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2013 Retirement Income Review Team
c/- Dr. M Menzies
Commission for Financial Literacy & Retirement Income
P.O. Box 12-148
Wellington 6144

Dear Sir/ Madam

Submission on the 2013 Retirement Income Review "the Review"

Women in Superannuation congratulate the 2013 Retirement Income Review Team on the quality of the papers that have been prepared in support of this triennial review of New Zealand's Retirement Income Policy. We have drawn these papers to the attention of the 100 or so women who are members of our organisation, and encouraged their involvement in the Review submission process. We wish you success in focusing the public's attention on the important issues raised, so as to gain traction in the political sphere.

Our submission focuses on issues with particular relevance to point 5 of the Terms of Reference, "Women's future retirement income prospects" as this is the area of greatest concern to our organisation. We cover the following topics in our submission.

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1. Pay parity & Career
2. Financial Literacy & Awareness
3. KiwiSaver & Portfolio Investment Entities (PIEs)
4. New Zealand Superannuation
5. Other Government Policies.

We look forward to reading your Report and will do what we can to ensure that the recommendations are brought to the attention of, and are debated by, our membership.

1. Pay-parity & Career A person's ability to set money aside to provide income in their retirement is correlated to their income and time spent in the workforce. It is a well-documented fact that on average, women earn less than their male counterparts. Some of this difference can be attributed to differences in qualifications, greater prevalence of part-time work amongst women, and the career choices made by women.

However income studies which allow for differences in qualifications and hours worked still show that women earn significantly less than their male counterparts. Distressingly the differences are greatest for women with higher levels of qualification. A recent example of such a study is the 2012 annual survey of the New Zealand Institute of Chartered Accountants' (NZICA). It found that, despite women making up 43% of its members, on average they are paid 26% less than male members. For the group with less than 5 years' experience the pay gap was 9% - a result likely to indicate a genuine gender pay gap. The NZICA is encouraging employers to look at what they can do to address such pay-gaps. More details of this survey can be found at http://www.nzica.com/News/Archive/2012/August/NZICA-calls-on-employers-to-tackle-the-gender-pay-gap.aspx.A differential in pay rates between men and women (especially where they are performing the same roles with the same qualifications) is simply unacceptable and will impact on the ability of women to make adequate provision for their retirement due to lower levels of disposable income during their working lifetime. Further effort needs to be put into action to achieve pay-parity and to stamping out discriminatory practices. Human resource practitioners and governing bodies need to focus in this area and it would be good to have role-model behaviour demonstrated by the State Sector and other large employers.

Young women need to be mentored to think broadly during their years in primary and secondary education so as not to limit their career prospects. It would be nice to think that today's young women are not subject to influence by stereo-typically female roles when considering their career options, however, The Students' Occupational Choice Survey commissioned by the Ministry of Women's Affairs would suggest this might not be case with the following top aspirations for young women over past surveys:-

- 1979 – air hostess, typist, nurse
- 1995 – lawyer, air hostess, kindergarten teacher
- 2010 – hairdresser, kindergarten teacher, air hostess.

2. Financial Literacy & Awareness

Women in Super support the call for financial literacy to be a core component of the national education curriculum and for this to be introduced from primary school level. Financial literacy is an essential foundation skill and as a country we can ill-afford to have this skill acquired as an ad-hoc add on to the core curriculum. With credit more readily available to young New Zealanders it is important that they have a solid understanding of the implications of running up debt and are able to make sound decisions around saving and investment. This initiative will require an investment in training the trainers at the outset but we are confident that on a discounted cashflow basis it will prove to be a sound investment.

We also support the continuation and further development of the excellent work of the Commission in the Financial Literacy area. The "Sorted" website and recent campaigns such as "Shrink your Dumb Debt" have been extremely successful, and when fiscal conditions permit, we would like to see additional resource provided to enable further initiatives to be explored. Examples would be the Commission supporting the development of educationally sound and accessible financial literacy education programmes for roll out into the school curriculum and workplace and/or to have them develop a suite of financial literacy communication material and tools to be rolled out by default KiwiSaver providers.

We also see a role for the Commission and other Government Agencies (subject to funding being available) in socialising information relevant to retirement income planning. There is a great deal of thought provoking information in the papers prepared for this Review, for example:

i. the issue of cohort longevity raised in Alison O'Connell's paper and her recommendation that this be consistently used in lifetime projection calculations. Given the fundamental importance of the issue of how long one will live to adequate retirement planning, a sound projection method is warranted;

ii. the role of ongoing employment as a means of income maintenance at older ages, and the recent rate of increase in work-force participation for the over 65s set out in the Jackson, Cochrane, McMillan paper. Their discussion of the role of Age Management Planning and the Workability Index would be of value to many organisations that will be facing labour supply issues as the population ages;

iii. the home ownership rates and household-type information and projections suggest a need for a change in the style of homes that are being developed. A projection of 29% of households in 2031 being one-person households and a trend of increasing average floor area (from an average new home area of $139m^2$ to $191m^2$ over the period from 1991 to 2006) are at odds;

iv. the review of property divisions following separation and divorce undertaken by Otago University (Henaghan, Rugharts, Latu and Ballantyne) suggests that further research should be undertaken into the working of the Property (Relationships) Act 1976 as results suggest separated women are disadvantaged;

v. the impact on women of longer lives and a tendency to partner with older men on their likely household status in later years. Of women currently receiving New Zealand Superannuation only 46% are of a couple, compared to 72% of men.

Such information needs to be highlighted, debated and subject to further analysis before being used to develop policy and governance tools.

3. KiwiSaver & Portfolio Investment Entities

We support KiwiSaver as a means for making personal provision for retirement income and/or to facilitate saving for a first home. The auto-enrolment process, with opt-out feature, provides a means of entry to a savings scheme that many women would not seek out if left to their own devices, while preserving the ability for people to make individual plans if KiwiSaver is not affordable or appropriate for them.

We support the removal of the exemption from Employers Superannuation Contribution Tax that occurred in 2012. This exemption provided the greatest tax relief to those on high incomes and was not well understood by tax-payers generally. We prefer the more equitable member tax credit and kick-start enhancements as a means to encourage long-term savings. If and when fiscal conditions permit we would like to see consideration given to reinstating the original level of the member tax credit.

We note that there is currently a review of the Default Provisions for KiwiSaver Schemes. One of the features of the default regime is the investment strategy that applies for members who do not select an investment option. At present such strategies are required to fit within a relatively conservative asset allocation set. Evidence shows that women tend to be more conservative with their investment strategy however we are of the view that given the long-term nature of retirement saving (especially for women due to longer life-expectancy) there is room for a marginally higher allocation to growth assets in default parameters particularly if there are signs of sustained upward inflationary pressures. However any move up the risk spectrum needs to be counter-balanced by the potential for investment losses which may provoke less financially literate KiwiSaver members to cease their savings commitment.

We note the contention that a more growth oriented strategy may not be appropriate for those people using KiwiSaver as a means of saving for their home deposit but we believe this matter should be addressed by the scheme providers through their communication and education strategy for default members of their scheme.

In the event that the Government continues to operate the limited provider default scheme arrangement then we are of the view that there should be contractual undertakings as to the education and communication programme that will be provided. This is more likely to be acceptable to the default providers if template financial education material is available. As noted previously, there could be a role for the Commission in the preparation of such material subject to funding being made available for them to do this.

We would like to see more detailed analysis of KiwiSaver. Such analysis should consider the reasons behind people electing to opt-out, the impact of an employer’s remuneration strategy on employees’ decisions, and of the effect that KiwiSaver has had on overall saving rates (we understand that SoFIE may provide insight into this matter). As time progresses an analysis of draw-down of KiwiSaver assets will also be useful.

We see KiwiSaver as a supplement to New Zealand Superannuation, a mechanism for those who aspire to a higher level of income than can be expected from the universal payment. Any policy changes in this area need to be assessed against the impact they would have on women to have our ongoing support.

We note that the Portfolio Investment Entity (PIE) was created to remove the disincentive to saving for those on lower incomes that it was perceived existed through the taxation system that previously applied to collective investment vehicles. Under the regime for PIEs the tax rate that applies to an investor is generally less than his or her marginal tax rate, and if the investor has significant assets in PIEs and little other income can be considerably less than it would be if investment and income was under the same regime. It would be useful for some analysis to be undertaken to assess whether this change has removed the perceived disincentive and to analyse how the tax-relief has been shared amongst the population.

4. New Zealand Superannuation

We support the universal payment of New Zealand Superannuation and acknowledge the impact that it has on the well-being of women in retirement in New Zealand. Its universality ensures that women are not disadvantaged by lower life-time earnings, interrupted periods in the work-force, heavier demands on their time for voluntary caring duties and longer life expectancy.

We acknowledge the fiscal pressures of the current system with a specified age of eligibility and the other fiscal pressures that an ageing population creates for government. We accept that achieving intergenerational equity is a desirable objective for retirement income policy. A corollary to these statements is that we support opening a debate on reflecting increasing average lifespans in the eligibility age for New Zealand Superannuation. A caveat to this is that initial changes are introduced after a suitable period to allow a smooth transition for those close to retirement and that any later changes are also well-signalled.

We would anticipate that during the course of such a debate the issue of deferring, or advancing, receipt of New Zealand Superannuation with appropriate adjustment to the payment amount would be given some attention. It is an idea that has been floated by at least one political party (United Future) and deserves further analysis and discussion.

5. Other Government Policies.

Retirement well-being is multi-faceted and is impacted by policy across the spectrum. Outside the realm of retirement income areas of particular interest are:

5.1 Home ownership rates, affordability, soundness and safety features,

5.2 Health, access to services and quality of care, 5.3 Employment, pay-parity, flexible work arrangements, equal opportunity (for both sexes and across ages),

5.4 Education, including access to continuing education and retraining.

5.5 Monetary policy and the control of inflation.

We would be happy to expand on any of the matters raised in this letter.

Yours faithfully

Jill Spooner
On behalf of the Management Committee
Women in Super NZ.