

Women in Super

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Periodic Report Group 2003 Submission New Zealanders' Retirement Savings

1 Introduction

Women in Super supports the Periodic Report Group's review of New Zealanders' retirement savings and in particular, consideration of the specific issues which affect women's lives and their ability to save for retirement.

The format of our submission focuses on issues faced by women, with specific reference to:

- workplace superannuation; and
- taxation.

Within each of these headings we have sought to provide you with an insight into the specific issues facing women in saving for their retirement.

In addition, we have consulted our membership and have undertaken our own survey to identify the current superannuation arrangements being made by our members and their associates and the motivation behind such savings. Many of the responses from the submissions received are detailed in section 6.5. Our intention is that such information will assist you in considering what steps ordinary New Zealanders are taking to provide for their superannuation.

We trust our submission assists you in considering the issues facing New Zealanders, particularly women, in saving for their retirement. We welcome the further opportunity to meet with you to discuss such issues further.

2 General

The views represented in our submission are based on our collective experiences gained from working in the superannuation industry and by various “cultural/behavioural” factors we have encountered in our everyday lives. These views focus on issues faced by women. We emphasise that our observations are based on “anecdotal” evidence and make no apology in this respect.

In making our submissions we have assumed that there is fundamental social good in saving, particularly long term saving. We see a need in the community for long-term saving to be targeted and focused on retirement needs. We believe this view to be widely acknowledged and accepted. It is our experience that the gulf between theory and reality in this respect seems to be increasing. The development of a long term saving ethic is a fundamental prerequisite to the financial and emotional well-being of New Zealanders.

Women in Super believes that the philosophy underpinning people’s motivations for retirement savings has shifted from a desire to retire early to members of our communities becoming increasingly aware that they will need some private provision in retirement to maintain a degree of their pre-retirement lifestyle.

A further assumption we have made in preparing this submission is that it is a social good for New Zealanders to retire and live in a degree of comfort.

Our submission focuses on the impacts of superannuation on women as women face a number of challenges when planning for their retirement income. In this respect, it is important to consider the changes in demographics and the effect on women. Some of the factors affecting women, and further detailed in section 3 include:

- Women have a longer life expectancy than men. The evidence shows that on average women currently live 3 ½ years longer than men at age 65¹.
- Married women are on average two years younger than their partners² and are therefore likely to outlive their partners by five or more years.
- The difference in life expectancy is reflected in the proportion of men and women over 65. In the 65 to 74 age group, the proportion of men and women are nearly equal. However, women make up 61% of the 75 to 84 age-group and outnumber men more than two to one in the over 85s³.

¹ New Zealand Abridged Life Table 1998 - 2000 - Statistics New Zealand. Women in Super recognises that this is expected to decrease over time because men of 85 years of age were exposed to such adverse events as the Second World War.

² Marriage and Divorce in New Zealand © Statistics New Zealand March 2001.

³ New Zealand Now, Over 65 1998 Edition - Statistics New Zealand. **Women in Super** recognises that the disparity in proportions at older ages at present is due in part to adverse past events such as 20th century wars particularly affecting men and is therefore subject to change in future.

- The great majority of women reaching retirement have both been married and had children. Only 6% of women over 65 have never been married and only 14% of women over 65 have never had children. Superannuation for women therefore needs to be viewed principally in a household context with the proviso that a significant proportion of women will be a surviving spouse approaching and during retirement or may be living alone due to a relationship breakdown.

Financial factors are also changing in society:

- Student debt is an important issue affecting many women. Women often earn less during their careers and therefore take longer to repay debt.
- Women today are part of the sandwich 'generation' not only are they paying off student loans and caring for young children, but they are also looking after elderly parents⁴.
- Health costs are on the rise and women not only are the predominant users of the health system but use the health system more extensively as they get older.
- Fewer people now own their own home at retirement.

3 Specific issues affecting women

3.1 Education

Financial literacy is vital for everyone. Public education programmes are necessary to make people aware of both the issues that may face them in retirement and how they can obtain some measure of control in this area of their lives.

Women may not be as financially informed as men, particularly women who delegate family finances to their partners. However, financial awareness and planning is particularly necessary for women given their longer expected life span and the higher likelihood of them living alone, particularly towards the end of their lives.

Where to obtain the right advice and how to identify and access savings vehicles that will fit individual's needs is an issue for many. Information from commercial providers may be regarded as biased and sales driven. The complexity of long-term financial decisions is such that even those of us in the industry can find such decisions difficult to make.

Schools

Women in Super support initiatives to make education in the management of personal finances, including budgeting and long-term savings, a compulsory part of the New Zealand school curriculum. A few hours within a 'general studies' course is not sufficient.

Workplaces

All employees should be able to access good quality information through their workplace, especially now that many schemes pass investment risk and decisions regarding investment options to members.

Private sources

Women in Super strongly supports the work of the Office of the Retirement Commissioner in the area of education. The Office of the Retirement Commissioner clearly needs to be adequately funded to meet important educational objectives.

Women in Super supports a two way commitment to education, focussing on both public education for women and industry education of issuers of financial products. Issuers should be encouraged to remain aware of issues relevant to women.

3.2 Increasing student debt

Various statistics are available in respect of the issue of increasing student debt. We have not attempted to research or summarise such statistics.

Student debt is an issue of particular importance to many women. Women often earn less during their careers, through working part-time and/or taking career breaks and accordingly take longer to repay any student debt.

3.3 Parental leave

Paid parental leave of 12 weeks was introduced in July 2002 for eligible women. Employers should be encouraged to meet administration fees on superannuation contributions for a

reasonable period during any period of parental leave to ensure fees do not erode savings while the member is unable to contribute. **Women in Super** recognises that in order to obtain such benefits, savings should be locked in until retirement.

Employers are encouraged to have scheme designs that meet women's variable needs such as variable personal contributions and continuation of insurance cover while members are on parental leave.

3.4 Emerging sandwich generation

Women today are part of the "sandwich generation", not only are they paying off student loans and caring for young children, but they are also looking after elderly parents.

The punitive rates of interest charged on student debt do not take account of a woman's life/family balance and allow little opportunity to accumulate retirement benefits as the more prudent priority is to reduce debt. The need to balance home responsibilities with income earning means that women are highly concentrated in industries that offer part-time employment. Many employer superannuation schemes do not accommodate part-time workers. At the life stage where women return to full-time paid work after child bearing and rearing⁴, the 35-39 years age group, women receive \$17,300 less in median income than men, the biggest difference in income in any age group.

The Action Plan for New Zealand Women notes that although some higher-earning older European women improved their economic situation between 1986 and the end of 1990's, most women did not. Lower earning women of all ages have seen no improvement in real income over the last 20 years.⁵ This encourages behaviour where retirement living standards are sacrificed for present living standards. Although a married mother's income is more likely to be secondary family income and may be saved for a couple's retirement with the trend towards marriage and child bearing at a later age, women have less opportunity to build assets for retirement than in the past.

3.5 Low fertility rates

The current fertility rates of New Zealand women, at 1.9 children on average, are approximately 10% below the population's ability to replace itself without immigration. Furthermore, it is expected that we are unlikely to see society return to high fertility rates in future⁶. Fertility rates amongst ethnic and immigrant families are also falling. The retirement income implications of low fertility rates are that there will be fewer young people to support and care for a greater number of older people who will likely have to pay for more services.

This also highlights the greater need for private savings for retirement in the future and the necessity of an adequate government pension as the safety net.

⁴ Ministry of Womens Affairs, Towards an Action Plan for New Zealand Women, page 14.

⁵ Ministry of Womens Affairs, Towards an Action Plan for New Zealand Women, page 28.

⁶ Ministry of Womens Affairs, Towards an Action Plan for New Zealand Women, page 13.

3.6 Pay equity

Pay equity is a superannuation issue. Women's participation in the paid workforce continues to rise (to 47% in 2001, a rise of 9% since 1991) yet women's average earnings are 83% of men's average earnings. Amongst other disparities, Maori women have the second lowest average earnings.

We have failed to recognise that by not addressing this gender disparity, the inequality in income that women experience in the workforce is being taken into retirement savings. Internationally the gap between average earnings for men and women varies between 20% and 80%. The British Government has committed to halving their pay gap by 2005 and removing it altogether by 2008, setting a precedent for addressing change in the key areas of occupational segregation (where less value is attached to "women's work"), discrimination in pay and employment systems and the unequal impact of family responsibilities.

Currently the cumulative effect of a 17% hurdle over a working life of 40 years has a huge impact on the superannuation savings of women. In this respect if gross earnings over 40 years are always 17% less, and the same proportion of gross earnings is contributed, accumulation will simply be 17% less.

3.7 Rising health costs

Health costs are on the rise and women are not only the pre-dominant users of the health system but use the health system more extensively as they get older.

***Women in Super* recommends:**

- **Education in the management of person finances is made a compulsory part of the New Zealand school curriculum.**
- **Access to good quality information for all employees through their workplace.**
- **Adequate funding for the office of the Retirement Commissioner.**
- **Payment of administration fees by employers during periods of parental leave.**
- **The accommodation of part time workers by employers.**
- **Pay equity for women.**
- **An adequate government pension as a safety net.**

4 Taxation

In the short term: Women in Super support action towards the removal of the inequities of the current tax rules for those who earn less than \$38,000 pa.

We acknowledge that the changes announced in the 2003 Budget in relation to the way employer superannuation schemes are to be taxed, go some way to achieving our short term goal. We are disappointed however that the changes are only in relation to workplace superannuation with implementation of the changes optional for employers. The changes seem ad hoc and introduce additional complexity and cost for employers in a market that is struggling to attract support. The changes provide no incentive for employers to offer superannuation schemes and entrench the existing 6% tax advantage for those earning over \$60,000 without extending it to other marginal groups.

We believe that the inequities caused by the present system, which will remain in relation to private schemes, are a serious issue, notwithstanding the fact that many employees on less than \$38,000 pa. whose employers contribute to a “retail” scheme on their behalf do not actually appreciate that their investment is inefficient from a taxation perspective.

We consider long-term savings to be a fundamental social good. The structural impediments such as those that exist as a result of an inefficient taxation model will continue to undermine these efforts. We believe that as savings grow people will be encouraged and will accordingly save more. While they may not directly appreciate that their savings were being eroded by a higher rate of tax, they will notice their increased balance.

We believe that this part of the tax take is a windfall from the members of our community who can least afford it and cannot continue to be justified.

In the longer term: Women in Super support action towards a tax deferral regime for dedicated retirement savings accounts where no tax is paid until a draw down on retirement income.

Women in Super's underlying assumption is that long term targeted savings principally for retirement purposes is considered desirable and is worthy of encouragement. We accept that this proposal could be considered concessionary but we believe that some sort of highly publicised concession is vital to display the commitment to long-term savings necessary to elevate such savings from the ad-hoc accidental, “I’d just as soon buy shoes or a new car stereo”, process that it is in many cases now to a life changing habit.

We are aware that there is a view that making one form of savings more desirable merely affects the composition of household savings rather than the overall level of savings. Many critics of such a proposal question why superannuation should be preferred over other investment options. As noted above our emphasis is on long-term savings and we consider superannuation based savings is one of the few such long-term savings options available. We also note that at present such tax concessions exist in the property market, which we believe has the effect of encouraging New Zealanders' “love affair with property”.

***Women in Super* recommends:**

- **The removal of the inequities of the current tax rules for those who earn less than \$38,000 pa.**
- **A tax deferral regime for dedicated retirement savings accounts where no tax is paid until a drawdown on retirement income.**
- **A long term integrated strategy to address the issues surrounding retirement savings, with any changes to the tax treatment of retirement savings made in the context of such a strategy.**

5 Workplace superannuation

Workplace superannuation is a means of lowering the cost of distribution, facilitating deductions and therefore making savings for retirement easier. Many superannuation schemes provide group benefits, which may include lower administration fees and access to low cost wholesale investment management charges, thereby further reducing cost. These provide significant benefit to all, but especially to women and low income earners.

There has been a steady decrease in workplace superannuation schemes (refer page10) which has resulted in reduced access for employees to such schemes to the point where less than 3% of employers provide workplace superannuation schemes covering approximately 14.6% of employees. This has had a significant impact on women who have even less access to workplace superannuation schemes due to the part time or temporary nature of their work, broken service and/or lower salary levels.

Women, including Maori & Polynesians, make up a disproportionate number in the groups most affected by broken work patterns and therefore access to workplace superannuation schemes. It is not uncommon for part-time workers to have no access to such schemes.

Women stop working to have children and, when they return to work, it is usually part-time employment in lower paying jobs. 70% of all part time employees are excluded from membership of more than half of all workplace superannuation schemes.

Over recent years, there has also been a decline in the number of defined benefit superannuation schemes, which have been closed or superseded by defined contribution schemes. In previous years, when defined benefit schemes dominated, married women had the benefit of a pension when their husband died. Now that direct contribution schemes are prevalent, this is no longer the case, impacting directly on the funding of retirement income for women.

In addition employment vesting does not support women as generally it requires uninterrupted periods of employment of over a number of years, which is difficult for women who take time out of the workforce to have children.

In this respect, most employer superannuation contributions fully vest only after a set number of years. A parent who ceases work to have a child or care for dependants may therefore be disadvantaged if the timing does not coincide. This reduces the savings benefits, particularly to women. In some cases to ease administration for the employers, women are encouraged to withdraw their superannuation when they go on maternity leave. Women would be significantly assisted in saving for their retirement if employers could be encouraged to meet administration fees for a reasonable period of time during such periods of leave, to ensure fees do not erode savings while the member is unable to contribute.

Superannuation scheme design has become more flexible with new schemes frequently offering partial withdrawal options. This, coupled with poor market returns over recent years, has seen a significant increase in withdrawals from superannuation schemes.

Although the Government continues to consider major tax concessions on savings and how to resolve the inequities resulting from the flat tax rate of 33% on employer contributions, it

continues to be low income earners who suffer over-taxation on their savings, the majority of these being women.

While some use is being made of the salary sacrifice opportunity to employees earning over \$60,000, this is of little value to the majority of women who earn on average 83% of men's average earnings and who comprise 70% of all part-time workers in the workforce.

Providers of workplace superannuation schemes often set minimum contribution levels that discourage or exclude low income earners or part time workers on the basis that they are not cost effective.

Employers are more reluctant to provide HR resources to manage a superannuation scheme, or recruit their employees to join a superannuation scheme.

Women in Super support the mandatory provision by employers of, as a minimum, a payroll deduction facility to allow direct contributions by employees to a savings scheme with employers encouraged to promote their workplace superannuation schemes to their staff. This would create an expectation that a portion of income should be directed to savings.

Employers in the United Kingdom, unless exempt, are required to provide access by their employees to a stakeholder pension scheme and must provide a facility to have employee contributions deducted from their salary. Such pension schemes are designed to be low cost and flexible as to contributions with investors able to stop contributing occasionally without penalty. In addition, there are limited charges and certain tax relief.

Employers should be encouraged to design superannuation schemes that meet women's variable needs, eg variable personal contributions and the continuation of insurance cover when members are on maternity or parental leave.

Rollover provisions are generally not available to employees leaving a workplace superannuation scheme to join another. In such circumstances, employees are generally forced to withdraw their funds when they leave, with their funds paid directly to them with no provision or requirement to have it transferred to another scheme. The lack of direct transfer provisions from one scheme to another provides the opportunity for such funds to be reallocated to other perceived needs, ie new car or travel.

The ability to transfer and consolidate superannuation accounts should be a compulsory feature of superannuation schemes. It would be more efficient for savers to have one account than a number of small balances with different providers. There is also reduced risk of owners losing their accounts.

Superannuation Scheme statistics⁷

It is clear from reports and data published by the Government Actuary that the total membership of superannuation schemes has fallen away over the last three years at

⁷ Government Actuary reports and newsletters

alarming rates. Membership of both private and public sector employer schemes and retail schemes reflect this overall trend.

The decline in the number of workplace superannuation scheme members in comparison to the size of the workforce is shown in table 1 below. This table shows:

- the number of members in private-sector employer occupational schemes;
- the number of active members in the Government Superannuation Fund and other public service schemes;
- the number of active labour force participants;
- the ratio of membership of private employer, government employer and total employer schemes as a percentage of the employed workforce.

Year End 31 December	Private 000's	Government 000's	Labour Force 000's	Private %	Government %	Total %
1990	273	60	1,480	18.5	4.1	22.6
1991-92	-	-	-	-	-	-
1993	273	61	1,475	18.5	4.1	22.6
1994	258	59	1,532	16.8	3.9	20.7
1995	254	58	1,608	15.8	3.6	19.4
1996	247	55	1,670	14.8	3.3	18.1
1997	244	52	1,731	14.1	3.0	17.1
1998	233	50	1,732	13.5	2.9	16.4
1999	222	49	1,741	12.8	2.8	15.6
2000	217	46	1,766	12.3	2.6	14.9
2001	218	45	1,806	12.1	2.5	14.6

Membership of both private sector and government employer schemes has clearly decreased over the last 10 years, while the active labour force has increased. The percentage of employees engaged in employer schemes has consequently decreased.

Table 2

The various types of superannuation schemes and total membership:

Nature of Schemes	1990	1997	1998	1999	2000	2001
Private	550	165	135	111	94	77
Employer (1)	310,741	277,514	266,257	252,336	247,715	247,125
Employer (2)	0	12,387	13,546	14,897	12,162	16,158
Retail	236,062	451,762	456,014	470,457	447,858	437,510
Total	547,353	741,828	735,952	737,801	707,829	700,870

The above terms are defined as follows:

- Private** schemes set up by individuals for themselves and their immediate family.
- Employer (1)** schemes sponsored by private sector employers.
- Employer (2)** schemes provided as alternatives to the Government Superannuation Fund, sponsored by public sector employers.
- Retail** schemes where membership is available to the general public.

***Women in Super* recommends:**

- **The promotion and encouragement of workplace superannuation schemes.**
- **Mandatory provision by employers of, as a minimum, a payroll deduction facility to allow direct contribution by employees and a saving scheme.**
- **Consideration and reformulation of vesting scales.**
- **Payment of administration fees by employers during periods of paternity leave.**
- **Restriction of partial withdrawals.**
- **The introduction of tax efficiencies.**
- **Design of superannuation schemes which accept minimal contributions and require that transferred funds must be directly transferred to another superannuation scheme.**
- **The consolidation of superannuation accounts.**

6 Workplace based superannuation schemes - ideal design solutions

One size does not fit all - the diversity of jobs offered is some indication of the diversity of the potential membership of superannuation schemes. The financial services industry and employers need to work together to build schemes with simplicity, flexibility and choice - which will go a long way towards meeting the needs of most employees in enabling and assisting them in saving for their retirement.

At our initial meeting with the Periodic Review Group we were asked to identify the ideal superannuation scheme for women, the barriers to belonging to a superannuation scheme and the innovative scheme designs currently offered in the workplace. At the last ASFONZ conference **Women in Super** presented and held a workshop on such matters. Detailed below is a summary of the information gathered in this regard.

We are not all the same, there are cultural differences and diversity to consider.

Cultural diversity means employers and trustees have a responsibility to understand and respect the differences that people bring to the workplace. Cultural differences mean a whole range of decision making and behaviours that vary and these differences must be recognised. Not everyone's first language is English. In this respect:

- 1 in 15 people in NZ are of Asian ethnicity
- It's the same for Pacific Islanders
- 1 in 7 people are Maori
- In 1990 83% of the population were European - that figure is now 80%.
- There's a range of incomes and family dependencies.
- There's a range of risk profiles to reflect the different levels of income and family dependencies.
- The decision-making process, particularly on financial matters, varies.
- There are different social structures - some living in multi generational family situations, some with larger numbers of family members to support than traditional European families.
- Life expectancy is different - and can affect small group risk policy premiums.
- In all cultures, women often do not play a role or take responsibility for financial matters.

The workforce is diverse:

- 60% of part timers work for small businesses and they are predominantly female. A lot of these part-timers are women earning a second family income.
- A lot of part-timers have traditionally not been eligible to join a company superannuation scheme.
- With 459,000 part time workers in New Zealand, they are an important part of our total workforce.

6.1 Barriers to belonging

Some of the barriers that prevent people from joining an employment-based superannuation scheme are as follows. These issues need to be addressed in order to ensure that employment-based superannuation schemes do appeal and are seen as the first choice for people wanting to save for retirement.

- Long vesting scales result in an unachievable target that therefore has no perceived value
- Restricted access, such as lengthy qualifying periods put people off
- Apparent discriminations, particularly excluding groups of employees eg part-timers
- Cultural differences and priorities
- Stereotypical images of what retirement means may alienate people
- Unrealistic savings goals which simply make it look too hard Student loans debt – creates the - ‘I can’t afford to save’ argument
- Clashing priorities, particularly due to unexpected financial stress such as a result from redundancy or illness.

6.2 Simple solutions

- Provide members/employees with choice
- Ensure options are easy to choose between
- Improve member education with communication and information
- Provide workplace seminars to help members understand their financial needs
- Provide employees with appropriate resources and references
- Steer employees in the right direction eg refer them to the “Sorted” website
- Survey members to get their feedback – what works and what doesn’t and what do they want
- Provide tangible benefits
- Make superannuation offering realistic and achievable
- Recognise members’ differing priorities.

6.3 Scheme design ideas

- Allow transfers to other schemes to encourage portability and continuity. Portability of funds and the ability to undertake fund transfers from time to time is critically important. Experience tells us that those who have their saving pattern interrupted often lose momentum and can be diverted.
- Set realistic and achievable contribution rates. Everybody has different circumstances, commitments, dependants and goals. It is important to be flexible when setting a minimum contribution rate. While for some these may be low and stay low, for others the emergence in time of a nest egg of savings may spur them on to increase their savings \$ to grow that nest egg even further. A flat rate \$ contribution may be preferable to a percentage of salary. There is nothing that

forces schemes to set a percentage of salary as the only criterion for contributions and sometimes flat rate contributions are seen as more achievable.

- Accommodate all employees by allowing varying contribution rates, such as pro rata contribution rates for part-timers.
- Allow members flexibility to accommodate their changing financial circumstances suspending, increasing or decreasing contributions from time to time. Allow contributions at a lower rate while paying off debt. If members have other financial commitments that affect their immediate ability to fully participate in the scheme, a reduced rate of contribution until their debt/commitment has been met could be allowed. Better than no participation and possibly no saving.
- Encourage backdating – after periods of leave without pay. Around 1 in 5 NZers take extended leave without pay for parental leave, training, travel etc. Some of these people would like to ensure their saving continues despite their absence. Allow employees to either buy back (or forward purchase) their savings commitment. Reward backdating with backdated employer contributions to match any backdated member/employee contributions.
- Pay fees on members' behalf. Paying fees for savings plans would have to be one of the most valuable ways in which an employer can promote the value of saving with their staff. Only an employer can do this. The opportunity to save without fees eroding the savings amounts is a great encouragement. It is of particular value for lower paid workers.
- Make benefits tangible – give realistic examples of what members need to save. Help the members of your scheme think in realistic terms about what savings goals they have. Do not make it seem impossible. but do not make it too easy either. Think about converting savings goals into the sorts of benefits members aspire to.
- Make superannuation schemes accessible. Do away with eligibility criteria such as minimum period of employment. If membership is sold as a benefit but you have to wait 2 years before you can join, you have often found better things to do with your money.
- Lengthy Vesting Periods. If, lifetime jobs are history, then it's of little benefit to have vesting scales that greatly exceed the likely or desired tenure of employment. 68% of Master Trust plans and 54% of stand-alone superannuation schemes in New Zealand have vesting scales of 5 years or less. 93% of Master trusts plans and 91% of stand-alone plans have vesting scales of 10 years or less.
- Excluding groups of employees e.g. part-timers, non-executive staff etc. appears discriminatory and can have a negative impact on the loyalty and commitment of the staff excluded.
- Avoid stereotypical images - Some of the typical images portrayed by the financial services industry in promoting savings fall well outside reality. Most of us are not going to look like that - or be like that!! (We do not all play golf and cannot all envisage ourselves on a tropical beach.) There is a risk of alienating the very audience the industry wants to attract.

- Member representation on boards of trustees - stipulate in the trust deed that x% of a scheme's membership must be represented by a member elected trustee. We need to broaden the base of representation.

6.4 Example scheme design solutions

Student loan repayment

One employer provides a retirement allowance of 5% for employees designed to allow employees to choose whether to put it aside for their retirement or to pay off their student loan (this employer takes on board a number of new graduates each year). Employees can then choose whether they are paid the allowance as an employer contribution subsidy into a superannuation scheme or receive it as salary. If paid as an employer contribution subsidy, the amount paid will match the employee's own contribution (\$ for \$) up to a maximum of 6% with the 33% SSCWT tax paid on top, a total maximum cost of 9% to the employer. If paid as salary, the amount paid to the employee is only 5% and is taxed at the employee's PAYE tax rate (a total maximum cost of 5% to the employer). In this way there is an incentive to receive the amount as an employer contribution subsidy paid into a superannuation scheme.

Alternatively, an employer could offer to allow employees to pay their own superannuation contributions to their student loan while continuing to match this with their employer contribution subsidy still being paid into the employee's retirement savings account. Under current legislation, if the employee earns less than \$38,000 they would be better off if the employer paid the employer contribution subsidy to their student loan, as it would be taxed as salary at their PAYE rate, rather than at the SSCWT rate of 33%.

Parental leave provisions

A large Government Department which has an employee base that is predominately female (72%), offers a very flexible provision in respect of parental leave. That is, the employer will pay the monthly administration fees on behalf of member employees while they are on leave. Employee members also have the option, on returning to work, to backdate their own contributions for the period they were on leave and if they do the employer will backdate their contributions at the agreed subsidy rate of \$10 per week.

Backdated contributions

Some employers offer to backdate their contributions to a member's start date with the company/organisation. One example is members of parliament and judges who can choose to backdate their contributions to the date of their election or appointment and then their employer (the Crown) will also backdate its contributions to match.

Flat contribution rates

There are a number of Government Departments (large and small) that currently offer a flat rate employer contribution subsidy to employees who contribute to the GRT's Individual Retirement Plan. That is, if the employee contributes \$10 per week, then the employer will pay in a \$10 per week subsidy. This has been done to ensure there is seen to be equity amongst all employees no matter what their position or salary level. This subsidy is net of

SSCWT, so the 33% tax is paid on top by the employer. This ensures a true \$ for \$ subsidy is received.

The average salary of many of these employees is less than \$38,000, so by paying the tax on top this also addresses the tax inequity issue (under current legislation) for those employees.

Pay the SSCWT 33% tax on top

This ensures equity for all employees. Those on lower incomes (under \$38,000) are not penalised (under the current legislation) by having their contributions over-taxed at 33%.

Examples of Good Superannuation Schemes and Employer Sponsorship

The Teachers Retirement Savings Scheme

The Teachers' Retirement Savings Scheme (TRSS) was launched to primary teachers and principals (in state and state-integrated primary, intermediate and special schools) in September 2002. The proposal to develop a retirement savings scheme for teachers was an outcome of the settlement of both the primary teachers and primary principals collective agreements in 2001. The funding for the employer contribution was part of the overall cost of the settlement so was in effect in lieu of a salary increase.

One of the main attractions of the Teachers' Scheme is no doubt the contribution subsidy paid by the Ministry of Education. That is, if teachers contribute at least 1% of their salary, the Ministry of Education will contribute an additional 1% (if they qualify), with the Minister of Education having promised to increase this employer contribution over time. The launch of this scheme offered a carrot to join of backdated employer contributions to 1 July, if teachers joined by 21 October 2002, without teachers having to put in a cent. The launch resulted in a 30% uptake of teachers (6,900) who joined the TRSS. exceeding all expectations.

In fact, over half the teachers and principals in the Teachers' Scheme are actually putting away more than the 1% minimum, which clearly shows that the message about the need to save for one's retirement is hitting home! It also shows that it only takes a little carrot to get people motivated to start saving.

What makes it really easy is that contributions are deducted straight from teachers' salaries.

6.5 Quotes

From members of the Teachers' Scheme

Jo, age 26 Teacher

"I feel it is really important to start saving for my retirement now, so that I don't look back in 10 years and wish I had done it earlier. As a person who usually procrastinates, I feel good about the fact that some of my money is untouchable".

Fiona, Deputy Principal

“When I graduated from College there was no Government Superannuation Scheme to join. Since then various Retirement Plan providers have visited the school but I either had no spare cash or didn't feel sure about the package being offered. Then the Teachers Retirement Savings Scheme was launched and introduced to teachers. I felt this was a worthwhile scheme with the added incentive that the Government would match my 1% and that this would be increased over time”.

From members of employment based super schemes

Jet Chiew has been a member of the retirement savings scheme sponsored by her employer since her employer offered it to her in 1993.

“I'm a real believer in superannuation,” says the 45-year-old Accountant. “I want to make sure I won't have any financial worries or pressures when I retire – that's the last thing I'll need when I finally have time to relax and enjoy life!

“And I believe you have to start young – don't leave it to the last minute. After all, you never know when your circumstances might change, so you should save while you can and leave the money alone until you retire.”

Jet was attracted to the plan offered by her employer because her employer offered to pay the administration fees and match her payments (up to 7.5% of her salary before tax). The fact that her employer recommended the plan also made a difference, as she felt she could rely on their advice.

“I've since looked around at other retirement plans with an eye to diversifying my savings, but they all charge a bit in fees,” she says. “I've realised I'm on to a good thing here – so I've increased my contributions to the plan instead and it's deducted automatically from my salary. I've also taken up the plan's life insurance option, as the premium rates are really competitive.”

What motivated me to save for retirement?

- "Realisation I cannot rely on Government to maintain current NZ Superannuation"
- Bruce
- "The need to be self sufficient financially"
- Peter
- "Realised need to look after ourselves in retirement, no one else will. I want to enjoy retirement as I would have worked hard to get there financially"
- Carmel
- "I want a decent standard of living when I retire"
- Anonymous

Why I joined the retirement savings scheme my employer offered:

- "Deductions from wages, employer contributions and paying running costs"
- John, IRP Member

- "Transportable and offers options to suspend in these times of volatile employment; this is really important"
- Kaylene, IRP Member
- "Portability is the key. Flexible, cost-effective savings scheme for retirement. Flexible alteration of regular amounts is another reason too"
- Philip
- "My employer offered to contribute and pay fees as well as my contribution and I saw this as a good choice"
- Carmel

What I see as the key advantages/benefits of the retirement savings scheme my employer offered:

- "Three funds to choose from. Non-profit. Employer subsidy. Transferable. Level of contribution flexible"
- Bruce
- "Qualified trustees to manage the IRP investment funds. A savings plan for my retirement. Painless deductions from my wages. A good return for my money"
- Anonymous
- "Portability and simplicity"
- Philip
- "I can choose what category I want my contributions invested in. It's portable and also if my circumstances change and I am unable to contribute for a period of time, I can suspend contributions"
- Carmel
- "Able to select the risk you want to take. Seems easy to understand. Very convenient, straight out of pay"
- Anonymous

Comments received in the Women in Superannuation survey to the experience of saving for their retirement

"As a solo parent it is very difficult to save you keep putting it off even if there is wisdom in saving. I think compulsion has a lot of benefits"

"I have an employer passionate about super - she works hard to support it and sell it to staff"

"I joined the Public Service when the Government Superannuation Fund was available. I knew that super was important however no one attempted to sell the benefits of the scheme to me. When Roger Douglas' scheme came in I welcomed it. It was compulsory and affordable. Unfortunately it only lasted a few months"

"A key motivating factor for commencing superannuation savings was compulsory membership of the employer subsidised scheme at the time commencing employment with my employer"

"Employment based superannuation scheme will be started if it is compulsory. At the time being deducted at the source meant I didn't spend my savings"

"Compulsion in the UK and employer incentives to staff contribute, together with a tax advantages by contributing up to approximately 19% of annual gross salary to superannuation tax free, were key motivating factors for commencing my super savings"

"Deductions were taken, with additional voluntary contributions. directly from salary and you never noticed they were gone and you knew you could not access them until you were at least 55 years of age"

"Due to inadequate investment options available within the New Zealand Superannuation Fund and due to concerns in 2001 on equity returns I withdrew my New Zealand Superannuation fund and paid off the mortgage on our family home"

"I support compulsory savings, you don't miss what gets automatically deducted from your pay"

Many members still saw property investment as the only superannuation provision required

"My superannuation provision is private individual savings. I never had the opportunity to join a company-subsidised scheme. My partner who is 53 has no superannuation savings. He got round to it and did not trust fund managers!"

"I have no personal superannuation provision. While I started work at 18 and the company had a superannuation scheme you could only join after 1 year's employment. Due to HR staff turn over no one reminded me after 1 year. Few staff joined, as it was not promoted to staff especially other than an uninspiring booklet. I ended up working with that company for 12 years and wish I had of joined the superannuation scheme"

From a 45 year old - "I have no employer plan available - can't afford it yet anyhow"

From a 50 year old - "My priority has been to raise and educate my children and mortgage-free my home. I have done this now and am focussing on creating wealth for my retirement. I do not see myself formally retiring"

"I sought advice from my employer about what to do with the small lump sum I was given. He suggested it be put into a savings account and I agreed. He has set this up for me and I have agreed for him to be second signatory so that I will not be tempted to take funds out on a whim. I then decided to have him deduct \$20 per week from my pay to add to these moneys. This is in addition to paying a student loan"

"Realisation is to how little the NZ Super actually is has motivated me to commence superannuation savings"

"I wished I had of joined a superannuation scheme earlier however the first company I worked for (in 1988) women were not eligible to join the company superannuation scheme. It wasn't until I left the company 5 years later that I was offered membership of an employer based superannuation scheme. Unless you were encouraged to save for your retirement in your early 20s you are less likely to do it"

"There was a focus in Canada on superannuation savings where I first worked. This has therefore become a way of life for me to provide for my retirement"

"When I left my previous employer staff superannuation payout was necessary. I used this money to pay off a floating mortgage"

"The key motivating factor for superannuation savings was pressure from my employer to join, generous employer contribution and tax benefits (UK not NZ)"

"My mother (aged 63) split up from my father 15 years ago and is on a benefit. He has a substantial employer subsidised superannuation scheme and she has nothing. When the marriage broke up he was in a position to increase his savings - no dependants and had a good job but she had no job and no career prospects"

"My savings was motivated by my employer"

"I have contributed to employer subsidised and sponsored superannuation schemes provided by previous employers. In both of these I was required to cash up my savings on termination of employment"

"My father set up a personal plan for me when I was 16 and contributed until I was able to pick it up myself after finishing university. In addition my employer has a sponsored superannuation scheme and contribution is compulsory while working for the company. In both cases the decision to save for superannuation savings was taken out of my hands so I am unsure if I would have started anything voluntarily"

"I would gladly contribute to superannuation but is not economically advantageous with my present employer. I would prefer to pay off the mortgage"

"My husband deems it unnecessary because of his cover"

"I was a contributing member of a company superannuation scheme for approximately 13 years and found the paid deductions convenient, totally hassle-free and non-tempting. Considered it an easy way of compulsory savings"

"As a Polynesian woman I moved from the lower social economic bracket where the emphasis is based on "reality". My cultural background was typified by concerns such as financial support of extended family. Religious and financial commitment to church and compliance of parents and childrens' needs. The priority is getting food on the table and paying bills, after the essentials there is no thought given to retirement. Retirement in my culture means going to bed. Planning financially for retirement can only be done if there is something left over. Superannuation should reinforce savings as an incentive and not a hindrance"

"I grew up in the depression and lived a fairly frugal lifestyle most of my life. My parents struggled on the old age pension so I knew I had to save. For 25 years I worked for an employer but was not allowed to join the company superannuation scheme because I was not a senior employee. I commenced savings with the National Provident Fund because of its tax deductions for savings and this scheme was available to workers"

"I am lucky, my brother-in-law worked in the finance sector so I could get good financial advice on how to invest my savings"

"I had an annuity scheme for 10 years but cancelled it when I needed the funds. I also had a managed fund savings plan for 3 years but cancelled this also when I needed the funds"

"I was attracted to an individual retirement plan as my employer offered to pay the administration fees and match my contributions (up to 7.5% of salary before tax). The fact that my employer recommended the plan also made a difference because I felt I could rely on its advice. I have since looked around at other retirement plans in order to diversify my savings but they all charge a bit in fees"

"As a member of the New Teachers Retirement Savings Scheme I feel it is really important to start saving for retirement. As a person who usually procrastinates I feel good about the fact that some of my money is intouchable"

"When I graduated from college there was no government superannuation scheme to join. Since then various retirement plan providers have visited the school but I have either had no spare cash or didn't feel sure about the package being offered. Then the Teachers Retirement Savings Scheme was launched and introduced to teachers. I felt this was a worthwhile scheme with the added incentive that the government would match my 1% contribution and that this would be increased over time"

"The key motivating factor for commencing my superannuation savings was long term relative financial comfort and retirement through regular, long term and locked in savings"

***Women in Super* recommends:**

- **The adoption of these ideal design issues as features that should be part of any scheme that may then require some form of official ie Government approval.**
- **Consideration of the barriers to belonging to an employment-based superannuation scheme with action taken to break down these barriers.**
- **The encouragement of innovative scheme ideas to promote and encourage superannuation savings.**

On behalf of *Women in Super* I would like to thank you for the opportunity to make a submission and trust the information provided is of use to you. *Women in Super* is in unique position to be able to provide valuable input into the Periodic Report Group's consideration of the issues affecting women in saving for their retirement and we welcome the further opportunity to meet with you to discuss such issues.

Yours faithfully

Tracey Cross
Chair of the *Women in Super* policy group