Merewyn Groom

Beyond the Pay Gap

the retirement disadvantage of being female

Introduction

The gender pay gap in New Zealand is often discussed in terms of hourly wages or represented by the idea that women effectively work for free from 14 November until the New Year (Lawless, 2017). What isn't often considered is how the disparities in earning, promotion opportunities and time out of the workforce for family can compound into an exponential affect on retirement savings, like so much interest never received. According to the ANZ bank, the average woman retiring in 2017 will have $80,000 less in her KiwiSaver account than if she were male (Edmunds, 2017b), and the gap is growing: back in 2015 it was $60,000 (Parker, 2017; ANZ, 2015).

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To illustrate how this can play out, we follow Anna, a hypothetical New Zealander, through her adult life to see how she fares saving for her retirement. We meet Anna on her 18th birthday: she can expect to live for another 75 years (Statistics New Zealand, 2017). She probably hasn't thought about it yet but let's assume she will retire at 67, meaning she will have to fund 26 years of retirement.

Much debated, the gender pay gap is by now an indisputable fact, although the causes are complicated (Ministry for Women, 2017). If we look we can see clearly that the story gets worse when viewed through the lens of retirement savings. The effects of the many causes are multiplied, and for women the outlook isn't pretty. It seems unlikely that Anna's generation will receive government superannuation at the current level of generosity. It's even less likely that she can afford to worry about this now. First she must climb the financial hills of her student loan, and attempt to enter the housing market, before she can focus on providing for her retirement. Unfortunately, the effect of compounding interest means that failing to save early in her career will have a large effect on Anna's nest egg later in life.

KiwiSaver to the rescue?

KiwiSaver is often touted as the remedy which will enable the new generations to retire comfortably without government super. But alas, Anna's parents did not sign her up to the scheme prior to 2015. Hence, she will not receive the $1,000 kick-start payment and must start her savings from zero.

Anna completes a bachelor's degree and starts her career at 23; she gets a job with the average graduate salary of $45,000 (Collins, 2016). For simplicity's sake, let us assume that she joins KiwiSaver at the outset and contributes the minimum 3%, plus the minimum employer contribution of 3%, for her entire working life. Anna works hard and is rewarded with a 2% pay rise each year. Given a 7% return and member tax credit of $521 a year, she will save $1,213,000. It's a healthy sum, but a theoretical one, and there are a few realities standing in the way of her comfortable retirement.

After five years Anna applies for a promotion with a $5,000 pay rise. Being female she's unlikely to get it, because her employer perceives that as she's nearing 30, Anna might start a family (Economist, 2017). The promotion goes to her male co-worker. Even if he never receives another pay bump, and Anna does not take time out of her career, he'll retire with an extra $62,000 from this one intervention alone.

The cost of producing the next generation

Anna's situation worsens if she starts a family: she will suffer the 'motherhood penalty'.

> When women give priority to caring for toddlers they fall behind. A recent American study put the motherhood penalty – the average by which women's future wages fall – at 4% per child, and 10% for the highest-earning, most skilled white women. A British mother's wages fall by 2% for each year she is out of the workforce, and by 4% if she has good school-leaving qualifications. (Economist, 2017)

Using the 4% figure, given that Anna holds a degree, if she takes five years out to be a stay-at-home mum she'll return to work earning $11,000 less. This results in a whopping $339,000 less available to fund her retirement, even if Anna can return to a full-time position.

Much has been made of the new government's move to extend paid parental leave from the current 18 weeks to 22 weeks in 2018, and to 26 weeks in 2020. However, given that the payments are capped at $538.55 a week (before tax), only a little over half what Anna was earning as a new graduate at 23, she faces a major decrease in income even during this period. KiwiSaver deductions are not taken from paid parental leave unless Inland Revenue is specifically instructed to do so, and given that Anna will have outgoings to cover we can assume that she doesn't opt for this, so no help there.

Anna has a good wage so she's fairly well off compared to women in low-income jobs, such as care workers, who are likely to opt out of KiwiSaver altogether; their disposable income simply doesn't allow for such contributions. The same applies to many single parents, almost 85% of whom are mothers (O'Brien, 2017).

Things get worse again when we consider compounding factors, including but not limited to, that:

- women predominate in lower-waged jobs;
- mothers often return to the workforce on reduced hours;
- higher-paid roles which attract bonus payments and employer contributions beyond the minimum are more likely to be held by men; and
- women live longer than men.

Damsel in distress! Will a brave knight come to her rescue?

Many will dismiss Anna's plight, arguing that she will marry, and so the gender bias is neutralised by her partner benefiting from higher earnings; together things will even out. This argument is deeply flawed: by the assumptions that Anna wants to have a partner, that she would choose a man, that he is or ought to be the primary breadwinner, and that they will live happily together for the rest of their lives despite the current 50% divorce rate. For a reality check see Jane Gilmore's excellent blog post describing the financial paths of a divorced couple (Gilmore, 2017).

Divorcees and widows in middle age frequently find themselves in a situation where they are unable to find work paying a reasonable wage, as they are passed over in favour of younger applicants (Edmunds, 2017a).

The new Labour-led government has pledged to eliminate the gender pay gap within the core public sector and encourage the private sector to do the same …

What kind of 21st-century society tells a woman she should accept an unfair system on the basis that she can marry a man to improve her situation?

Solutions won't come easy

Despite discrimination based on gender being illegal for many years, New Zealand still needs policy to better address the underlying causes of the gender pay gap. Requirements to publish salaries paid by gender and other transparency measures must be implemented.

The new Labour-led government has pledged to eliminate the gender pay gap within the core public sector and encourage the private sector to do the same (Ardern, 2017). This is an admirable goal, but New Zealand law already prohibits discrimination on the basis of sex, yet the pay gap remains. Reporting from the Human Resource Capability (HRC) survey of all public service departments conducted by the State Services Commission showed that the gender pay gap for the public services was 14% in 2015 (State Services Commission, 2015). The Human Rights Commission (2016) has proposed the compulsory reporting of gender pay gaps to shine a light on the issue.

Progress is being made. The Government Communications Security Bureau (GCSB) recently reported that it has reduced its pay gap by half simply by increasing the pay of female employees who 'for no other discernible reason, were getting paid less than their male counterparts' (Kirk, 2017). To reduce the gap further the agency will need to actively recruit women for high-paying technical roles, but in this example at least half of the problem was due to simple sexism, a phenomenon which is likely replicated across both the public and private sectors. The GCSB acknowledges that it is legally and ethically right to ensure that people are being paid fairly, but there is no mention of compensation for lost wages or employer retirement contributions.

Sweden has made progress in reducing the motherhood penalty by providing 480 days of paid parental leave, three months of which is available only to fathers. This encourages dads to have a turn at being the stay-at-home parent, returning the mother to the workforce earlier, and more generally normalises time away from work to raise children, increasing the perceived value of parenting (Sweden, 2017). Some companies in New Zealand, such as MYOB and the ANZ, are recognising the issue, announcing schemes which continue employer contributions during maternity leave (MYOB, 2017; ANZ, 2015).

Retirement schemes which are tied to individual contributions increase inequality across gender and income generally. If universal government superannuation becomes unaffordable and must be rolled back, payments could be continued through an approach which included a central savings scheme funded by taxes, such as an expanded New Zealand Superannuation Fund. Costs could be reduced through means testing to target payments to those in genuine need, and avoid providing transfers to the already very wealthy. This type of arrangement increases equality, as those on higher incomes contribute more, and those who are not able to save sufficiently for their own retirement can receive a top-up to complement their private savings, ensuring a basic standard of living. High wage earners who wish to enjoy a more extravagant retirement can choose to save additional funds (Coleman, 2014, part 2.2).

Conclusion

Without meaningful and effective policy changes, Anna faces a significant disadvantage, due entirely to her gender. Attempts to legislate away the gender pay gap have so far failed, and measures to address the motherhood penalty do not go far enough. While paid parental leave offers families relief at a time of financial stress, it doesn't contribute significantly to the deficit women face over their working lives. Women who take time out of their careers to raise the next generation are hit three times: they lose most or all of their income for that period; they miss out on the employer contributions and tax credits which would have built their retirement savings; and then on returning to work they receive a significantly lower income. Increased paid parental leave is a step in the right direction, but even under the expanded policy settings it will do little to address the retirement savings issue.

The previous government's policy of increasing the age of eligibility for superannuation was significant in that it could be viewed as the first stage in a move away from a government-funded superannuation scheme which provides a liveable if basic income. Future governments may choose to move further towards a system where everyone must self-fund their retirement through private savings. In addition to penalising the generation caught up in this transition, this kind of system would be inherently unfair to women. KiwiSaver was set up to provide incentives and the mechanism for retirement savings. However, should future generations need to rely more heavily on private savings, KiwiSaver will do nothing to address the injustice of the gender pay gap and its inevitable erosion into a gender savings chasm.

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