Government should consider a 'carer's credit' to overcome gender bias in superannuation: Actuaries Institute Summit

29 April 2021

- Superannuation experts identify three areas to achieve gender reform.
- One in three women have no super at all.
- Women much more likely to live in poverty when work ends.

Prominent actuaries and superannuation experts have tackled the decades-old issue of women retiring with less money than men, pinpointing three areas for reform including a government-funded carer's credit.

Mercer's David Knox, and Michael Rice and Richard Dunn from Rice Warner, said the gender super gap begins at the very start of a woman's working life, peaking when she is in her 50s.

"Women are the fastest growing cohort of retirees living in poverty in retirement," said Mr Rice, the Executive Director at Rice Warner. "It is the final outcome of a flawed system," he said.

"Australia's performance has been less than stellar," said Dr Knox, senior partner, and senior actuary at Mercer. "Average super balances for women are significantly less than those for men, and one in three women are retiring with no super at all," he said. "Part of the solution needs policymakers and community commitment to change."

In the paper, *Gender Inequality in Retirement Savings**, the authors argue for measures that include a 'carer's credit'; fundamental changes to annuities; and recognition and drive for change in the way the superannuation industry addresses women's finances. The paper, which represents the views and work of the three authors, will be presented at the Actuaries Institute's Virtual Summit, today, April 29.

The paper states three broad areas, that combined, result in women retiring with less money in superannuation than their male peers. The first is employment differences: women tend to have shorter working lives than men because they take time out to care for children and sometimes aged parents; they are paid less with more part-time work, and women, on average, live longer than men.

The second is differences in superannuation and pension design. "In Australia, a feature of the super system is that workers must earn more than $450 a month before super contributions are paid by the employer," Dr Knox said. "We know that more women than men have casual or part-time jobs. Hence more women than men miss out on super. The removal of the $450 threshold is a fairness argument."

The third factor affecting women relates broadly to cultural issues and attitudes, from the lack of affordable and appropriate childcare, to the fact that women, not just in Australia but globally, tend to be conservative investors in retirement, which reduces their investment returns over the long-term. The OECD (2021) also found that lower levels of financial literacy among women affects their financial decisions.

Richard Dunn, Consultant, at Rice Warner, said a carer's credit, which provides paid superannuation for those out of the workforce looking after small children, would help build super savings for women.

The concept is not new: care-giver credits are paid by governments in France, Sweden and Germany. The payment, which could be set at the current superannuation guarantee levy rate of 9.5%, would be paid by the government, and would also result in lower Age Pension costs over time.

While the paper noted that the rate could be based on a median or minimum wage, it also said the period for which it is provided varies around the world and is open to debate.

"We want to get the discussion started," Mr Dunn said, adding, the authors also recommend compulsory superannuation contributions be mandatory during paid parental leave. Currently, there is no obligation for employers to pay the levy.

"A carer's credit is something that requires community agreement," Dr Knox said.

"It's a government expenditure. As a society, we must encourage and help people who take time out of paid employment to look after small children. We have an ageing population. Peter Costello [the former Treasurer under John Howard] introduced the Baby Bonus; it's time to think about a carer's credit."

The paper also examines the way annuities are priced and structured. In Australia, annuities provide smaller pensions for women than men because women tend to live longer. The use of gender specific mortality tables leads to smaller annuities or pensions for women due to their lower mortality rates. The authors say lifetime annuities should be based on unisex rates, as required in Europe.

"We know that women live longer than men," Mr Dunn said. "It's not that annuities are incorrectly priced; they are priced based on the data. However, we should look at what's fair based on society's expectations. Women over 55 who are single, whether they are widowed or have remained single, struggle more through retirement than any other cohort," he said. "But a woman buying an annuity today gets a smaller pension than a man, for the same age."

Dr Knox and Mr Rice have a long history working for better outcomes in superannuation. Mr Rice championed women in his own firm, Rice Warner, which took the battle for better retirement outcomes for women to the Human Rights Commission.

In 2013, Rice Warner's female employees were offered a package of benefits, including flexible work conditions, paid parental leave, and crucially, an additional 2% payment of their salary into their super fund to partially close the gap with men.

Dr Knox said Mercer included in its 2020 Mercer CFA Institute Global Pension Index a question about carer's credits. "We believe that carers who sacrifice their current income to care should not also have to sacrifice their future retirement income. We need to recognise their service to the community," he said.

*A full copy of the written presentation is available **here.**

For media inquiries, including interviews, please contact:

Michelle Innis, P&L Corporate Communications
m +61(0) 414 999 693
p +61(0) 2 9231 5411

About the Actuaries Institute
As the sole professional body for Members in Australia and overseas, the Actuaries Institute represents the interests of the profession to government, business, and the community. Actuaries assess risks through long-term analyses, modelling and scenario planning across a wide range of business problems. This unrivalled expertise enables the profession to comment on a range of business-related issues including enterprise risk management and prudential regulation, retirement income policy, finance and investment, general insurance, life insurance and health financing.

Institute of Actuaries of Australia
Level 2, 50 Carrington Street, SYDNEY NSW 2000
t +61 (0) 2 9239 6100 actuaries@actuaries.asn.au I www.actuaries.asn.au