

Intra-household Decision-Making and Retirement Income Policy

Briefing Note 4 from the *Inside the black box - Intra-household resource allocations of older couples project* (ARC DP170103297)

Professor Siobhan Austen, Curtin University (Team Leader)

Professor Rhonda Sharp, UniSA

Dr Monica Costa, Curtin University

Many policy makers treat the household as a “black box” and the effects of policies on intra-household inequalities in resources has tended to garner little attention. Some work-family policies have explicitly attempted to affect gender roles in working-age couple households. However, the intra-household issues facing older couples have thus far been overlooked and this is placing at risk the wellbeing of a growing number of Australian women and men. This briefing note advocates opening the black box of older couple households and it identifies a number of key intra-household issues in need of a retirement income policy response.

The black box of the household must be prised open: The neglect of intra-household issues in policy and analysis reflects some deep-seated notions about the role of the state and idealised versions about families that are inimical to the wellbeing of women and the care roles they perform:

- decisions within the household have been seen as private matters and beyond the legitimate concerns of government, expressed by the motto ‘an Englishman’s home is his castle’.
- the household has been perceived either as a ‘glued-together’ unit where the interests of all its members are as one, or as a place where any differences in interests are harmoniously resolved.

The overwhelming evidence on family and domestic violence shows the errors in these assumptions and the enormous consequences of ignoring intra-household conflicts for the wellbeing of women and children in particular. A number of recent economic studies of taxes and transfers have also highlighted how the distribution of economic resources within households affects critical outcomes. These studies have demonstrated how policy can make a difference. For example, investigations of child benefit payments have revealed how the shift from child rebates, which were paid to the household head (typically a man), to child benefits, paid to the primary carer (typically a woman), improved women’s financial independence and increased the proportion of household resources spent on children.

A number of critical intra-household issues affect older couple households and these also deserve a policy response. The gender gap in life expectancy and the age gap between marital partners are important reasons why the interests of men and women in older households might not align. Women typically outlive their partners and thus they have a particular interest in ensuring that sufficient economic resources are available to cater for the needs of later life.

There is also a large gender gap in economic resources that leaves many women in a vulnerable position in old age. As noted in previous briefing notes, this gap in economic resources is the product of: the gender pay gap; the gendered distribution of paid and unpaid work over the life course; and policy settings that have favoured the economic outcomes of individuals who participate in paid work (more usually men) over the outcomes of individuals who are involved in unpaid work (more usually women). The shift towards superannuation and market-driven aged and health care have contributed to the economic penalties imposed on individuals who

spend time out of paid work to perform vital care and other unpaid roles, and it has increased the risk of poor outcomes for older women in particular.

Retirement income policy options: *A well-resourced Aged Pension* in combination with publicly funded health and aged care is a critical element of a policy mix aimed at ensuring that both the needs of all older Australians are met and that care roles are not discouraged or penalised. The Age Pension acts to equalise the intra-household distribution of economic resources. It both promotes women's financial independence in retirement and enhances their ability to influence decisions within their households.

An Age Pension that has universal elements would further help to reduce women's financial dependency on their spouses in retirement and reduce their vulnerability to the negative consequences of power imbalances and poor decision-making. The Age Pension is currently means tested on household, rather than individual income and wealth; a policy setting that assumes that household income and wealth is used to meet the needs of *all* household members. Such a policy stance is not supported by the current evidence base on the pooling and sharing of household resources. A basic universal pension is an ambitious but worthy policy goal.

Changing the regulation and default settings on superannuation to protect the interests of spouses. The shift towards superannuation has reduced women's access to the Age Pension and has increased intra-household inequality. It also has made the outcomes of many older women vulnerable to the decisions made about superannuation by their partners. These include decisions about levels of life and unemployment insurance, the drawdown of account balances, lumpsum withdrawals, and the choice of annuities or pension streams – and whether these reflect the life expectancy of both the account holder and his/her spouse.

Currently spouses have no legal right to information about the details of their partners' Australian Prudential Regulation Authority (APRA) regulated superannuation account; and no legal authority to participate in decisions made about that account. A regulatory response to this information asymmetry and lack of voice should be actively considered, especially given the large tax concessions that are provided to superannuation.

There are international precedents for this type of regulatory change. The US 1984 Retirement Equity Act (REA) altered the regulated procedures for changing the survivor benefits (a form of life insurance for spouses) in retirement savings accounts, requiring the written permission of the account holder's spouse (usually a woman) before the survivor benefits could be waived. Perhaps not surprisingly, following the REA, when women were provided with a voice into decisions over retirement annuities, household life insurance holdings and income security for widows increased. Most retirement income systems around the world incorporate spouse benefits, reflecting both an understanding that many women are economically dependent on their partner's superannuation in later life, and that unregulated decision-making places these interests at risk.

Reject the proposed changes to superannuation insurance provisions in 2018-19 federal budget. These changes, currently before Parliament, will alter the default settings for insurance within superannuation, leaving the decision about opting into life insurance up to the account holder (previously insurance was the default option). This will leave dependents vulnerable to the account holder's incentive to minimise their premiums, and also to behavioural biases, information imbalances and poorly designed products that may result in them not opting into insurance when their life circumstances, such as marriage and becoming a parent, change.