

Discussion Paper Education, financial literacy and capability November 2018

One area where the economic security for women has been enhanced over the past few decades is in educational attainment. There are more women than men finishing year 12 schooling, and this is carrying into university where there are more women than men achieving a bachelor degree.

This is important for economic and financial security as there is a proven correlation between education and incomes – the higher the level of education for an individual, the greater the income for that individual over their life time. With more women obtaining skills that are compatible with high income occupations, there will be greater opportunities for women to achieve and flourish in senior, high paying roles.

While it takes some time for highly educated and skilled young women to gain seniority as they increase their experience, equality in educational attainment will be a driving factor that will be vital in closing the gender pay and superannuation gaps over the medium term.

This is the bedrock of economic and financial security.

Another aspect of enhancing economic security is financial literacy, capability and knowledge. Women – and men for that matter – need to build their understanding and management of all the issues relating to their personal financial circumstances.

The evidence from various surveys suggests that there is a relatively low level of financial understanding of superannuation, mortgages, debt and savings amongst women and that this is having a negative impact on their economic wellbeing.

According to an Essential Vision poll, around 50 per cent more women than men – or close to 20 per cent of the adult female population - do not know the best way to prepare for retirement. This is despite compulsory superannuation being in place for over 25 years which has seen almost all women open a superannuation account. It is also concerning given the growth of financial independence of women who increasingly have mortgages, credit cards and savings as poor understanding increases the risk, they are not getting the most appropriate product or value for money on these items.

At the same time, a remarkable 44 per cent of women did not know the fees they are charged by their superannuation account.

As the recent Productivity Commission recently suggests there is scope via greater financial awareness for women in managing their superannuation accounts.

The gender superannuation gap shows that women of all ages have significantly lower superannuation balances than men. Part of the task to correct this is to indicate to women, who have the financial capacity, the advantages of putting additional money into superannuation. There are a range of tax effective measures that allow for additional contributions that could be used to top up contributions and, in the process, go towards boosting retirement income and closing the superannuation gender gap.

Many of the problems identified in women's financial security are linked to financial literacy. The lack of financial awareness can be corrected, at least in part, through a campaign to educate women in their school years on issues related to finance – savings, borrowing, earning a wage and superannuation, among others.

It is important to note that a wide range of policy issues and areas of emphasis will be needed to reflect the different financial circumstances of each woman, but some basic, overarching themes are relevant to all women.

What must be enhanced through financial education as well as robust consumer protection laws are information on:

- Mortgage, credit card and deposit interest rates. How to look for the best deals and making it easy to change financial service provider to take advantage of the best offer is also critical.
- Fees for superannuation, insurance and financial planning. Ensuring fees are as appropriate for the service being offered.
- The benefits of owning a house, having a zero-credit card balance, adding to superannuation as well as managing day to day spending decisions. This will help women to make the planning decisions that will enhance their financial security over the long run.

These financial products and services exist, and every woman may have and use them during their life. As possible users of financial services women should understand the pros and cons of these services. This will help women to avoid inappropriate services and opt for the best, fit for purpose, ones.

It is worth noting that many of the issues being exposed by the current Hayne Banking Royal Commission are the result of financial service customers being unaware of the details of the products they were offered and then agreed to purchase. This acknowledgment is not to absolve the financial institutions from what was often unconscionable behaviour.

Rather, it is to suggest that with greater financial literacy and understanding, many customers would have questioned the strategies and products that were being pushed on them. With greater financial literacy, it is more likely that bank customers would have refused to sign up for the dodgy products and services that ended up costing them so dearly.

Suffice to say, knowledge is the key to for all women throughout their life cycle. A teaching strategy, starting as early as possible in the education system/school that provides women the education and training to be fully aware of the implications of their decision making around their finances, should be developed.

This will result in greater economic security for women and will undeniably work to close the gender pay gap and see women take control of their finances.

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