's greater responsibilities for unpaid work, their broken workforce patterns and lower average earnings result in lower superannuation assets and, thus, their share of the substantial benefits from tax expenditures on superannuation is relatively low. For example, in 2013–14, the median superannuation balance of women aged 65 and older was a fraction of men's ($5,586 compared to $37,032) notwithstanding zero superannuation assets of a large percentage of men (37.8 per cent) and women (45.9 per cent).

The government's enacted superannuation objective is devoid of purposes relating to adequacy and equity; it also fails to provide criteria for judging retirement incomes and savings policies. This is likely to reinforce the invisibility of gender issues and gaps in retirement incomes policy rather than shine a light on them and facilitate budgetary and policy changes consistent with gender equality.

However, gleaning outcomes from policy statements at the time of the introduction of the mandatory superannuation scheme, made by then Treasurer Paul Keating, indicates that adequacy, equality and gender equity were initially identified as relevant criteria for evaluation. Against these criteria, we make an assessment of the sufficiency of current retirement incomes policy. First, in terms of adequacy of the age pension, OECD comparisons suggest Australia performs poorly, with a third of age pensioners living below the poverty line. However, the depth of aged poverty in Australia is currently relatively small because of the ameliorating effect of the high rate of home ownership among older Australians. Recent modelling of retirement income outcomes of the SG suggests that even among home owners, except for a few men on high earnings, the majority of Australians will not achieve a 'comfortable' lifestyle in retirement. Second, in terms of equality, our analysis shows that the level of income inequality among older households has been largely unchanged since 1986. Moreover, a very uneven distribution of wealth is being produced with the rising importance of superannuation, making Australia less rather than more egalitarian. For example, older individuals in the 10th percentile of the superannuation distribution had zero assets in 2013–14, compared to an individual at the 90th percentile with superannuation wealth of $694,000.

Finally, in relation to gender equity, Australian women experience particularly poor outcomes from the current retirement incomes and savings policy. Their vulnerability to poverty in old age indicates a failure to protect core minimum living standards, as required by CEDAW. Superannuation ties retirement income to labour market earnings and women's disadvantaged labour market position compared to that of men's means the generous and growing superannuation tax expenditures fail the CEDAW test of equal distribution. Gender inequality outcomes are further indicated with modelling that shows women's retirement incomes substantially below men's and a 'comfortable lifestyle' in retirement much further from reach for women. An examination of different age cohorts shows the gender gaps in superannuation contributions and balances remain large, therefore the gender inequalities in the distribution of superannuation are likely to be sustained for decades. The question of whether retirement incomes spending and taxation is sufficient from a CEDAW perspective also needs to consider the gendered impacts within households. We argue that pooling of household cannot be assumed, and different life expectancies combined with maldistribution of the ownership and control of income and wealth puts older women at risk more than men of poor outcomes later in life.

We conclude that aspects of Australia's retirement incomes policy are in conflict with the government's international human rights commitments required under CEDAW. This should give pause to the current focus on private provision and open up a debate of outcomes as the test of a sound retirement incomes system.

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