PRIVATIZATION AND OLDER WOMEN'S FINANCIAL NEEDS: GENDER DIFFERENCES IN PUBLIC/PRIVATE TARGETING

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Abstract

Throughout the world, older women are generally poorer than men. In an era when Social Security programs are increasingly under challenge by advocates of savings and pension scheme administered by the private sector, there is a need to assess the relative advantages of different public/private approaches for dealing with older women's financial needs; what would happen to women if more of the burden were shifted from the public to private sectors? The paper examines Social Security targeting schemes in selected countries -- discussing differences on the basis of gender and contrasting them with various privatization approaches.

The paper begins with an overview of women's vulnerability in old age and examines the role of public and private pensions in meeting their income needs. We then discuss approaches to Social Security targeting and privatization and the special issues for women raised by these approaches. Finally, the issues and approaches discussed are illustrated by developments in the United States and Australia.

With regard to the United States, the paper presents findings from a new study that collected information on midlife and older women's knowledge of, and experience with, "financial planning." Because "success" in privatized systems is critically dependent on participants having adequate knowledge about financial markets, investment instruments, risks, and return prospects -- financial literacy is very important to the successful outcome of various privatized approaches. The new United States survey data indicate that achieving high financial literacy will not be an easy task.

The Australian section of the paper looks at recent pension innovations in that country. It focuses on the introduction of a privately managed, mandatory defined contribution scheme that is expected to gradually reduce government expenditures on the noncontributory, means-tested component to the "Age Pension" system. Again, the emphasis in this paper is on what this change is likely to mean for women.

Privatization and Older Women's Financial Needs: Gender Differences in Public/Private Targeting

I. Introduction

Throughout the industrialized world, questions are being raised about the fiscal viability of public pension schemes in the face of aging populations and the shrinking ratios of workers to retirees. A number of countries have already introduced reforms designed to slow the rate of growth in their Social Security systems, while others are debating or being importuned to consider the merits of a variety of approaches to lessen the projected burden of old-age support.

Efforts to promote the expansion of private retirement systems, foster personal savings for retirement, and encourage a longer *work* life (or at least halt the trend toward early retirement) have also proliferated in recent years. No industrial countries yet have taken the Chilean path and completely privatized their Social Security systems. But concerns about future public financing and the promised assertion of high yields through private-sector investment of retirement savings have encouraged serious debate about radical changes in existing systems.

In the United States, some reform advocates are arguing in favor of defined contribution accounts under Social Security -- adding a layer to, or replacing a sizable portion of, the current system's defined benefit. In the United Kingdom, prior to his party's defeat in 1997, Prime Minister John Major proposed replacing Britain's basic state pension with privately managed compulsory savings accounts ("The United Kingdom Elects a New Government," 1997). In Italy, as a result of legislation in 1995, pensions will eventually be based not on earnings but instead will be proportional to contributions (Reynaud and Hege, 1996).

Despite such initiatives in these and many other countries, Social Security systems remain "arguably the single most important social program in the industrialized countries today" (Midgley, 1996, p. 1). Social Security's old-age benefits are especially important to women. Women are more likely than men to lack supplemental sources of retirement income. They also live longer, which places them at greater risk of outliving their spouses and their assets, of living alone, and of needing institutional care.

This being the case, proposals to reform Social Security must be scrutinized in terms of their particular impact on women, who may be disproportionately and negatively affected by some changes. Reform may be inevitable, but the nature of the reform is not.

This paper looks specifically at whether women fare better under public or private approaches to dealing with income-maintenance issues in old age. It begins with an overview of women's vulnerability in old age and examines the role of public and private pensions in meeting their income needs. We then discuss approaches to Social Security targeting and privatization and the special issues for women raised by these approaches.

Finally we look at important policy discussions and developments in the United States and Australia that illustrate many of the issues.

With regard to the United States, the paper presents findings from a new study that collected information on midlife and older women's knowledge of, and experience with, *financial planning*. Because "success" in privatized systems is critically dependent on participants having adequate knowledge about financial markets, investment instruments, risks, and return prospects, financial literacy is very important to the successful outcome of various privatized approaches. The new United States survey data indicate that achieving high financial literacy will not be an easy task.

The Australian section of the paper looks at recent pension innovations in that country. It focuses on the introduction of a privately managed, mandatory defined contribution scheme that is expected to gradually reduce government expenditures on the noncontributory, means-tested component to the “Age Pension” system. Again, the emphasis in this paper is on what this change is likely to mean for women.

II. Women and Economic Vulnerability in Old Age

In both developed and developing countries, income inadequacy in old age is a greater problem for women than for men -- especially women who are widows and very old (Denman, 1997; Heisel, 1996; Smeeding, 1997). Walker (1993) notes that across Europe "older women, particularly widows, comprise some of the poorest and most socially excluded groups" (p. 12) -- a finding that he calls remarkable in its consistency.

In the United States, women are nearly three-fourths of the aged poor, and being a minority female more than doubles the probability of being poor in old age. While some women fall into poverty when their husbands die, a large majority of the aged poor were also poor when they were young -- at least in the United States (Choudhury and Leonesiso, 1997).

The poverty among older women around the world is due in large part to opportunities foreclosed or foregone earlier in life and choices made by (or imposed on) women with little thought to their long-range economic consequences. As reported in Denman (1997) and U.S. Social Security Administration (1997), there are only a few industrialized nations (e.g., Denmark and the Netherlands) where entitlement to an old-age pension depends only on age and residency (or on these two plus assessed income and assets, as in Australia). More common are earnings-related, contributory public pension schemes in which old-age benefits are based on years of coverage that"penalize" (or work to the disadvantage of) persons with atypical work histories.

Despite their rising labor force participation rates, women's lifetime paid work experiences are generally not comparable to men's. Child rearing and elder care still fall largely to women. Although the public pension systems of a few countries compensate for child care, discontinuous work careers and often lengthy absences for caregiving, conspire against women when it comes to qualifying for Social Security benefits. According to Luckhaus (1996), nearly half of working-age women in the European Union were not economically active as recently as 1992. For example, Ginn and Arber (1995) report for the

United Kingdom an average period in paid employment of only 27 years for women ages 55 to 69, compared to 43 years for men.

In the United States, working women have been estimated to spend an average of nearly 15 percent of their potential work years away from work in the paid labor force, largely for family reasons; among men, the comparable figure is less than two percent (U.S. Department of Commerce, 1987). The consequences of such differences can be seen in the fact that as of 1993, less than 20 percent of women in the United States (versus 60 percent of men) had accumulated a full 35 years of coverage under Social Security (Ross, 1997).

Gender segregation in the workplace is reflected in women's greater representation in occupations and industries with low wages and low rates of occupational pension coverage. A persistent female/male wage gap, along with women's shorter job tenure and disproportionate representation in part-time work, make it harder for women to qualify for occupational pensions and provide them with lower benefits when they do qualify.

In some countries, workers with wages below a certain level do not have to contribute into Social Security. According to Denman (1997), over 2.2 million women in the United Kingdom earn too little to make National Insurance contributions. Even in countries with universal public pension benefits that treat women and men equally, gender equality in old age can be an elusive goal when the universal basic pension is supplemented by an earnings-related contributory scheme.

The relatively significant movement toward gender equality in Social Security systems notwithstanding (Brocas, Cailloux, and Oget, 1990), women's worklives are not the same as men's; nor are their public pension benefits comparable. Walker (1993) reports a median income from pensions for women in Italy that is 67 percent of the median for men. In Germany, as of 1990, the average female’s pension was 42 percent of the male average. In the United States, female retired workers receive a Social Security benefit that, on average, is about three-fourths the average for men (U.S. Social Security Administration, 1996).

Although the proportion of workers with access to occupational pensions is on the rise in many countries (Kinsella and Gist, 1995), public pensions continue to be the dominant source of income among the elderly in the industrialized world; their benefits are also generally more generous than those from private plans. In the United States, one-fifth of nonmarried elderly women have no income other than Social Security (Grad, 1996). Just one-third of retired women in the United States received private pension income based on their former employment (U.S. Department of Labor, 1995). In Britain, only about a quarter of women between the ages of 60 and 69 reported non-state pension income at the end of the 1980s (Ginn and Arber, 1995). Fewer older women than men receive benefits from a Registered Pension Plan in Canada. In addition, Canadian women collected in 1992 only 60 percent of the average pension for men -- a lower ratio than in 1982 (Canadian Council on Social, 1996b).

Private pensions, however, do not (and probably cannot) provide the targeted income protection that public pension systems can. Despite the disadvantages that accrue to women under many public pension programs, there are elements of these programs that target benefits specifically to women or to low-income groups (among whom women predominate). Many of these provisions are discussed below. They include, for example, the supplemental benefits for wives that have been a part of the majority of Social Security systems (U.S. Social Security Administration, 1997).

Another provision is indexing. Women's life expectancy is, on average, about four years longer than men's (worldwide) but eight years longer in Europe (Population Reference Bureau, 1997; World Health Organization, 1996). This life expectancy difference underscores the importance to women of the automatic indexing mechanisms in most public pension schemes, mechanisms lacking in most private pensions plans. Furthermore, it reinforces the importance to women of guaranteed lifetime annuities.

Women are also the primary recipients of survivors' benefits. The income loss that many women experience upon widowhood would be far steeper were it not for these benefits. A recent study by Van den Bosch and Marx (1996) concludes that "in some countries large reductions in the poverty rate among the elderly can be attributed to an improved performance by social transfers." (p.22) Although they did not specifically identify gender differences in their examination of poverty in OECD countries, their conclusion undoubtedly applies as much to women as to men.

III. Social Security Gender Targeting

Privatization proposals may have captured the imagination of some Social Security reformers around the world, but there are other less radical approaches to containing the costs associated with supporting aging populations.[2] Greater targeting, or the directing of benefits to individuals and families most in need of them, is one of those ways. Though often associated with means-testing, targeting can be (and frequently is) accomplished in universal social insurance programs as well. Addressing the particular needs of women by restricting eligibility for certain benefits to specific categories of women is a form of gender targeting that has been a fundamental feature of social insurance programs almost since their beginnings.

Available in 111 of the more than 170 social insurance programs featured in *Social Security Programs Throughout the World--1997* (U.S. Social Security Administration, 1997), maternity benefits leap to mind when thinking about gender-targeted benefits. However, wives' and widows' benefits provided under most Social Security programs[3] have also been an important mechanism for targeting old-age benefits to women unable to provide adequately for themselves in old age.

A. Benefits for Wives and Widows

When the Social Security programs of the industrialized world were established, women were expected to marry and leave the labor force (if they were in it at all).

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[2] For the U.S., see Kingson and Schulz (1997b).

[3] Countries in the developed world whose Social Security systems do not provide for dependent spouses include Austria, Denmark, Germany, Italy, Luxembourg, and Portugal (Denman, 1997).

Although not the pattern for all women, it tended to be the norm. For the most part, married women were economically dependent on their husbands, and their entitlement to old-age benefits was tied to the pensions of their husbands. Thus, for example, in Britain, the assumption that women would not need social insurance benefits of their own is reflected in the fact that until the late 1970s, married working women could opt to make reduced contributions to the state pension system in return for a pension based on relying on their husbands for support in retirement.

As countries seek to eliminate gender differences in Social Security systems, spouse and survivors' benefits have become increasingly available to men. However, these benefits are not always on the same terms. A man must often prove his dependence on his wife or be disabled in order to collect on his wife's record. For example, in the United States eligibility criteria for full retired workers benefits under Social Security were always the same for men and women,[4] but spouse and survivors' benefits (introduced in 1939) initially went only to women or economically dependent men. It was not until the 1970s that the dependency requirement for men was eliminated. Women in the United States never had to prove dependence; it was assumed.

The result of past history is that the recipients of spouse and survivors' benefits, even in countries that treat men and women equally, go overwhelmingly to women. In the United States, 99 percent of the Social Security beneficiaries collecting as nondisabled survivors or as aged spouses are women (U.S. Social Security Administration, 1996).

Of course, growing numbers of women are qualifying for pension benefits based on their own work records and accruing credits toward an occupational pension, but the persistence of fundamentally different roles for men and women points to a continuing need for old-age benefits that address the consequences of those roles. It also raises questions about the potential impact of the phasing out of spousal and survivors' benefits that is occurring or has been proposed in some countries. The pension benefits that many women would collect based on their own work records and earnings would be woefully inadequate as their sole source of income. Wives' benefits may now be spouse benefits, and survivors' benefits may increasingly go to widowers as well as widows. But benefits that once acknowledged the economic dependency of women are still an important component of the retirement support of women around the world. They are likely to remain so for some time to come (for the US, see Sandell and Iams, 1996).

To be sure, provisions exist for social assistance to the needy elderly in almost all countries. These provisions do not specifically target women, but most recipients of social assistance benefits are women. In Canada, for example, females outnumber males (by ten to one) among recipients of the income-tested Spouse's Allowance. (Canadian Council on Social Development, 1996a). Women are over 70 percent of the aged recipients of Supplemental Security Income (SSI), a means-tested cash-income program in the United

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[4] In 1956, early retirement benefits were made available to women at age 62 in the United States but not to men. This gender distinction was eliminated when men obtained the right to receive Social Security benefits at that age in 1961.

States (U. S. Social Security administration, 1996). They also predominate among the older social assistance recipients in France and Germany (Walker, 1993).

Some countries (e.g., Denmark) have moved to abolish or phase out survivors' benefits in the interest of targeting benefits to the needy. Although women would remain the majority of recipients of such benefits, studies indicate that the stigma associated with income- or means-tested benefits may discourage many needy women (and men) from applying for them (See, for example, Drazaga et al., 1982). And such benefits are also subject to high political risk, dependent on financing from general taxation and the regular budgeting process.[5]

B. Provisions for Caregiving

A number of industrial countries provide Social Security coverage credits to certain caregivers who are unable to be in the formal labor force. Such credits tend to be available to men as well as women, but it is women who assume most of the caregiving responsibilities and so benefit more from the credits. The nature of the credits varies among countries, as do their length (which, according to Luckhaus (1996) generally ranges from six months to three years per child).

In Germany, a parent can claim credit, based on a percent of the average earnings of blue and white collar workers, for three years of child care (O'Grady-LeShane, 1993; U.S. Social Security Administration, 1997). In Austria, the credit is for 48 months (Luckhaus, 1996). In France, a parent at home rearing children gets two years of pension credit per child; France also increases the pensions of both parents involved in rearing three children (O'Grady-LeShane, 1993; U. S. Social Security Administration, 1997). Italy allows voluntary pension contributions for carers. In Canada, the years that a parent remains at home caring for a child under the age of seven can be dropped from the calculation of pension benefits. In the United Kingdom, caregiving credits are available to men and women, and the number of years required for a full pension is reduced for persons caring for an elderly person or disabled relative (U.S. Social Security Administration, 1997). In both Ireland and the United Kingdom, years of low or no earnings due to caregiving may be eliminated from the pension calculation (Denman, 1997; Luckhaus, 1996).

Other countries with pension provisions for caregiving include Luxembourg and Belgium (Denman, 1997). Under the old public pension system in Chile that was replaced by a privatized system in 1981, some women in public administration could retire earlier than the low normal pension age "by adding one year of contribution for each child born," (p. 6) -- another form of caregiving credit (Arenas de Mesa and Montecinos, 1996).

The United States does not provide special treatment to caregivers, although the Social Security system excludes from the benefit calculation the five lowest years of earnings. For women, these years are very often years of zero earnings spent in caregiving. While proposals in the United States to raise the number of "drop-out" years for various

[5] This is certainly true in the United States, where means-tested benefits are always at the mercy of a Congress that for philosophical, economic, and other reasons finds it easier to cut means-tested than entitlement programs.

forms of care (children, parents, et cetera) have been common over the years, research indicates that many women other than the more affluent would benefit from the increase. Iams and Sandell (1994) argue that lower income women cannot afford to remain away from work and therefore are not as likely to benefit from such provisions.

The caregiving credits that do exist in several countries may not fully compensate carers for their lost wages and pension contributions. Moreover, they may also serve to reinforce traditional sex roles and raise questions about why certain types of caregiving are not included. Luckhaus (1996) notes, however, that both the credit and the use of "best years" in calculating pensions "go some way towards compensating women ... carers for the inferior treatment they (as economically inactive, part-time and low-paid workers) otherwise encounter in many EU national [pension] schemes" (p. 8).

C. Different Normal Retirement Ages

In many countries of the world, the normal Social Security retirement age is lower (typically by five years) for women than it is for men -- a type of targeting that is never aimed at men.[6] The lower retirement age enables women, generally married to older men, to retire at about the same time their husbands do, a not insignificant benefit given their spouses' lower life expectancy. Some justify the lower retirement age for women as compensation for their double burden of paid work and family responsibilities.

Whatever the original justification for the difference, it has been called into question in view of: (a) women's longer life expectancy, (b) the possibility of easing women's income needs by more work years, and (c) the need to control Social Security costs.

While retirement at relatively young ages appeals to both women and men, early retirement ages may make it difficult, or impossible, for workers who want or need income from employment to continue to work. Women who might well benefit from remaining at work may thus be disadvantaged by a targeted provision designed to benefit them. In any case, most retirement age gender differences in developed countries have been (or are in the process of being) eliminated.

D. Pension Formulas and Income Redistribution

Except in countries where age and residence entitle both men and women to a flat-rate pension regardless of earnings, women find it more difficult to qualify for pension benefits because of their interrupted careers and their large amounts of part-time work. Moreover, as noted above, pension benefits based on years of work and earnings result in lower benefits and often little or no income from occupational pensions.

Nonetheless, women benefit from the redistribution of income that is a feature of most public social insurance schemes. In the United States, for example, the Social Security benefit formula is weighted so that low earners -- among whom women predominate --

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[6] In some systems, workers in arduous occupations, who tend to be men, can retire earlier than workers in other occupations.

receive a benefit that is a higher proportion of their preretirement earnings. As a result of gender-neutral mortality tables, income is also redistributed from men to women.

Arenas de Mesa and Montecinos (1996) point out that under Chile's old public pension scheme, women faced less stringent eligibility requirements for pensions; their benefits were more generous, and the male-female pension gap was smaller. They report that "in the old system, women’s pension benefits were heavily subsidized by the state" (p.1). Women could retire earlier and typically collected pensions for a longer period of time.

The gender-neutral mortality tables of public pension schemes work to the advantage of women who receive a higher return on their Social Security "investments" than men with comparable earnings and work histories. Women are unlikely to retain this advantage in privatized systems, however. As is the case in Chile today, the additional costs of living longer are paid by women themselves in the form of lower benefits (Arenas de Mesa and Montecinos, 1996).

E. From Targeting To Privatization

At a time when equalizing the treatment of men and women has become the goal of Social Security systems in the industrialized world, the notion of targeting benefits to women might seem archaic; indeed, gender-neutral language in Social Security programs has become the norm. Still, targeting can serve as an efficient mechanism for directing scarce resources to persons most in need of them. Caregiving credits, spouse benefits, and survivors’ benefits help compensate people for choices they make but that benefit everyone -- such as caring for children, the disabled, and older kin. While men can be, and sometimes are, caregivers and dependents, these roles are typically held by women.

Caregiving credits are not likely to be a feature of a privatized system. Women who, because of discontinuous work careers, reached retirement age with inadequate pension benefits might be forced to turn to means-tested public assistance programs, with all the negatives that implies. It would be ironic that just as women begin to receive some compensation for their caregiving work, they lose it to privatized social security systems.

Work interruptions will continue to bedevil women in their pursuit of pension security. In Chile, only about half of women in the labor market between 1989 and 1995 contributed to a pension fund; contribution rates for married women and persons in the informal sector, a high proportion of whom are women, were especially low (Luckhaus, 1996; Arenas de Mesa and Montecinos, 1997). While it would be possible to allow nonworkers to buy into or keep contributing to private accounts, those most in need of the benefits would be those least able to afford voluntary contribution if they were not also bringing home a paycheck.

Another problem that women would face in a privatized system is the use of gender-specific mortality tables, which would typically yield lower benefits for women. In countries with a lower retirement age for women, women would have fewer years to accumulate savings. Because they earn less than men, on average, they would have less to invest. Not only would they end up with lower accumulations, they would have to draw on those accumulations sooner and see that went further. This would be very different from the typical public pension plan in the developed world, where indexed pensions are available for as long as one lives.

Privatized accounts also raise the question of ownership.[7] Under one of the privatization plans offered by the U.S. Social Security Advisory Council, for example, workers could take their privatized account accumulations in the form of a lump sum and use the money as they please, without regard to any spouse. "Upon retirement the husband could quickly spend this money, leaving his wife and himself with little to live on over a potentially long retirement. When a husband dies, the funds in his account become part of his estate. Often the money goes to his widow, but some men elect to give a substantial portion of these funds to other beneficiaries" (Williamson, 1997, p. 100).

This availability of lump sums is a feature of the Australian private pension system and is generally preferred by beneficiaries. However, the large numbers of widowed women who are currently recipients of *government* payments suggests that lump sum payments have not been routinely invested in income schemes designed to protect a surviving spouse.

In the United States, the Retirement Equity Act of 1984 was strongly endorsed by women's advocates. Too many wives had been "waking up" as widows, only to find that their husbands had not provided for them. Now, married persons entitled to private pensions are required to provide survivors' benefits for their spouse unless both partners explicitly waive the right to them. (For the most part, a provision for wives has been automatic in public schemes.)

Governments could require the survivors' benefits be provided in privatized accounts, but one major goal of these plans is to keep government out of the retirement income business as much as possible. Privatized Social Security systems, which cannot efficiently target or redistribute benefits, are designed to promote individual well-being, rather than the common good.

IV. Privatization Approaches and Issues for Women

In recent years, various "privatization" approaches have been tried or proposed in various countries. The four major approaches are (a) tax incentives to increase private plans, (b) "opting out," (c) mandatory individual savings accounts, and (d) mandatory occupational pensions.

A. The Approaches

One of the most common forms of pension privatization is providing government tax incentives. These incentives are designed to encourage private employers or financial institutions to offer (and individuals to participate in) special savings or pension programs.[8]

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[7] See Section VI for a discussion of this topic in relation to developments in Australia.

[8] A good discussion of this point can be found in Dilnot (1996).

Thus, for example, tax laws have been deliberately liberalized in many countries to encourage the expansion of occupational pensions by employers and unions. In addition to encouraging such plans, some governments have passed legislation to create special savings plans for retirement, again using liberalized tax laws to encourage participation. In the United States, for example, there is now a wide variety of such plans: (a) "Individual Retirement Accounts"(IRAs), created primarily for people without other private pension coverage; (b) "profit sharing plans," where contributions usually vary with a particular company's profits; (c) "thrift plans" (including 401(k) plans), with employers typically matching employee contributions; (d)"Keogh plans" covering self-employment income; and (e) a number of other special types of plans.

The United Kingdom has developed a different approach to privatization, known as "opting out." An individual can opt out of part of the public pension system and set up a "personal pension" plan. Alternatively, individuals can opt out by participating in a qualifying private pension plan set up by his or her employer.

The United Kingdom personal pension option was created under the 1986 Social Security Act, with a focus on shifting retirement support responsibility, promoting individual property ownership, and allowing pension provision independent of both employers and government. The government encouraged election of this option by offering generous monetary incentives; salespersons from the private financial industry also marketed this option -- unfortunately, often to the wrong people[9] (Waine, 1995).

Mandatory private savings accounts to completely replace Social Security programs were first tried in 1981. In that year, Chile instituted a government-mandated retirement saving program for almost all workers (the military was a conspicuous exception). Subsequently, several other Latin American countries have instituted similar but less radical programs. In general, these schemes require workers to deposit a certain percent of their earnings (13 percent in Chile)[10] into personal pension accounts managed by private sector financial managers.

Mandated pensions are another option. The Australian shift to privatization (discussed at length in Secion VI) places major emphasis on group funds developed and supervised by employers and/or unions. A major review of the Australian programs to provide income in old age was instituted during the 1980s and resulted in legislation mandating savings schemes for all workers.

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[9] In 1993, the British Securities and Investment Board contracted with KPMG Peat Marwick to review financial advice given out over the prior 2½ years. The report concluded that there had been widespread failure of sales agents in complying with regulations and in giving good advice. Many people with low incomes were encouraged to opt out, when in most cases it would have been better for them to remain in the government earnings-related scheme (SERPS).

[10] Ten percent is contributed for worker retirement benefits, and an average of three percent is contributed for disability and survivor benefits.

The Australian approach, however, is very different from the mandatory occupational pensions that are part of the retirement system in Switzerland. A "basic benefit" that is not means-tested is available in Switzerland to all citizens when they reach the pensionable age. This is then supplemented for higher earnings by mandated occupational pensions that provide benefits based on the amounts accumulated in personal accounts.

B. Issues for Women

1. Informed Decisions

With privatization usually comes increased responsibility for individuals to supervise and make decisions about the management of the funds invested to provide retirement benefits. The nature of this responsibility varies greatly, depending on which of the four major approaches discussed above is operative and the specific characteristics of the programs within each category. In some cases, individuals take primary responsibility for deciding where funds will be invested and the management of their investment portfolio. In other cases, the individual must choose a money manager and then is encouraged to monitor the money manager's performance, shifting funds to another company if dissatisfied with performance.[11]

Australia is an example of an exception to these decsionmaking demands. Currently, in Australia employees have no direct decisionmaking authority when it comes to who will manage their funds or how the funds are invested. Australian workers' contributions typically go into particular fund designated by their employer. As we discuss below, starting in 1998 employers will be required to give workers a choice among investment options.[12]

Currently in Australia, the superannuation funds' boards of trustees hire professional financial management companies to make the investment decisions. While the fund trustees are legally responsible for the operation of the funds and investment decisions, to date most boards have been relatively passive -- delegating decisions to the "professionals" and not undertaking much direct involvement in those decisions (Olsberg, 1997).

The need to make informed financial planning decisions as a result of most privatization approaches is an issue for both men and women. However, it is a more difficult issue for women as a result of several special circumstances. First, in the past and to a large extent today, financial planning has been considered "a man's job." Many women have not paid much attention to financial investing issues over their lifetime -- leaving them especially vulnerable when they seek outside help or attempt to make decisions, often for

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[11] The ability to shift, how often, and under what conditions varies.

[12] There are six main types of superannuation funds: public sector, company, industry-wide, master trusts or public offer funds, retirement savings accounts, and "excluded." (Olsberg, 1997).

the first time, on their own. Second, as we discussed above, family roles and career events are very different for women -- resulting typically in irregular paid work patterns, lower pension coverage, and more frequent job changes. This less stable employment history, resulting in fewer years in the formal labor force, make the results of any particular retirement planning efforts less predictable and more likely to result in inadequate benefits in retirement. Third, there is some evidence that many financial professionals treat women differently than men. One study in the United States (Wang, 1994), for example, found that financial brokers: (a) spent more time with men, (b) mentioned a wider variety of investments to men, (c) were more likely to recommended higher return (higher risk) investments to men, and (d) tried harder to get men as customers.

2. Adequacy

The ability of women to make good investment choices, of course, has a major impact on the adequacy of benefits provided under privatization schemes. In addition, adequacy is a bigger issue for women because of the basic differences between the typical Social Security scheme and the typical privatized scheme. In general, the difference is between so-called "defined benefit" plans and "defined contribution"plans. Privatization schemes usually utilize the defined contribution (DC) approach. A formula or set of rules determines how much will be *contributed into* the plan or individual's account, with the *payout* left unspecified. In contrast, the defined benefit (DB) schemes that dominate the Social Security approach explicitely specify a formula for calculating benefits, often based on earnings and years of service. A big difference, therefore, between these two types of plans is that with DB plans participants can estimate or project future benefit levels more easily and more accurately than with DC plans. In addition, DB plan funding is the responsibility of the sponsoring organization, which assumes the investment risk; in DC plans, sponsors do not assume these responsibilities.

As Robert Ball (1997) points out, "a major difficulty [with DC plans] is that, to the extent that funds are shifted to individual accounts, the ability to redistribute income is lost. After all, the whole appeal of changing to a savings plan is to emphasize individual equity, that is, a fair return to the individual saver, rather than adequacy for all. To take part of what the higher-paid save in order to increase what the lower-paid get would seem contrary to the spirit of such a plan" (p. 285). Of course, in all countries with Social Security programs that have a redistributive element, women in general are likely to benefit because of their lower average earnings.

When privatization occurs, the issue arises as to the nature of the new redistribution mechanism (if any). The most likely candidate, a means-tested program, has not been widely supported (Kingson and Schulz, 1997a). In fact, one of the major reasons for the creation of Social Security programs and their continuing popularity is the fact that benefits are received as a matter of right rather than achieving eligibility through what is often a highly intrusive and stigmatizing screening process carried out by a government bureaucracy..

3. Death and Divorce

One of the major problems that has plagued private approaches in providing retirement income is dealing with death and divorce. Once again, women are most likely to be the losers as a result of the problems.

While most private approaches can, and do, provide these benefits, the legal issues associated with transferring benefits can get extremely complicated. Privatization with individual accounts results in benefits that are wholly owned by the individual, passing into his or her estate at death. Individuals must make specific legal election to have the benefits pass at death to the spouse or make provision for access to the benefits by a divorced partner. In practice, election processes have not worked very well. Historically, it has been common for women, who typically outlive their husbands, to find themselves not eligible for a benefit based on a deceased husband's eligibility. Similarly, women who are involved in divorce negotiations often find that they must choose between a share of the pension benefits versus a share in the other major family asset -- the house in which she and her child (children) are currently living.

4. Administrative Costs

In his evaluation of the Chilean privatization initiative, Peter Diamond (1993) concludes that: "We have come to think of privatization as a route to greater efficiency and lower costs. Thus, perhaps the most surprising aspect of the Chilean reform is the high cost of running a privatized social security system, higher than the`inefficient' system that is replaced" (p. 5). In theory, advocates had predicted that competition among financial investment organizations would keep costs down. In practice, however, this has not happened -- as illustrated by the Chilean and other countries' experiences.[13]

Again, while high fees impact both men and women, it is a serious problem that is especially troublesome for women. Once more, the program in Chile illustrates well this problem. In July of 1996, six out of the 15 authorized investment companies in Chile charged a fixed rate fee for each contribution made by a worker. This fixed rate fee has a greater impact on lower paid workers, many of whom are women, than it does on men. Kritzer (1996) shows this disproportional impact using recent Chilean data:

Earnings Levels	Fees as a Percent of Contributions
65,500 pesos	33.2
128,400	32.0
192,600	31.5
385,200	31.0
577,800	31.0

[13] See the Australian discussion with regard to this issue in Section VI below.

"Even though the average fee varies by only a few percentage points, the lower earner continues to have to pay at a higher contribution rate than does the higher earner" (Kritzer, 1996, p.52).

V. Women and Financial Planning-- Findings from the U.S.

In January 1997, the latest American Social Security Advisory Council issued a divided report on the future of the United States federal pension programs for old age. The main issue that divided its members was the extent to which the U.S. Old Age, Survivors, and Disability Insurance programs should be privatized to deal with financing and public confidence issues. Three different approaches were proposed:

1. Individuals investing some of their payroll taxes ("Personal Security Accounts" plan);[14]

2. Government setting up and managing individual savings accounts ("Individual Accounts"plan); or

3. Government investing trust funds in the private equity markets through indexed accounts.

The Social Security Advisory Council's report represents one of many recent calls for the expanded privatization of retirement income provision in the United States. Several arguments have been put forward to support such changes. Some assert that privatization will promote, through the expansion of aggregate saving and investment, economic growth (and higher standards of living for generations of the future).[15]

Others believe that the political viability of Social Security is threatened by future rates of return on what some see as "payroll tax investments," especially for retirees in the next century. Americans today with resources to invest in stocks have experienced a steadily rising market with handsome returns; many believe, especially given recent experience, that they and their age peers will be far better off with retirement money under their own management.

Another reason for the interest in privatization has dominated the American news in recent years. Federal government budget deficits (blamed erroneously by some on Social

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[14] The group proposed five percent.

[15] Whether there is a *direct link* between saving and growth is a controversial issue -- complex and essentially unproven (Schulz, in press). However, despite this controversy, saving is seen by many economists and policy makers as a key factor related to the welfare of future Americans, young and old.

Security) and fear of the tax burden when the Baby Boom generation retires have combined to generate greater interest in shifting more responsibility for retirement income provision to the individual and private financial mechanisms.

A. What Impact on Women?

Regardless of the rationale offered to support privatization of Social Security, none to date takes explicit account of the differential impact these proposals, if enacted, will exert on the financial well-being of particular groups in the population. There is good reason to suspect, however, that those whose wages and incomes have been at the bottom of the economic spectrum -- women and minority groups -- may experience a significant erosion in their standard of living in retirement as a result of shifting away from public pension schemes.

As we discussed above, these groups are much more likely to have occupied jobs characterized by low wages, employment instability, and poor or no private pension coverage and benefits. While women's labor force participation has been increasing, women still have less labor force attachment (more years out of the labor force) than do men. Thus, even if their employers offer pensions, they are less likely to be vested and, in any event, will accrue smaller benefits if vested. Moreover, women are still the chief providers of child care and care for other family members who require assistance. Both responsibilities are likely to impact negatively on career development and earnings growth.

And finally, financial planning has traditionally been "a man's job" -- creating a major challenge for women asked to take more responsibility for their financial future. As we discuss below, indications are that many women are not sufficiently informed about many financial matters related to retirement investing -- matters necessary to make sound financial decisions. Moreover, women -- particularly those with small sums to invest -- have greater difficulty in obtaining good advice regarding investments from professionals. Finally, for many women, there is an apparent urge to "play it safe" in confronting investment opportunities, exposing them to an increased probability of having inadequate income in old age.

B. A Survey of American Middle-aged and Older Women

To obtain more information about the special issues facing women in the United States when they confront financial planning, a survey was conducted by the National Resource and Policy Center on Women and Aging at Brandeis University. The primary aim of this survey was to investigate the experience middle-aged and older women have had with people offering professional advice with regard to"financial planning." A random nation sample of 500 women age 50 and older was carried out during the summer and early fall of 1997.[16] Information was gathered on (a) demographic, financial, and occupational

[16] A random national sample was drawn using a screening instrument that limited the sample by sex and age. Also, the screen was designed to insure that a large number of women in the sample had had some previous experience with some kind of person giving professional “financial planning” advice.

characteristics, (b) attitudes toward retirement and financial planning, (c) knowledge and understanding of financial planning concepts, (d) employer assistance provided in financial planning, (e) experience getting information about financial planning issues, and (f) their actual experience (if any) with professional financial planners.

In this paper, we present preliminary findings from the survey on the American women's knowledge and understanding of some important financial information and concepts.

C. "It's a Man's Job": American Women's Knowledge about Financial Planning

Women in the survey were asked about major investment options that are currently available in the United States. For each one, they were asked to indicate the extent to which they felt they understood the financial issues relate to investing in the particular type of financial asset. The survey found, for example, that a relatively high proportion of the women felt they had a very good understanding of two types of financial assets: federal government "savings bonds" and private bank "certificates of deposits" (See Table 1). Only a little over one-tenth of the women felt they were "not at all knowledgeable" about these two options for saving. This finding is not surprising, of course. These two assets are very simple and unsophisticated types of financial investment products. Both are variations of the option highly familiar to all individuals: saving money by putting into bank savings accounts (rather than, for example, keeping money at home "in the mattress"). Both options have a relatively low amount of risk (except for inflation) and also relatively low rates of return.

Mutual funds were developed to allow people with even small amounts of money to invest in a greater range of investment opportunities, while reducing risk and the amount of financial knowledge required to make sound decisions. However, the women in the Brandeis University study felt significantly less knowledgeable about mutual funds than savings bonds and CDs. And they were even more uncomfortable with investment options that one might say are at the heart of contemporary ways to provide for retirement through private market instruments -- stocks, annuities, 401(k) plans and corporate/municipal bonds. For example, in the United States, 401(k) plans have grown rapidly in recent years and now account for about one-quarter of all pension plans and pension assets (U.S. General Accounting Office, 1997).[17] Moreover, about 85 percent of 401(k) pension plans are the only pension plan provided to workers, although a majority of 401(k) participants are covered by another type of pension plan(typically defined benefit plans).

The 401(k) plans allow workers to put some amount of their earnings (usually matched by their employer) into personal investment accounts. This money (and its investment return) is sheltered from federal taxes until withdrawn. Typically, workers are

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[17] A qualified cash or deferred arrangement under section 401(k) of the Internal Revenue Code which allows an employee to elect to have a portion of his or her compensation (otherwise payable in cash) contributed to a qualified retirement plan -- this contribution not being treated as currently taxable income. Employers often match the employee contribution up to a specified amount.

asked to choose where to invest plan contribution (sometimes just their own contribution; sometimes the employer contributions as well). Investment options may include "guaranteed investment contracts (GICs),[18] a "balanced fund" of stocks and bonds, various types of stock funds, various types of bond funds, the company's own stock, or many other types of options. To make informed decisions related to the money going into these plans, workers obviously need to understand the various trade-offs between return and risk among various investment alternatives (as well as know a variety of other basic financial investment information). As Table 1 indicates, the Brandeis study found, however, that 43 percent of the women surveyed did not feel at all comfortable with their knowledge and understanding of 401(k)plans -- in contrast to the nine percent who did.

D. Retirement Literacy: What Do Women Know about Financial investing?

As we evaluate the impact of a shift from defined benefit (e.g., Social Security and "traditional "occupational pensions plans), it is important to assess how well prepared women are to take on more financial investment responsibility. Research to date indicates that we have along way to go before we can say that most people are ready to take up the challenges of personal financial planning. For example, a study in the United States (Public Agenda, 1994) found that 70 percent of Americans do not know how much they need to personally save for retirement. And when saving money, many people are overly cautious and simplistic in their investment strategies.

A significant proportion of those interviewed in the Public Agenda study felt intimidated by the stock market and did not understand the differences between the short-term instability of stock prices and historic rates of growth over the long run. Moreover, 55 percent of those interviewed did not believe that one could get consistently better returns by investing in stocks versus savings accounts or CDs -- an opinion that clearly is a contradiction to history and the expectations for these types of investment.

With regard to money management by women, the research has been extremely limited. What research is available indicates that the problems of financial knowledge are far worse for women. Women plan less, save less, invest more conservatively than men, and know less about investing (Richardson, 1990; Arthur D. Little, 1993).[19] With regard to the last point (knowledge about investing), the Brandeis survey asked the women in the survey a number of questions to test their knowledge of key investment concepts. They were first asked:

> "Think about the financial markets in the past 20 years or so. As far as you know, how well has each of the following investments done in protecting retirement income from inflation?" [The investments were CDS, money market accounts,

[18] Guaranteed Investment contracts put money under the management of an insurance company which guarantees a certain level of interest.

[19] This statement is not meant to imply that men are necessarily much better investors; they may just be less willing to admit their ignorance to pollsters.

Social Security, corporate stocks, corporate and municipal bonds, life insurance, and annuities.]

Table 2 summarizes their responses. The survey data indicate that older American women are seriously deficient in their understanding of the inflation risks associated with major financial assets. The asset that gets the lowest "score" for inflation protection is Social Security. But it should get the best score! Since 1974, U.S. Social Security pensions during retirement have been indexed 100 percent for inflation.[20] This is protection that no other financial asset discussed in the survey question has. Yet only five percent of the women surveyed said that Social Security provided "excellent" protection, and almost two-thirds responded that it provided "poor" or "fair" protection.

These statistics indicate a serious lack of information about the current Social Security program and the "floor of protection" it provides for people in retirement. It is also important to note the very high proportion of women who were unable generally to answer the questions about inflation protection. It ranged from over 50 percent for corporate/municipal bonds and annuities to 23 percent for bank CDS.[21] Thirty-nine percent of women surveyed did not know whether stocks -- the private investment most highly regarded among professionals as a hedge against inflation -- performed this function well historically. (However, among those women that answered the question, most knew that stocks had performed well relative to inflation (79%).)

In addition to the inflation question, women were asked four specific questions to test their knowledge of key financial facts. These questions were similar to questions asked in the 1996 Investor Protection Trust Investor knowledge Survey. The questions were:

- As far as you know, when an investor diversifies her investment, does her risk of losing money over the long-term increase, decrease, or stay the same?
- As far as you know, do you have to pay a sales charge or fee when investing in a "no load" mutual fund?

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[20] The inflation adjustment is based in changes in the Consumer Price Index (known as the CPI-W); the 1983 amendments introduced an alternative method for determining the size of the adjustment when the ratio of the combined OASDI Trust Fund assets to estimated outgo falls below a certain percentage.

Inflation is also taken into account at the point that the benefit is first calculated. At this point credited earnings are adjusted by a wage index that reflects prior changes in both prices and real wages.

[21] Paradoxically, only a small percent (13%) of the women were unable to answer the question with regard to Social Security, with most giving an incorrect answer.

- As far as you know, if you lose money in a mutual fund that you invested in at a bank, will the FDIC, that is, the Federal Deposit Insurance Corporation, cover your losses?[22]
- As far as you know, when interest rates go up, what usually happens to the prices of bonds? Do bond prices usually go up, go down, or stay about the same?

One would not characterize these questions as difficult. Yet, only 17 percent of the respondents got three out of the four questions correct (see Table 3). Again, many respondents did not feel able to answer many of the questions (35-55 %). The highest proportion of correct answers was on the question of whether the FDIC provides protection to people buying mutual funds from a bank. Knowledge on what happens to bond prices when interest rates rise was the worst.

These findings are consistent with other surveys that have investigated women's knowledge about financial issues. For example a study conducted by the Oppenheimer Funds and the Wirthlin Group (Arthur D. Little, 1993) found that over 50 percent of the female pre-retirees incorrectly said that, over time, bonds frequently outperform stocks.

These studies in the United States raise serious questions about the potential consequences of shifting investment planning to individuals. As was found in the Brandeis University study, it is by no means certain that men and women will have -- or are willing to spend the time and money necessary to develop -- the financial knowledge necessary for making informed decisions about investing large amounts of money. Yet this is the principal money upon which their economic situation in retirement would depend.

VI. Women and Retirement Planning -- the Australian Experience

Over the past decade, the Australian retirement income system has developed from what has been called a "two pillar" model to the "three or multi pillar" model advocated by the World Bank (1994). The original two pillars comprise: (a) the "Age Pension," which since its introduction in 1909 has become Australia's major source of retirement income payments and (b) employer occupational superannuation or private employer-based superannuation. In 1991, the Australian government announced its intention to introduce a third pillar: a mandatory, employer-funded program, the Superannuation Guarantee Charge (SGC) -- which took effect starting July 1, 1992. Under the SGC, employers are required to make retirement contributions on behalf of individual workers. The contribution rate was set initially at 3 percent of an individual worker's wages and deposited into an industry (rather than employer) fund that was privately managed. Although SGC superannuation is not intended to replace the two existing pillars of the retirement incomes system, it is

[22] Under current law, it is the Federal Deposit Insurance Corporation’s responsibility to supervise and regulate certain banks. Its main task is to make sure that individual depositors in these banks do not lose money held in banks accounts (not stocks) as a result of financial problems experienced by the banks.

expected that over time it will increase the amount of retirement income derived from wage-linked contributory superannuation and, as a result, reduce eligibility for the publicly funded Age Pension (so reducing its cost to the government).

These changes have many implications for current and future generations of older women. Below we discuss some of the major ones.

A. The Age Pension

The Age Pension is the keystone of Australia's comprehensive categorical means-tested social assistance scheme known as Social Security. It provides security against loss of income either (a) as a result of inability to earn due to unemployment, disability, or sickness or (b) as a result of income loss due to the death of a wage earner or a marital breakdown. From its inception the Age Pension permitted women to claim benefits at age 60 (compared with the male eligibility age of 65) -- thus receiving differential (many would claim preferential) treatment under the system. To help insure income security in old age, the Social Security system included a "Widows Pension" for women age 50 and over whose partners have died or deserted them and a "Wives Pension" for women who (regardless of their age) are married to men eligible for the Age Pension.[23] Historically, such provisions were based upon implicit expectations and assumptions regarding women's economic dependency upon men.

During the 1990's, contemporaneously with the introduction of the SGC, much of the differential treatment has been eliminated. Pension ages for women are now being increased over time to make them equal with those of men at 65. And the Wives and Widows Pensions are being phased out.

These changes are a part of an overall movement to eliminate gender based differentiation in the administration of the national retirement income system. This goal is being pursued despite continuing labor market and pay differentials between women and men.

Currently women outnumber men as Age Pension recipients, with 64 percent of women of pension age (60+) receiving pensions, as compared to 49 percent of older men (65+). Also, a higher proportion of these women are on the"full rate" (i.e., at the maximum level), with little or no supplementation from savings or investments.

B. Employer-Based Superannuation

During the 1980's, attention focused politically in Australia on the private superannuation plans. One reason for this was the fact that the tax concessions associated with these plans represented a considerable amount of forgone revenue to the government. Moreover, concern was raised about the fact that only limited sectors of the labor force were covered, predominantly employees of large private corporations and the public sector.

Women were at a particular disadvantage, being over-represented in industries where coverage was low. Even in employment with coverage, membership usually excluded part-time and nonpermanent employees, most of whom were women. Also, those

[23] Since July 1995, these provisions have not been available to new beneficiaries.

women who were not excluded through such formal provisions were often discouraged from joining (or allowed to opt out of the scheme if married). Finally, the schemes typically were not portable across employers, often had long vesting periods, and did not allow interruption of coverage for such things as maternity leave or child care -- all of which adversely affected women.

As a result of several formal investigations and reports, intervention by the Sex Discrimination Commissioner, and action by women's groups over the past decade -- some of the more overtly discriminatory provisions have been removed. However, discrimination against non-permanent and contract employees remains, as does much of the plan trustees' discretion with regard to membership, nomination of dependents and beneficiaries, and survivorship provisions.

Since the economic situation of current retirees reflects the provisions of retirement income schemes over previous decades, the generation of women now reaching retirement age has very low rates of coverage by private occupational superannuation. Moreover, statistics indicate that those women who were able to join schemes during the past decade have very limited, if any, entitlements.

C. The Superannuation Guarantee Charge (SGC)

The introduction of compulsory superannuation in 1992 under the SGC (and a decline in the economy) appears to have slowed the extension of employer-based private superannuation. Job security changes in the labor force, particularly the replacement of permanent and full-time jobs by part-time and contract or casual employment, also limits the utility of these single-employer defined contribution schemes with extended vesting periods for workers (Bateman and Pigott, 1997).

During the 1980s, both the government and various unions had attempted to extend private occupational superannuation coverage by making it a component of the "social wage" and offering to trade increased coverage for lower wage increases. By 1990, however, the government and unions were dissatisfied with the result -- a very slow increase in coverage. As a result, a decision was made by the Labor Government to initiate legislation that would require all employers to contribute to an immediately vested and fully portable superannuation scheme for each employee. This "Superannuation Guarantee Charge" (SGC) was legislated in 1992, with employer contributions set initially at three percent of earnings.

In the original legislation, the amount was scheduled to rise progressively to 9 percent by the year 2000. Provision was also made for worker contributions of three percent to be phased-in and for an additional three percent co-contribution by the government of up to three percent for lower income earners.

Since its introduction, there have been frequent changes to the SGC. In accordance with the phase-in provisions, the contribution rate is now five percent. However, low-wage employees (those earning under A$900 monthly) can now opt out of superannuation and receive the equivalent of their employer's contributions to the SGC as salary. The provision for opting out of the scheme was based on the view that these workers needed all their income for current consumption, and that employers would augment the low wages of workers who elected out of the current five percent SGC contribution.

D. Investment of Money in SGC Schemes

One of the most important changes that has taken place with regard to SGCs is a new provision in the legislation that mandates that employees be offered a choice with regard to how their contributions are invested. Starting in 1998, employers are required to offer participating employees a choice of at least four funds for employees to deposit their SGC mandated retirement savings.[24]

It is important to note, however, that with regard to these government-mandated schemes, the government assumes no responsibility for the investment outcomes.[25] Instead, boards of trustees are elected to run the schemes, with both employer and employee representatives required. Up till now, the majority of boards have hired or contracted with financial managers to handle the day-to-day investment of funds.

Trustee boards are legally and financially liable for the performance of the schemes, however. Although a Superannuation Commission exists to hear complaints, and prudential guidelines for funds investment do exist, the government neither establishes benefit levels nor insures or provides any guarantees regarding the security of superannuation investments. Effectively, therefore, while the government requires employed Australians earning more than $10,800 a year to belong to a superannuation scheme, individuals and trustees are required to take responsibility for investments to generate sufficient retirement income. The government guarantees neither the security of contributions nor of fund earnings.

The majority of the work force (80%) now has superannuation through the Superannuation Guarantee Charge. However, it will take at least 20 years for the mandated plans to mature and provide significant retirement income amounts for most individual workers. Although superannuation is currently seen as a supplement to the basic Age Pension, there is an expectation that for many workers it will become a substitute for the Age Pension over some, if not all, of their retirement period (Dawkins,1992).

E. Implications of Australian Privatization for Women

There are many aspects of the privatization of Australia's retirement income system that are likely to affect women's income security in retirement disproportionately:

1. Integration: Combining Contributory and Non-contributory Plans

The introduction of the SGC is an addition to, rather than a replacement, for the Age Pension. Nevertheless, it changes the societal compact that has characterized Australian social policy with regard to retirement income provision. Up till now, social assistance models have not been held in high regard in other Western industrialized countries. The current compact implicit in the Australian Age Pension is that the pension is

[24] At the time of writing, no details had been released by the Australian government on the new provision.

[25] The government now also allows banks and other financial institutions to offer individual retirement savings accounts (RSA's).

provided as a right of citizenship; while it is based upon economic need, it is not seen as "social assistance payment" based upon a person's inability or unwillingness to make adequate provision for retirement during working life. *Thus, the Age Pension in Australia has been seen by its citizens over the years as an entitlement for older citizens*, with receipt of a pension not being viewed as stigmatizing. This view is in part a reflection of the "partial universality" of benefit receipt, with over 70 percent of older Australians currently receiving benefits (representing a significant political group in the country). The establishment of the principle of income replacement through the SGC and the linking of income in old age to an individual's employment based earnings is quite different from the income adequacy model of the Age Pension.

Over the past five years, the proportion of older people who are age pensioners has been declining, mainly due to the larger incomes and assets of potential new entrants. Estimates of the impact of the introduction of a contributory scheme (Brown, 1994) suggest that over time reliance upon the Age Pension will continue to decline. Not only is this development likely to limit the lobbying power of Age Pensioners, it may also result in turning the Age Pension into the stigmatized payment so common in other countries -- a benefit for those who "have not provided for themselves" during working life. The bulk of the people in this new stigmatized category will be workers with low earnings and those people with more limited labor force involvement. That is, we can expect them to be predominantly women!

The second major issue that arises in integrating the Age Pension and superannuation payments in retirement relates to other benefits currently available to the elderly. Age Pension eligibility also carries with it entitlement to (a) a range of in-kind benefits, (b) reduced payments for certain health, housing and transportation services, and (c) various tax exemptions. Those whose superannuation entitlements remove them from eligibility from the Age Pension lose access to these additional benefits, which are often worth considerable amounts of money. The situation of women -- in particular those whose labor force attachment is discontinuous, those with low earnings due to part-time or casual employment, and those with jobs in low earning occupations/industries -- will be particularly sensitive to the continued availability of the Age Pension, the conditions governing its receipt, and the rules governing the integration of private superannuation and the Age Pension entitlements.

2. Dealing with Women's Work Outside the Formal Labor Force

The SGC breaks from the tradition of most compulsory defined contribution schemes throughout the world where money is collected and invested by the government.[26] Government mandated defined benefit schemes (i.e., Social Security schemes) are managed by a government agency and have usually emphasized redistributive goals in developing the

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[26] The most common example is provided by the provident funds in Asia and Africa. Chile and certain other Latin American countries, of course, have also chosen investment management by private companies.

benefit rules and formulas.[27] These schemes also typically try to ensure protection through family based entitlements -- seeking to provide benefits to those with low or no entitlements due to limited labor force participation or low wages during working life.

The SGC provides for defined contribution schemes with funds "owned by the worker." Membership of, and entitlement to, the schemes are on an individual rather than family basis. Since the schemes are privately rather than publicly managed, cross subsidization and redistribution (e.g.,through "notional credits" for time spent out of the labor force rearing children or caring for an old or disabled person) are usually not feasible.

There is a range of strategies used in government managed schemes to compensate for the inequality of treatment of women arising from their labor market and income inequalities and their shorter work lives caused by structuring their employment around socially necessary but unpaid caring work (Brocas, Cailloux, and Oget, 1990). These strategies are avoided or are simply not feasible in private schemes -- which, despite being government mandated for all workers, have as their central purpose the maximization of benefits for the individual worker when he or she retires. This may assist in improving individual security for retirement, but it cannot easily be structured to guarantee "social security" by spreading the risks and the benefits across all members of a society.

The social convention by which women's employment and earnings capacity are subjugated to family responsibilities means that family income, rather than their own earnings, are the determinant of living standards and economic well-being, both pre- and post-retirement age. Women's rights to a partner's superannuation entitlements in retirement, and in the event of marital break-up or survivorship, is therefore a key issue.

The Australian government has recently made provision for tax deductibility for superannuation contributions by a taxpayer made on behalf of a partner whose income is less than A$900 a month. Although aimed at encouraging men to establish superannuation schemes for an economically dependent wife, it is clear that this is first and foremost a tax benefit for higher income earners. While it can, and should, benefit their partners, the existence of such a scheme in the wife's name may restrict the right of a woman to claim an interest in a husband's (probably much higher) superannuation should the marriage end in divorce. There is now considerable evidence in Australia to suggest that most women today receive little benefit from the family law obligation to include superannuation entitlements accumulated during marriage in the husband's assets to be considered within the property settlement upon divorce (Rosenman, 1996; Carney, 1997).

Provision for survivorship within the private system is also not closely regulated in Australia. With the phasing out of the Widows Pension, and given the probability that the majority of women will not accumulate significant individual superannuation entitlements based upon their own earnings, provision for a surviving spouse within superannuation schemes is an important matter.

The right of a survivor to the superannuation entitlements of a partner depends upon the type of scheme, and whether the husband died as a "contributor" or as a"retired

[27] The nature of this distribution is highly controversial. Does it transfer from rich to poor or poor to rich? The answer varies by country.

beneficiary" of the scheme. Generally the owners of individual accounts established under the SGC can nominate a beneficiary to receive the assets upon death, with a surviving spouse normally eligible under inheritance provisions (as for any other property).

However, the situation is often different under schemes in which varying levels of employer contributions are made and in which vesting periods for both employer and employee contributions may be quite long. Many of these are also defined benefit schemes which usually have provision (often at the discretion of the trustees) for a surviving dependent wife and family of a member who dies while contributing. Historically, trustees often acted paternalistically in determining benefits for the surviving spouse of a contributing member, since there was considerable variation in death benefits. Widows with dependent children were treated relatively generously, although defacto wives and same sex partners were often excluded from receiving full death benefits. Trustee discretion has allowed schemes to (a) vary the amount of a spouse benefit, depending on the need of the potential recipient; (b) terminate a benefit if a woman remarries, and (c) exclude widowers of female members from survivorship entitlements.

The situation is different for the majority of surviving spouses whose partners die after claiming benefit at retirement. Most payments at retirement remain in the form of lump sums rather than a pension, so provision for the surviving spouse of a retiree can only be made if he has elected a pension component at retirement. In such cases it is usually a proportion (50-80%) of the member’s entitlement.

Tax incentives are now being used to encourage retirees to use their lump sum payment to purchase an annuity. Although provisions for providing survivor pensions are available in most annuity packages, there is no obligation on a man to make provision for a wife through a survivor annuity. The high proportion of older widowed women amongst recipients of the Age Pension suggests that in the past men have not elected to make provision for a surviving partner. Whether this is due to lack of resources, the availability of the Age Pension, or selfishness is not clear.

3. Privatization, Consumer Choice, and Risk

The decision by the Australian Government for private rather than public ownership and management of superannuation is in accordance with the current worldwide emphasis on market mechanisms. Apart from mandating participation and the level of contributions, the government has no role in establishing the benefit or investment policies of schemes or in guaranteeing the security of members' funds. Instead liability is assigned to the boards of trustees, with requirements for representation of fundmembers and employers on these boards.[28] Theoretically, members influence investment policy through their"representatives" on the board and can monitor returns through annual reports. *In reality, member representation is often provided by high-level management and trade union officials who*

[28] Superannuation Industry Supervision legislation (SIS) implemented in 1993 aimed to enhance the security of savings by specifying levels of prudent supervision, the powers of the Industry Superannuation Commission (ISC), and the duties and responsibilities of trustees and investment managers.

are not elected and virtually unknown to members. Moreover, very few women serve on these trustee boards.

Although to date there has not been evidence of significant fraud or mismanagement, the majority of superannuation scheme members have limited understanding of their rights. There is also some evidence that despite the large amounts of money that they are responsible for, many trustees are similarly ignorant of their legal and fiduciary obligations (Olsberg, 1997).

Saving for retirement requires long time horizons and stability of policy. During the past decade the Australian government has made many large and frequent changes to retirement incomes policy. Survey research indicates that the majority of Australians, while concerned about their income security for retirement, are confused by these constant changes to superannuation and Age Pension policy. Moreover, research documents that they have a very limited understanding of the various aspects of the programs providing retirement incomes.

The soon to be implemented requirement that contributors to superannuation schemes are to be offered a choice of funds and investment opportunities presupposes population that is educated regarding financial matters or will know where to get advice from people they can trust. As in the United States, women in Australia have typically left decisions regarding financial matters to their husbands. Many are not ready to assume these responsibilities.

At the same time, private sector management of the SGC has created a large lobby group of superannuation and investment funds managers who seek to limit government regulation -- whether it be in connection with investment policy, the security of members' funds, or measures aimed at limiting administrative costs.

As is true in privatized funds around the world, administrative costs in Australia are very high in most funds. Moreover, these costs are rarely reported to members in any direct way. While it is assumed that increasing competition between funds by requiring choice will reduce administrative costs, there is no evidence that this will happen as we look around the world at other privatization initiatives.

Arguably, governments lose the ability to direct retirement incomes policy once fund management is privatized. Protection of the interests of women and low income earners has usually occurred through policy initiatives of government rather than through the actions of the private sector. Whether and how women can benefit from privatization of income security remains an open question.

VII. Conclusions

Privatized Social Security systems are designed to maximize returns to the individual. Income redistribution, a feature of social insurance programs and of targeted programs, has virtually no place in such systems. Chile may guarantee a small minimum benefit for workers who meet certain criteria and whose pension falls below a certain level, but it is the government and not the private system itself that promises this benefit. Though certainly subject to government regulation, privatized accounts are contractual arrangements between investors and their funds.

Proponents of privatization argue that workers at all income levels stand to gain from having control over their own retirement accounts and from investing in markets. However, successful investing presupposes a certain level of financial literacy -- to say nothing of the interest, time and money necessary for keeping abreast of investment issues, investment performance, and new developments in financial management.

The research on women and financial planning highlighted in this paper casts doubt on the readiness of many American women, at least, to fend for themselves in a privatized Social Security system.[29] And we believe that what is true for the United States is also true for many other countries.

Australia's experiment in mandatory savings funds may eventually prove that the World Bank's multi-pillar approach does enhance financial security for many people. But we have raised serious questions about the approach in terms of its differential impact on women. Of course, it will be many decades before we know with any degree of certainty the answers to the questions we have raised.

Over the short-run, and perhaps well into the future, nonworkers and the less affluent (primarily women) are likely to find it difficult to ensure financial security through a privatized system. We do not argue that public pension systems are free of problems with regard to women's needs; indeed, there are serious problems. Rather, we argue that many of these problems will be exacerbated by privatization.

Unless the government continues to guarantee some form of social protection, less income security in old age --rather than more -- is likely to be the lot of many women under privatization. This, of course, brings us back to the age-old controversy over the relative merits of means-tested targeting versus targeting in social insurance programs. Although not the focus of this paper, we would assert that the reason why social insurance programs have been (and still are) so popular is not just because of the benefits they provide or their lack of problems; there are serious issues that arise regarding both. Rather, it is because of the long history of punitive and stigmatizing treatment associated with most operational means-tested targeting programs, resulting from policymakers' attempts to make them compatible with the "incentive needs" of market-oriented economies.[30]

[29] One way to deal with this problem is to develop a network of professional financial planning advisers that can give advice on these matters. But the long history of market driven sales persons providing biased and/or bad advice in various countries is notorious in this regard. Moreover, the problems of scams, fraud, and "financial abuse" of elders are omnipresent. And while some (rightly) decry the mismanagement of Social Security funds, especially in developing countries, there are many more instances of fraud and mismanagement in occupational pension systems and private financial investment schemes.

[30] In saying this, we acknowledge that an argument can be made that this has not been the experience in Australia for a variety of reasons (See, for example, Schulz, et al, 1991)

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