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What's the best way to close the gender gap in retirement incomes?

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Closing the gender gap in retirement incomes

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What problem are we trying to solve?

- Higher risk of *absolute* poverty in retirement
- R*elatively* lower retirement savings
- Do we care about future generations or *existing* retirees?
- What about other objectives for the retirement income system?

What tools do we have?

What retirement reforms would make the most difference?

- **Super Guarantee** lowers working age incomes, doesn't help existing retirees
- **Higher super contribution caps** would *worsen* inequality in retirement incomes. As would more flexible caps.
- **Super tax breaks for low-income earners** will help, but lots of leakage to high income households with a part-time earner
- **Further tightening super tax breaks** would substantially close the gender gap
- Boosting the **Age Pension** helps current and future retirees
- A targeted boost to rent **Rent Assistance** would do the most good

Women have lower superannuation balances at all ages

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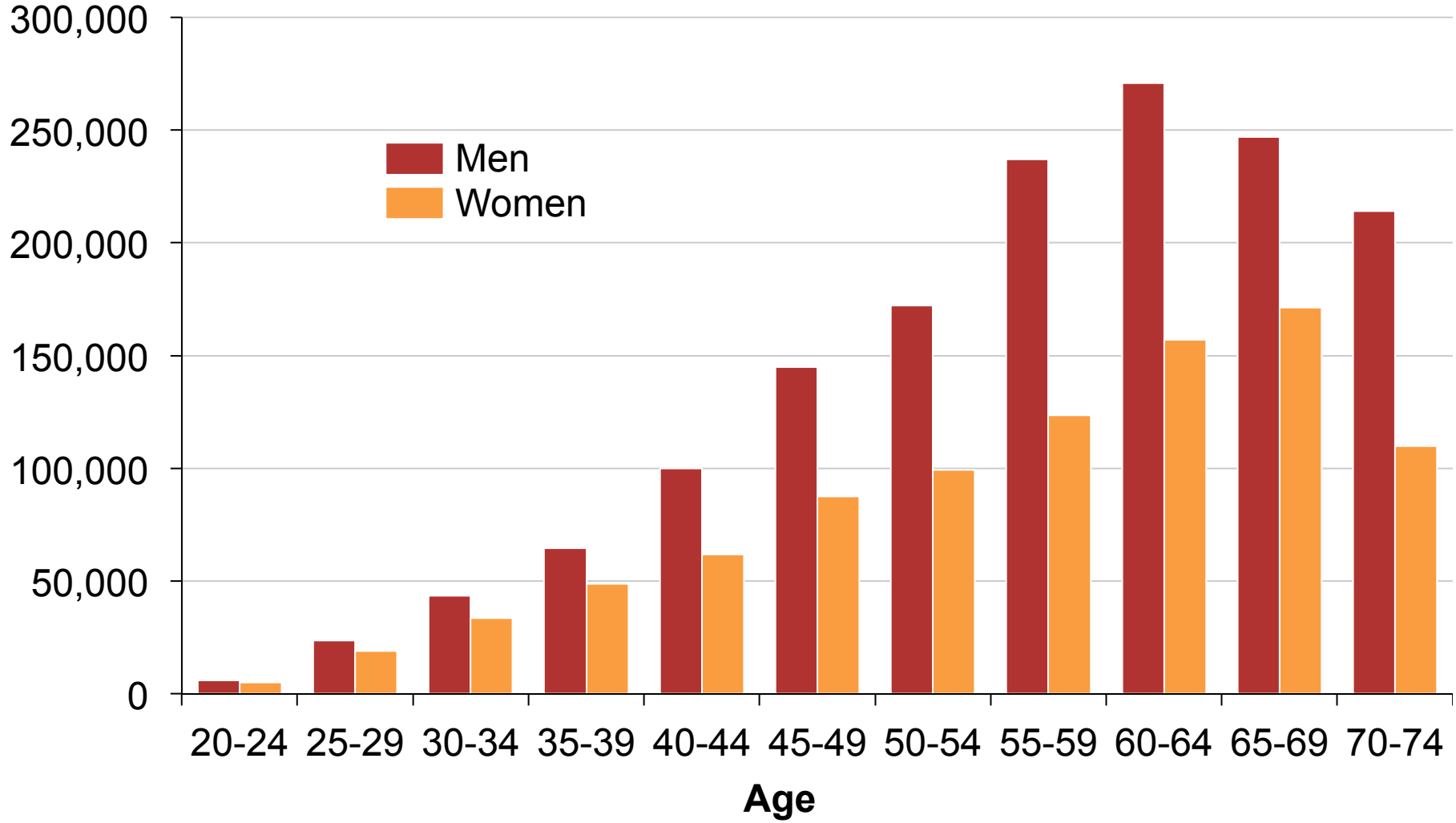
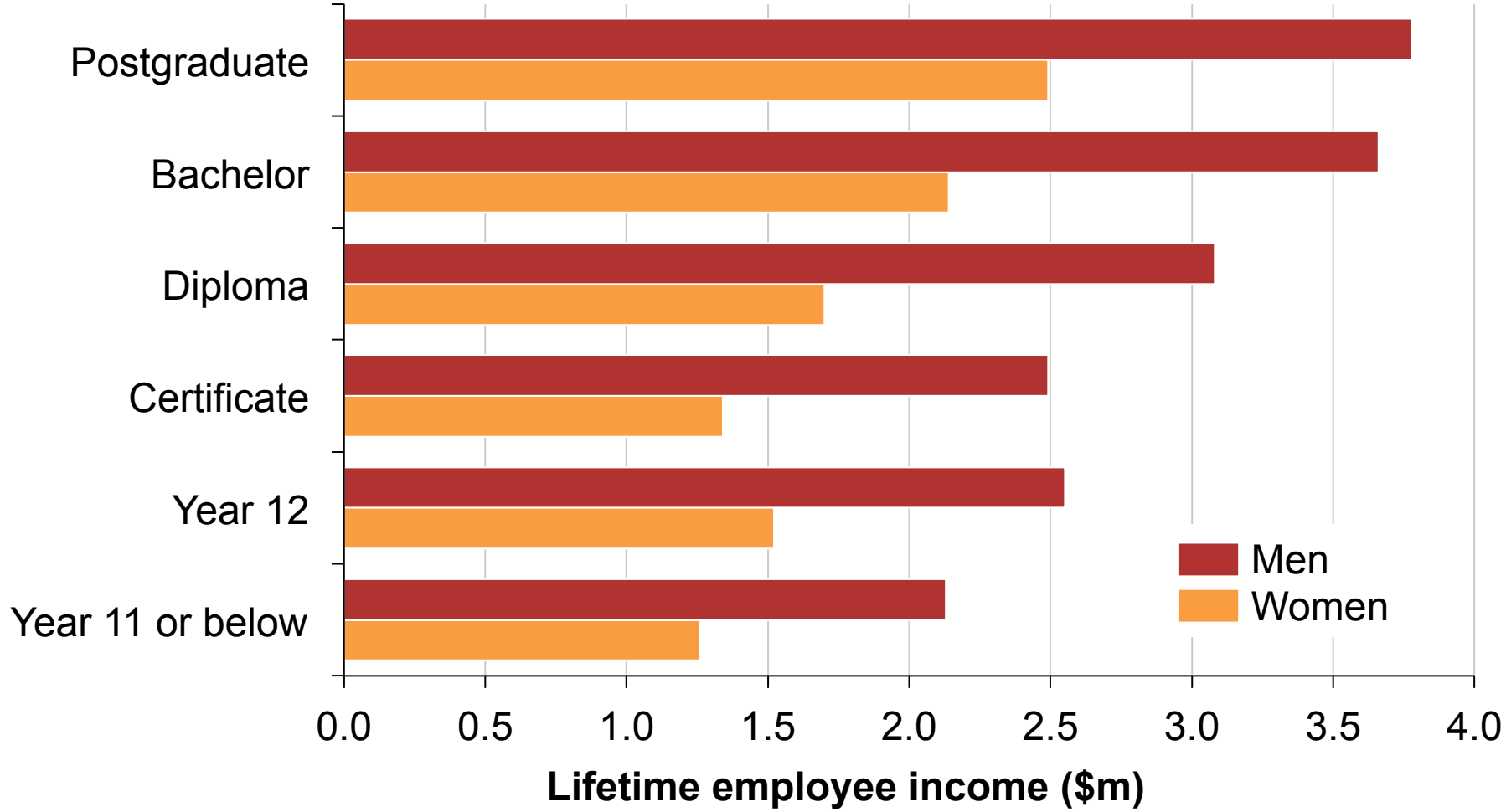
Mean superannuation account balance, 2015-16



Source: Clare (2017), *Superannuation account balances by age and gender*.

Women retire with less because they earn less

Lifetime employee income of persons at age 25 years, $m



Notes: Values are in 2011–12 dollars. Post Graduate includes Post Graduate Degree, Graduate Diploma and Graduate Certificate. Diploma includes Advanced Diploma. Lifetime earnings estimates are derived from all employees, including those working part-time.
Source: NATSEM calculation from 2009–10 Survey of Income and Housing Basic Confidentialised Unit Record.

What problem are we trying to solve?

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There are two:

1. Women are at greater risk of experiencing *absolute* poverty in retirement

2. Women retire with *comparatively* less savings than men, resulting in *relatively* lower retirement incomes

These problems matter for future generations <u>and</u> current retirees

Our retirement income system seeks to fulfil multiple objectives

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- Ensure some *minimum* standard of living in retirement
- Facilitate lifetime consumption smoothing
- Be fiscally sustainable
- Not about boosting inheritances
- Maintain incentives to work, save and invest
- Keep complexity manageable

These objectives are subject to clear trade-offs

Should we care about individuals' our households' living standards in retirement?

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Our retirement incomes system assumes households pool resources

- Age Pension mean test applies to household income and assets
- Other parts of tax-transfer system (e.g. family payments) also target household means

Others reject the assumption of household pooling of resources

- Austen and Sharp (2017): there is unequal ownership and control of assets *within* households

Yet many Australian households do pool resources

- Bruenig and McKibbin (2012); Bradbury (2004); Lancaster (2002)

Superannuation formally recognised in division of assets in case of divorce (since 2002)

Therefore ignoring household pooling means a much less targeted retirement income system for a given level of expenditure

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Australia's retirement income system has '4 pillars'

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Age Pension	Superannuation	Other savings	Own home

• Guarantees a minimum 'safety net' level of income in retirement
• Subject to household income and assets means tests
	• Mandates retirement savings of 9.5% of wages (legislated to increase to 12% by 2025)
	• For most people, will supplement but not replace the Age Pension
	• Benefits from substantial tax breaks
	  • Contributions taxed at 15%
	  • Fund earnings taxed at 15%; tax-free in retirement
		• Includes other financial assets, especially investment property
		• Available for use before retirement, but generally taxed at higher rates
			• Substantially contributes to lifestyle in retirement
			• Value above ~$200k threshold exempted from pension means tests
			• Taxed concessionally

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The Age Pension is the best tool to support adequacy

Super is likely to remain the smallest retirement income pillar for some time

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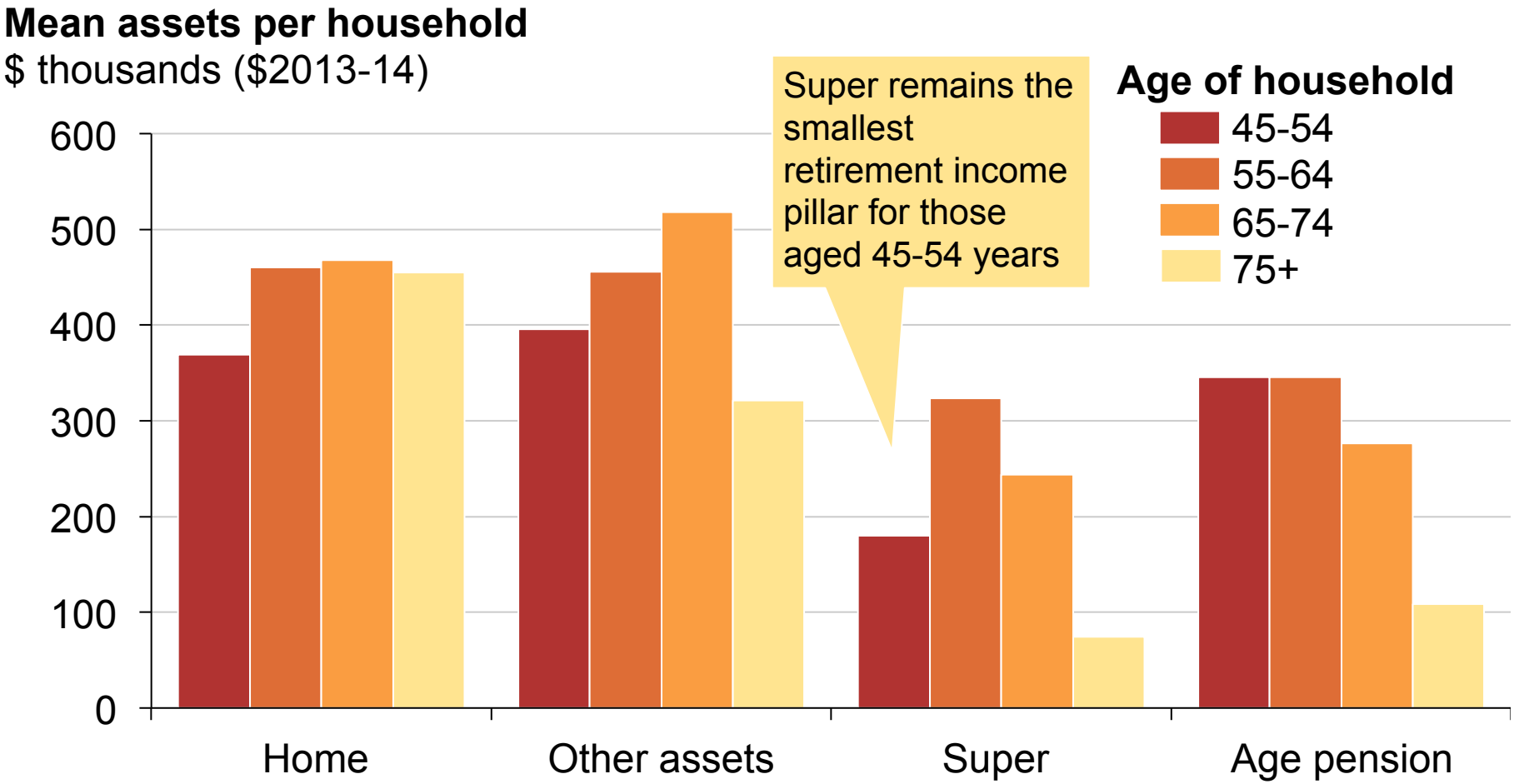

Notes: Home is net of related mortgage liabilities; other assets are net of other liabilities; superannuation excludes at least some defined benefit schemes. Net present value of Age Pension based on average annual pension payments received by households in each age group in 2011-12, inflated forward to $2013- 14. The annual average Age Pension payment is converted into a capital value using a discount rate equal to the Age Pension indexation rate of 4 per cent and an average life expectancy for those aged 65 now of 89 years for women and 86 years for men. The net present value of lifetime Age Pension payment assumes that the average real pension currently received by households in each age group continues to life expectancy. Does not account for future expected increases in private retirement saving before retirement, especially for households aged 45 to 54 years and 55 to 64 years where the bulk of households are not yet retired.

Source: *Super tax targeting*, p.12

Non-super savings are important, even for younger households

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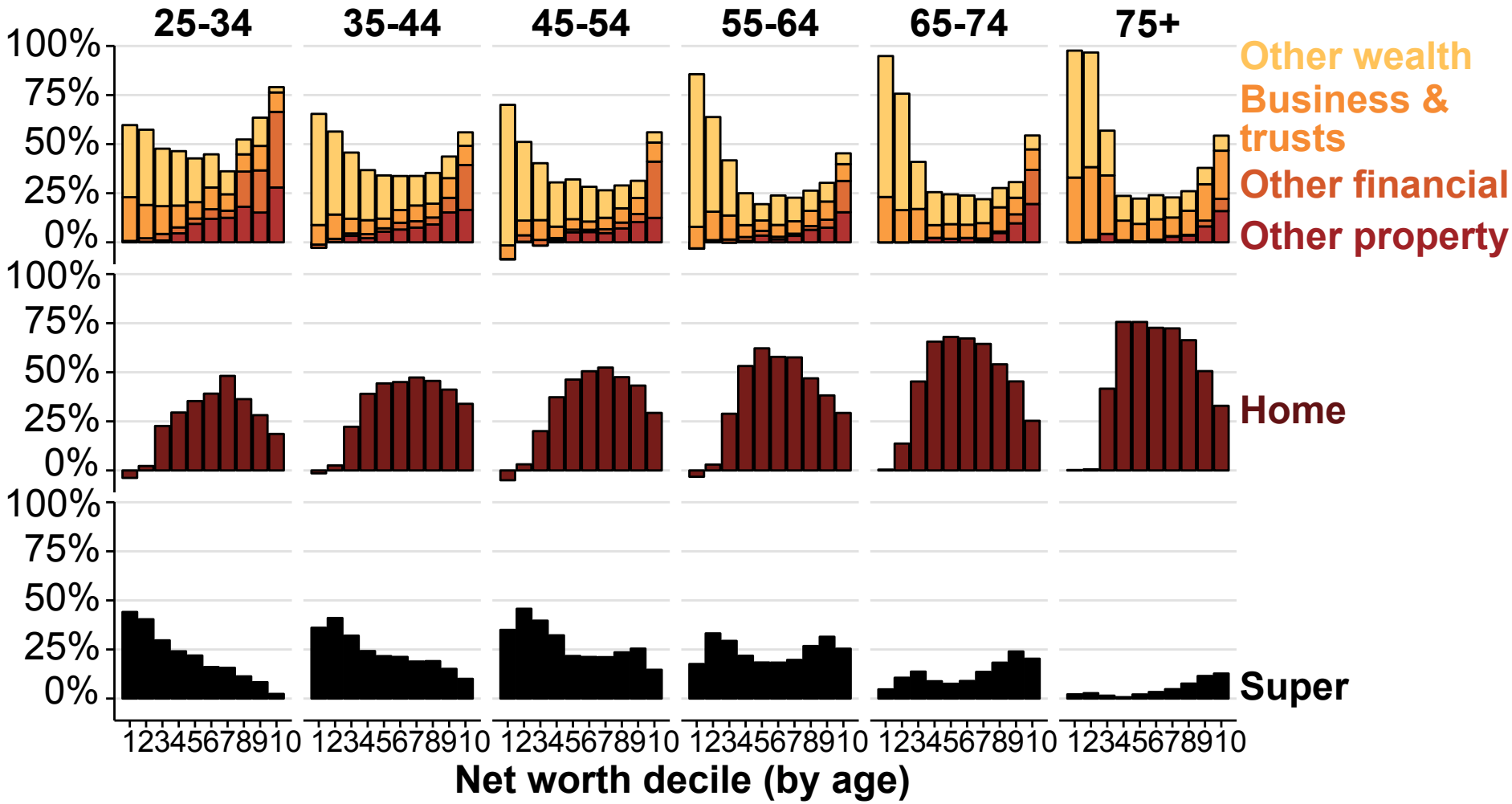
Household net wealth by income percentile, age and source

Per cent of household net wealth



Source: Grattan analysis of ABS Survey of Income and Housing 2013-14.

The gender gap in retirement incomes

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How should we evaluate potential reforms?

1. **Don't lower working age incomes** unless clear that doing so would improve lifetime consumption smoothing, and won't add to working-age poverty
2. **Reforms should help both existing retirees at risk of poverty,** not just future retirees
3. Should reduce risk of women experiencing poverty **without increasing the relative gap in retirement incomes** between men and women.
4. The **budgetary cost of reforms should be minimised.** That is, reforms should reduce absolute poverty among women at least cost, and can be **tightly targeted at low-income earners** in order to close the relative gender gap in retirement incomes. Reforms that **reduce the budgetary costs** of the retirement income system should get priority.
5. Reforms should be **administratively workable and minimise complexity** for individuals and government

What retirement income reforms would make the most difference?

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Under existing super policy, most people will largely replace their pre-retirement income

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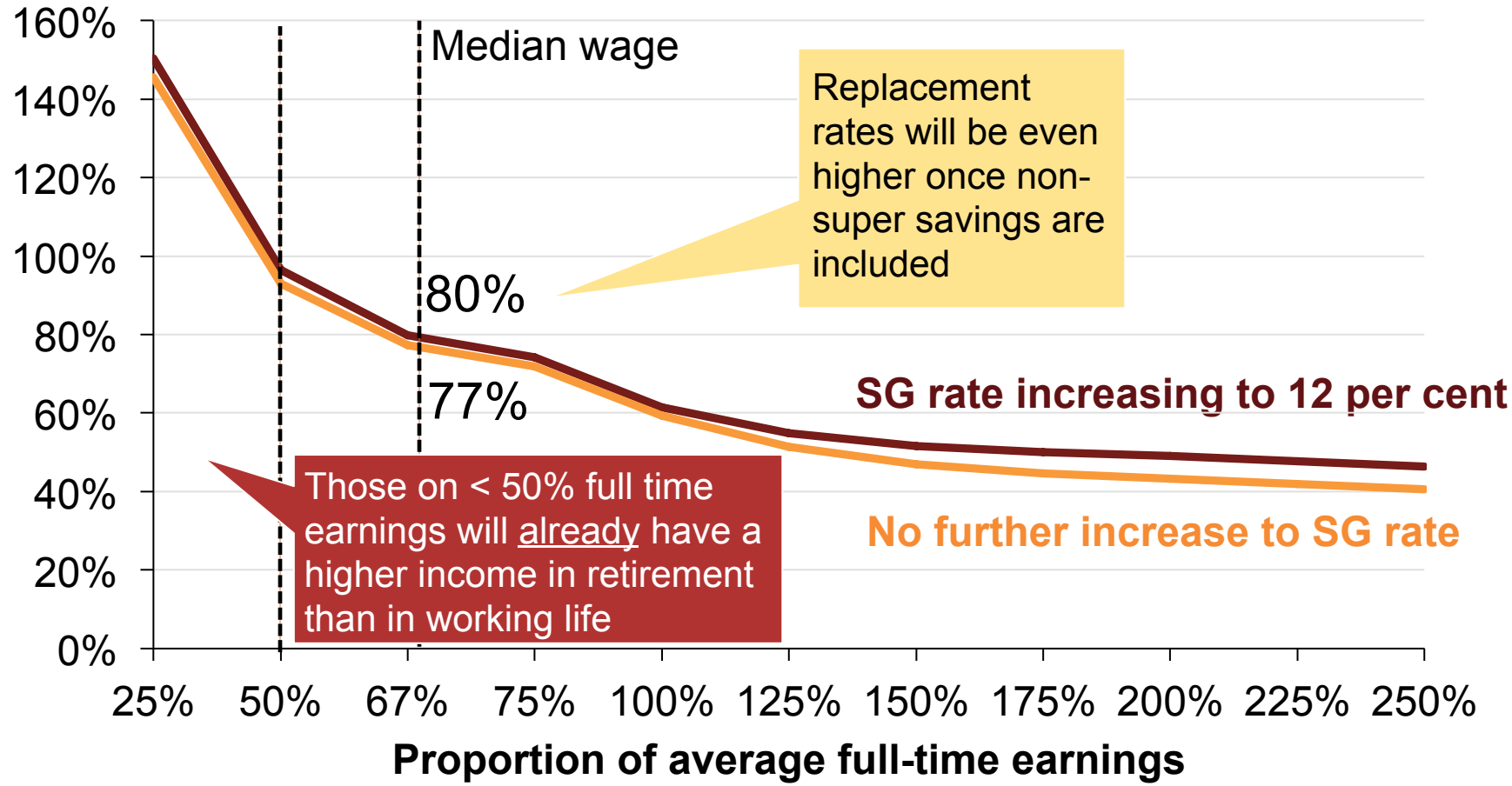
Replacement rate of pre-retirement disposable income for a 30 year old

Per cent



Note: Assumes a person who works from age 30 and until age 70, retirement lasts until life expectancy at 92. Includes only compulsory savings under the Superannuation Guarantee and the Age Pension. Earnings are assumed to be 6.5 per cent while working and 5.5 per cent in retirement, with an effective tax rate of 7 per cent on earnings. In retirement, superannuation is draw down consistent with a CPI-indexed pension with no residual balance at death.

Source: Grattan analysis.

Pension income falls for low-income earners if the SG rises to 12 per cent

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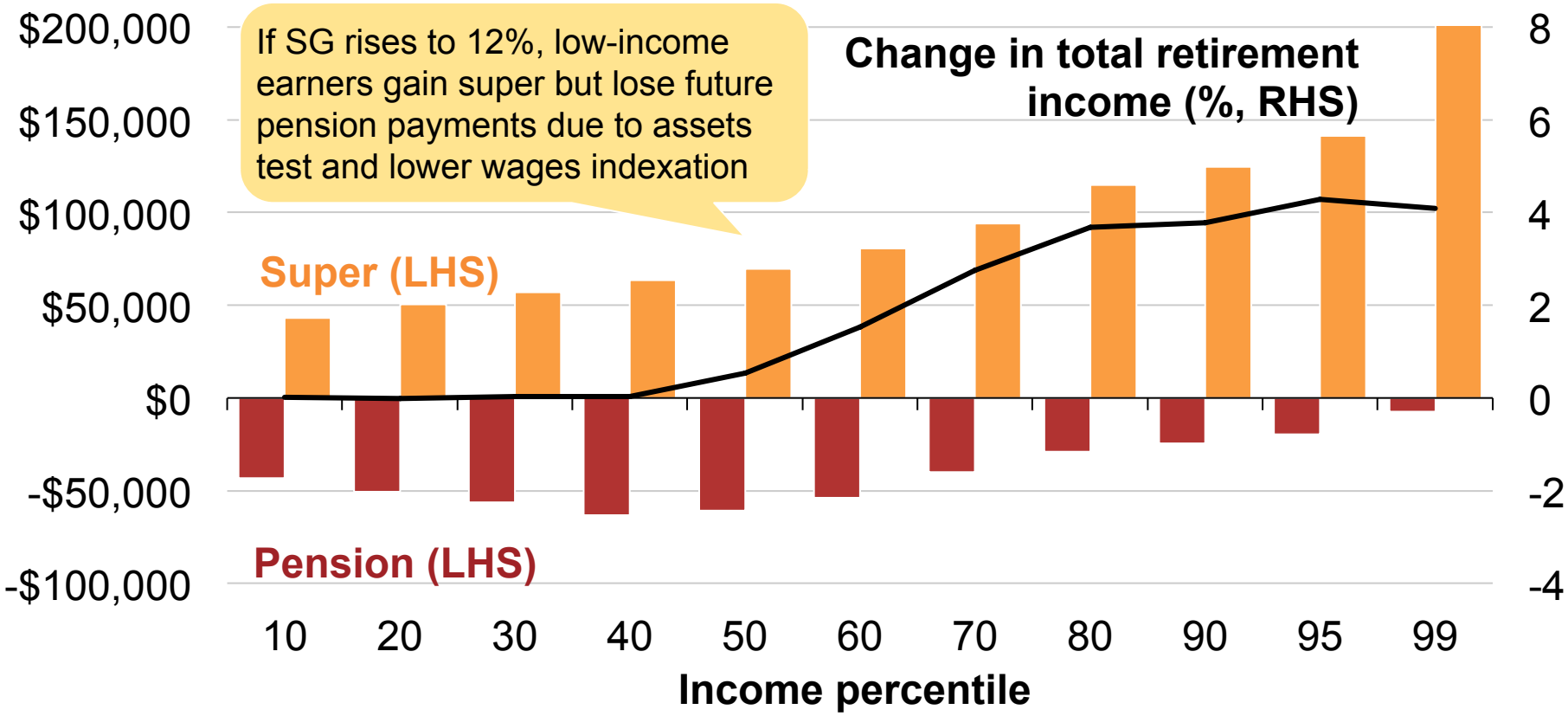
Change in retirement income ($2015-16, CPI deflated) if the SG increases to 12 per cent compared to staying at 9.5 per cent



Note: Results from modelling the retirement income of a person born in 1985, who works uninterrupted from age 30 to 70, and dies at age 92. Non-super savings are imputed five years before retirement, with the maximum amount of savings transferred to a superannuation pension account at retirement (so there is no change in non-super savings). Super Guarantee to rise to 12 per cent by 2025-26 (as legislated). If the pension is indexed according to wage growth with the SG increasing to 12 per cent, then pension income loss is less for percentiles 10-to-50, with change in total retirement incomes closer to 0 per cent. Voluntary superannuation contributions partially offset the fall in compulsory contributions if the SG remains at 9.5 per cent. Draw down behaviour does not change if the SG remains at 9.5 per cent. Assumes aggregate wages growth falls by the exact amount of any SG increase.

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Pre-tax contributions of more than $25,000 a year are mainly made by rich men

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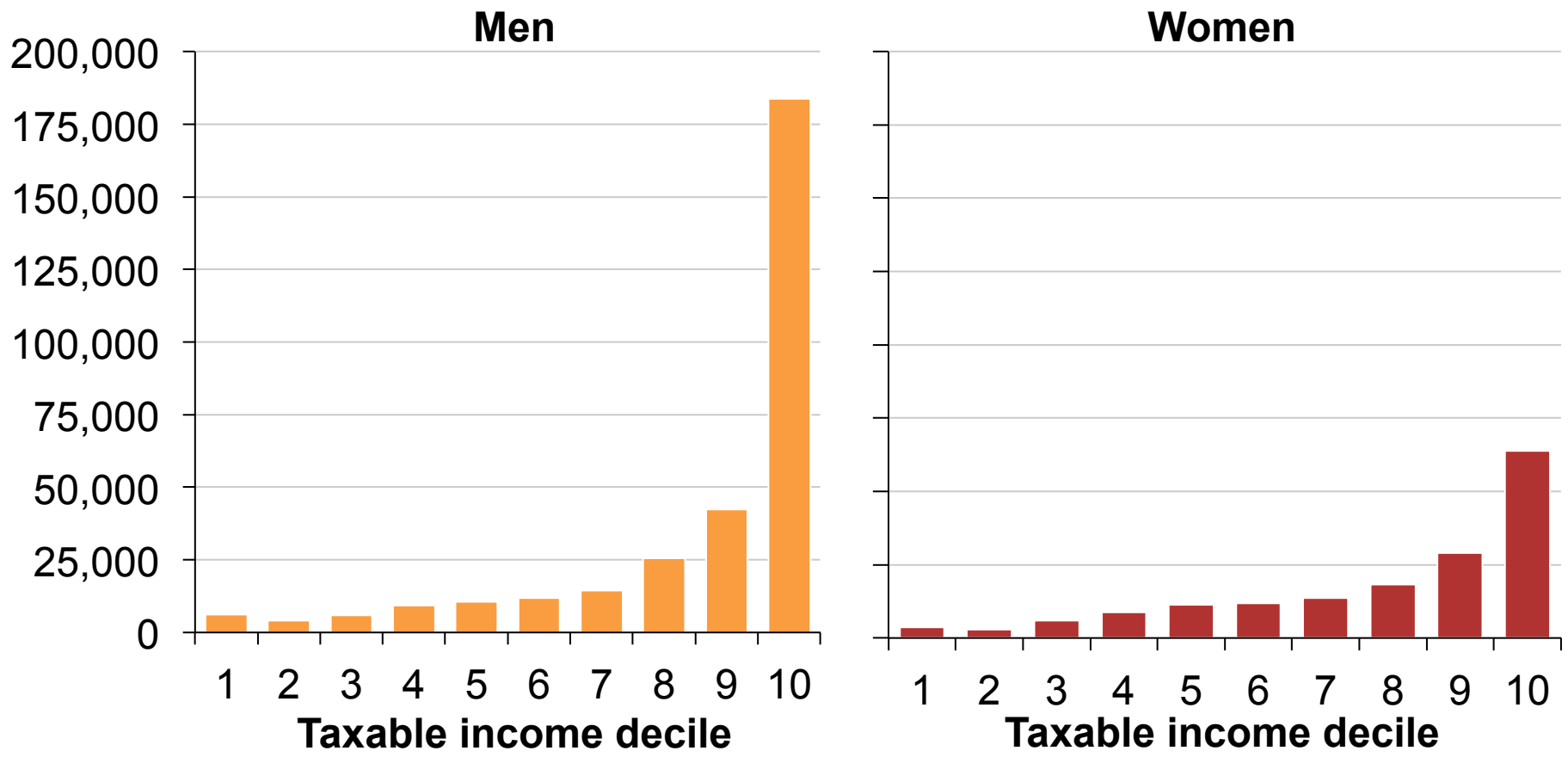
Number of individuals in each income decile that would make pre-tax contributions of more than **$25,000**, 2017-18



Note: Pre-tax super contributions made by individuals in the ATO 2 per cent sample file for 2013-14 are adjusted to reflect total pre-tax contributions reported in ATO Taxation Statistics for superannuation funds, such as by estimating Super Guarantee contributions for taxpayers with salary income but who report no pre-tax contributions from their employer and accounting for people who do not lodge their tax return on time. Contributions are then projected forward to 2017-18 to account for increases in nominal incomes and growth in the working population. The range of taxable incomes included in each decile is the same for men and women.

Source: Source: *A better super system*, p.13.

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A material portion of super top-ups goes to well-off households

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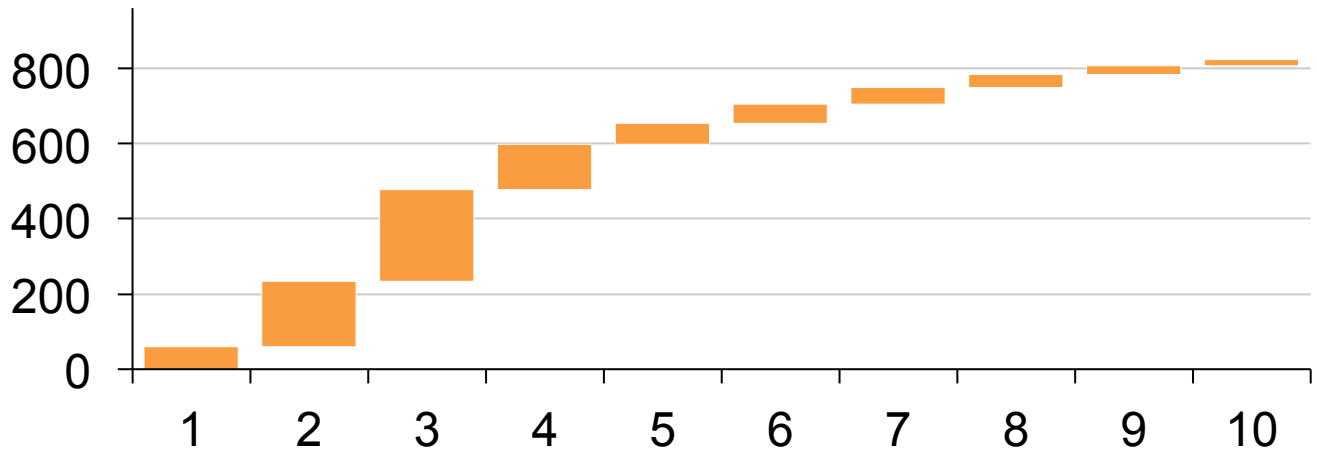
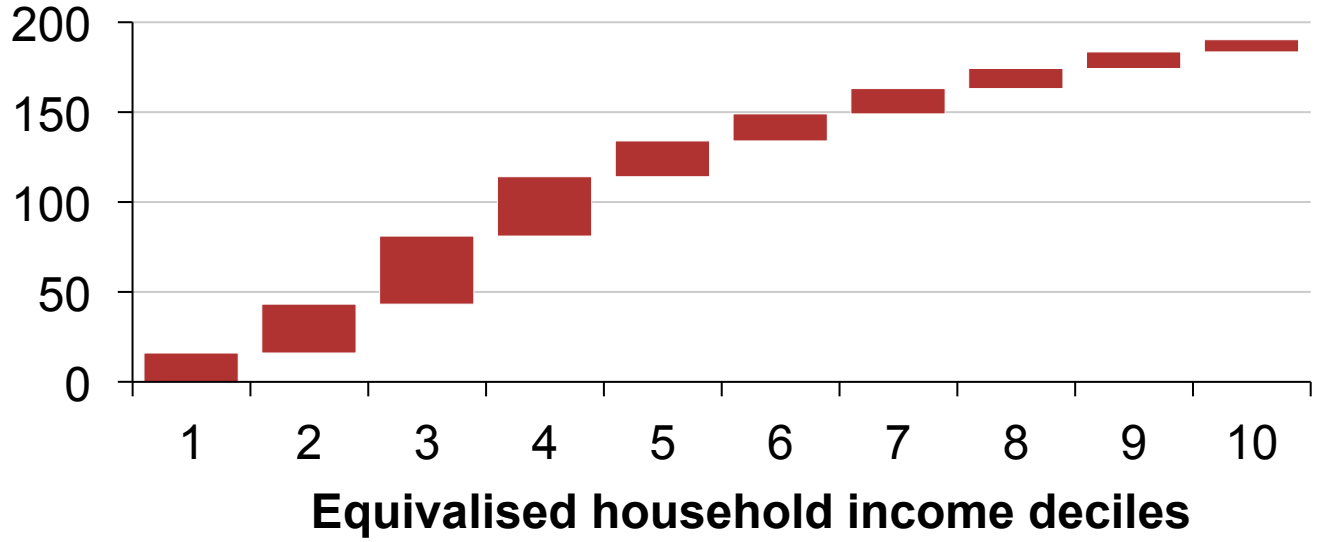
LISC spending by household income decile, $ millions



Co-contribution spending by household income decile, $ millions



Notes: Household income is constructed using the taxable income of the tax filer and that reported by the filer for their spouse. This household income for couples is equivalised by dividing total income by 1.5. Only includes entitlements for individuals who lodge tax returns.
Source: *Grattan* analysis of ATO 2 per cent sample file for 2013-14.

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One quarter of Super Seed payments would still go to the wealthiest 50 per cent of households

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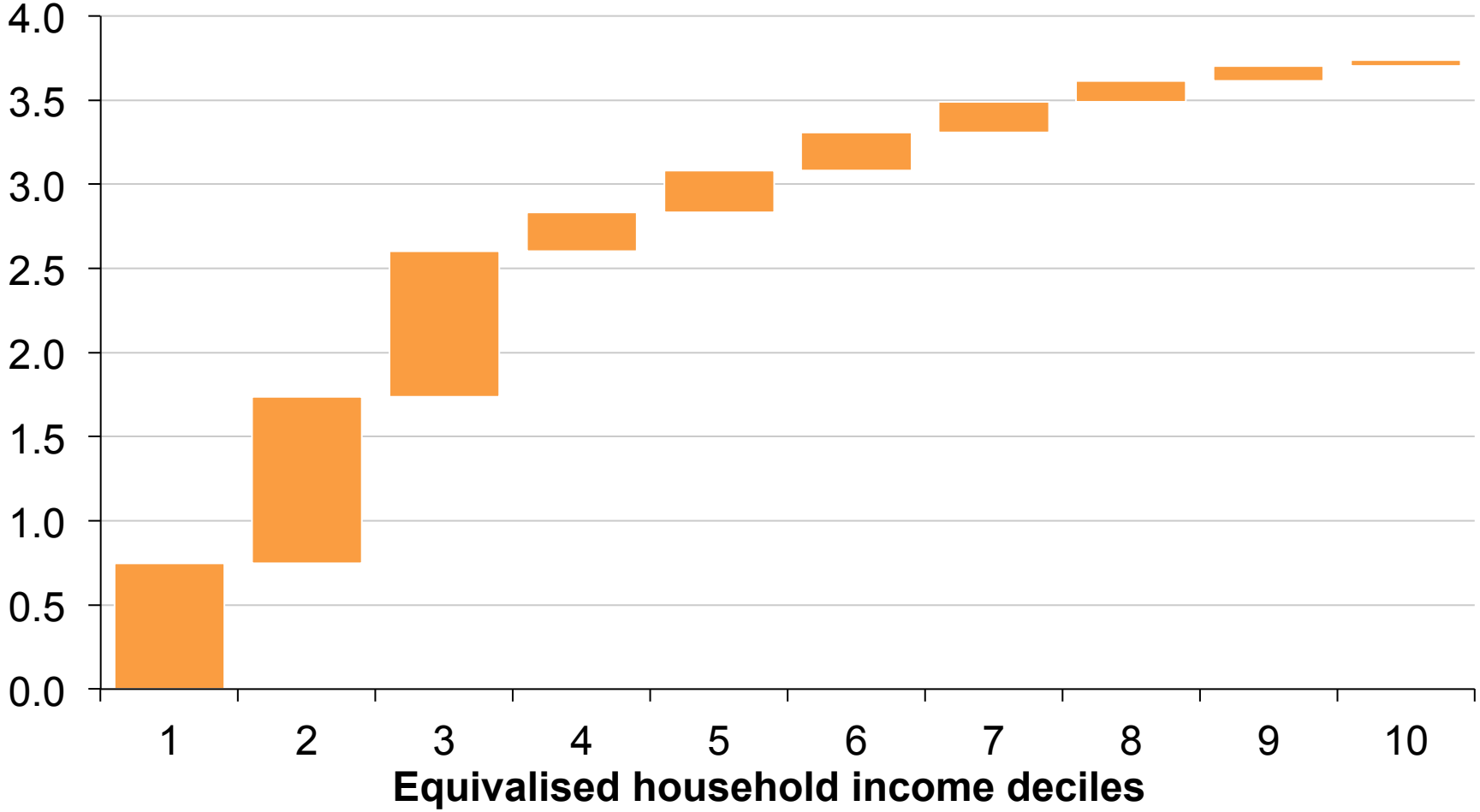
Estimated Super Seed payments by equivalised household income decile, 2017-18, billions



Assumes Super Seed payments are provided to those aged 25-to-34 with a gross income of $37,000 or less and earning at least some wage or salary income. Household income is constructed using the taxable income of the tax filer and that reported by the filer for their spouse. This household income for couples is equivalised by dividing total income by 1.5. Only includes entitlements for individuals who lodge tax returns.
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The top 20% of taxpayers receive half of all superannuation tax breaks

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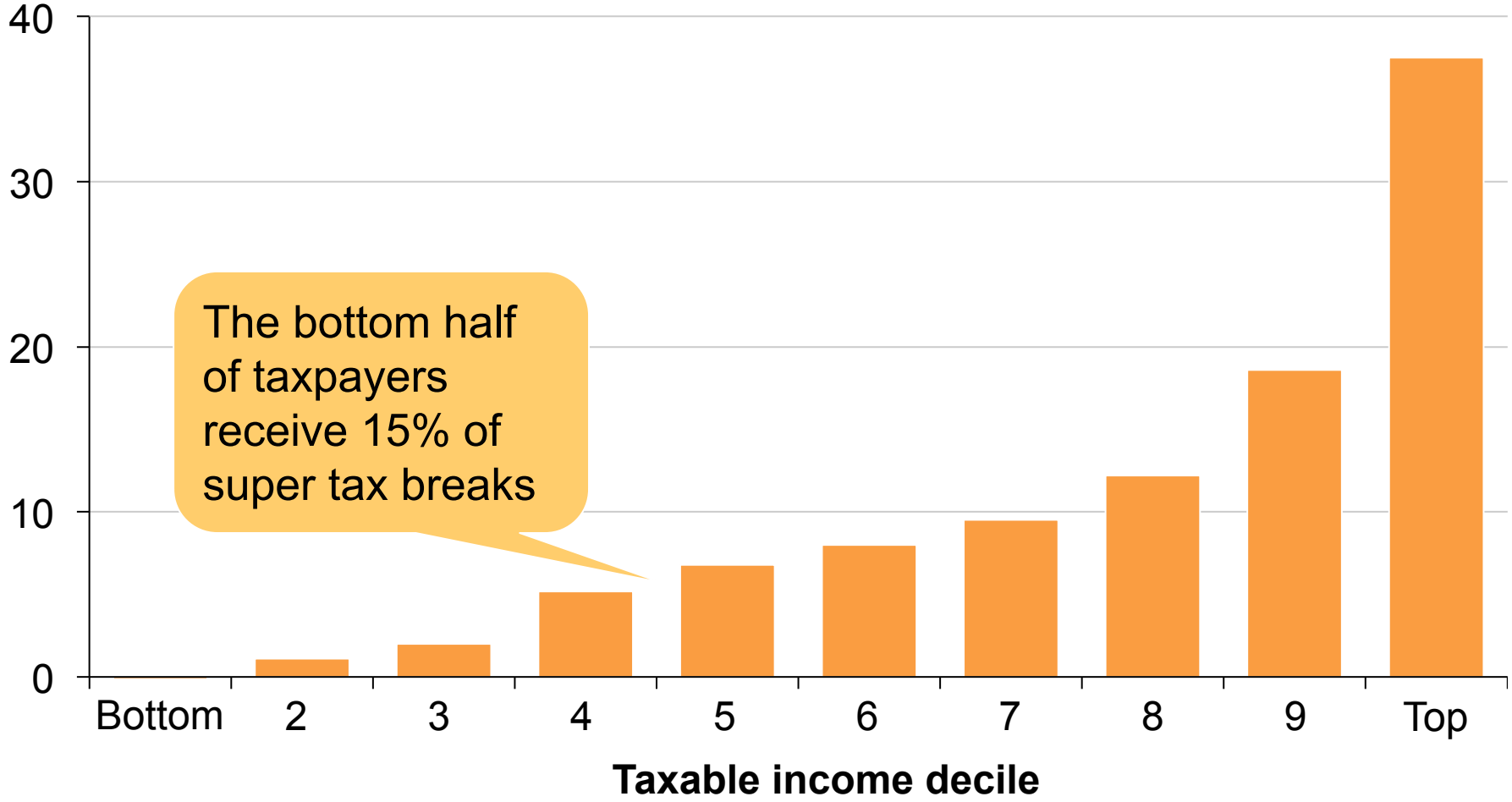
Share of superannuation tax concessions by income decile 2011-12, per cent



Notes: The value of tax break is calculated against a comprehensive income tax benchmark; income deciles sorted by taxable incomes for 2011-12; only includes taxpayers that made a pre-tax contribution in that year.
Source: *Super tax targeting*, p.26

Excessively generous super tax breaks mean the SG isn't saving the budget even in the long term

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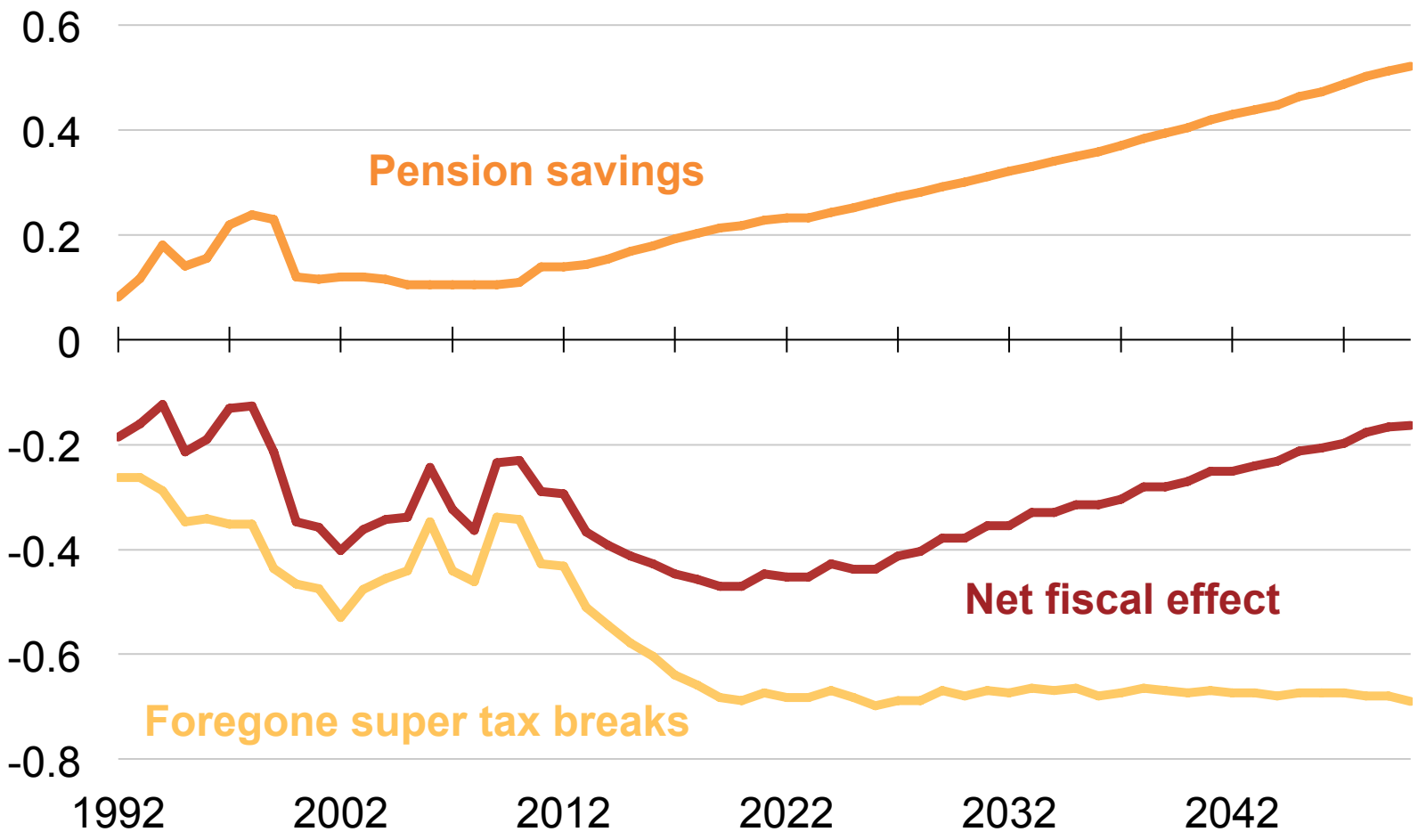
Per cent of GDP



Notes: Recent changes to curb super tax breaks and the tightening of the Age Pension assets test will reduce the annual budgetary cost of support for retirement incomes by around 0.1 per cent of GDP
Source: The Treasury Charter Group 2013; Grattan analysis

While a step in the right direction, recent super tax changes don't go far enough

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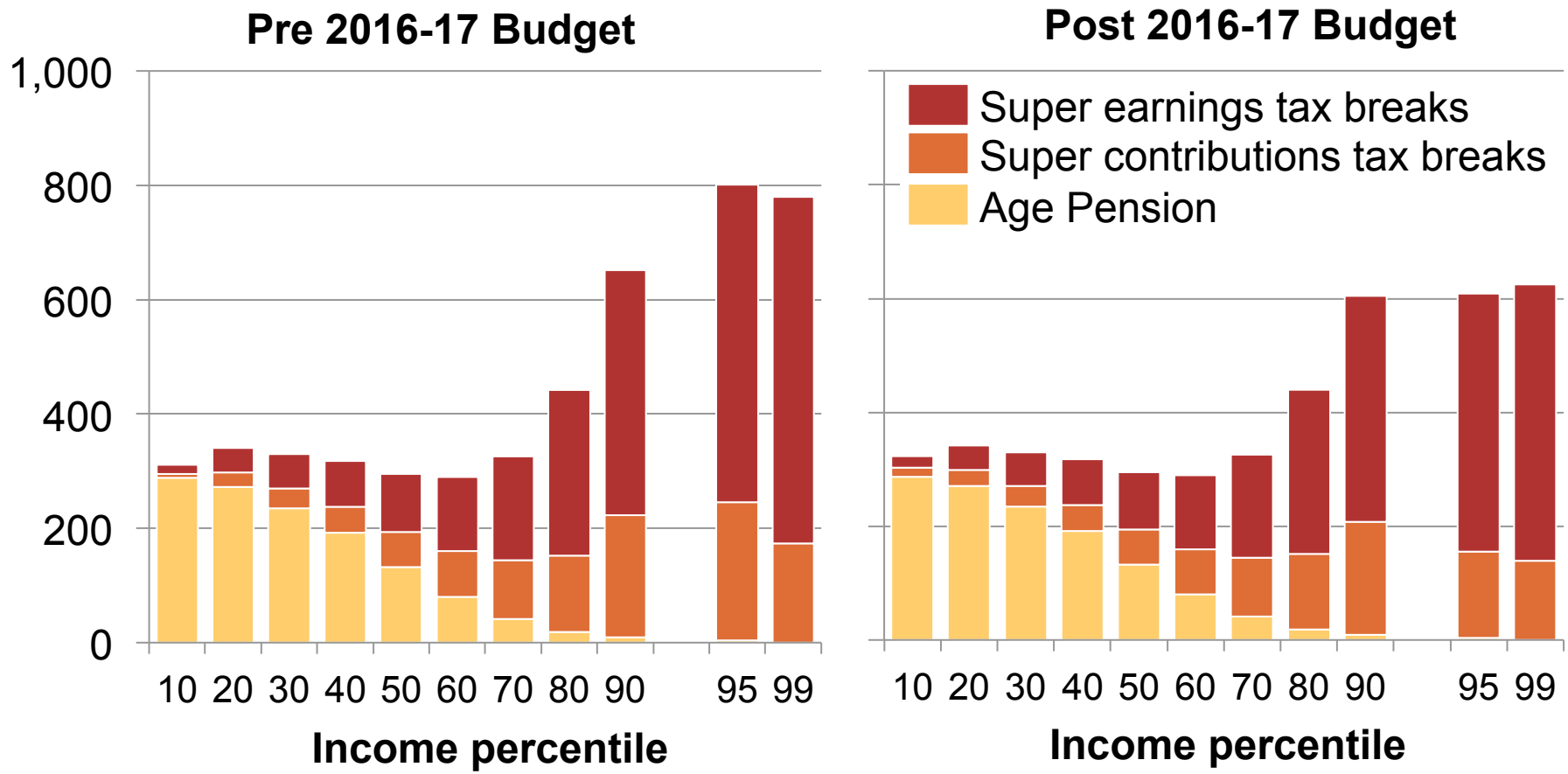
Net present value of total government support over a lifetime through the Age Pension and super tax breaks, $2016, thousands



Note: Individuals are assumed to commence work in 2016 at age 30 and work until age 70, with a predicted life expectancy of 92. Accumulated superannuation benefits are invested in an account-based pension and individuals are assumed to draw down their assets at the current age based minimum drawdown rates. The level of tax assistance and Age Pension entitlements are discounted by 5 per cent per annum to give a net present value in 2016 dollars. Annual incomes are calculated for each percentile based on the distribution of earners at each single year of age. Assumes no post-tax contributions.

Source: *A better super system*, p.29.

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↑ Rent Assist.	None	Yes	Helps those *most* in need Built in longevity insurance	Most targeted to low income retirees	$500 / yr ↑ = $250m	Builds on existing system

Boosting Rent Assistance would better target support to low-income retirees

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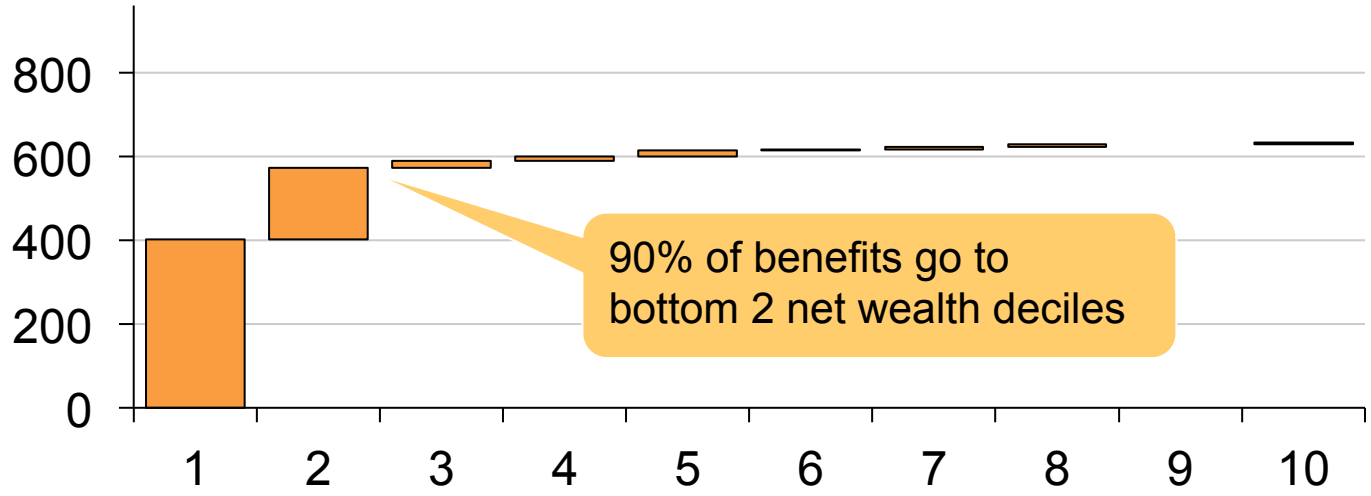
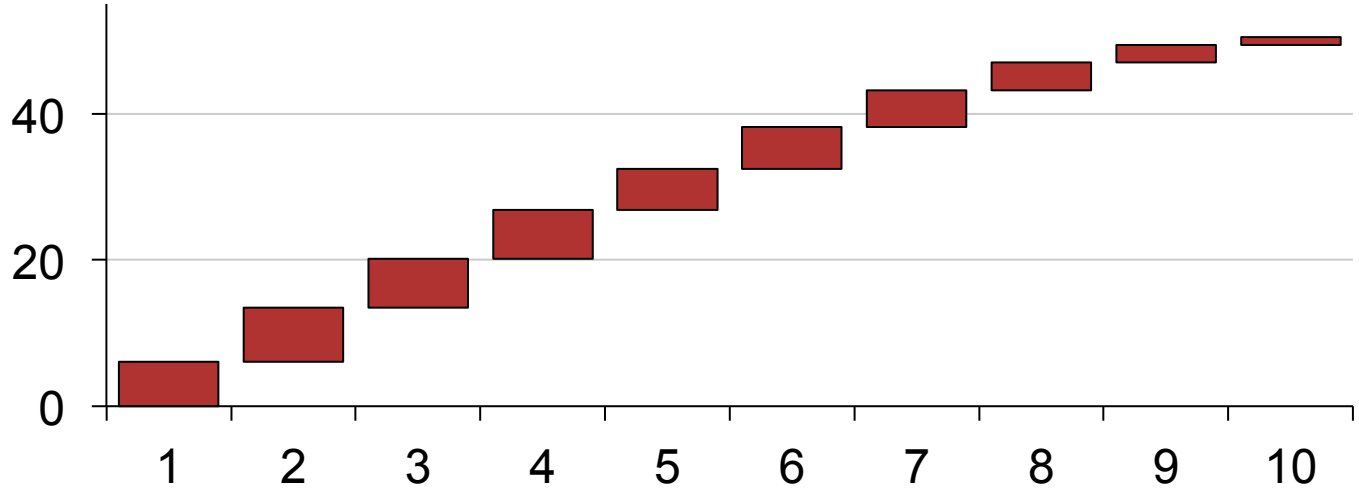
Rent assistance spending to over-65s by household wealth decile, $ millions



Pension spending to over-65s by household wealth decile, $ billions



Equivalised household wealth deciles, over 65s

Note: "Pension" includes both the Age Pension and other government pensions and allowances, such as disability, carer or family support payments received by younger people in a household with a household head aged 65 and over.
Source: Grattan analysis of ABS Survey of Income and Housing 2015-16;.

Renters are under much more financial stress than homeowners

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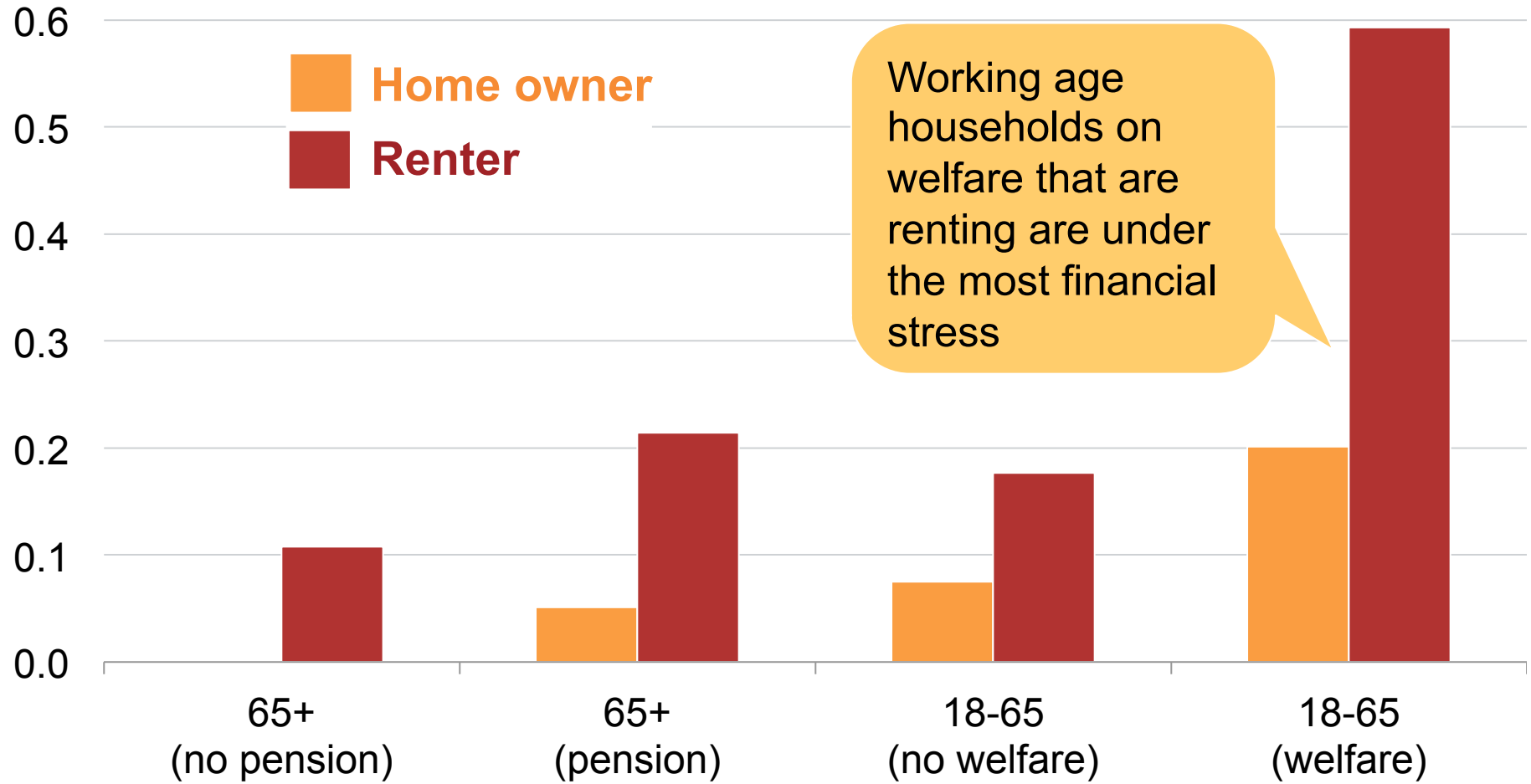
Average number of financial stresses per household, 2015-16



Notes: Financial stress defined as money shortage leading to 1) skipped meals; 2) not heating home; 3) failing to pay gas, electricity or telephone bills on time; or 4) failing to pay registration insurance on time. Pension recipients include everyone over the age of 65 who receives government benefits (excluding unemployment and student allowances). 'Welfare' includes every welfare type excluding parental benefits or the family tax benefits. Recipients of these benefits and no benefits are included in the 'no welfare' category.

Sources: ABS Household Expenditure Survey 2015-16, Grattan analysis.

Renting older women are at greatest risk of experiencing poverty in retirement

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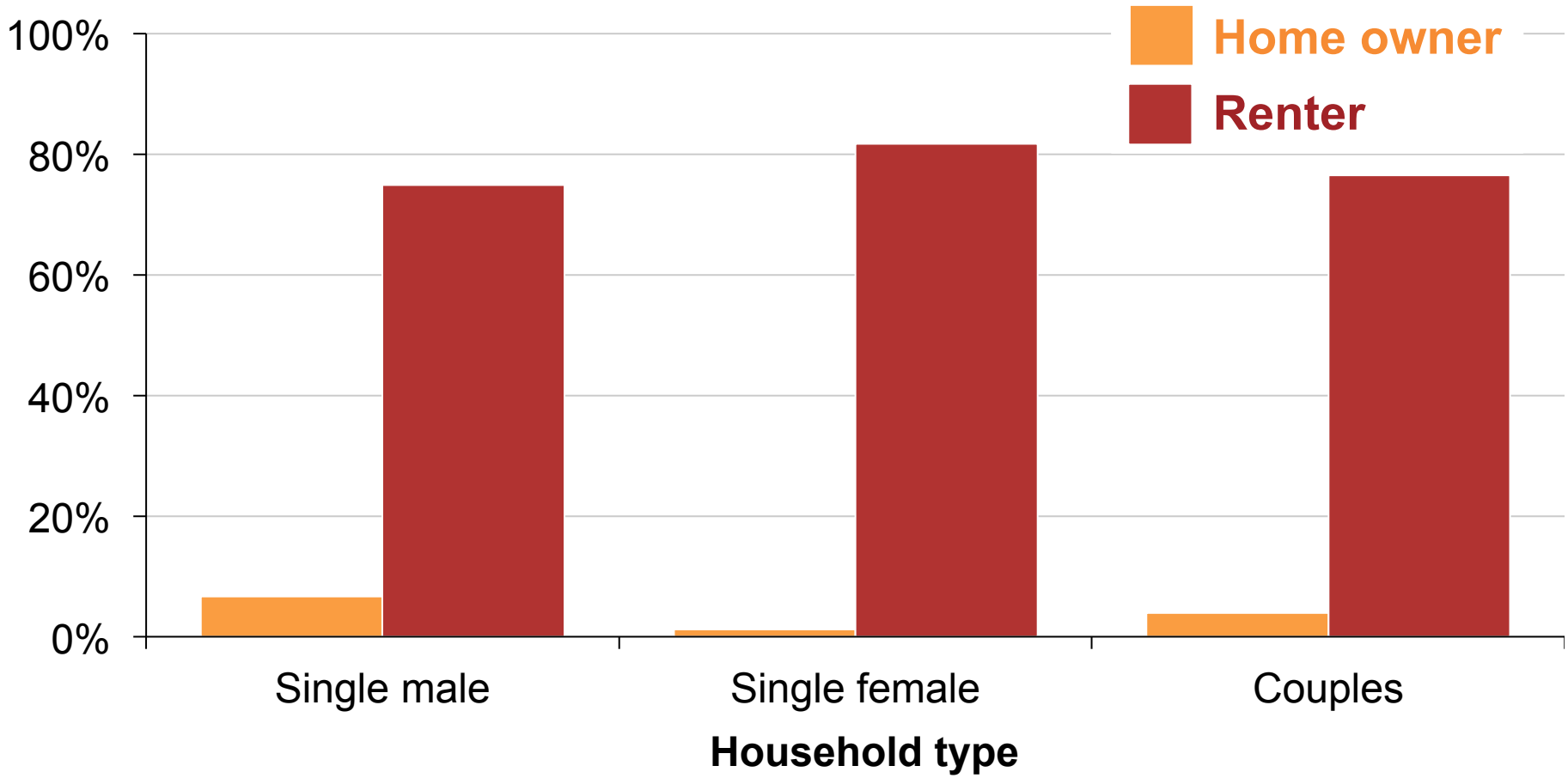
Proportion of over 65 household having low economic resources by household type and housing tenure, 2015-16



Notes: A household is defined as having low economic resources (LER) if they fall into the bottom 40 per cent of all households for both equivalised household disposable income and equivalised household net worth
Sources: Grattan analysis of ABS Survey of Income and Housing 2015-16

Closing the gender gap in retirement incomes

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What problem are we trying to solve?

- Higher risk of *absolute* poverty in retirement
- R*elatively* lower retirement savings
- Do we care about future generations or *existing* retirees?
- What about other objectives for the retirement income system?

What tools do we have?

What retirement reforms would make the most difference?

- **Super Guarantee** lowers working age incomes, doesn't help existing retirees
- **Higher super contribution caps** would *worsen* inequality in retirement incomes. As would more flexible caps.
- **Super tax breaks for low-income earners** will help, but lots of leakage to high income households with a part-time earner
- **Further tightening super tax breaks** would substantially close the gender gap
- Boosting the **Age Pension** helps current and future retirees
- A targeted boost to rent **Rent Assistance** would do the most good

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The Age Pension is not as well targeted as it should be

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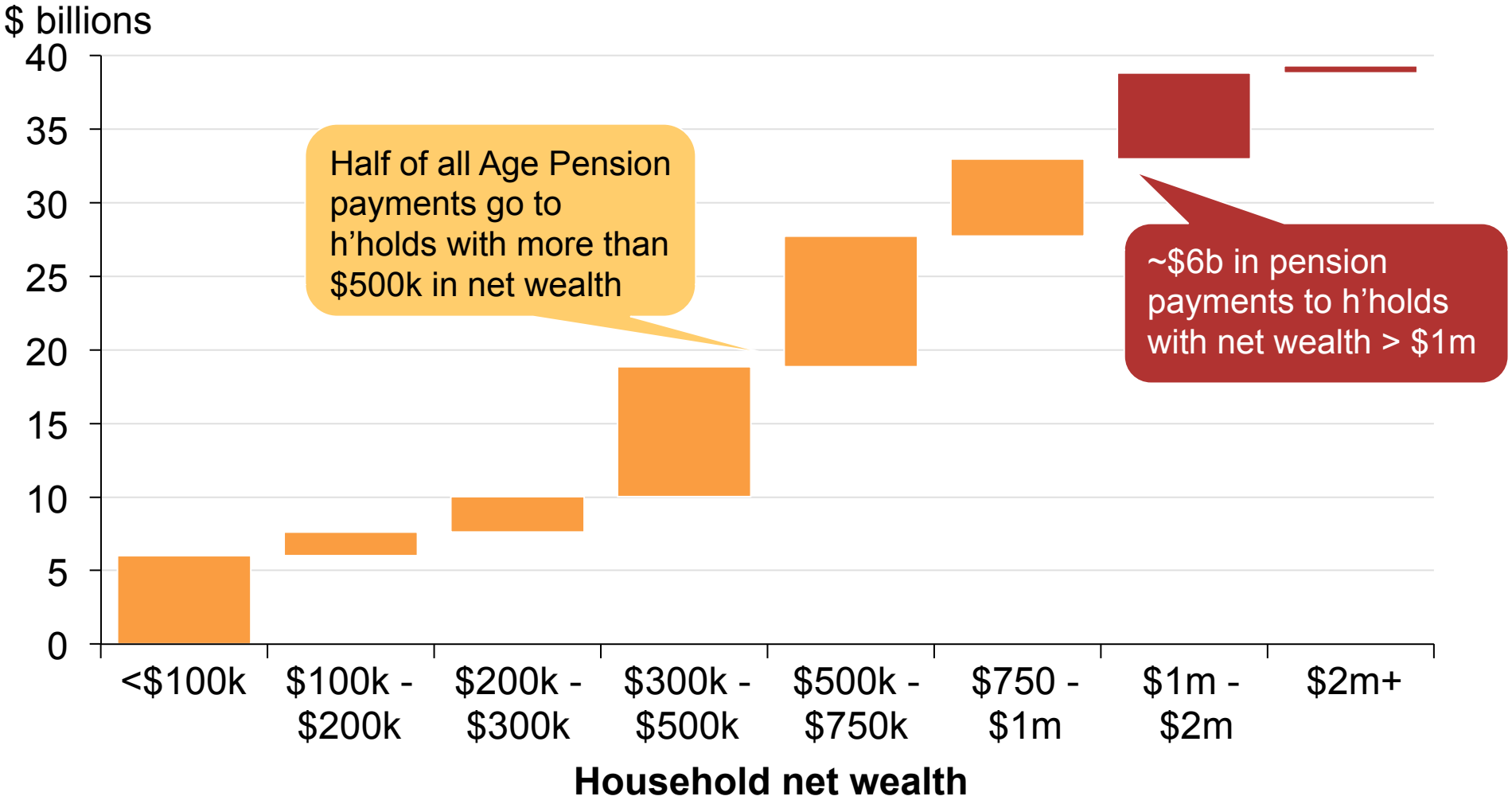
Total Age Pension payments by net wealth of household, 2013-14



Notes: Annual Age Pension payments reported in survey are grossed up to by 10 per cent to reflect aggregate Age Pension payments for the 2013-14 financial year. Excludes impact of Age Pension asset test changes that took effect from 1 January 2017.
Source: Grattan analysis of ABS Survey of Income and Housing 2013-14; 2013-14 Commonwealth DSS Portfolio Budget Statement.

An $11k cap would not stop many people making "catch up" contributions

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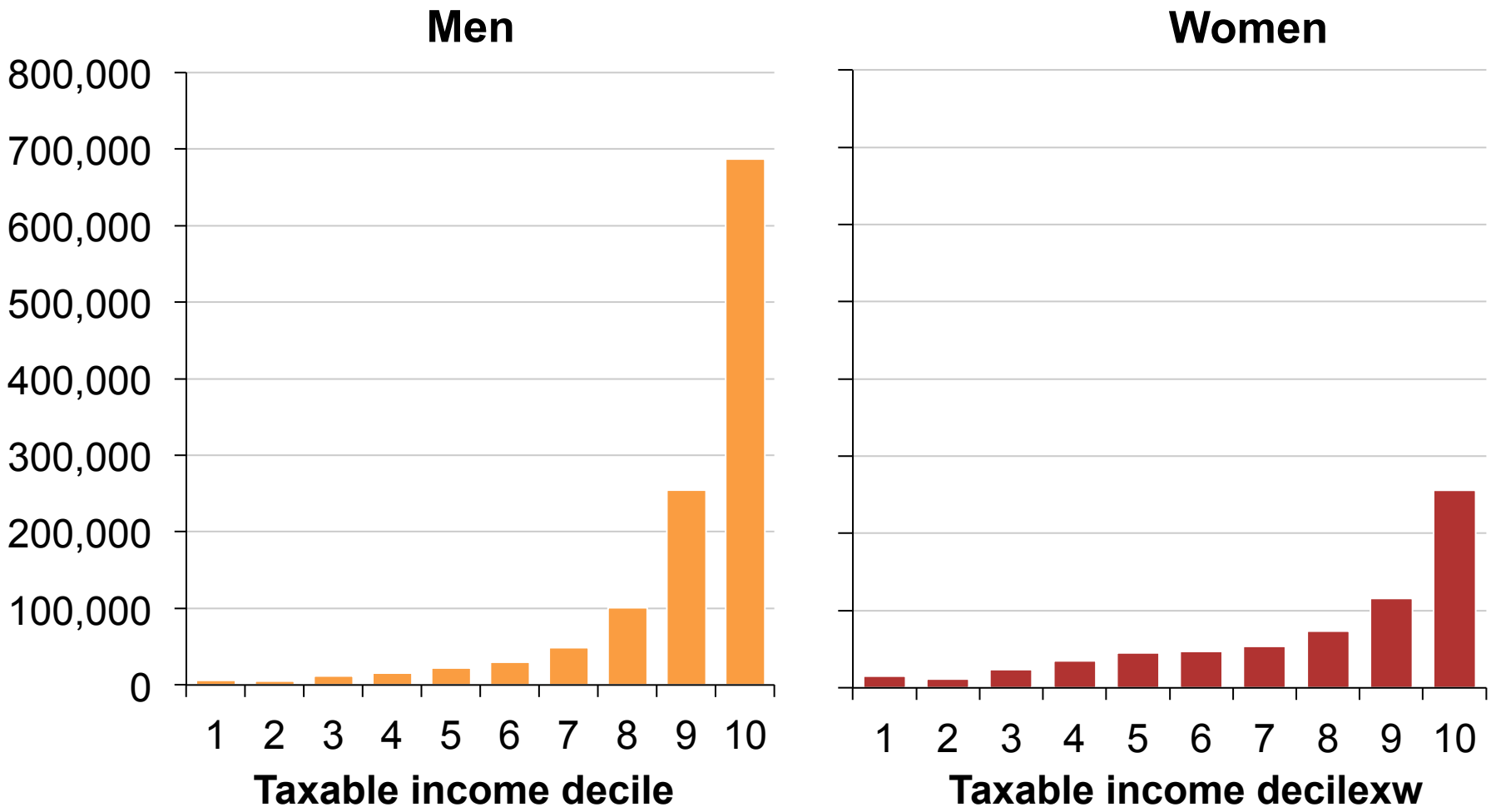
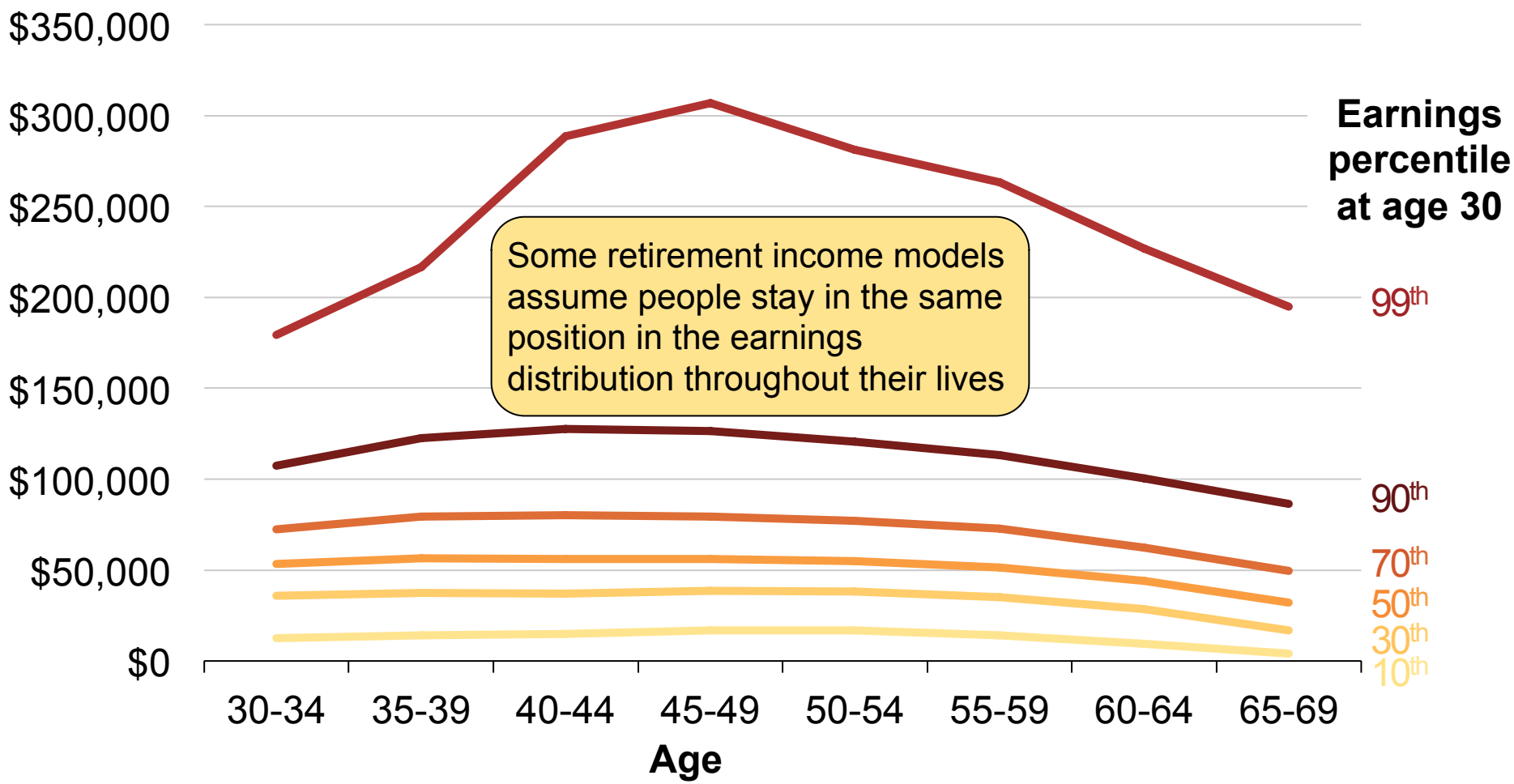
Number of people making pre-tax contributions of more than $10,000 to super



Notes: Compulsory Super Guarantee contributions estimated from salary and wage income; includes reportable salary sacrifice contributions and contributions from post-tax income for which the taxpayer has claimed a tax deduction.
Source: *Super tax targeting*, p.44, updated using 2014-15 ATO 2 per cent sample file.

Earnings generally peak during middle age

Salary income at different starting earnings points, $2013-14



Source: Grattan analysis of ATO Tax Statistics 2013-14

The dream of home ownership is slipping away for the young and poor

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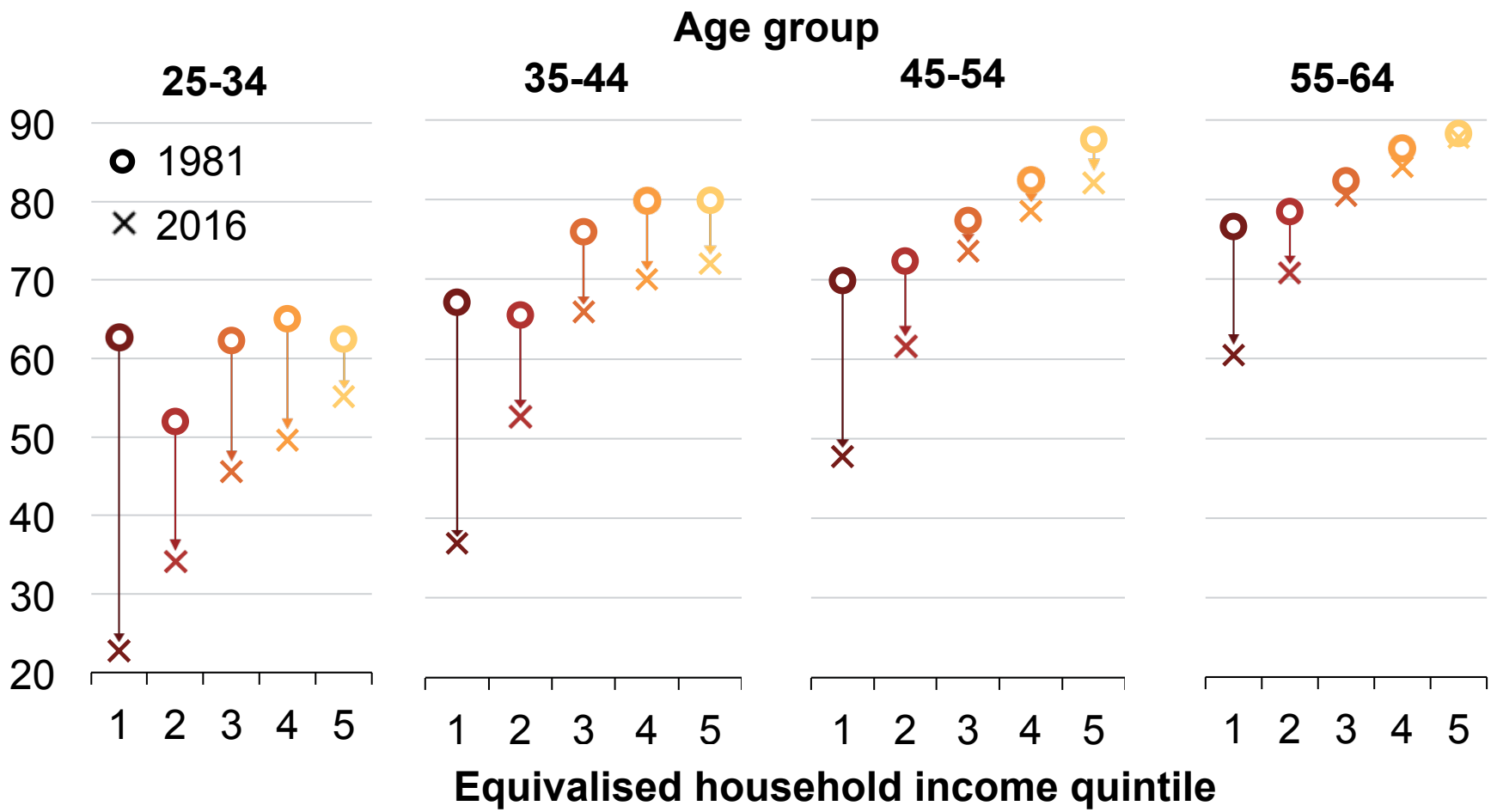
Home ownership rates by age and income, 1981 and 2016



Notes: This graph updates Burke et al 2014 using Census data obtained from the ABS. Difficulties in accurately calculating household incomes across time using Census data means that changes in home ownership rates by age and income are indicative and small changes in ownership rates should be ignored. Excludes households with tenancy not stated (for 2016) and incomes not stated. Household age group according to age of household reference person. Income quintiles are equivalised household income quintiles.

Source: ABS Census; Burke et al 2014 'Generational change in home purchase opportunity in Australia'; Grattan Institute

Neither is super the dominant source of income in retirement for any wealth cohort

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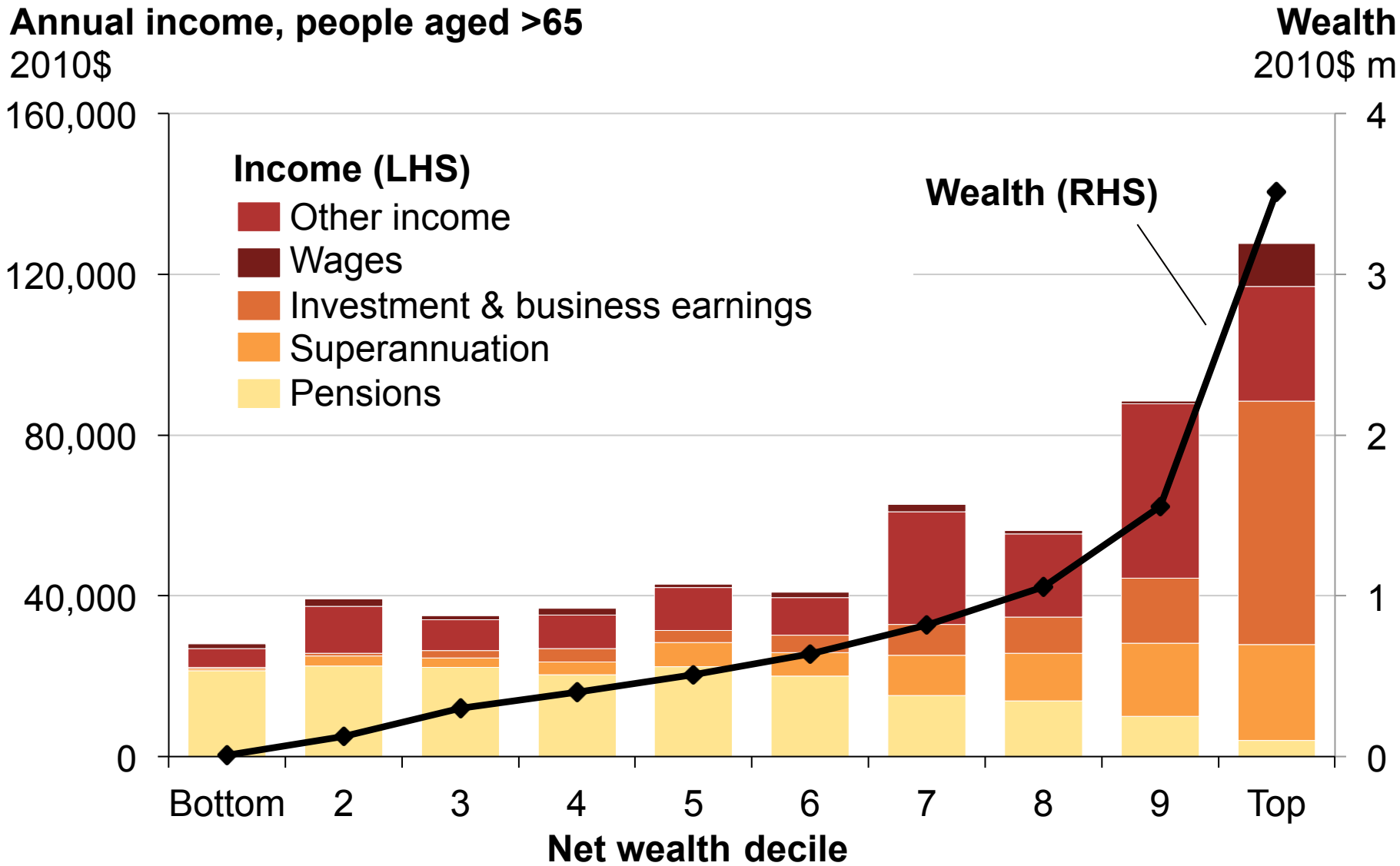

Notes: 'Superannuation' includes other private pensions, which account for only a small share of income across all households.
Source: *Super tax targeting*, p.28

“Catch-up contributions” will also be made mostly by high income men

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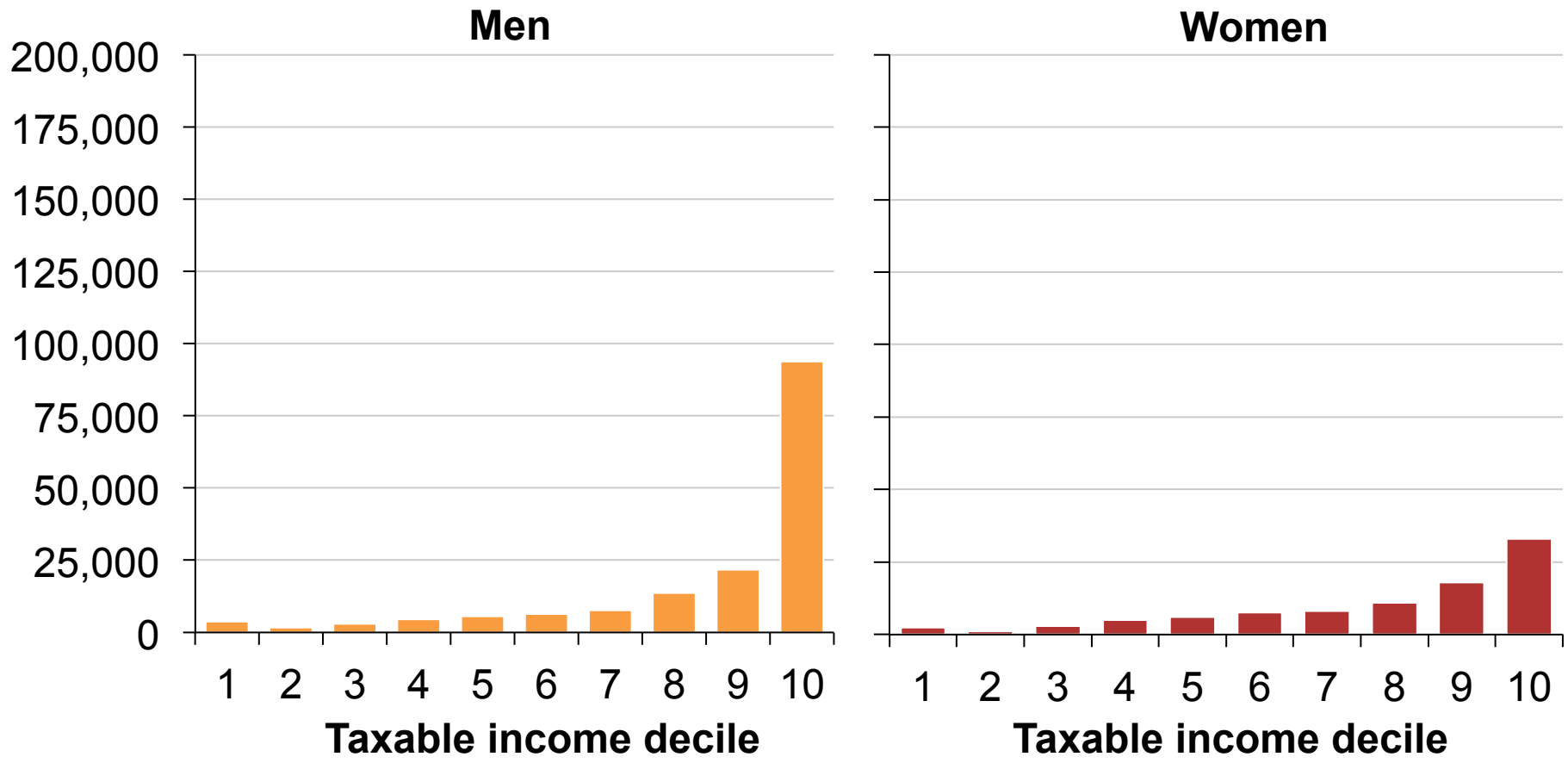
Individuals with super balances of less than $500,000 projected to make pre-tax contributions of at least $25,000, 2017-18



Note: Pre-tax super contributions made by individuals in the ATO 2 per cent sample file are adjusted to reflect total pre-tax contributions reported in ATO Taxation Statistics for superannuation funds, such as by estimating Super Guarantee contributions for taxpayers with salary income but who report no pre-tax contributions from their employer and accounting for people who do not lodge their tax return on time. Contributions are then projected forward to 2017-18. The range of taxable incomes included in each decile income ranges is the same for both men and women.

Source: Source: *A better super system*, p.14

Future retirees are more likely to be living in private rental housing

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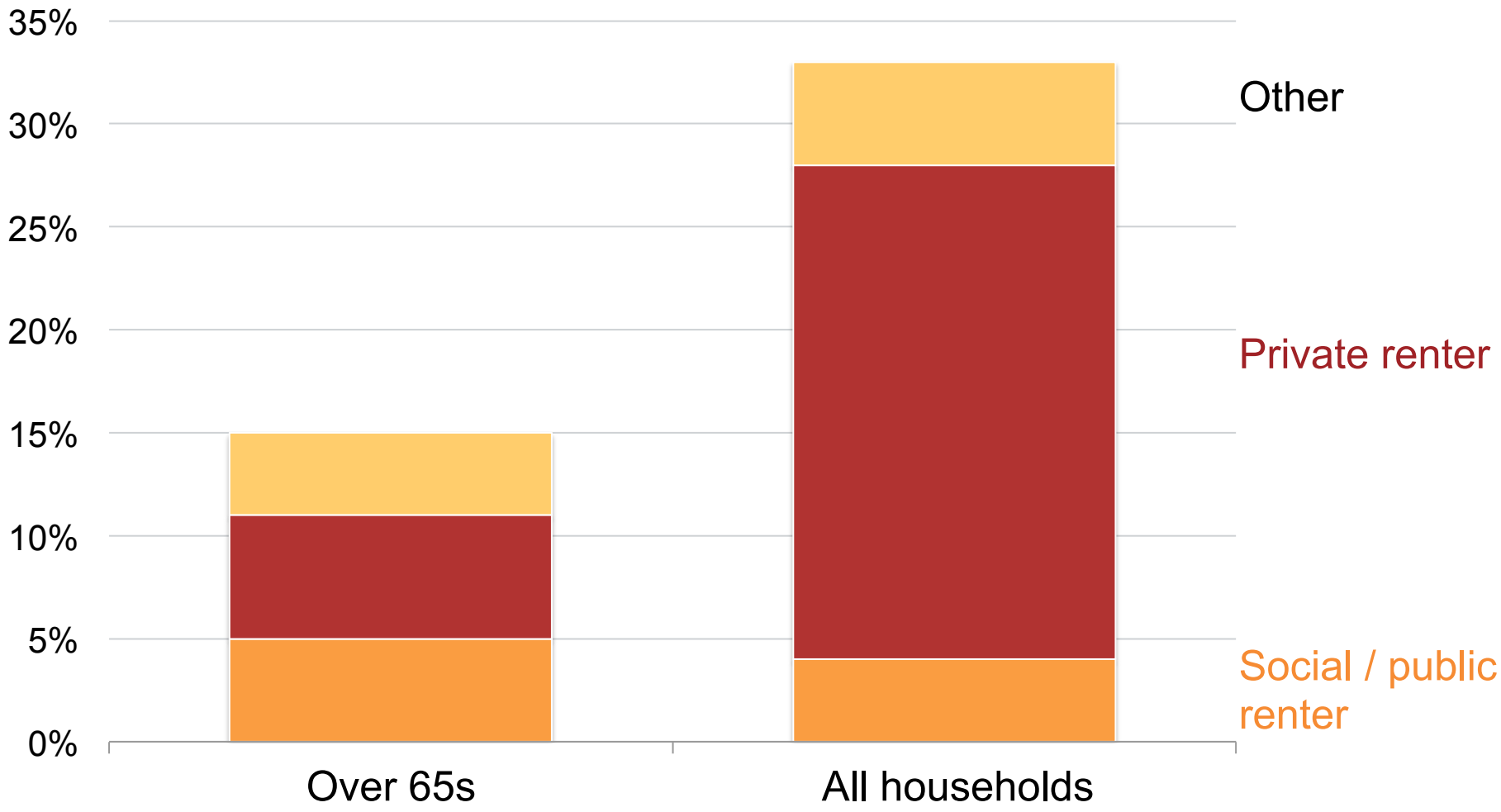
Renters as proportion of population



Source: Yates 2016

High income taxes under $70k contribute to large disincentives to work

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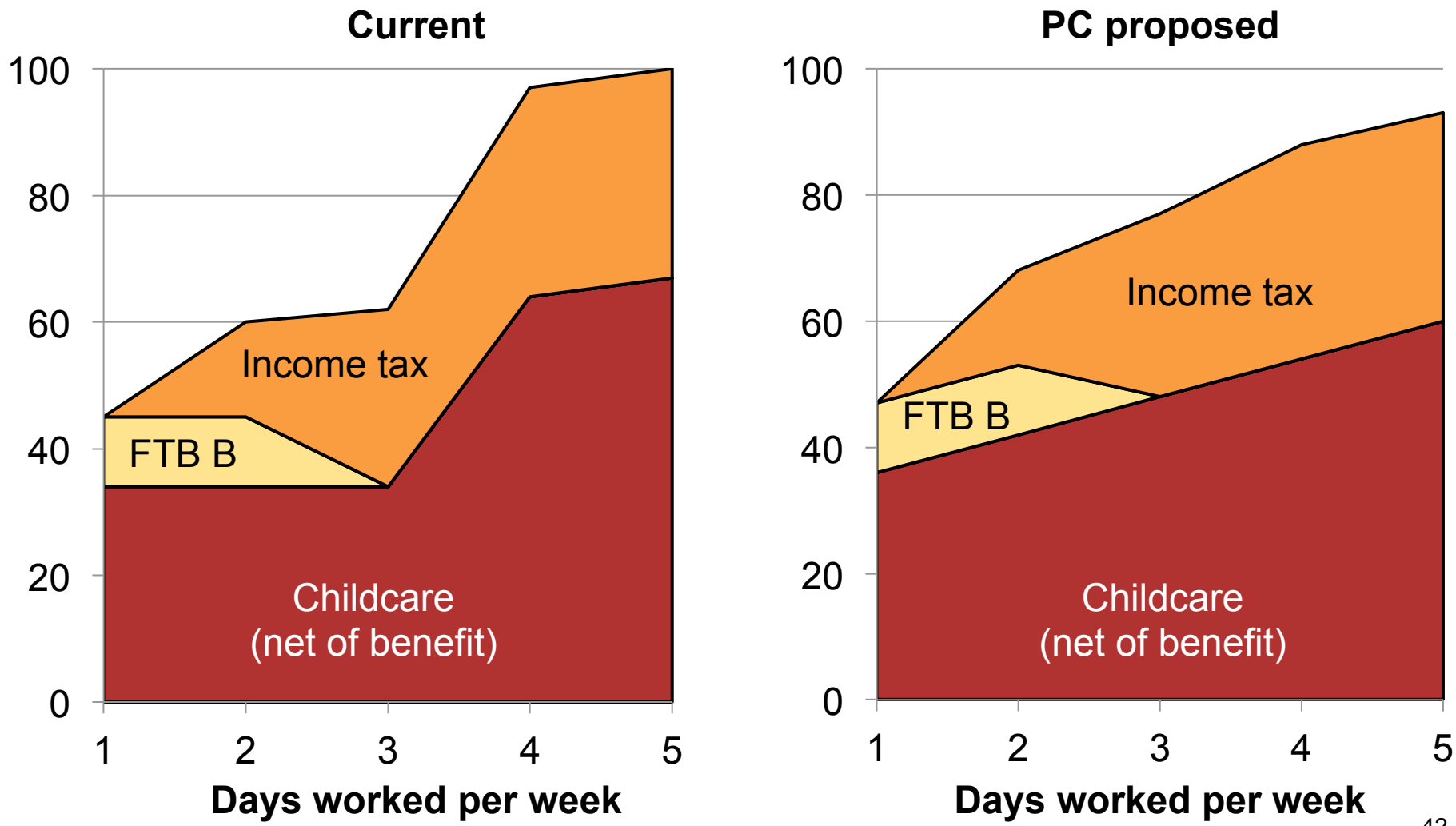
Marginal tax rates, family with 2 children in childcare, main earner $140k; secondary earner $70k if full-time



Source: Productivity Commission, *Childcare and early childhood learning*

The Government still plans to increase the Super Guarantee to 12%

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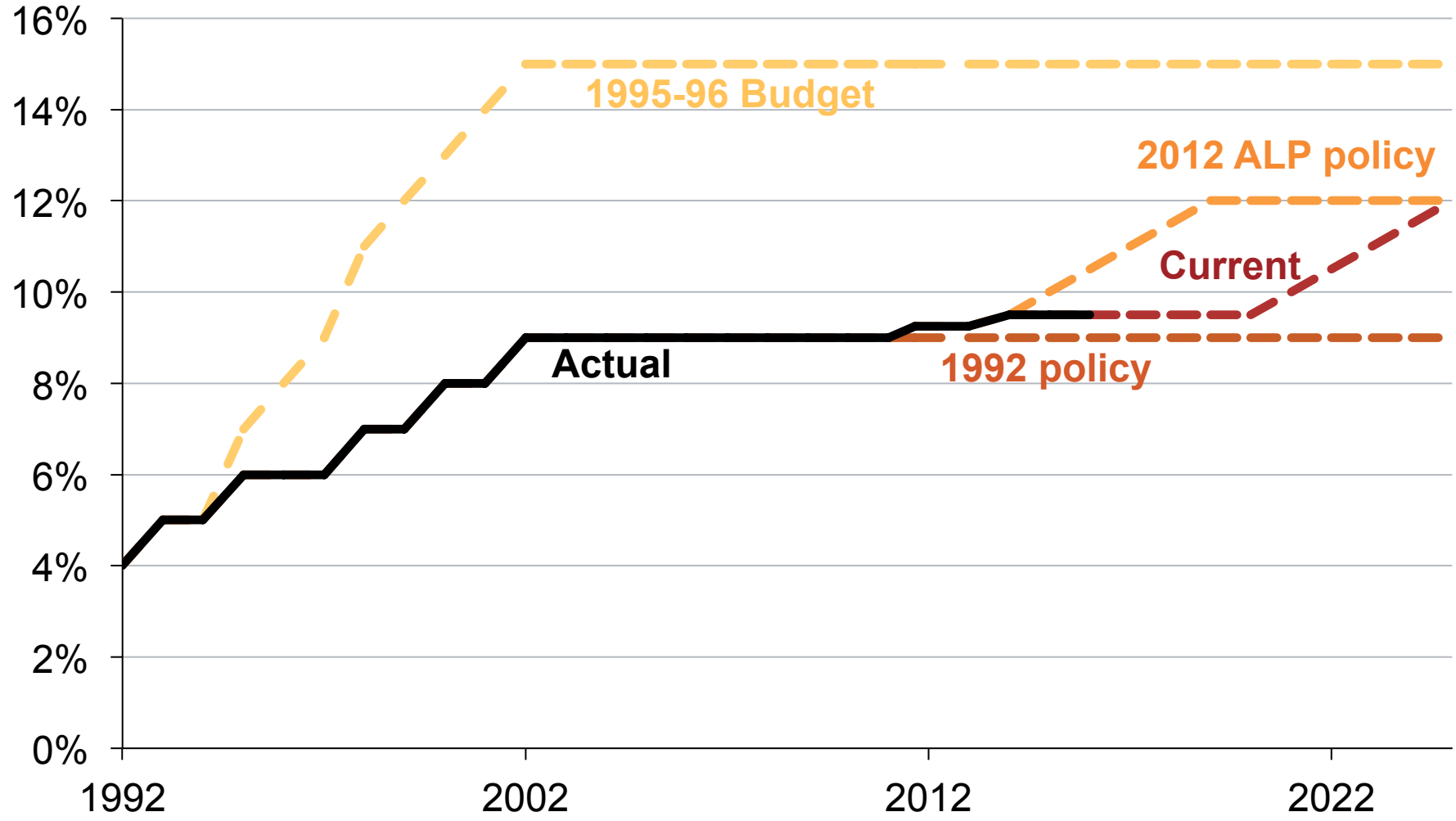
Superannuation Guarantee, actual and proposed



Sources: *Superannuation Guarantee (Administration) Act 1992* as amended. 1995-96 Budget speech to Parliament
Note: The ALP's current position on the SG increase trajectory is uncertain, given that their 2012 proposal is now obsolete. The party platform simply states an intention to 'fast-track' the increase in a 'prudent' timeframe.

Australia spends much less than most OECD countries on public pensions

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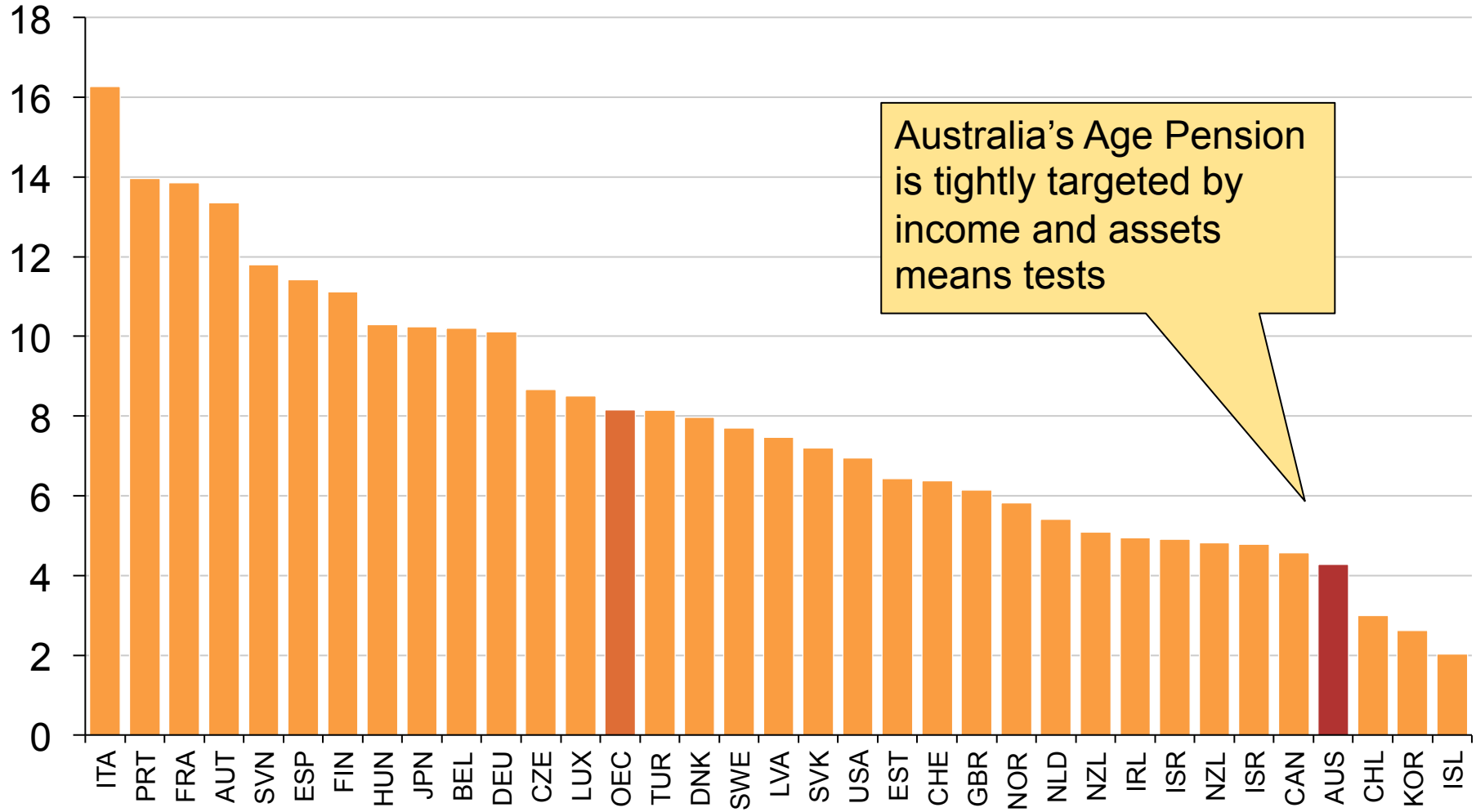
Pubic pension spending as a share of GDP, per cent, 2015



Notes: Pension spending is defined as all cash expenditures (including lump-sum payments) on old-age and survivors pensions. 2015 or latest available.

Source: *OECD.*

Yet Australia scores highly in global comparisons of retirement income systems

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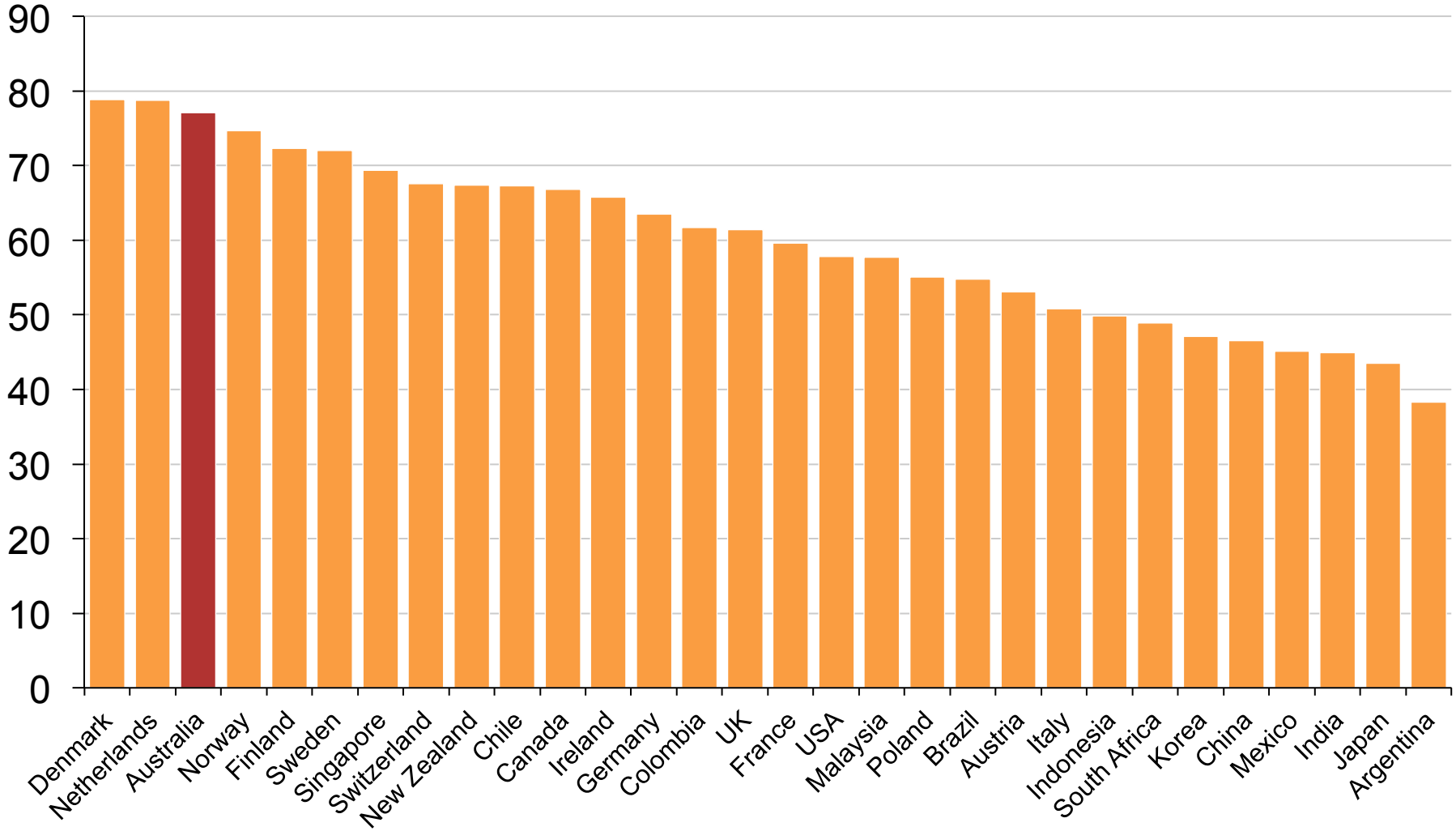
Mercer Global Pension Index, Overall Index Value



Source: *Mercer Global Pension Index 2017.*

ASFA "comfortable" standard is better than ~70% of singles when working or retired

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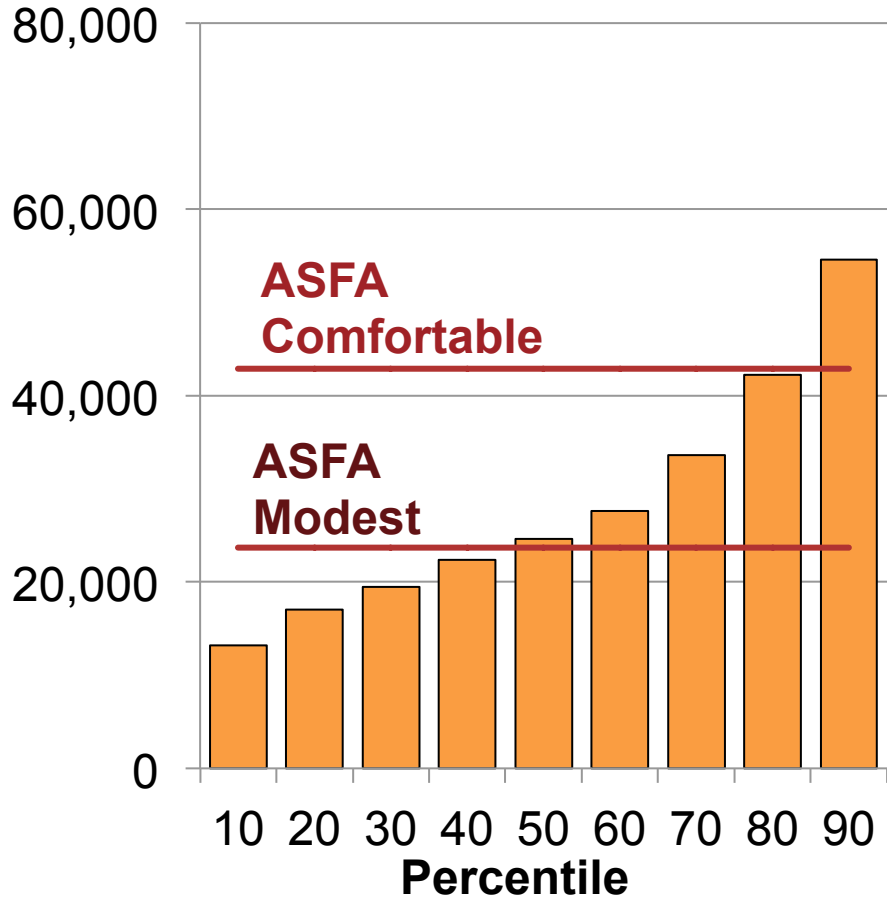
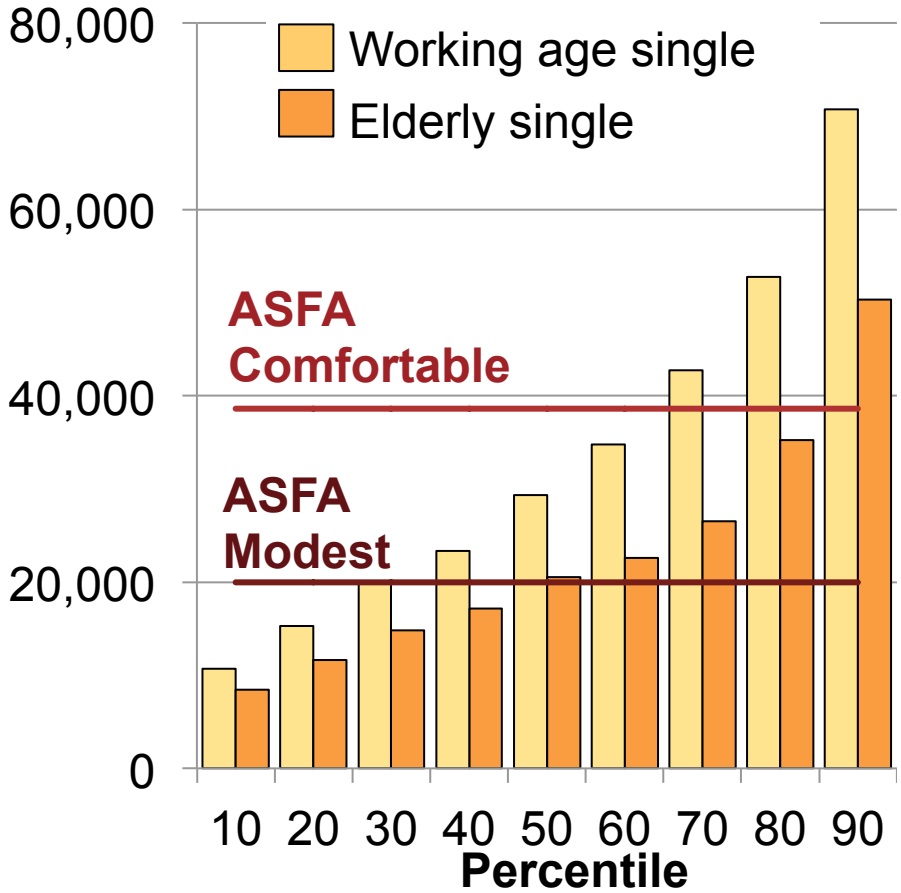
Elderly home owner household expenditure (inc housing), $2015/yr



All household expenditure (ex housing), $2015/yr



Notes: Expenditure of elderly single households (60-79) and equivalised working age (25-59) single household expenditure, by equivalised expenditure percentile. Expenditure variables have been inflated forward to 2015 levels using the change in final household consumption expenditure between June 2009 and March 2015. Left pane shows expenditure for elderly singles who own their own home outright, and who will probably have higher expenditure on average than households that do not own their own home outright.

Source: *Super tax targeting*, p.31

The last decade has seen a big increase in net transfers to older Australians

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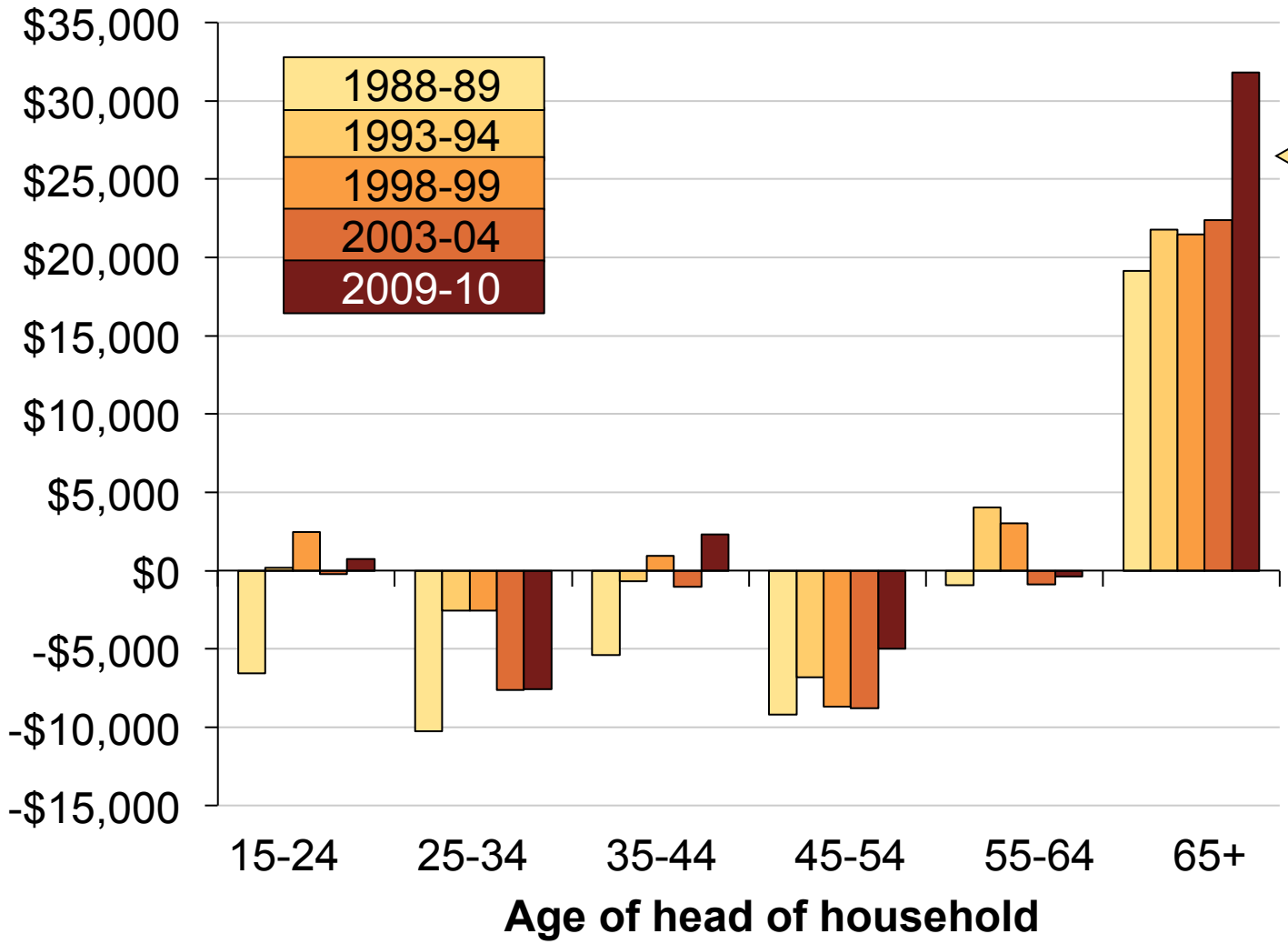
Average net benefits per household (government payments less tax), 2010$



Cost of increased transfer to older Australians ~$22 billion a year

Each $40 billion budget deficit costs younger households around $10,000 in additional taxes

Source: Grattan Institute (2014), *The Wealth of Generations*

Women saving less than men through their entire working lives

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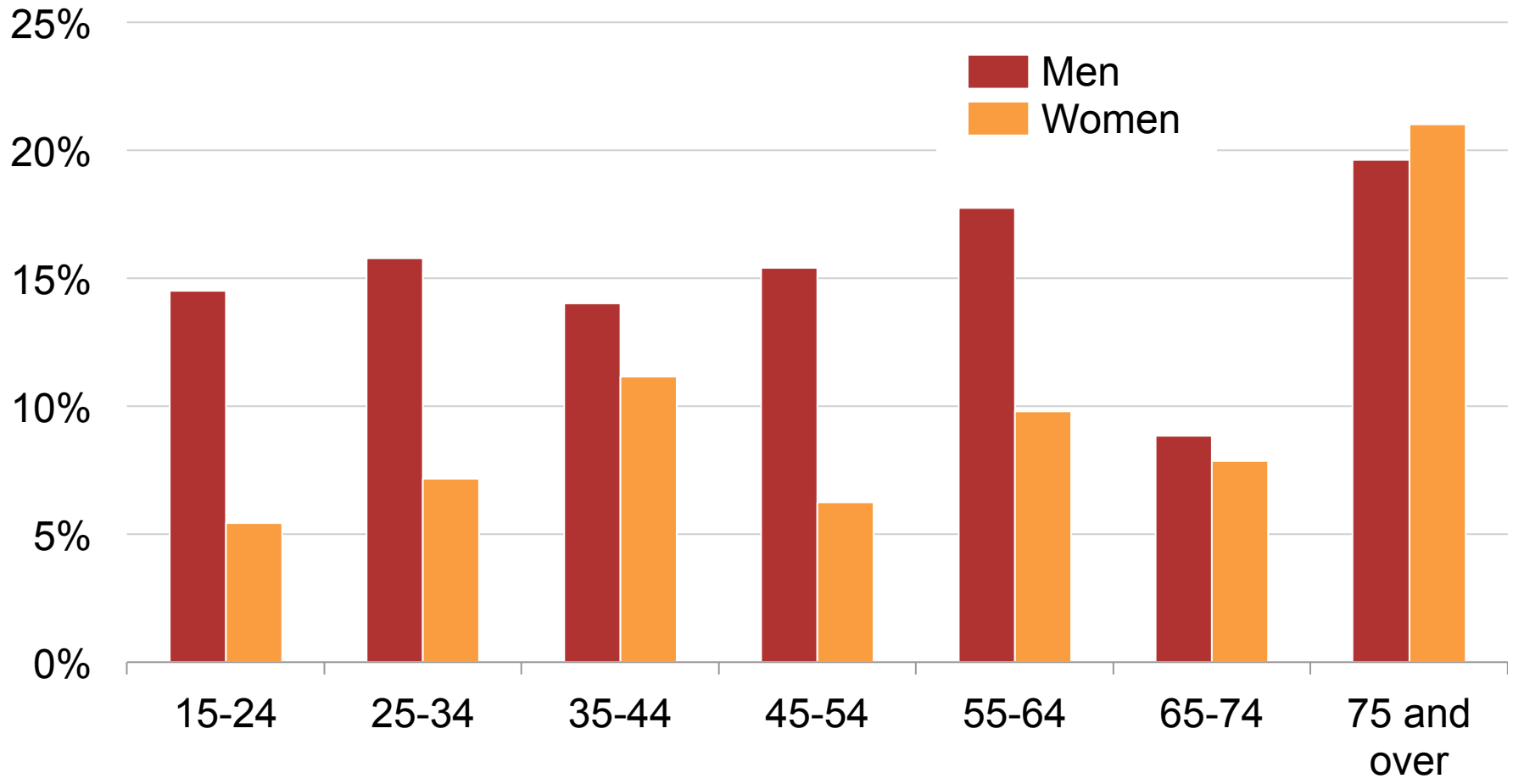
Average savings rate by gender and age, 2015-16, per cent



Notes: Savings rate calculated as disposable income less expenditure on goods and services. Within each age and gender category, the mean has been calculated on data excluding the top and bottom deciles.
Source: ABS, HES (2015-16); Grattan analysis

The gender gap in retirement savings extends beyond superannuation

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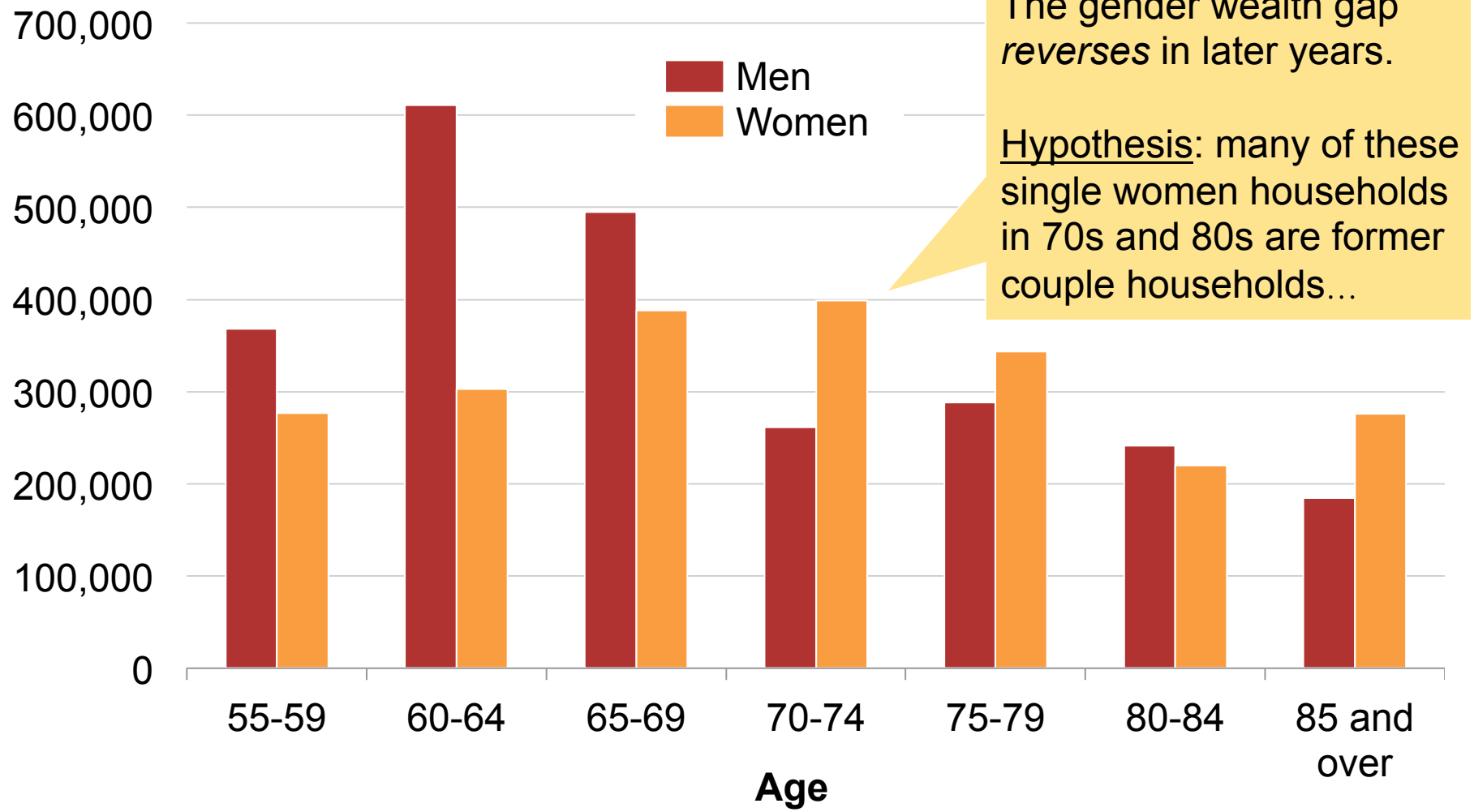
Mean net wealth of single person households (excluding the family home), by gender, 2015-16



Source: Grattan analysis of ABS Survey of Income and Housing 2015-16.

Although the gender gap narrows when we include the family home

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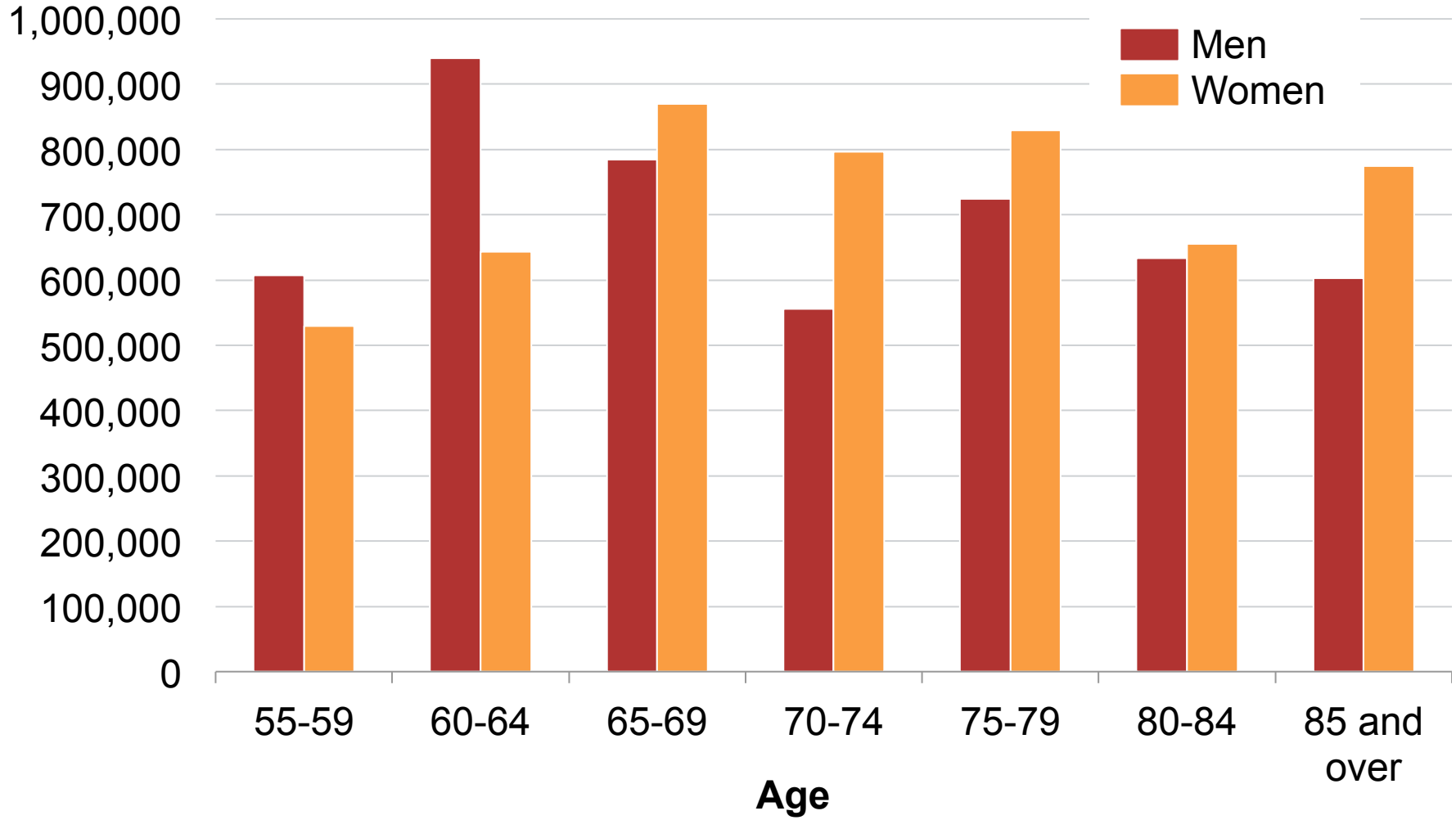
Mean net wealth of single person households (excluding the family home), by gender, 2015-16



Source: Grattan analysis of ABS Survey of Income and Housing 2015-16.