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Financing retirement at the individual and couple level

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INTRODUCTION

The majority of research into retirement adequacy presents the financial position of those in retirement at the individual level. This is reasonable as superannuation is accumulated by individuals. However, seven in every ten people aged 55-84 live with a spouse or de facto partner according to the 2006 Census, and the financial situation of the spouse or partner will have a significant bearing on one's own living standards. A more complete picture of retirement income adequacy is gained from looking at the financial situation at this 'couple' level.

This paper will assess how family relationships affect superannuation and other wealth among pre-retirees and recent retirees in two ways: first, through gaining the benefit of the current spouse's retirement income; and second, receiving a share of the spouse's wealth through divorce or widowhood.

The paper briefly summarises the retirement income system in Australia and then considers the superannuation balances of individuals highlighting the low balances of women in comparison with their male counterparts. Research is then presented which looks at the superannuation balances of women and their partners. The paper then considers the impact of a couple separating and provides projections of future superannuation balances for women with different marital statuses.

RETIREMENT INCOME IN AUSTRALIA

In Australia, there are predominately three forms of retirement income provision.

The first is a publicly provided safety net, the age pension, provided to all Australians aged 65 and over subject to residency requirements, an income test and an assets test. The age pension is set at a little over one quarter of average male ordinary time earnings. While the

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system considers the economic means of the family unit when calculating entitlements, it pays the pension to each individual. Currently 77 per cent of Australians aged 65 and over receive at least a part pension. The Australian Treasury's Intergenerational Report projections for the next forty years have the proportion of people receiving the full pension decreasing but only a small decrease in the proportion being entitled to a part pension (Treasury 2010). While the age pension provides only a modest existence to an individual, it is a very substantial component of government outlays, increasing from 2.7 per cent of GDP in 2009-10 to 3.9 per cent of GDP in 2049-50.

The second form is compulsory superannuation. It is an employment-related, defined-contribution scheme and was made compulsory in 1992. Any employee who earns more than $450 per month[2] has a superannuation contribution made by their employer. The contribution is a percentage of their wages (currently nine per cent) and is placed in the employee's superannuation account. These funds are invested and are accessible at retirement as a lump sum or as an income stream. Compulsory superannuation has the twin benefits of improving retirement living standards for the individual, and reducing government budgetary pressures from demands on social security as the population ages.

The third form of retirement provision is voluntary superannuation and other savings. Grants and tax incentives exist to encourage people to make additional voluntary contributions into superannuation, to improve the chances that individuals and households will have comfortable living standards in retirement with minimal reliance on the age pension. In addition to using superannuation as a retirement savings vehicle, some people provide for their retirement by saving and investing outside the superannuation system, for example through term deposits, equities and investment properties. However, the bulk of wealth accumulated for retirement (outside of the family home) is in superannuation.

Distribution of Superannuation

Individuals

In 2007, 83 per cent of females aged 45-54 had superannuation accounts compared with 87 per cent of males (ABS 2009). This suggests that superannuation coverage is quite high for both men and women and that the majority of men and women have 'some' superannuation. However, there is ample research showing that women have less superannuation than men in similar circumstances, due to lower wages and more time out of the labour force to have children. The most recent data on superannuation balances by age and sex is from the ABS' *Employment Arrangements, Retirement and Superannuation, Australia* series (ABS 2009). Table 1 shows the proportions of people with a given range of superannuation by age and sex. There is little difference in the proportions by gender in the youngest age group (15-24), but at older age groups women are more highly represented in lower superannuation bands, while men are more likely to be in a higher band.

2 There are some other employees excepted from having compulsory payments made on their behalf but the vast majority of employees are covered by superannuation.

Table 1 Superannuation balances (accounts in accumulation phase) by age group and sex, 2007

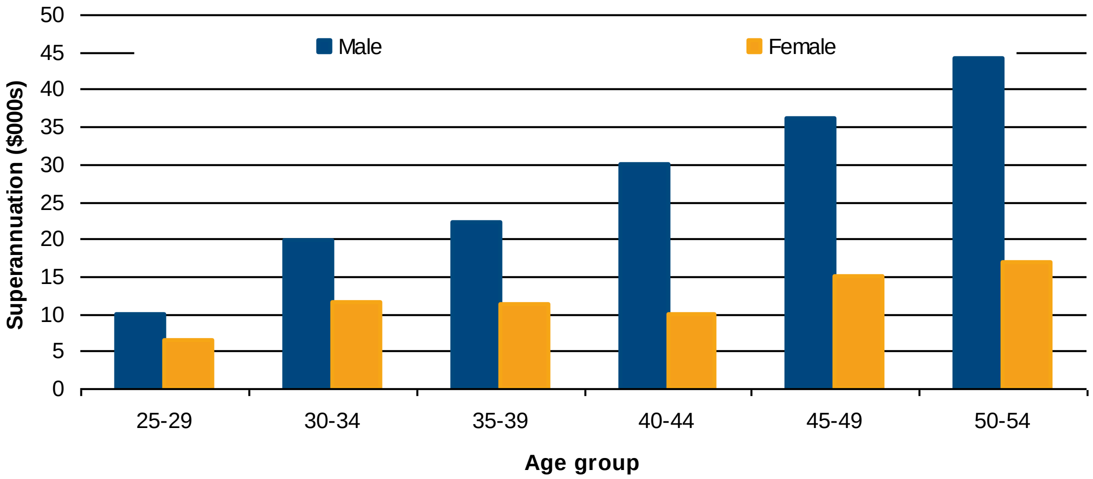
Age Group	$1-$10K (%)		$10K-$25K (%)		$25K-$50K (%)		$50K-$100K (%)		$100K+ (%)	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
15-24	74.4	75.1	6.8	6.5	0.8	0.9	0.1	0.2	0.0	0.0
25-34	29.9	36.5	26.5	29.5	20	15.8	8.6	6.2	2.2	1.0
35-44	13.4	26.0	15.1	20.6	21.3	19.2	21.3	15.3	17.0	8.6
45-54	11.2	19.4	9.7	20.1	16.3	18.9	18.2	14.2	35.4	18.1
55-64	9.5	12.4	7.5	13.8	13.7	15.9	16.4	17.4	43.4	31.2

Note: Numbers do not sum to 100% due to unknown balances. People with no superannuation accounts are excluded.
Source: (ABS 2009)

For example, one in five women (19.4%) aged 45-54 have less than $10 000 in superannuation, compared with one in nine (11.2%) men of this age. Men of the same age group are almost twice as likely as similarly-aged women to have more than $100 000 in superannuation (35.4% and 18.1% respectively).

Research by the authors based on data from the ABS 2005-06 Survey of Income and Housing Costs and including those with zero balances produces a similar distribution of superannuation.. The median superannuation balance of women aged between 30 and 54 was less than half that of similarly-aged men - $12 000 as opposed to $27 000. Once again the difference in superannuation starts out small, and increases over the life course – see Figure 1.

Figure 1 Median superannuation balance by age group and sex, 2005-06



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Note:
Source: ABS Survey of Income and Housing Costs, 2005-06

Among people aged 25-29, women's superannuation balances are 65 per cent of their male counterparts. In contrast, in the 50-54 age group the proportion drops to 38 per cent. One reason for this drop is the impact of child-rearing. There is almost no change in the median super balance of women from their early thirties to their late forties, although the latter have had more time to accumulate superannuation. The median superannuation balance of men more than doubles over the same period.

WOMEN

A growing body of literature is developing in Australia concerning the lower levels of superannuation among women in Australia – see for example (Australian Human Rights Commission 2009, Jefferson 2005, Vu and Doughney 2009). All of the literature acknowledges that women, on average, have less superannuation at retirement than their male counterparts. A number of reasons are provided for this lower balance and these reasons are discussed in the following paragraphs.

Women have lower lifetime earnings than their male counterparts and superannuation is strongly tied to lifetime earnings – not only because superannuation is accumulated as a percentage of wages, but higher-income individuals are more likely to make voluntary contributions to superannuation (ABS 2009). The reasons for women earning less than men on average, includes workforce experience (Drolet 2001), occupational segregation (Petersen and Morgan 1995) and employment industry (Gannon, et al. 2007). However, recent literature suggests that the gender wage gap is shrinking (Weichselbaumer and Winter-Ebmer 2005), and when hours worked, industry, education, and experience are properly taken into consideration.

Another reason women have lower superannuation is that women spend less time in the labour force than men. Women are more likely to take time out of the workforce to raise children. This reduces the length of their working lives (Jaumotte 2003) and as shown in the previous section significantly impacts on their superannuation contributions and balances. Even if they do continue to work, they are more likely to work part-time, further reducing their earnings. Also, women, on average, tend to retire earlier than their male counterparts. This further reduces their superannuation contributions.

Prior to compulsory superannuation, some people received superannuation through employer schemes. These schemes were often limited to white-collar, permanent employees which meant that men were more likely to be beneficiaries of these schemes than women (Nielson and Harris 2008).

Up until 2002, superannuation could not be divided upon divorce. The Family Law Legislation Amendment (Superannuation) Act (2001) amended the Family Law Act to allow divorcing partners to divide superannuation as part of divorce settlements. From 28 December 2002, superannuation can be transferred from one partner to another upon divorce (although arrangements are complex – these are explained in detail in Sheehan et al, (2008)). Prior to this reform, superannuation could not be shared, which meant that divorcing women who had given up work to support husbands did not receive any part of their husband's superannuation, or a compensating amount in property or cash. In practice, women tended to receive the bulk of 'domestic' assets, such as the family home and contents, while men tended to receive most of the 'financial' assets, including superannuation (Sheehan 2002). The 2001 amendment was an important development in family law as superannuation has become an important component of household wealth and including it helps to reduce the risk of poverty among divorced in retirement. However, there is no *requirement* that superannuation be split upon divorce – the law is flexible regarding the split of assets, and this legislative changes added superannuation to the pool of assets available for splitting, and provided a mechanism for it to be split if the settlement provided for it.

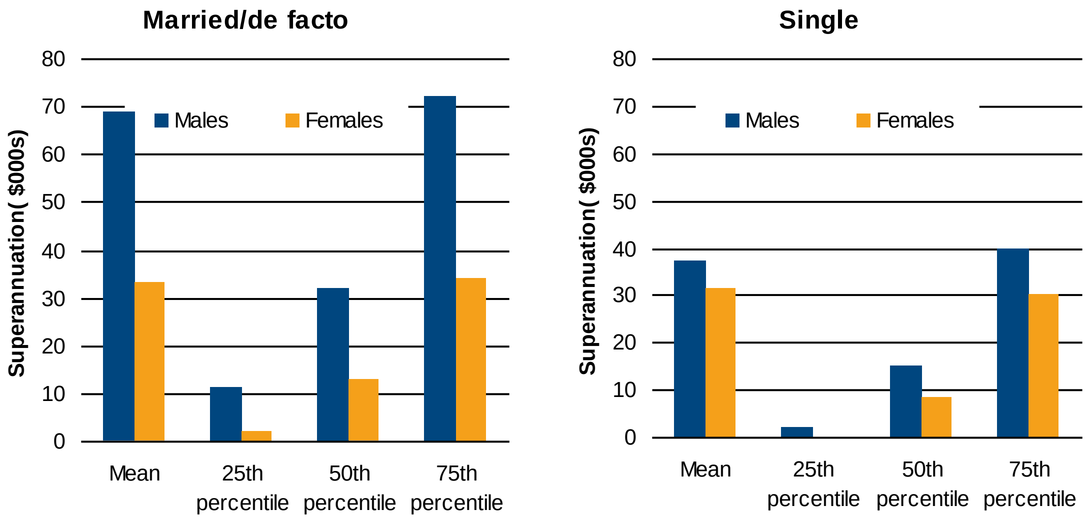
Finally, while women have lower superannuation than men, they tend to live longer than men, which means that on average, their total retirement income needs will be greater.

COUPLES

In considering superannuation at the couple level rather than the individual level, this paper will first compare superannuation wealth by sex and marital status. Figure 2 shows the superannuation balances of 30-54 year olds by sex and whether partnered (married/de facto) or single (separated, widowed, divorced or never married).

As one would expect from previous research findings, men have more superannuation than women. What is notable from Figure 2 is that while there is little difference in the distribution of superannuation wealth between single and married/de facto women (married/de facto women have a little more), there is a large difference between the superannuation wealth of single men and partnered men. Across the distribution, partnered men have around twice the superannuation of unpartnered men. There are a number of potential reasons for this; first is that the average age of partnered men in the sample is slightly older than unpartnered men, thus they have had more time to accumulate superannuation. Second, there is a large body of research that has noted that married men tend to earn more than single men on average. There are a range of reasons suggested for this observation, for example see Chun and Lee (2007), Cornwell and Rupert (1997) and Korenman and Neumark (1991). Finally, some of the unpartnered men are divorced or separated, and a portion of their superannuation may have been transferred to their partners or spouses as part of a divorce settlement.

Figure 2 Superannuation balances of 30-54 year olds, by sex and social marital status



Source: NATSEM calculations based on Survey of Income and Housing Costs, 2005-06

This suggests that the relatively high superannuation levels of partnered men compared with partnered women and singles may be able to offset the lower superannuation balances of female partners.

COMBINED SUPERANNUATION

It is possible that low superannuation balances among partnered women may be of little public policy concern if women with low superannuation balances are in relationships with men with high superannuation balances. The presumed pooling of household resources would mitigate the lower balances of women. However, this pooling is only likely to be of benefit if women with the low levels of superannuation are in relationships with men who have substantially more superannuation than them – if women with inadequate superannuation are in relationships with men who also have inadequate superannuation, then pooling with have little or no benefit.

The following charts and tables also use data from the ABS 2005-06 Survey of Income and Housing Costs, to look at wealth and superannuation among singles and couples. Household-level and income unit level data was not used as this can be 'contaminated' by superannuation holdings of children living at home. Instead, respondents' records were matched with those of their marital or de facto partner, if one existed, and their superannuation balances were summed. The superannuation balances of 1,326 people aged 45-54 and their marital or de facto partners were compared by sex. Specifically, women's superannuation balances were compared to their husband's superannuation balances, to consider how many women with low superannuation balances could rely on a rich (defined here as a person with a high superannuation balance) husband. (For convenience, the remainder of this paper will refer to people's social marital status rather than registered marital status; that is, the terms 'married', 'spouse', 'husband' and 'wife' will be used for de facto couples as well as those in registered marriages.)

These results are shown in Table 2. This table shows the percentage of heterosexual couples by the superannuation bracket of the wife and the husband. The majority (61%) of married women aged 45-54 had less than $25 000 of their own superannuation, and almost half (44%) of these women had a partner with a similar level of superannuation. Only one in eight (13%) of these women with very low levels of superannuation had a partner who had a high level of superannuation ($150 000 or more).

Table 2 Distribution of superannuation of females aged 45-54 with partners and distribution of superannuation of male partner, 2005-06

	Wife's Superannuation				
	$25K or less	>$25K & <$50K	>$50K & <$100K	>$100K & <$150K	$150K+
Superannuation Distribution of wives	61.2%	14.4%	11.5%	5.0%	8.0%
Husband's superannuation					
$25K or less	43.6%	16.7%	20.0%	8.0%	13.8%
>$25K & <$50K	18.8%	30.6%	9.6%	6.0%	3.8%
>$50K & <$100K	17.2%	24.3%	25.2%	12.0%	10.0%
>$100K & <$150K	6.9%	8.3%	14.8%	24.0%	7.5%
$150K+	13.4%	19.4%	30.4%	50.0%	65.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Note: The terms 'wife' and 'husband' are used colloquially to refer to the female and male partner respectively in a defacto relationship or registered marriage

Source: ABS Survey of Income and Housing Costs, 2005-06

What this shows is that, among partnered women, only a minority of those with low superannuation balances can feel comfortable relying on their partner's retirement savings. Simply put, women with low superannuation savings are much more likely to be partnered with a man with low superannuation than high superannuation, while women who have adequate superannuation are more likely to be partnered with a person who also has adequate superannuation. Forty-four per cent of women with less than $25 000 in superannuation have husbands in the same bracket. Compare this with the small group of women who themselves have more than $150 000 in superannuation; two-thirds have husbands in the same bracket while 14 per cent have husbands in the lowest bracket.

It must be noted here that women with low superannuation balances far outnumber women with high balances. Sixty-one percent of women had less than $25 000 in superannuation, and a further 14 per cent had between $25 000 and $50 000. Thirteen per cent had more than $100 000 in superannuation.

In summary, the majority of partnered women in this age group have low personal levels of superannuation and their partner generally also has a low level of superannuation.

What other wealth do they have?

It is possible that women with low superannuation levels may be accumulating wealth in other ways. Investing in a business, buying shares or investment properties and saving cash in one's own name or in joint ownership with a partner do not receive the same tax advantages as investing through superannuation, but these funds can be accessed prior to preservation age and for this reason may be preferred by some women.

Further analysis using the same sample was conducted on the household net assets – both its value and composition – of women aged 45-54 with low superannuation levels. Married women who had less than $50 000 of their own superannuation at least lived in households with high homeownership rates – around 85 percent of these women lived in owner-occupied housing.

Consider here the household wealth of women with low superannuation; that is, less than $50 000 in their own superannuation accounts. Table 2 shows that more than half of these women will be partnered with men who have less than $50 000 in superannuation themselves, while only around 15 percent of these women will be partnered with men who have more than $150 000. Table 3 shows the net household assets of these women.

Table 3 Household wealth of coupled women aged 45-54 with less than $50,000 in superannuation, 2005-06

	P10	P25	P50	P75	P90	Mean
	$000s	$000s	$000s	$000s	$000s	$000s
Total net household assets	139	291	484	789	1252	656
Net assets minus home equity	58	107	198	386	745	345
Net assets minus home equity, children's assets, cars and contents	52	33	98	280	648	253
Net assets minus all above and minus super	-17	-1	15	134	444	164

Source: Survey of Income and Housing Costs 2005-06

Table 3 shows that wealth is quite skewed with half of the couple households having $15 000 or less in wealth once superannuation, cars, children's assets, home equity and household items were excluded, but a few households having very high levels of wealth to give an average of $164 000. One quarter of couple households in which the woman had less than $50 000 in superannuation had negative net wealth after cars, home contents, superannuation, children's assets and home equity were excluded. However, those in the top 25 percent were reasonably well off, with well over $100 000 in assets outside of home equity, children's assets, cars, contents and superannuation. Half of couple households where the wife had $50 000 or less of superannuation had almost $100 000 in financial assets including superannuation.

While the majority of partnered women with low superannuation levels have little wealth outside of superannuation and the family home, they are financially much better off than unmarried women with less than $50 000 in superannuation in the same age bracket. These women were much less likely to own their own home (only 53 per cent do) and median household worth excluding home equity, children's assets, cars, home contents and superannuation was only $920. Only 11 per cent of such women had more than $100 000 in assets.

Jefferson (2005) considers the household resource pooling argument and critiques the argument of pooled household resources on the grounds that evidence suggests that household resources are not pooled equally and that women have longer life expectancies so will need to be saving more anyway. To this argument we add that women with little superannuation are very likely to be partnered with men who also have little superannuation, so for the majority of women, pooling superannuation cannot be relied upon to support their low expected retirement incomes.

Jefferson's argument combined with the findings in this paper suggest that among married or de facto couples, women's low superannuation balances are a policy concern because only a small minority of women who have low superannuation themselves will be able to rely on their husband's wealth in retirement. In fact this paper suggests for one quarter of partnered women their superannuation may be required to overcome negative net worth of non-superannuation financial assets and for half of these women the household financial assets outside of superannuation are insignificant ($15 000 or less).

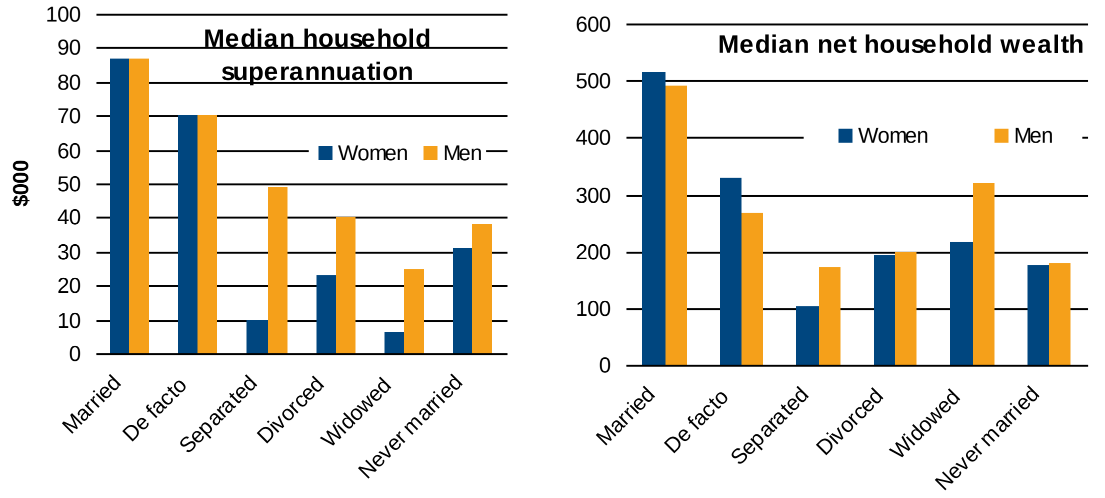
Effect of Family Status Transitions on Superannuation

The previous section looked at the extent to which women could rely on their husbands' superannuation savings to support their retirement, given that they remained married. This section considers the extent to which women with low superannuation balances who divorce or become widowed can rely on a transfer of superannuation from their husbands to support them in retirement.

The literature shows that women are usually worse off financially after divorce (Australian Human Rights Commission 2009, Smyth and Weston 2000). This section compares the wealth, including superannuation of individuals and households in 2002 and 2006, given changes in their marital status. It uses data from the Household, Income and Labour Dynamics in Australia survey from 2002 and 2006, when surveys of wealth were included. It should be noted that data from HILDA shows higher levels of superannuation than the ABS Survey of Income and Housing Costs.

On average, married people are wealthier than single people, not only because two incomes can produce more wealth than one (mean and median wealth for couple households is more than twice that of single households); but because married people are more likely to have higher incomes, as discussed earlier in this paper. Figure 3 shows the median superannuation and median wealth of male and female HILDA respondents aged 30-54 in 2006 by marital status.

Figure 3 Median household superannuation and net household wealth of persons aged 30-54, by sex and marital status



Source: Authors' calculations based on HILDA 2006

Married couples showed the highest levels of median household superannuation and median household wealth, followed by de facto couples. Widows were much poorer than widowers in terms of superannuation and net household wealth. The sex disparity in wealth was much greater among couples who had separated compared with those who had actually divorced. Of the 5548 individuals in HILDA who were in a registered marriage in 2002, by 2006 42 were in de facto relationships, 144 were separated, 74 were divorced and 134 were widowed.

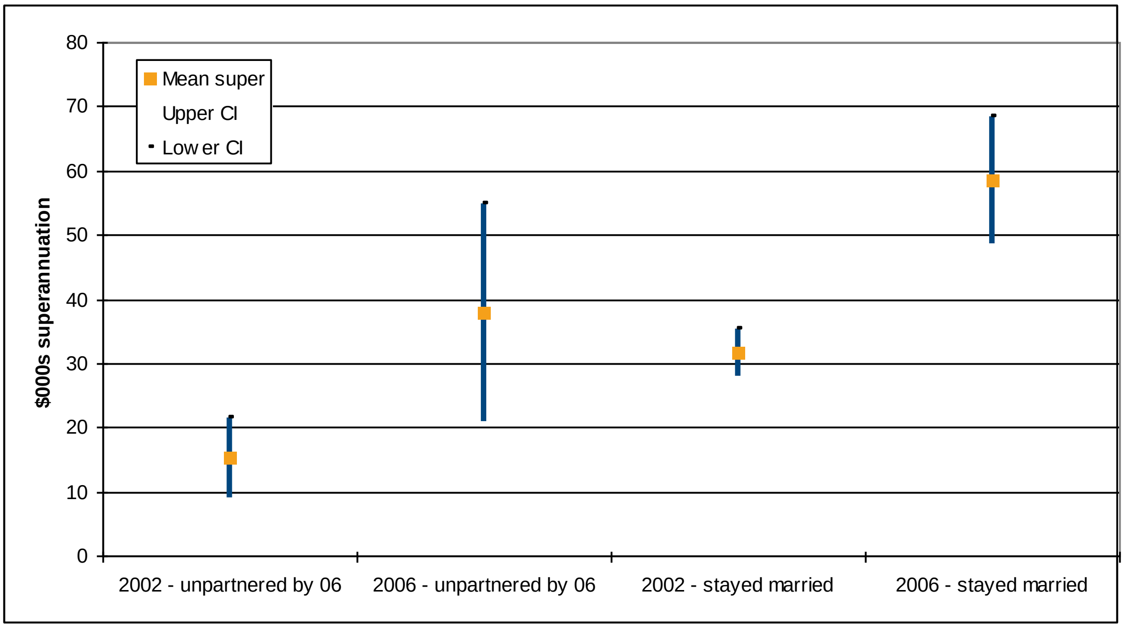
It is clear from HILDA data that couples who marry, and stay married, are financially better off than those who separate, divorce or become widowed. This may in part be due to the financial costs of losing a spouse to death or divorce and setting up two households in the latter case; also lower wealth and lower income households are more likely to separate or divorce (Sheehan 2002). We will focus on people who were married and aged between 30 and 54 in 2006, who divorced or were widowed between 2002 and 2006. Younger people are unlikely to have accumulated much wealth before this age, and after age 55 retirement is an option, along with drawing down wealth. We have excluded people who are separated, as it is more likely that asset transfers following divorce will not yet have been finalised.

First we will consider changes in superannuation wealth following divorce and widowhood. As noted earlier, in 2002, legislation came into force that allowed superannuation wealth to be redistributed between partners as part of a divorce settlement – prior to 2002, superannuation had been excluded. This may mean that among couples who divorced since 2002, superannuation may have been distributed upon divorce, resulting in an augmentation of women's low superannuation balances.

However, evidence from HILDA suggests that neither sex is receiving superannuation windfalls upon divorce or widowhood. Of people aged 30-54 who were married in 2002 and were divorced or widowed by 2006, women had an average superannuation balance of

$15 300 in 2002, while men had $84 000. When these people were divorced or widowed in 2006, these same women's superannuation balances has increased to $37 900, while men's balances had increased to $137 900. Close analysis of the data hints that a handful of households may be transferring substantial amounts of superannuation upon divorce, but these are not statistically significant given the small sample sizes. Furthermore, the increases in the superannuation balances of women were not dissimilar to those experienced by women who were also married in 2002, but were still married in 2006. Figure 4 shows the mean and 95 percent confidence intervals of women in 2002 and 2006, separated by those who were still married in 2006 and those who had divorced/become widows in 2006.

Figure 4 Changes in superannuation wealth of women who divorced/became widowed and those who remained married



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Note:

Source: NATSEM calculations based on HILDA data

Women who were no longer partnered by 2006 had lower mean superannuation in both 2002 and 2006 compared with women who stayed married over the 2002-2006 period. Although women who became unpartnered over this period increased their superannuation balances by around $17 000 between 2002 – 2006, the balances of women who stayed married showed an increase of $27 000. In other words, it is quite plausible that the increase in superannuation balances of women who divorced or separated between 2002 and 2006 is mostly, if not all, due to her own superannuation contributions and superannuation earnings.

This is perhaps not surprising – three-quarters of men and 95 per cent of women who divorced between 2002 and 2006 had less than $100 000 in superannuation, so among divorcing couples there were not substantial amounts of superannuation to be shared anyway. This is consistent with survey findings that fewer than 20 percent of divorcing couples divided the superannuation, although more than 60 percent considered the value of each spouse's superannuation in the divorce settlement (Sheehan, et al. 2008).

There is some evidence from HILDA to suggest that patterns of wealth transfer upon divorce in which the wife receives the home while the husband receives the financial assets. Of persons who were married in 2002 and divorced or widowed by 2006, 77 percent owned their homes (with or without a mortgage) in 2002. By 2006, when the marriages had dissolved, 53 percent of these females lived in their own homes, compared with 38 percent of males. In contrast, of women who stayed married over the same period, 84 percent were owner-occupiers in 2002 and 87 percent were owner-occupiers by 2006.

Changes in net household worth for men and women who separated or stayed married between 2002 and 2006 were also considered, but confidence intervals were too wide to allow conclusions to be drawn from the results.

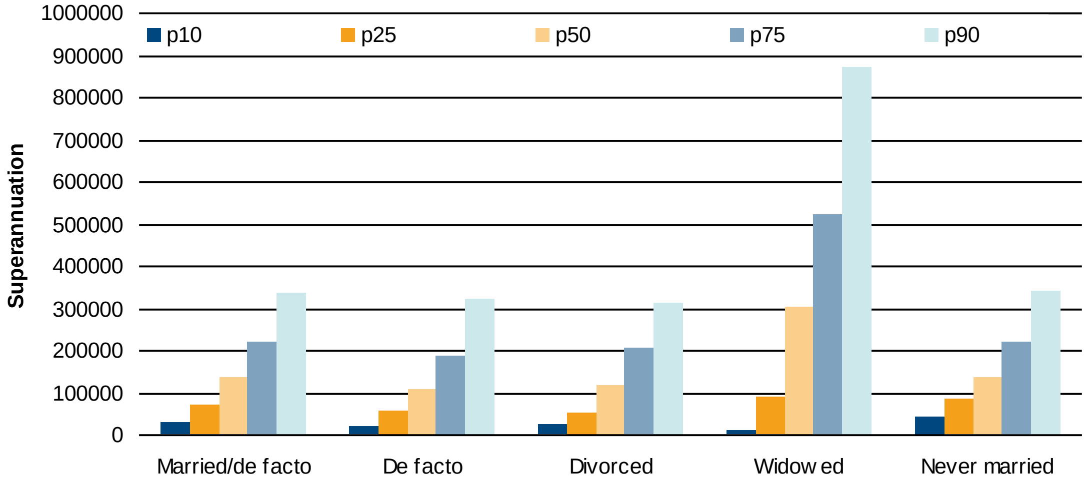
Projections of superannuation

When considering the adequacy or otherwise of women's superannuation and the extent to which their current or former spouses can make up any shortfalls, one encounters difficulty as the current superannuation system was designed for retirement savings over a lifetime of employment, when superannuation data as is available today only records superannuation wealth holdings after 10-15 years of contributions. While the superannuation savings of women expected to retire in the next five years may indeed be inadequate, many men are in similar situations, having only made compulsory contributions for a limited time. In ten to twenty years' time, when Australia's superannuation system is more mature, the shortfalls in superannuation of any particular gender or other subgroup will be more prominent.

NATSEM is currently developing a dynamic microsimulation model, the Australian Population and Policy Simulation Model (APPSIM). It uses a one per cent sample of the 2001 Census as a basefile and then moves the population forward through time, simulating births, deaths, migration, family formation, education, working, earning and saving. The aim of APPSIM is to allow projections of various aspects of Australia's population out to 2051, including superannuation. More information on APPSIM can be found at http://www.natsem.canberra.edu.au.

Since APPSIM simulates several thousand interacting individuals, including individuals forming couples and separating, with the associated asset accumulation and dissolution, it is useful for projecting how the superannuation of pre-retirement women will look in future years, when they have had more years of their working lives under compulsory superannuation. The year 2030 was chosen as the target simulation year. Figure 5 shows the distribution of simulated superannuation balances for women aged 45-54 in APPSIM (in 2010 dollars).

Figure 5 Simulated superannuation balances of women aged 45-54 by marital status, 2030



Source: Data derived from APPSIM simulations

Of all the women, widows have the most in superannuation as they are presumed to receive a transfer of all of their late husband's superannuation upon his death. The never-married women come in second, as they are less likely to have children and thus less likely to have had time out of the labour force and to reduce their working hours after having children. Divorced women do not fare well in superannuation balances as well in superannuation balances. Marital status aside, these projections suggest that as the superannuation system matures, fewer women will have very low levels of superannuation in their pre-retirement years. Earlier analysis on 2005-06 data found that three-quarters of women aged 45-54 had less than $50 000 in superannuation, projections suggest that by 2030, well over three-quarters of similarly-aged women will have more than $50 000 in superannuation in today's dollars, and the majority will have over $100 000, before their spouse's superannuation is even taken into account.

CONCLUSIONS

This paper has examined the extent to which the problem of women's low superannuation balances can be mitigated by wealth transfers from their spouses; either in-kind within marriage, or through inheritances on widowhood or property divisions upon divorce. Although some analysis was hampered by small sample sizes, the findings suggest that this marital wealth redistribution may have a substantial benefit for only a small number of women, as women with low superannuation levels are more likely to partner with men in similar situations. A handful of women with low superannuation balances – perhaps 10-20 percent – are partnered with men with substantial superannuation balances, while around 25 percent are in households with some wealth outside of the family home, personal assets and superannuation. For such women, their lack of superannuation savings will not be a problem for their comfort in retirement. However, the majority of women will not be able to rely on a man for financial support. Meanwhile, widows and divorcees who had low superannuation balances while married do not appear to be in receipt of substantial transfers of superannuation wealth upon marital separation, however larger sample sizes would have been useful in this analysis. As the superannuation system matures, women will have spent more years in the labour force under a compulsory superannuation system, and will be less reliant on their partners for financial support in retirement.

This paper finds that concern regarding low female superannuation balances is quite justified.

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