

Women in Super

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SAVINGS PRODUCT WORKING GROUP

SUBMISSION

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1 Introduction

Women in Super applauds the Government's initiative to explore the options surrounding work based savings products. Since its incorporation, *Women in Super* has been a strong advocate of the importance of workplace superannuation schemes which generally charge lower fees and facilitate contributions through payroll deductions, therefore making it easier to save for retirement. These schemes provide significant benefits to all, but especially to women who are lower income earners.

While *Women in Super* in general supports the initiatives suggested in the Savings Product Working Group Report (**Report**) the proposed initiatives **must not** adversely effect existing employer superannuation schemes. In our view the generic scheme should be seen as an alternative for those who do not have access to employer based superannuation schemes, with all superannuation schemes treated equally. It would be inconceivable if employers discontinued providing their own superannuation schemes on the basis that the Government was offering a generic scheme.

The format of our submission in respect of the Report is twofold:

- firstly we have detailed our response to the questions set out in the Hon Dr Cullen's press release which accompanied the Report's release;
- secondly we have focused on the issues faced by women in saving for their retirement, identifying how these relate to the proposals detailed in the Report.

In addition, we have consulted a number of women, including our own membership, and have undertaken a survey to obtain feedback on the Report. Our intention is that such information will assist you in considering the steps many women wish to see facilitated in providing for their superannuation.

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

2 Response to questions raised by the Hon Dr Cullen

2.1 The arguments for the Government taking a more assertive and pro-active stance in stimulating higher saving is canvassed on pages 20-24 of the Report. Should the Government seek to change existing personal financial behaviours and if so, how great is the need for intervention?

While *Women in Super* acknowledges the research completed by various parties, it is not in a position to definitively say whether there is or is not a problem with current levels of savings. In respect of our membership, initiatives requiring participation in work-based savings are beneficial. This is also evidenced in the Scobie research¹ that shows that those who had work-based superannuation savings (with an employer subsidy) had an overall greater level of savings and were better off.

We believe however that rather than rushing in to implement the suggested initiatives that the initiatives should be implemented in stages, which is consistent with the 'pathway' approach of the Report. In this regard, focus on the education and information programme together with streamlining regulation should be a priority with the balance of the initiatives pursued once confirmation is obtained as to whether there is a need for government to change existing personal financial behaviours.

Women in Super is pleased to see that the Government acknowledges the need for better data in this area and is supporting the Survey of Family Income and Employment (**SoFIE**). We believe that SoFIE should be able to provide a wealth of data on which to better assess the extent of any savings problem.

It is essential that there is political stability around any initiatives implemented. All political parties should agree on the policy moving forward to provide certainty, which is essential for the New Zealand public.

2.2 The Group's advice on regulatory upgrade is outlined on pages 41-45 of the Report. Would such reforms reflect a suitable balance between reducing compliance costs and providing effective protection to savers? If not, where, and in what way, should the balance be altered?

Women in Super supports the simplification of disclosure documents and streamlined regulation but contends that this should not be limited to just the proposed generic scheme but extended to all savings schemes. Many women still delegate the family financial decisions to their partners due to the complexity of current disclosure documents, resulting in many of them not being as financially informed as men. Simplifying disclosure requirements to provide disclosure information that is clear and concise would assist.

Removal of the inequities of the current tax rules for those who earn less than \$38,000 per annum in relation to tax on investment income is essential. To date, those in this income bracket (in which women are well represented) have been overtaxed when saving through retirement schemes. *Women in Super* is pleased to see that the work that is

¹ Scobie, G., and Trinh L. (2004) 'The impact of workplace and personal superannuation schemes on net worth: Evidence from the household saving survey', *New Zealand Treasury working paper*. 04/08, June.

currently being done by Craig Stobo (investigating the taxation of savings) is to be factored into the proposed scheme.

Women in Super supports a long-term integrated strategy to address the issues surrounding retirement savings, with any changes to the tax treatment of retirement savings extended to other forms of saving schemes.

2.3 Details about how a 'generic' scheme would operate are outlined on pages 48-62 of the Report. What are your views on the key features of the suggested scheme, particularly, automatic enrolment; an opt-out period; collection of savings through the PAYE tax system; use of a central administrator to manage the allocation of funds; exemption from mandatory offer for certain employers; contribution levels; ability to access funds prior to retirement and the form that retirement benefits can take?

In response, we note the following:

2.3.1 Automatic enrolment

Women in Super supports automatic enrolment. Access for all employees, including part-time and casual (which is of particular relevance to women) is essential. While *Women in Super* appreciates the suggested threshold of \$16,712, the proportion of women earning less than \$16,712 is higher than men in all age groups. The proportion of women earning more than \$50,001 is much lower than men, particularly in peak earning periods.² *Women in Super* recommends that the advantages of automatic enrolment are clearly emphasised in the education programme.

58% of *Women in Super* members and other women who took part in the survey believe that contributions should only be made on income over \$16,712. With 94% agreeing that it should be mandatory for employers to provide a work-based savings scheme and 88% believing a work-based savings product will help them save for their retirement.

2.3.2 An opt out period

Women in Super is of the opinion that the suggested opt out period of 30 days is insufficient to create habitual regular contributions. We do not however support an opt out period of longer than 30 days due to the difficulties this would cause low income earners, who are struggling to meet contribution levels, in having their funds locked in until they opt out.

Opting out however should not be made easy for the employee.

70% of those surveyed agreed that any mandatory work-based product should have an opt out provision with 82% confirming they would not opt out after 30 days. 61% did not believe that the opt out period should be longer than 30 days.

² www.retirement.org.nz, Graphs and Statistics, fig. 1.12, 2.1, 5.1 to 5.6.

Collection of savings through the PAYE tax system

It is acknowledged in the Report (refer page 29) that "*the disadvantage with this form of mandatory offer is that employees with outstanding student loan balances, ... could not access a scheme through this vehicle*". *Women in Super* sees this as a disadvantage to women because, as noted in section 4.4 of this submission, women take longer to pay off their student debt.

While the proposed collection mechanism is an efficient means of collecting contributions direct from salary, there does not appear to be any means for the employee to make voluntary contributions, or for the employer to provide a subsidy. Any such contributions would need to be channelled separately to a provider and employees and employers are unlikely to want to set up separate deduction authorities for such payments.

Women in Super would suggest the proposed collection mechanism is also offered to existing workplace schemes.

2.3.3 Use of a central administrator to manage the allocation of funds

Women in Super questions the role and need for a central administrator. We believe that IRD could fulfil this role as it already collects and distributes money, for example in respect of student loans and court fines. This would seem a far more efficient option.

While the Report is silent as to how interest is allocated to individuals' balances held by the central administrator and at what rate, *Women in Super* would not want interest allocated at a net of 33% tax rate. Any interest should be able to be allocated at a rate net of the individual's personal tax rate.

2.3.4 Exemption from mandatory offer for certain employers

Employers with five or fewer employees should not fall outside the scope of the proposed scheme as many women run their own businesses and in newer start up companies, they will tend to have less than 5 employees. If it is decided to exclude such groups, in *Women in Super's* view, it will be essential, as part of the education programme, that such employees are advised as to their ability to opt into the proposed scheme. We would propose that such groups are specifically targeted and encouraged to opt in.

94% of WIS members and other women surveyed believe that it should be mandatory for employers to provide workplace superannuation schemes with 88% believing this would assist them in saving for their retirement.

2.3.5 Contribution levels

Women in Super support the proposed contribution levels however, the generic scheme as it is proposed cannot accommodate additional voluntary contributions from employees or any subsidy from an employer. Furthermore, it gives no flexibility to the employee to determine an appropriate level of savings.

To meet women's variable needs, variable personal contribution rates should be encouraged. Variable contribution levels will allow women with lower incomes

and those paying off student loans to opt in to the proposed scheme (refer to sections 4.4, 4.5 and 4.8 in particular of our submission).

The proposed scheme must allow women to take breaks (eg maternity, leave without pay) and to either start again, or buy back their break.

Clarification is required however as to how voluntary payments will be collected and accounted for. It is unlikely that employees and employers will want to set up separate deduction authorities for such payments.

For *Women in Super*, membership initiatives requiring participation in work-based savings are beneficial. However, this is prefaced with the fact that an employer contribution subsidy is critical to encouraging individuals to save for their retirement.

This is also evidenced in the Scobie research that shows that those who had work-based superannuation savings (with an employer subsidy) had an overall greater level of savings and were better off.

It is important, therefore, that the proposed scheme offers the flexibility to allow for employers to make contributions on behalf of their employees.

81% of those surveyed believe that employers should contribute to the proposed generic scheme with 75% in agreement that they would accept an employer contribution as a substitute for an increase in salary.

2.3.6 Ability to access funds

It should be acknowledged that the proposed scheme is a savings product and not a retirement savings product. *Women in Super* believes that access restrictions should be introduced. It will be essential that when employees leave an employer (which is generally every three to four years) that they do not get access to such savings.

It would be difficult to justify withholding payment in the event of hardship. *Women in Super* concurs with the comment made in the Report (refer page 58) that it is difficult to support full lock-in of funds until retirement where no trade-offs or sweeteners are offered (such as tax concessions or employer contributions). We believe that there is a benefit in improving attitudes toward savings and encouraging a behavioural change where some access of funds is allowed. A middle ground would allow access to a proportion of funds, but also ensure the majority of funds are being accumulated over the longer term. *Women in Super* supports access to say 50% of the accumulated funds on the grounds of financial hardship in very restricted circumstances. In our opinion leaving employment is not grounds for hardship and access at such times should not be allowed unless genuine hardship is established. This means the ability to transfer accumulated savings to a new employer is important, as detailed below.

The ability to transfer from one workplace superannuation scheme to another is essential to prevent the opportunity for such funds being reallocated to other perceived needs, eg new car or travel. The ability to transfer and consolidate

superannuation accounts should be a compulsory feature of the proposed scheme. It is far more efficient for savers to have one account than a number of balances with different providers. There is also reduced risk of owners 'losing' their accounts.

General portability is essential, including from the generic scheme to existing employer superannuation schemes.

64% of the women surveyed by *Women in Super* agree that such savings should not be able to be accessed. Conversely, 35% believe access should be allowed.

2.3.7 The form of retirement benefits

Although lump sum payments are not ideal for women, *Women in Super* does not support annuities, which in their current form are limited and tax inefficient. In this regard we note the Report acknowledges the issues with the New Zealand annuity market as does the Periodic Review Group 2003 Report. The industry should be encouraged to provide 'retirement income' products suitable for retirees to 'draw down' their capital to supplement income in retirement. Further education on managing capital and investments in retirement should also be included in the initiatives.

2.4 The discussion on sweeteners is on pages 64-68 of the Report. Do you have any views on the need for sweeteners or their value? Do you have any views on the extent to which any sweeteners should be funded, or on which type of sweetener would be the most equitable and/or effective? What specific considerations need to be taken into account to protect the existing occupational superannuation scheme base?

As an advocate for workplace superannuation, *Women in Super* strongly suggests the Government ensures that the proposed generic scheme compliments and sits alongside existing schemes and is of no threat to the continuation of such schemes.

Women in Super has grave concerns that the proposed scheme will see the demise and winding up of existing employer superannuation schemes. It should be noted that such schemes remain a very valuable facility to save for retirement with many schemes providing more extensive benefits than the generic scheme.

Women in Super does not want to see existing employer superannuation schemes detrimentally affected by initiatives under the Report. To do so would irrevocably damage the superannuation industry as a whole. Extensive consultation is required with industry participants to work towards a consensus in this regard.

As a result of the above, we do not believe the generic scheme should offer any sweeteners, unless these too were provided in respect of existing schemes or at the very least would not disadvantage existing schemes. If any sweetener was offered in respect of the generic scheme, it should also be applicable to existing employer superannuation schemes.

85% of those surveyed do not wish the proposed generic scheme to replace any existing employer superannuation schemes.

2.5 The Report has outlined an implementation sequence for any such changes on pages 69-76 of the Report. Do you have any views on the practicalities of implementing such changes or the feasibility of the timetable that the Group has outlined?

The timetable proposed by the Report suggests that it could be possible to have most of the implementation complete by April 2006. *Women in Super* believes that this is too aggressive a target and overly optimistic and would suggest that the Government would be hard pressed to put the level of regulation and administrative processes required in place before 1 April 2007.

We believe however that rather than rushing in, the suggested initiatives should be implemented in stages, which is consistent with the 'pathway' approach of the Report. In this regard, focus on the education and information programme together with streamlining regulation should be a priority with the balance of the initiatives pursued once confirmation is obtained as to whether there is a need for government to change existing personal financial behaviours.

Women in Super is pleased to see that the Government acknowledges the need for better data in this area and is supporting the Survey of Family Income and Employment (**SoFIE**). SoFIE should be able to provide us with a wealth of data on which to better assess the extent of any savings problem.

3 Additional comments

3.1 Education and information programme.

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. Financial awareness and planning are particularly necessary for women, given their longer expected life span and the high likelihood of them living alone, particularly towards the end of their lives.

Women in Super supports good quality information through an employee's workplace, especially now that many schemes pass investment risk and decisions regarding investment options to members. In this regard educating and using HR personnel and CEOs to promote superannuation to employees is essential.

Women in Super would like to see a two-way commitment to education, focusing on both public education for women in the industry and education for issuers of financial products (a matter that has not been considered by the Report). Issuers should be encouraged to remain aware of issues relevant to women.

Education and the management of personal finances, including budgeting long-term savings, should be a compulsory part of the New Zealand school curriculum. The work undertaken by the Retirement Commission in these respects should be acknowledged. *Women in Super* would suggest the Retirement Commission should be adequately funded to be able to progress such work.

Women in Super supports the concept of trusted and independent champions and would be happy to assume such a role to carry the message about savings into workplaces. In this respect, we are currently working on our own education programme and would be happy to discuss this further with you.

84% of those surveyed agree that education is essential with 69% of the opinion that such an education programme should be run by the Retirement Commission and 81% agreeing that such a programme should be directed at employer and employees.

3.2 Parental leave

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 a member is unable to contribute. *Women in Super* recognises that in order to obtain such benefits, savings it should be locked in until retirement.

4 General

Women face a number of challenges when planning for retirement. Some of the factors affecting women include:

- 4.1 Women have a longer life expectancy than men. The evidence shows that on average women currently live three and a half years longer than men at age 65³.
- 4.2 Married women are on average two years younger than their partners⁴ and are therefore likely to outlive their partners by five or more years.
- 4.3 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 75-84 age group and outnumber men more than two to one in the over 85s⁵.
- 4.4 Women often earn less during their careers and therefore take longer to repay debt, including student debt.
- 4.5 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 parents⁶.
- 4.6 Health costs are on the rise and women are not only the predominant users of the health system particularly as they get older.
- 4.7 Fewer people now own their own home at retirement.
- 4.8 Women stop working to have children and when they return to work it is often to part-time employment and in lower pay, or to a salary and job status that does not match those of colleagues who do not take time out of the paid workforce.

Retirement is an important consideration for women as a result of the above factors. The provision of work place superannuation which facilitates savings is therefore beneficial to women.

The need to save for retirement is of particular importance to women given the above factors, as a result savings needs to be encouraged and facilitated. Work place superannuation is a means of lowering the cost of distribution, facilitating deductions and therefore making savings for retirement easier. Work place superannuation provides significant benefits particularly to women.

³ New Zealand Abridged Life Tables 1998 to 2000 - Statistics New Zealand.

⁴ Marriage and Divorce in New Zealand - Statistics New Zealand March 2001.

⁵ New Zealand Now, Over 65 1998 Edition - Statistics New Zealand.

⁶ Ministry of Women's Affairs, Towards an Action Plan for New Zealand Women.

SUMMARY OF *WOMEN IN SUPER SAVINGS* PRODUCT WORKING GROUP SURVEY

- Q1** **Should it be mandatory for employers to provide a work-based savings scheme?**
- 78% strongly or moderately agree and 16% agree (total 94%)*
- Q2** **Would a work-based savings product help you save more for retirement?**
- 81% strongly or moderately agree and 7% agree (total 88%)*
- Q3** **Should any mandatory work-based product have an opt-out provision?**
- 43% strongly or moderately agree and 27% agree (total 70%)*
- Q4** **If in joining a new employer, enrolling in a work-based savings product was mandatory, I would opt out after 30 days?**
- 82% strongly or moderately disagree (excluding n/a responses)*
- Q5** **The opting out period should be longer than 30 days?**
- 61% strongly or moderately disagree (excluding n/a responses)*
- Conversely, 39% agree the opting-out period should be longer*
- Q6** **My current employer scheme should be replaced by the proposed generic product?**
- 85% strongly or moderately disagree (excluding n/a responses)*
- Q7** **If the proposed generic product scheme is introduced, I will move my current savings in my work-based scheme to the proposed generic product?**
- 76% strongly or moderately disagree (excluding n/a responses)*
- Conversely, 24% agree they would move their current savings*
- Q8** **Contributions should only be made on income over \$16,712 p.a?**
- 33% strongly or moderately agree and 25% agree (total 58%)*
- Q9** **Individuals should be able to access their savings?**
- 64% strongly or moderately disagree*
- Conversely, 36% agree to access*
- Q10** **Employers should contribute to the proposed generic product?**
- 51% strongly or moderately agree and 30% agree (total 81%)*
- Q11** **I would accept an employer contribution as a substitute for an increase in salary?**
- 46% strongly or moderately agree and 29% agree (total 75%)*

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- Q12** I would only remain in the proposed generic product if a “sweetener” is offered, e.g. no administration fees, access to life insurance etc.
- 36% strongly or moderately agree and 30% agree (excluding n/a responses) - a total of 66%*
- Q13** An essential part of the success of a work-based savings product is education, information and promotion.
- 84% strongly or moderately agree and 13% agree (excluding n/a responses) - a total of 97%*
- Q14** The Office of the Retirement Commission should run any education programme
- 69% strongly or moderately agree and 26% agree (excluding n/a responses) - a total of 95%*
- Q15** Any education programme should be directed at employers and employees.
- 81% strongly or moderately agree and 16% agree (excluding n/a responses) - a total of 97%*