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Can super secure a woman's future?

By Perpetual Private Insights
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Here are some stark numbers on the difference between men and women at the point when they retire:

- 80% of women are retiring without the super balance they need to fund a comfortable lifestyle.

- On retirement, women's average superannuation account balance is around $70,000 less than men.[1]

To be balanced, we should remember there are many situations where the shortfall in a woman's super balance is offset by them sharing their partner's super. But that assumes away a lot of life possibilities – particularly divorce and the early death of a male partner – and also a woman's sense of financial independence.

Women also live longer than men. A woman who was 45 in 2020 could expect to live till 86 – that's three years longer than her male counterpart.[2] So female retirees are more exposed to the dreaded FORO – fear of running out.

Why the shortfall?

Why do women have less super than men? There are multiple often-intertwined answers.

- More women work in low-paid fields like hospitality and care services. They're also more likely to work part-time. That's one reason the lockdowns of the past two years did more damage to female balance sheets.
- Many women take time out of the workforce to have children and act as principal caregiver, especially during the early years of their children's lives. ASFA estimates [3] women accumulate a 'super baby debt' of up to $50,000 – they have $50,000 less in their super because they've prioritised children. Compulsory super is based on a percentage of your earnings being saved for retirement. So the less you earn over your lifetime the less you save.
- Women are also more likely to have time away from work to care for their parents. If Generation X is the 'squeezed generation,' looking after the generation before and after, then Generation X women may be the ones squeezed hardest.

The confidence problem

According to Perpetual Private Senior Financial Adviser, Renee Condylis, one factor compounding the structural problems outlined above is women's lack of confidence when it comes to super.

"Obviously, there are women who are both informed and confident when it comes to money," says Renee. "But in my experience, many approach investing for retirement with a lack of confidence fuelled by a lower level of understanding about super – a feeling that it's way too complex. That has two effects. They invest less in super than they can – and they invest more conservatively than they should. As a result, there's a real risk women's lifestyles will be constrained in the years of life after work. And those are the years they should be concentrating on enjoying themselves."

Expanding knowledge, shrinking the gap

Closing the knowledge gap is nearly as important as closing the contribution gap. “There’s a huge payoff from ‘getting to know’ your super,” says Renee.

The first step is understanding where you stand – so checking with your super fund or adviser to understand exactly how much super you have and how much you’ll need to support a comfortable lifestyle.

Many super fund managers have easy-to-use calculators that answer those questions. For a rule of thumb, ASFA suggests single people need $545,000 in retirement savings to fund a comfortable retirement. Couples need around $640,000.[4] Obviously these numbers are only guides and assume that you fully own your own home at retirement. It’s important you consider your own situation and expectations.

Renee Condylis says the next big factor for women is maximising the return on their super. “It’s another broad generalisation, but women tend to be more conservative investors than men. Over the long timespan of super saving that can really reduce your retirement balance.”

The calculators we discuss above can give you an individual view of the return difference between different investment strategies. Historically, funds that invest more aggressively (i.e., with more in shares and property and less in cash) have tended to outperform over the long term* – and that means more money to retire on.

The more you put in…

Women seeking to set themselves up for a truly comfortable retirement need to first get a handle on their super and their retirement objectives, then accustom themselves to taking a little more risk in the investment strategy.

Given that it’s highly tax effective, many would argue that women should be pouring as much money into super as they can afford. Obviously that decision is a highly personal one that must take account of a whole range of factors. Fortunately, Australian governments – left and right – are committed to making super work. So there are some excellent strategies women of all income levels can use to get more gold into their pot. Here’s a very concise look at some of those opportunities.

How you can retire with more

1. Make additional contributions

Simply put, women who are likely to take time out of work should weigh up the benefits of putting more money into super – when they can – to build up a retirement savings buffer.

Firstly, make sure your employer is contributing in line with their **Superannuation Guarantee** responsibilities – currently, they need to contribute 10.5% of your income to super on your behalf. (There’s a cap of $27,500 a year on these so-called concessional contributions.) You can also make salary sacrifice contributions, where you forgo income and direct it into your super. Those contributions also count towards the $27,500 limit.

If you don't reach the cap in a given year, you can accumulate those unused portions for up to five years. When you have the funds available you can then 'catch up' by investing up to your annual $27,500 cap and any unused cap from previous year(s). You can't use this catch-up approach if your super balance is over $500,000 but for many women it's an excellent way to consider adding to their super even if they've had a few years out of the workforce or on part-time income.

2. Bring forward contributions

You can also make non-concessional contributions of up to $110,000 a year into your super. These are contributions you make after tax – for example from your savings. For younger women in high-paying jobs, putting extra money into super – perhaps by investing a bonus, inheritance or proceeds from a property sale – may be an effective way to load up your super. Or if you do it later in your career, it's another way to catch up.

The government also allows you to 'bring forward' some contributions – investing up to three times the annual non-concessional contribution in one year – that's $330,00.[5] Again, if you have the funds, it may be a good way to make a focused push at increasing your super balance. As of July 2022, this option is available to any women under 75 (previously it was 67). So even women very close to retirement can use this strategy to improve their super situation.

3. Spouse contributions

"When a couple work together on their super strategies it can make up for some of the inherent disadvantages women face when saving for retirement," says Catherine Chivers, Perpetual Private's Senior Manager, Strategic Advice.

Spouse contributions can be part of that approach. They allow one member of a couple to contribute up to $3,000 into the super fund of their spouse – and receive a tax offset of up to $540 for doing so. The offset works on a sliding scale depending on the income of the 'receiving' spouse. To get the maximum offset the receiving spouse must earn less than $37,000 and there's no offset once they earn over $40,000. But for many women, beefing up their super via extra contributions may be even more valuable than a tax offset.

Playing as a team

Renee Condylis echoes Catherine Chivers' point about the value of a team super strategy. "Working to accumulate the maximum possible super balance – as a couple – gives you more flexibility and options in retirement."

One way couples can do this is through managing their individual $1.7 million super balance cap. The cap limits the amount of super you can transfer into a **tax-free** retirement income stream such as a super pension or annuity.

“When I work with couple clients we think a lot about how to hit each partner’s balance cap,” says Renee. “Depending on the age and existing super balance of each partner it can make sense to push more money into the older partner’s super. On the assumption that they’ll retire earlier, they can then draw down on that when they retire and generate a tax-free income for the couple to live on. Once they’ve hit their $1.7 million we can then consider a move to pump up the younger spouse’s super.”

A twisty path to a beautiful place

As you can see from this list of contribution strategies, there are numerous ways in which women can maximise their super balance and therefore improve their chance of a comfortable retirement lifestyle. But there are also a plethora of limits, caps and complexities to navigate.

“All these super strategies are a means to an end,” says Renee. “I tell my female super clients they’re like a path to a beautiful lookout. You might have to twist and turn a bit and duck under a few branches – but in the end it’s worth it because maximising your super could change your life when you stop work.”

[1] Association of Superannuation Funds of Australia (ASFA) SuperGuru website: www.superguru.com.au/about-super/women-and-super

[2] https://www.aihw.gov.au/reports/life-expectancy-death/deaths-in-australia/contents/life-expectancy

[3] https://www.superguru.com.au/about-super/women-and-super/super-baby-debt

[4] https://www.superannuation.asn.au/resources/retirement-standard

[5] How much you can contribute under this strategy may depend on how much you already have in super. Your total super balance must be below $1.48 million at 30 June of the previous financial year for you to contribute the $330,000 under the bring-forward rules. There’s a sliding scale on the ATO website that explains these limits.

*Past performance is not indicative of future performance.

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