
Women's Retirement Income

A Summary of Key Issues from the Literature

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Introduction

As the policy challenges of dealing simultaneously with an ageing population, increased costs of health care and welfare benefits, and economic and fiscal constraints, an increased expectation for self-funding in relation to retirement income is being encouraged in New Zealand. At the same time, there is recognition that universal provision has served us well in the past. Issues of affordability aside, the beneficial impacts of that system (in particular its simplicity and transparency) should not be lost in the recognised need to develop and maintain an alternative retirement savings scheme for the future. One of the key points of debate in exploring the tensions between these policy goals is the desire to ensure that a range of demographic groups in our population (women, Māori, Pasifika, migrants, people with disabilities) are not disadvantaged in relation to the general population.

This paper is a short summary of key themes around women and retirement savings. It has been prepared for the Commission for Financial Literacy and Retirement Income (CFLRI) by Heathrose Research, and is designed for a public audience. It is based on a stocktake of research published in 2009 and available at <http://www.cflri.org.nz/files/file/RIR-2010%20REVIEW-HEATHROSE.pdf>. This updated summary draws on the main themes outlined in the 2009 paper and New Zealand and international reports and research completed since then¹.

As a foundation for the paper, we draw on three issues from the literature, that underpin the discussion presented.

The first is the definition of retirement income. In most western economies, this is made up of 3-4 different components². The first of these is a basic level of income security, often provided through public welfare provisions, and available to all. On top of this retirement income may be supplemented by pension schemes (such as those provided by an employer) and/or by savings or return on investments. Increasingly, retirement income is seen as including earnings from paid work performed after “retirement age” – reflecting a social change where retirement is a process of transition rather than a discrete event.

¹ The method used for this review is as follows: A Google Scholar search was undertaken of publications in Western countries since 2009 using the following terms: women and “retirement savings”, “retirement investment”, “kiwisaver”. Forty-eight abstracts were identified as being partially relevant, 15 of these (selected by the CFLRI) were read in full. This review also draws on material analysed for the 2009 review where no later research has been undertaken.

² Hartmann and English (2009).

The second is that financial retirement planning can be seen as falling into two broad categories – financial preparedness, and retirement thoughts and planning behaviours. The distinction between the two is based on the differences between an accumulation of wealth and/or ownership of property, and the extent to which individuals have thought about retirement and discussed it with others³.

Thirdly, analysis of retirement income and savings issues benefit from both a gender analysis, and a life course perspective. A gender analysis considers the impacts of policy setting on the different life experiences of women and men. A life course perspective suggests that individuals face choices at different times in their lives, based on their experiences from the past and expectations for the future. Life course perspectives also recognise the influence of the culture and ethnicity, and the social and economic environment in which individuals make economic decisions.

This paper uses these concepts to discuss issues related to retirement income for women in New Zealand. Its conclusions are that although the retirement savings and income situation for women in New Zealand is better than in many other countries, that women are still disadvantaged in comparison to men. In addition, it suggests – in line with research carried out in other countries⁴ - that despite the fact that inequality between women and men has decreased, this has largely occurred as a result of better-educated and higher-income women making gains.

What is the problem?

In general, at the age of retirement, women have less income from savings, investment or retirement schemes than men. Added to this is the fact that women live longer than men, so that whatever savings or investments they have need to be stretched over a longer period of time. One study of household wealth and savings in New Zealand shows that overall average net worth for women is about 86% of that of men⁵. This ratio differs, however, by age, ethnicity, education, home ownership and family status.

The reasons for this state of affairs are complex. In New Zealand up until the 1970s, women were less likely to be employed than they are now. The general pattern for women was to work up until the time they were married and leave the labour force at the time they had children, or continue to work part-time. In terms of retirement, women of previous generations were reliant for retirement income on state provision, supplemented in some cases by any pensions available to their male partners.

This pattern has changed in a number of ways. Firstly, women are more likely to be employed, and at around 63%, New Zealand has one of the highest rates of labour market participation for women in the OECD. As has been noted in a Canadian context, tomorrow's female retirees will be the first generation of women to have

³ Noone, Alpass and Stephens (2010).

⁴ See particularly, Holden and Fontes (2009).

⁵ Trinh, Gibson and Stillman (2010).

been in the labour market for the bulk of their adult years. In addition, women are also staying in employment for longer, with increasing numbers of women (and men) staying in employment past the age where they are eligible for National Superannuation.

Secondly, patterns of marriage and family formation have changed. More women are single for some periods in their life, couples are more likely to separate or divorce, and more women are heading sole parent households. This means that they have a greater need to be economically independent in retirement than in previous years.

Lastly, as our national health status improves, life expectancy is increasing and people therefore need a retirement income that lasts for longer. In general women outlive men, which means that married women are more likely to outlive a spouse. They therefore need to have their own savings and assets on which to rely.

The rest of this paper looks in more detail at the reasons for women's generally lower levels of retirement savings and income. It starts by looking at factors that emanate from patterns of employment, moves on to consider how the domestic division of labour contributes and finally, looks at financial literacy and financial planning by women.

Labour market factors

In an extensive review of the issues, Hartmann and English (2009)⁶ note that it is labour market and workplace factors which are most commonly identified as resulting in women's retirement income being lower than that of men. These relate to labour force participation, earnings, and occupational segregation. In addition, other authors have drawn attention to the way in which workplace culture and practices can impact differentially on women as opposed to men.

Labour force participation and earnings

Although New Zealand women have a rate of labour force participation that is higher than in many other countries, it is still lower than that of men at all ages. As at December 2011, women had a labour force participation rate of 62.7% as opposed to a rate of 75% for men. This occurs mainly as a result of the fact that women are more likely to take time out of the labour force to undertake the bulk of the responsibility of caring for young children and older parents.

In addition to lower rates of participation, women are more likely to work part-time, particularly during the time that their children are school-aged. Therefore, over the course of a life-time, women work considerably fewer hours than men, reducing their ability to save. Career interruptions may also lead to a deterioration in women's labour market and promotional opportunities.

⁶ Hartmann and English (2009).

This is exacerbated by the fact that women's wages tend to be lower than that of men. Earnings data for women and men also reveal a difference in real median hourly and weekly earnings. The New Zealand Income Survey for the June 2011 quarter shows that median hourly earnings for male wage and salary earners were \$21.58 and median weekly earnings were \$920. In contrast for female wage and salary earners, median hourly earnings were \$19.50 and median weekly earnings were \$663. While the ratio of female to male wage and salary income for those in full-time employment is the highest it has been since the survey began in 1997, the fact that women are more likely to work part-time puts them at a significant disadvantage in being able to save for retirement.

The gap between the wages of women and men cannot be explained by differences in qualification or by the types of jobs in which women and men are employed. An analysis of the incomes of students leaving tertiary study shows that for students leaving study in 2009, after one year the income of males was 6.5% higher than women. In addition this gender gap grows over time. For the cohort of students who left study in 2006, the income gap related to gender at the time they left was 8.6%, but five years later had grown to 18.6%⁷.

Occupational segregation

Occupational segregation refers to the phenomena in which women and men tend to be employed in different occupations, and that those occupations in which women are employed are often lower-paid than those in which men are employed.

Occupational segregation has changed over time, with many more women moving into occupations that were previously regarded as male, particularly in professions such as medicine, accountancy and law. Not only are these jobs better paid, they are also more likely to have associated retirement savings plans, including employer contributions.

However, the extent to which this will lead to greater equity over all can be challenged. A study of the occupational choices, conducted with New Zealand secondary school students, was repeated at three points in time⁸. This found that while there was a significant shift in girl's preferences away from female dominated occupations from male dominated occupations between 1979 and 1995, very little change had occurred between 1995 and 2010. In addition, other researchers have suggested that where increased gender equality has occurred, this has been as a result of gains made by relatively well educated women. At the other end of the labour market, women with lower levels of education are more likely to be employed in jobs where pensions are less often provided and are less likely to participate in those schemes⁹. This is also supported by New Zealand research that shows that occupational segregation is still strong in the traditional trades area¹⁰.

⁷ Statistics New Zealand (2011).

⁸ Pringle (2010).

⁹ Holden and Fontes (2009).

¹⁰ New Zealand Council for Educational Research (2008).

Occupational segregation operates vertically as well as horizontally. That is, women are much less likely to be employed in higher paid positions in organisations. It has been suggested that over time, as women become more highly educated, that they are better positioned to apply for, and get, senior management positions. Carter and Silva (2010) however challenge the success of this “pipeline” theory¹¹. Their examination of the career path profiles of 9,927 men and women who graduated between 1996 and 2007 from MBA programs at 26 leading business schools in Asia, Canada, Europe and the US found that women lag men in advancement and compensation from their very first professional jobs and are less satisfied with their careers overall.

Workplace practices

Workplace culture and practices have also been identified as having an impact on the extent to which women are able save for retirement, with women seemingly experiencing workplaces in quite different ways to men. For example, in the study of MBA graduates mentioned above, while women and men left their first jobs at similar rates, men were more likely to leave their first post-MBA job for career advancement, while women are more likely to have left because of a difficult manager. This finding is echoed by a study carried out in Australian banks, which found that discriminatory practices and unwelcoming work environments marginalised many women and resulted in them leaving their organisations¹².

A workplace culture of working long hours in order to advance in a career can severely disadvantage those, generally women, who have responsibilities for caring for young children. In New Zealand, legislation provides for employees who have caring responsibilities to request flexible working arrangements, but in many workplaces, these are generally only made available to cater for the needs of women on the “Mummy track”¹³.

Domestic Issues

There are a number of other factors impacting on women’s ability to save or accumulate wealth that are a result of domestic factors, and life choices. In some areas, there is no doubt that the gender gap is decreasing. For example, a number of women are delaying child-bearing and having a smaller number of children. This allows for a longer period of time in the labour force, and higher overall life-time earnings. However, some specific groups of women may continue to be disadvantaged. For example, Māori women, Pacific women, women from a non-English-speaking background and women with disabilities are all more likely to have low levels of savings.

¹¹ Carter and Silva (2010).

¹² Vu and Doughney (2009).

¹³ See for example, the Ministry of Women’s Affairs (2010).

The prime factor impacting on savings and wealth accumulation remains the domestic division of labour and the fact that women continue to be responsible for the majority of unpaid work, including caring for children. The New Zealand Time Use Survey 2009/2010¹⁴ shows that gender roles and social expectations influence time use patterns. Males and females both spend about 6.75 hours a day in “productive activities”, although the majority of men’s productive activities were related to paid work (63%) while the majority of women’s were unpaid activities (65%). In addition, women spend on average an extra hour and 45 minutes a day on productive activities, mainly doing much more unpaid work for their own households than men with the same labour force status.

It has long been noted that women’s domestic roles, and in particular their caring responsibilities, limit their access to economic resources. Even amongst women who continue in employment while they are raising children have been found to earn substantially less than women without children¹⁵. In addition, New Zealand research has shown that women tend to earn less on return to work from parental leave, whether or not they return to the same employer¹⁶.

How money is spent within households is an important dimension of understanding the range of competing demands on women’s income and earlier reviews have noted the New Zealand research suggesting income sharing uses a variety of methods is common¹⁷, and the extent to which women use their own finances to maintain households compared to male partners is unknown. According to Kell et al (1994), women’s earnings are more likely to be spent on day-to-day expenses of the family with a traditional division of expenditure where women’s earnings are spent on short term consumption and men’s income spent on larger items like mortgages, cars and investments.

Difficulties for women can become exacerbated when couples with children separate or when a partner dies. The number of one-parent households has been increasing over time, and is forecast to increase, from 198,000 in 2001 to 251,000 in 2021. Most of these one-parent households are headed by women, and separation/divorce has been shown to have a negative impact on women’s financial circumstances, with serious implications for retirement income, particularly where women have not previously been closely involved in household financial decision-making¹⁸. Similarly, Holden and Fontes (2009) argue that retirement security is often tied not only to an individual’s own resources, but to those accumulated by a spouse. How assets (including superannuation contributions) are divided upon separation or divorce can have a significant impact on women’s overall lifetime earnings.

There has also been a rise in the number of one-person households, and in the number of women who are single (either never-married, separated/divorced or

¹⁴ Statistics New Zealand (2011).

¹⁵ Dixon (2004).

¹⁶ Crichton (2008).

¹⁷ Kell, Easting and Fleming (1994).

¹⁸ Shek-wai Hui et al (2011).

widowed). This means that an increasing number of women will remain solely responsible for financing their own retirement. Even where women are married to a male partner, it is likely that they will outlive him, and need to be financially independent for a proportion of their later years. These trends both have significant implications for women's need for increased financial literacy. This, together with research on women's savings behaviour, is addressed in the final section of this report.

Women, Financial Literacy and Savings

The sufficiency for their retirement of women's savings and asset accumulation will depend on a range of factors including their ability to save, the type of savings they make (e.g.; financial or physical assets), their financial literacy and the expectations they have about the extent to which they expect to have to self-fund their retirement. In this respect, attitudes and expectations are likely to have changed as much in New Zealand as they have done in Australia. Using large-scale survey data, two-thirds of Australians over the age of 45 have been found to expect their retirement to be largely self-funded¹⁹. However, women are less likely than men to expect to be self-funded and more likely to be reliant on public provision. In particular, separated, divorced and widowed women had the least expectation of being self-funded.

There are two potential explanations for this. One is that women make less preparation for retirement than men. Noone et al (2010) have dismissed this argument in a study, which aimed to test the relationship between gender, socio-economic status and retirement preparation. They found that women were less financially prepared for retirement, reporting having lower living standards and being less involved in paid work. However women did not differ from men in their retirement perceptions or informal planning.

This suggests that women's lack of preparedness may be largely a function of their lower ability to accumulate wealth. As noted in the previous section, women's lifetime earnings are lower than that of men. As a result, women tend to have a lower level of average net worth. Data taken from the Survey of Family, Income and Employment (2010) has been used to calculate gender differences in net worth and savings, for single and partnered men and women²⁰. This has showed that on average, the average net worth of women in 2006 was around 86% of the average net worth of men. However when looking solely at single women, the opposite is the case, with single women having a higher than average net worth than single men.

The study also looked at savings behaviour. Among single individuals, men save over twice as much as women do, but that when partnered, men and women save around equal amounts. On average, people who are partnered save over twice as much as single people, but that may be as a result of the different age profiles of the

¹⁹ Vu & Doughney (2009).

²⁰ Trinh et al (2010).

two groups. When looking at savings made between two waves of the survey, the two characteristics associated with saving were being partnered and being female. Individuals who were partnered were still found to have saved around \$1,800 more than those that were single, while women were found to have saved nearly \$1,100 more than men with the same income levels and other characteristics.

The nature of savings made by men and women has been subject to a lot of research over recent years, with suggestions being made that women are less financially literate than men, resulting in more risk averse savings decisions that do not optimise the opportunity for growing their wealth. Some support for these ideas has been found in the 2009 Canadian Financial Capability Survey, which looked at savings in relation to gender and gender dynamics within households. This study found that households in which financial management was the sole responsibility of the male of the house were more likely to contribute to a retirement savings plan, but also more likely to have a range of financial and other tangible assets, and that the value of those assets was higher than where women had sole financial responsibility or where responsibility was shared. It should be noted however that households where the male had sole financial responsibility tended to be higher income, and therefore potentially had greater ability to accumulate wealth in the first place.

As Hyman notes in her paper on the key issues for women for the 2007 Review of Retirement Income, the universal nature of New Zealand superannuation has resulted in a system of income support for retirement which does not make distinctions on the basis of gender, (or gender-related variables such as earnings in employment). To that extent the system is highly equitable.

Since 2007, the Kiwisaver scheme has been implemented to supplement universal provision for future retirees. The scheme has been described as a “model” one because of its simplicity and the “auto-enrolment” (on a change of employment) feature²¹. As a result, it has resulted in higher than expected levels of membership, and appears to have extended its reach to a number of people who previously had no retirement savings. Interestingly, in 2010, more women were members of Kiwisaver than men, and 64% of members had an annual income of less than \$80,000. However, a recent on-line survey of 1000 New Zealanders has suggested that Kiwisaver choices are influenced by a range of variables, including gender²². In particular, in selecting the type of fund to invest in, women were more likely to invest their savings into a conservative fund, while men were more likely to invest in aggressive or growth funds.

²¹ O’Connell (2009).

²² Matthews (forthcoming).

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