SUBMISSION
Senate Standing Committee on Economics: Inquiry into the economic security for women in retirement

CommonwealthBank

November 2015

5 November 2015

The Chairman
Senate Standing Committee on Economics
Inquiry into the economic security for women in retirement
Parliament House
CANBERRA ACT 2600

Dear Chairman

Thank you for the opportunity to provide a submission to the Senate's Inquiry into the economic security for women in retirement.

This Inquiry is an important opportunity to examine the challenges women face in accumulating sufficient financial resources to prepare for a comfortable retirement. Given the scale of the inequity women face, it is imperative that we work collectively to find options to meet the retirement needs of more Australian women.

We know that on average Australian women live longer, retire earlier, earn less and are more likely to take time out of the workforce to raise children or relatives and to work part-time than men. This Inquiry is an important opportunity to consider possible adjustments to legislation, policies, practices and behaviours to deliver improved economic security for women in retirement.

We would like to offer to work with the Parliament, the business sector and community groups to develop a range of policy options that deliver fair and equitable outcomes for women.

We welcome the opportunity to discuss these issues in more detail with the Committee.

Yours sincerely

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1. Introduction

We commend the Senate for highlighting this significant social and economic issue by referring it to the Senate's Standing Committee on Economics. This is an important opportunity to examine how public policy settings can improve the retirement outcomes for Australian women and ensure more women achieve a comfortable retirement.

The Commonwealth Bank believes the superannuation system is vital to the prosperity of Australians. It is a critical tool to allow working Australians to accumulate financial resources in preparation for retirement.

Given the superannuation system is strongly linked to employment we have also outlined the challenges facing women in employment, as well as other relevant factors such as financial literacy.

The scale and nature of the challenges we outline in our submission are considerable and we believe it is important that all stakeholders work together to progress sensible and necessary reforms. We look forward to assisting in further consultation and the development of a range of potential reforms that deliver equitable superannuation outcomes for both men and women.

Our submission is in two parts: current challenges; and policy options. For simplicity our recommendations are also outlined below.

The Commonwealth Bank's recommendations

This submission recommends the following policy improvements to enhance the retirement adequacy for Australian women:

- Modify the concessional contribution caps to allow individuals with interrupted work patterns greater flexibility in applying their caps.
- Undertake further research on retaining the low-income super contribution including a including a detailed cost / benefit analysis.
- Undertake further research on the costs and benefits to employers and employees of removing the $450 Superannuation Guarantee contributions monthly threshold.
- Extend the Federal Government's Paid Parental Leave scheme to include superannuation payments.
- Introduce consistent tax deductibility for financial advice.
- Continue the implementation of the National Financial Literacy Strategy by encouraging broad involvement of stakeholders.
- Remove regulatory barriers impeding the cost effective development of income stream products which address longevity risk.

2. Gender Inequity in Retirement – Current Challenges

The latest Government Intergenerational report emphasised that Australian women are living longer than men. Women also typically earn less than men, are more likely to be the primary care giver for young children or aging parents and retire earlier. This means their careers are interrupted, their earning potential is impacted and generally less. Our data also highlights that many women have lower levels of financial literacy which may contribute to the retirement savings gap.

As the superannuation retirement savings system is inextricably linked to employment, any examination of these issues must also focus on the barriers or challenges that currently exist in the workplace. The most important approach to address any shortfall in retirement savings is through increased contributions to superannuation.

Findings from the *CommBank Retire Ready Index*[1], indicate that single females are 30% less ready to retire than men. After receiving the Age Pension, the average single female is expected to reach a personal retirement savings of $35,000 per annum, which is equivalent to 47% of comfortable retirement needs. This is in comparison to the average single male who retires with personal savings equivalent to 78% of his comfortable retirement needs. The Association of Superannuation Funds of Australia (ASFA) recently reaffirmed this gap, concluding that around 90% of women will retire with inadequate savings to fund a comfortable lifestyle in retirement.

Barriers to Equity for Women in Retirement

Longevity and early retirement

An Australian woman retiring at age 65 in 2013 could expect to spend 22.1 years in retirement, which is almost three years longer than a man of the same age[2]. While the gap between male and female life expectancy has narrowed slightly, Australian women continue to have a longer life expectancy than men[3]. This difference in longevity confirms the need for women to accumulate additional savings to fund a comfortable retirement, as per the ASFA Retirement Standard[4].

However, women typically compound this challenge by retiring at a younger age than men, an average age of 50 versus 58.5 years[5] respectively, further reducing the available time to increase their retirement savings.

Increasing longevity also underscores the importance of encouraging older workers to stay in the workforce, allowing them to maintain a healthy work/life balance and provide the freedom and financial means to attend to their personal and family needs. This is particularly true for women who retire earlier.

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[1] The CommBank Retire Ready Index was developed by Rice Warner and is based on the data of more than 12 million Australian superannuation accounts as at 30 June 2014. The Index is a measure of the percentage of assets Australians are likely to have at retirement relative to their comfortable retirement needs. Adequacy is defined according to the ASFA comfortable standard of living of $42,569 p.a. for a single and $58,444 p.a. for a couple.

[2] Australian Bureau of Statistics, *Gender Indicators* (Release 4125.0), August 2015.

[3] Australian Bureau of Statistics, *Gender Indicators* (Publication 4125.0), February 2015.

[4] The ASFA Retirement Standard benchmarks the annual budget needed by Australians to fund either a comfortable or modest standard of living in the post-work years. A comfortable retirement lifestyle enables an older, healthy retiree to be involved in a broad range of leisure and recreational activities and to have a good standard of living.

[5] Australian Bureau of Statistics, *Retirement and Retirement Intentions – 2013* (Release 62380, December 2013.

This year's *FSC CBA Older Workers Report*[6] found that older workers would like to work an average of six years longer with around a quarter desiring to work for 10 years or more. Part time work was the common preference for ongoing employment (55%) and interestingly, two thirds of female respondents said they would like to work part time.

Caring and career breaks

An analysis of census data by the Australian Institute for Family Studies shows that only 34% of Australian women aged 35-44 were employed full time, compared to 75% of men in the same age range. More than one third of women aged between 35 and 54 worked part time[7].

One of the primary reasons is that women are more likely to be the primary care giver to children and care for older or disabled parents or relatives, with around 70% of primary carers for aged or disabled Australians being women[8]. Australia's aging population and a continuing trend towards later childbirth are likely to see the gap between caring for children and caring for parents shrink further.

Despite this, the Workplace Gender Equality Agency estimated that only 45.2% of employers have a policy in place to support employees with family and caring responsibilities. Whilst there is a focus on providing parents with suitable maternity and paternity leave, less than half of all employers offer paid parental leave for primary carers.

Pay inequality

According to the latest 'Gender Pay Gap Statistics' from the Workplace Gender Equality Agency, the gap between women's and men's average weekly full-time equivalent earnings has steadily increased over the last decade from 14.9% in November 2004 to 17.9% in May 2015[9] . Lower earnings mean lower superannuation guarantee (SG) contributions and therefore less overall ability to accumulate retirement savings.

A number of factors contribute to this inequity including occupational segregation, lack of opportunity for promotion and interrupted careers. Often women return to the work force part-time which may mean that women miss out on a pay review as they can often be 'out of sight' and therefore 'out of mind' or become perceived as ineligible for promotion.

Changing life circumstances

In the past, an unequal distribution of super and other assets between partners often saw women disproportionately affected by divorce. This trend has been partially offset by an increase in the redistributive powers of the Family Court. Nonetheless, in 2010, recently divorced women had an average of $138,500 in super, compared to an average of $160,419 for men[10].

Given women generally tend to live longer than men, they are more likely to find themselves widowed. In 2011, 37.9% of women over 65 had been widowed, compared to just 11.3% of men[11]. When families rely on men as the primary source of income and in situations where

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[6] The 2015 Older Workers Report is now in its third year and explores the public attitudes towards Australia's mature age workforce, from the perspective of employers and older workers themselves. The report details the findings from a national quantitative telephone survey of 500 respondents aged between 50 and 75 years in July 2015 and ten qualitative in-depth interviews conducted with employers and Human Resources Manages across a range of sectors, including engineering, retail, hospitality and professional services.

[7] Australian Institute for Family Studies, *Families working together: Getting the balance right*, 2013.

[8] Australian Bureau of Statistics, *Disability, Ageing and Carers - 2012*, (Release 4430). November 2013.

[9] Workplace Gender Equality Agency, *Gender pay gap statistics*, September 2015. The gap is expressed as a percentage of men's earnings.

[10] ASFA, *Equity and superannuation — the real issues,* September 2012.

[11] Australian Bureau of Statistics, *Reflecting a Nation: Stories from the 2011 Census 2012-2013*, (Release 2071.0), June 2012.

men primarily manage the finances, the death of a male partner can have dramatically detrimental financial consequences for the widow.

Financial literacy, financial advice and risk appetite

Financial literacy is a combination of financial knowledge, skills, attitudes and behaviours necessary to make sound financial decisions based on personal circumstances to improve financial wellbeing. We know that a wide range of demographic groups are impacted by low levels of financial literacy. In particular, women under 35 and women over 70 are more likely to have lower levels of financial literacy[12]. This makes it harder for some women to understand their own financial needs, seek adequate advice and improve their financial wellbeing.

Quantitative research commissioned by the Commonwealth Bank suggests women are generally more receptive to receiving and implementing advice than men, but are often prevented from doing so by a lack of confidence[13]. As a result, many women may put off seeking advice until later in life, when they have less time to take effective action. As outlined in the life stages table below (Figure 1), only 27% of women under 50 have ever consulted a financial adviser, compared to 37% of Pre-Retirees (43% for men) and 41% of Retirees (51% for men).

Figure 1: Woman's life stages – key characteristics

Stage	Age	Key concerns	Median assets (less debt, excluding home)	Median super	Self-rated expertise (score out of 10)	Have sought financial advice?	
						Female	Male
Savers	18–29	▪ Lifestyle ▪ Buying a home	$10,000	$10,000	2.4	14%	18%
Consolidators	30-39	▪ Paying off debt	$50,000	$30,000	3.2	22%	31%
Accumulators	40-49	▪ Growing wealth	$80,000	$50,000	3.5	27%	31%
Pre-Retirees	50-64	▪ Preparing for retirement	$90,000	$70,000	4.1	37%	43%
Retirees	65+	▪ Preserving wealth	$150,000	$80,000	4.7	41%	51%
All women			**$40,000**	**$20,000**	**2.9**	**28%**	
All men			**$90,000**	**$50,000**	**3.3**	**34%**	

This research has found that women's attitudes towards their finances not only differ significantly from men, they also evolve as a woman's life situation changes. As a result, a key difference between male and female investors is not only a wealth gap but a perception gap, with many women underestimating their own financial capabilities and their power to transform their financial situation by taking action and seeking advice.

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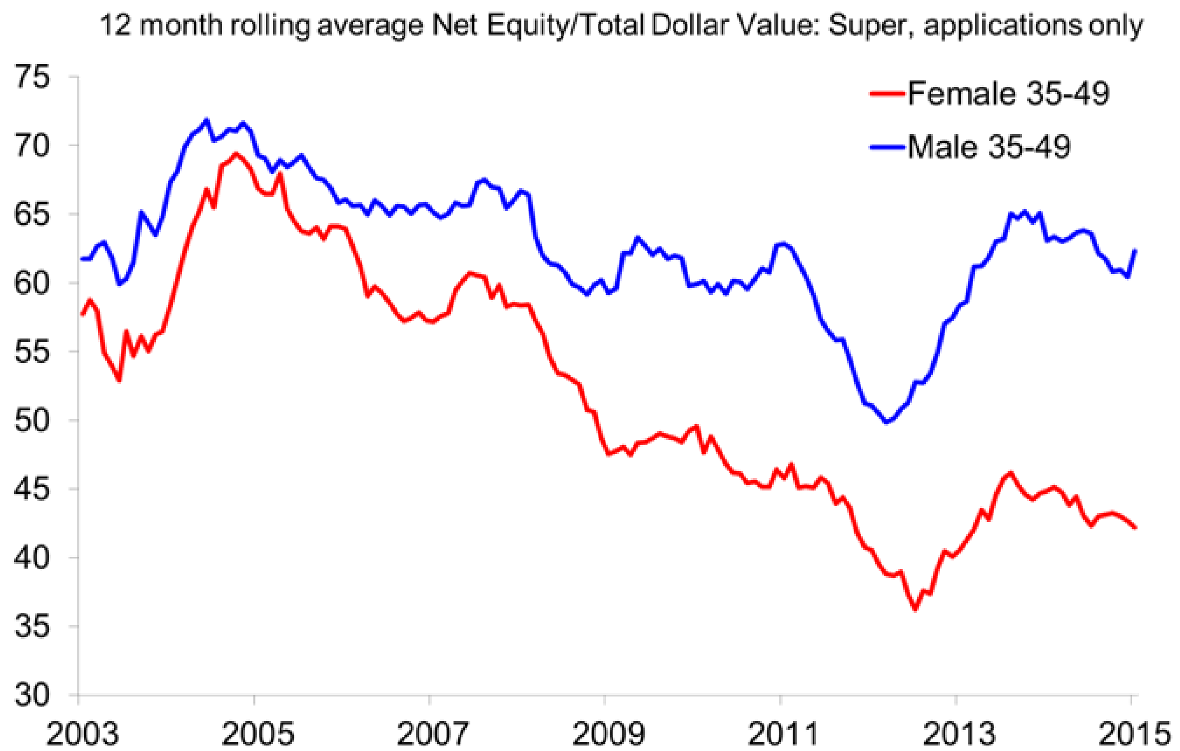
[12] National Financial Literacy Strategy 2014–17 (referencing the ANZ Survey of Adult Financial Literacy in Australia, 2011).

[13] Investment Trends, *August 2015 Financial Advice Report*, based on a survey of 10,367 Australian adults.

Furthermore, research by Colonial First State Global Asset Management[14] found that there is a large differential in risk appetite between men and women, among non-advised investors. In particular, research concerning investment asset allocation to equities between men and women aged between 35 and 49, a crucial life stage for accumulating financial resources for retirement , shows that women are less likely to allocate assets toward equities. In particular, female attitudes to equities have been altered as a result of heavy losses and the volatility of the Global Financial Crisis and show no sign of changing despite improved market conditions in recent years.

Figure 2 below illustrates this gap by highlighting the different male and female investment allocation to equities since 2003, as a percentage of an individual's total superannuation investment portfolio. This risk adversity and lack of understanding means that women may fail to take advantage of the growth opportunity or diversification presented by equities. It is likely that women in this age bracket will invest conservatively even though they have the opportunity to invest in growth assets for the longer term.

Figure 2: Equity allocation (superannuation)



In summary, some combination of lower financial literacy, lack of confidence in their financial abilities or capabilities may make women hesitant to engage with their finances, lack of advice, or risk adversity may have a significant impact on women's financial wellbeing. The cumulative impact of these issue may prevent them from retiring comfortably.

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[14] Colonial First State Global Asset Management, *Investor Insights: Searching for growth outside of Australian equities*, June 2015.

3. Policy Options

Given the variety and breadth of the challenges identified above, we believe that a package of complementary superannuation and non-superannuation policy reforms is necessary.

Superannuation specific policies

Contribution cap flexibility

A significant number of women experience broken working patterns, with time out of the paid workforce for reasons such as the provision of care-giving for children or other family members. Given greater time out of the workforce than men, there is no provision for women to catch up through higher or more flexible superannuation concessional contribution caps.

We acknowledge that under the current law there is some limited flexibility for an individual to bring-forward their future non-concessional (after-tax) superannuation contribution cap limits. However, this does not assist individuals with broken work patterns given any amount within their available cap, which is not used in one financial year, cannot be accumulated for use in later years. This particularly impacts the pre-retiree age group (refer to Figure 1) who may finally have the capacity to make additional superannuation contributions and catch-up.

We welcome further consideration of a three year averaging rule which enables individuals to make contributions in excess of the concessional cap in any given year provided they have not contributed in excess of the cumulative cap over the prior two year period. This effectively gives an individual the option to access any unused concessional cap amounts in the prior two years.

To the extent that it is preferable to limit this concession, another option is to make available the cumulative cap only to individuals who did not make any contributions in either of the two previous years. This would ensure it is made available exclusively to those returning to work.

Detailed implementation issues would need to be worked through if either of these policy options were to be adopted.

Recommendation

The current concessional superannuation contribution caps should be made more flexible to allow greater choice in how an individual can apply their caps. The change should provide individuals with interrupted work patterns an opportunity to catch up when they have a greater capacity to contribute to superannuation.

Low-income super contribution (LISC)

LISC is designed to refund the tax paid on the concessional contributions made by low-income earners. Under the scheme, an individual with an income of less than $37,000 may be eligible for a government contribution of up to $500, paid directly to their super account.

LISC is an important equity measure that is designed to ensure a low-income earner is not penalised by making superannuation contributions. Whilst not specifically targeted at women, a large proportion of women are low-income earners and benefit directly from this measure. Treasury has estimated that over 2.1 million Australian women will benefit from the LISC by over $500 million in 2013-14[15].

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[15] Financial Services Council, October 2013.

We also acknowledge there are a number of other considerations, including LISC's impact on workforce participation, the correlation with pension reliance in the long term for this segment and the overall economic cost to the Federal Government's budget, which may impact the long term sustainability and effectiveness of this measure.

Recommendation

The Inquiry should undertake further research, including a detailed cost / benefit analysis, concerning how to retain the measure, including indexation.

$450 SG contributions monthly threshold

Currently employers are not required to make SG contributions for an employee who earns less than $450 (before tax) in a calendar month. This threshold potentially impacts individuals in a range of employment situations and industries, including those in part-time or casual work and those who have multiple casual or part-time shifts with different employers.

According to ASFA[16] 7% of female workers earn less than $5,400 a year (equivalent to $450 a month), and 45% of these women receive no super contributions from their employers. In particular, young females were the most likely to miss out on superannuation contributions.

We recognise the threshold serves to ensure employers are not subject to the potential administrative burden associated with making small superannuation contributions and the additional costs of employment that the payments and the administration burden may create. Conversely, we also acknowledge recent improvements to superannuation payment processing under SuperStream for employers and employees.

Recommendation

Undertake further research on the costs and benefits to employers and employees of modifying or removing the $450 Superannuation Guarantee contributions monthly threshold. This analysis should include the impact on specific industries, including for example those with a higher proportion of seasonal or offshore workers.

Paid parental leave and superannuation

Payment of superannuation for the duration of maternity leave is designed to prevent women from falling behind in the accumulation of financial resources to prepare for retirement.

Currently the Federal Government's Paid Parental Leave (PPL) scheme does not provide for superannuation contributions. The impact of not having superannuation contributions during this period should not be underestimated and has a significant compounding effect on an individual's long term investment outcomes. We believe the inclusion of superannuation with PPL will have a marginal impact on the Government's fiscal position and sends a positive message to encourage employers who may not include superannuation with their own scheme.

Recommendation

Extend the Federal Government's PPL scheme to include superannuation payments.

[16] ASFA, Equity and superannuation — the real issues, 2012.

Commonwealth Bank's Policy

The Commonwealth Bank has provided paid parental leave to primary carers since 1973. Our parental leave policy is available to both men and women, same sex couples, adopting parents, and those parents going through surrogacy.

We currently offer employees superannuation contributions for up to 40 weeks of unpaid leave after an employee has returned for 6 months.

Non-superannuation policies

Financial literacy

The Commonwealth Bank welcomes the release of the National Financial Literacy Strategy 2014–17 led by ASIC and supports the core actions identified in the Strategy. The Strategy aims to improve the financial wellbeing of Australians by advancing their financial literacy, making available data concerning the extent of the problem and identifying areas requiring further attention.

The Commonwealth Bank believes that consumers should be given free choices informed by education, rather than relying on issue-specific interventions, which could potentially bring about sub-optimal outcomes. In our submissions to the Financial System Inquiry, we detailed a number of initiatives to improve financial literacy.

Recommendation

Continue the implementation of the National Financial Literacy Strategy by encouraging broad involvement of stakeholders, including the government, business, community and education sectors. This should also include measuring financial literacy levels and the effectiveness of programs.

Commonwealth Bank: Ongoing commitment to improve financial literacy

On 29 January 2015 the Commonwealth Bank expanded its commitment to the financial education of children. The Bank will invest $50 million over the next three years to enhance its financial education programs beginning with an ambitious plan to double the reach of *StartSmart* by 2016, allowing 500,000 children to complete the free financial literacy workshop every year.

The new *StartSmart* program will include an enhanced curriculum focused on both digital money and traditional financial literacy skills. The number of qualified facilitators will also double by 2016 increasing accessibility and doubling the number of Australian primary and secondary schools able to access the *StartSmart* program.

We also support women in small business through our *Women In Focus* initiative. This is a community of women across Australian business and social sectors, collaborating and connecting to create opportunities, learn and share insights and expertise.

Access to quality and affordable financial advice

Whilst the financial services industry has substantially improved services for female investors, there is more we can do to support more informed financial decisions. An important step is to ensure a framework operates whereby women will actively seek advice. A relatively simple method of increasing the likelihood of having an adequate retirement income is to further empower Australian women and encourage them to access quality and affordable financial advice.

The Financial Services Council and others have previously highlighted the distortion that arises from the tax treatment of fees paid for financial advice, which can reduce access to advice. Currently, the cost of financial advice can be tax deductible if it is paid for on an ongoing basis, including instalment payment plans. Advice fees are currently not deductible where the fee is paid up-front.

Recommendation

Consistent tax deductibility treatment for financial advice.

Commonwealth Bank: "Women and Financial Planning"

The Commonwealth Bank's advice business continues to introduce dedicated education programs for our financial advisers to ensure, when seeking advice, a woman's unique financial advice needs are understood and met. For example, the Women and Financial Planning program has been rolled out to 150 financial planners to date and the goal is to introduce the program to all Commonwealth Financial Planning advisers and staff by March 2016.

Managing longevity risk

Women are particularly exposed to longevity risk as they live longer. There have been two Government commissioned reviews into the regulatory barriers currently restricting the availability of relevant and appropriate income stream products in Australia.

The Commonwealth Bank supports this activity, particularly a greater policy focus on outcomes in the retirement phase for superannuation. We believe that addressing a number of regulatory impediments will allow the market to develop a greater variety of retirement products which appropriately manage longevity risk as it is particularly important for women.

Recommendation

As per our submissions to the Financial System Inquiry, remove regulatory barriers impeding the cost effective development of income stream products which address longevity risk.