Goldilocks and the Three Bears: the SMSF version

The retirement savings balances of women continue to be significantly lower than for men. Chris Boag recommends some areas of focus that may allow advisers to make a difference to this situation.

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We all know the story of *Goldilocks and the Three Bears*. But did anyone tell you about the struggles of being a women and having less in retirement and how a BEAR strategy – belief, education, action and results – can help?

In 2013/14, Australian women aged 60 to 64 – merely years out from retirement – had on average just $138,150 in super savings. And here's the real kicker: women also live longer than men. The average life expectancy for an Australian woman is currently at 84.3, while the average Australian male is living to 79.9.

Generally speaking, women also spend less time in the workforce. In fact, throughout the 1990s and 2000s, women spent twice as much time each day looking after children than their male partner, which has a big impact on those who are about to enter retirement today.

So women are living longer, with less money. Less than $10,000 a year, in fact. But that doesn't have to be the case. There's no reason for women to have less, so we shouldn't just accept it. This presents a burden on their quality of life, not to mention the welfare system.

Poor Goldilocks, her future looks pretty bleak.

There are a broad range of issues that need to be understood before they can be addressed. Remember Prime Minister Malcolm Turnbull and Treasure Scott Morrison have said the recent changes to superannuation legislation are designed (in part) to assist women. However, I'm unconvinced they fully understand the issues women face.

Divorce: a key event that will change your need for financial decision-making

Let's look at one of the events that is a key change in circumstances: divorce. With the following statistics we review the rate of divorce and at what age. The information here is gathered from the Australian Bureau of Statistics via the census.

The number of divorces granted in Australia has been decreasing each year since reaching a peak in 2001. This trend continued in 2007, with 47,963

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divorces granted in comparison to 51,375 in 2006, showing a decrease of 3412 or 6.6 per cent over this period. The number of divorces granted in 2007 was 9.8 per cent lower than five years ago, but only 6.6 per cent lower than 10 years ago due to a peak in the number of divorces granted in 2001.

The median age for men granted divorce in 2007 was 44.2, while for women it was 41.3. The proportion of divorces involving children was 49.3 per cent in 2007.

So you are likely to be in your early 40s if you become divorced and there's a fifty-fifty chance you will have children. Age seems to be increasing by one year in every four and we are staying married longer.

Staying married longer and getting divorced older could be due to getting married older and children staying at home longer. Does this also mean women are not part of the family financial decision-making for a longer period of time? Could this also mean women may be closer to retirement when they find themselves needing to make financial decisions? This is a critical phase where any wrong move or poor advice could be detrimental to your financial well-being.

Age and sex structure

Australia's population today is much older and has a more balanced sex structure than 100 years ago. At the turn of the 20th century, the median age was 22 and 4 per cent of the population was aged 65 or over. Men outnumbered women (by around 110 to 100) as the population had been significantly shaped by male-dominated immigration from overseas. By the late 20th century, low fertility, declining mortality and the ageing of the large baby boomer generation combined to produce an increase in the number of older people. The median age in 2011 was 37 and 14 per cent of the population was aged 65 and over. For every 100 females there were 99 males.

Life expectancy

Over the past century, life expectancy at birth in Australia has steadily increased – by around 24 years for males and 25 years for females.

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These increases are due to declining death rates at all ages, reflecting improving living conditions, resulting from advances in public sanitation, food quality and better health education, and medical advances such as mass immunisation and antibiotics. By 2011, a baby boy could expect to live for 79.9 years, while a girl could expect to live for 84.3 years, ranking Australian life expectancy among the highest in the world.

It is almost certain that at some stage in your life you will be the sole person making the financial decisions. I do have a number of clients (husband and wife) who recognise this. While the husband feels very competent in dealing with all the financial decisions, they come to us to ensure their wife, who is likely to survive them, has someone they have already established a relationship with to assist them with their financial decision-making in the future.

Findings from "Australian Financial Attitudes and Behaviour Tracker – ASIC Report 464" and "ANZ Survey of Adult Financial Literacy in Australia"

The Australian Securities and Investments Commission (ASIC) has commenced a Behaviour Tracker to understand how and why different people make financial decisions. ANZ's report broke down financial decision-making into attitudes.

Financial self-efficacy: this reflects people's self-belief in the ability to change their financial situation and their level of association with the motivational trait of a short-term attitude towards the future.

Dealing with money is stressful: an attitude that finds dealing with money matters stressful even when things are going well financially.

Impulsivity: this attitude includes a high level of association with the motivational trait of 'impulsivity' and reflects a self-image as a risk-taker.

Financial aspiration: this attitude reflects the extent to which people aspire to achieve financial success and their level of association with the 'achievement orientation' motivational trait.

- Three in five indicated they agreed with the statement 'I am confident when it comes to managing my money'. It was also found in ANZ's report that both women and men with higher levels of financial self-efficacy were more likely to have investments in shares, for example.
- More than half reported they agreed with the statement 'I spend a lot of time thinking about financial information before I make a decision'.
- Nearly three in 10 reported they agreed with the statement 'dealing with money is stressful and overwhelming'. ANZ's report found women had higher scores on average than men on 'dealing with money is stressful' across all age groups.
- Females were more likely than males to have reported that they agreed with the statement 'dealing with money is stressful and overwhelming' – 32 per cent to 35 per cent.

Women had lower scores on average than men across all age groups on impulsivity. Higher scores on impulsivity were associated with the same types of behaviours as higher scores on dealing with money is stressful. This is consistent with having less investment knowledge thus having less willingness or propensity to take investment risk.

ANZ also found women aged 28 to 59 had lower scores on average than men on financial aspiration. Among women of this age, lower scores on financial aspiration were associated with fewer assets, lower participation in paid work and lower levels of post-secondary education. Women with higher scores on this attitude were more likely to have set a target income figure for retirement and to have higher levels of investment in high-interest cash accounts, term deposits and property.

SMSF versus other:

- Of those with superannuation, the majority (74 per cent) knew their balance.
- Around one-third (34 per cent) said they knew the balance of their main fund exactly, or almost exactly, and 40 per cent had a rough idea.
- One-quarter (26 per cent) did not know their balance.
- Men (84 per cent) were more likely than women (65 per cent) to report they knew the balance of their main super fund.

However, for those with an SMSF, 95 per cent of respondents knew their balance. SMSF trustees clearly have a higher level of engagement.

How advisers can help close the gap

Simply telling your client to put more funds into superannuation is only a band-aid solution. It's not a real strategy and you need to help them develop a plan.

Look out Goldilocks! Enter the BEAR. To help clients overcome the above challenges, I recommend empowering them through the BEAR strategy:

Belief: If you have low financial self-efficacy, you will have little self-belief that you can change your financial outlook. No one but you can change this. It starts with you.

Education: Anything that is unknown is stressful. Help your clients educate themselves, which will reduce stress levels. Point them in the direction of the ASIC and ATO websites for insightful information initially, then go from there.

Action: Put together an action plan they're comfortable with. Including clear and measurable outcomes is important to ensure a satisfactory result. So the client can go 'yeah, I said I was going to achieve X, and I achieved it'. This brings us back to belief. If they don't achieve that satisfaction, they'll go all the way back to the beginning and will need to re-establish belief.

Results: This relates to financial aspiration. If you're constantly getting those results, then you're likely to keep aspiring towards higher goals.

More tips for financial advisers looking to close the gap

- Understand the differences between how men and women invest. Women are more holistic in their thinking, while men tend to be more selective.
- Look into salary sacrifice. This increases their super pool and reduces their income tax if structured appropriately.
- Help your client take advantage of the government's co-contribution scheme. If your client earned less than $51,021 in 2016/17 and made a personal (after-tax) contribution to their superannuation account, they may be eligible to receive a $500 co-contribution from the government.
- Encourage spousal contributions. As mentioned earlier, women are more likely to be the primary caregiver. So if you're seeing a couple, emphasise the importance of the partner chipping in. Those who have an annual income of $13,800 (increasing to $40,000 for 2017/18) or less can have their spouse contribute up to $3000 to their super account, and receive an 18 per cent tax rebate of up to $540.
- Consider working with a female financial adviser. After all, in 2013 just 12 per cent to 23 per cent of Australian financial advisers were women, and there are many potential female clients out there who would prefer to work with a financial adviser of the same sex.
- Consolidate your client's super. If your client has held a number of jobs over the years, they may have left a trail of superannuation accounts in their wake. Reduce their fees and help them roll it into one account.
- Consider a superannuation contribution split. If your client (the beneficiary of the split) is under the age of 65, they can receive 85 per cent of the non-concessional contribution. Given women generally have less in super and we also have the issue of transfer balance caps, this can ensure you maximise your combined benefits in the superannuation system.
- Consider a more aggressive investment strategy. In the last issue of *selfmanagedsuper*, I wrote about the use of self-funding instalment warrants in relation to attacking Division 293 tax. The strategy is also relevant when considering women will have less in their superannuation fund and providing leverage will over the long term generally increase returns, not to mention the tax benefits.

The strategies chosen for your client will depend on what suits their level of understanding and also their tolerance to investment risk and return. You need to find out how they like their porridge: not too hot, not too cold, but just right.

FINAL WORD

There are more women in the workforce than ever before, many of whom still have significant commitments at home.

And while it's all-too-easy for clients to put off improving their super situation for another time, it's imperative you highlight to your clients the long-term benefits of learning the basics today. When it comes to closing the gap, education and self-empowerment are key.

The above strategies combined with an SMSF leveraging strategy may just be enough to increase the level of engagement and total return for women to finally bridge the gap. But you need to act now before another BEARer of bad new enters the room (new legislation) and spoils your day.