

13/10/2015

By email: economics.sen@aph.gov.au

Dr Kathleen Dermody
Committee Secretary
Senate Economics References Committee

Dear Dr Dermody,

Re: AUSTRALIANSUPER SUBMISSION TO THE SENATE INQUIRY INTO ECONOMIC SECURITY OF WOMEN IN RETIREMENT

AustralianSuper welcomes the opportunity to make a preliminary submission to the above inquiry.

AustralianSuper is making this submission to highlight the economic status of women in retirement and the financial challenges they face. This is a preliminary submission which will be followed up by a further detailed submission.

About AustralianSuper

AustralianSuper is Australia's largest single superannuation fund and is run only to benefit members. We don't pay commissions to anyone to recommend us, nor do we pay dividends to shareholders. The fund has over 2.1 million members and manages over \$90 billion of members' assets. Our sole focus is to provide the best possible retirement outcomes for members.

Our 2 million members come from all over Australia and work in a very broad range of industries. Our age demographics align to those of the population as a whole. Just under 40% of AustralianSuper's members are women.

The causes of economic insecurity in retirement for women

The financial status and economic security of women at the time of their retirement is a product of structural inequities inherent in employment and workforce participation in Australia, and of the way women's roles as caregivers are valued in our society.

Women are more likely to face economic insecurity in retirement because they have inadequate savings in superannuation. Their superannuation savings are inadequate because superannuation payments are based upon employment.

The structural inequities in the employment of women in Australia then translate to become deficiencies in providing adequate retirement incomes for women.

Despite equal pay measures being legislated, the gender pay gap persists. Generally women are not paid equally to men for the same work, nor is the average pay of women equivalent to the average

pay of men in our society. The ABS figures showing average salaries for men and women differ markedly: \$83,050 a year for men and \$68,220 a year for women currently.

As well as accumulating less within retirement due to structural inequities in employment and workforce participation, women also live longer in retirement with less money than men. Current life expectancy at 65 is 19.22 years for Australian men but is 22.05 years for Australian women.

Our submission focusses on the needs of women on lower incomes as they are the most adversely affected by these issues. AustralianSuper as a provider of superannuation is not in a position to comment on reforms relating to employment and workforce participation, although we note that the primary structural inequities affecting women start with these issues.

Instead, this submission focuses on the reforms within the superannuation system which would help women achieve adequate superannuation savings to create a comfortable retirement.

The concept of Adequacy

The challenges that women face in retirement are challenges of adequacy, that is, whether they have enough money to live a comfortable retirement. AustralianSuper has chosen to use the ASFA Comfortable Standard of retirement income as a guide to what constitutes an adequate retirement income.

Updated quarterly, the ASFA Comfortable Standard is currently an income of \$42,861 a year. This is the equivalent of 1.9 times the Age Pension and 0.6 the average wage.

AustralianSuper modelling has determined that in order to generate an income of \$42,861 over a 25 year drawdown period, you would need to accumulate a lump sum on retirement at 65 of \$515,000.

Put another way, **a comfortable income in retirement requires you to accumulate over your working life a balance of just over half a million dollars at retirement at 65.**

Women as AustralianSuper members

AustralianSuper has considered the average account balances of both men and women who are members of the Fund.

Women make up just under 40% of the AustralianSuper membership base of 2.1 million – a relationship which is consistent across all the age groups from 18 to 59 years.

On average, female members of AustralianSuper have \$33,127 in accumulation accounts compared to \$46,661 for men, which represent an average difference of \$13,534.

We have found that this gender gap occurs from an early age. This is exemplified by the lower balances in the 18-29 years group where women have an average balance of \$8,408 compared to the male equivalent of \$10,166. This demonstrates that the gender pay gap starts early and its effects accumulate over a lifetime.

According to ASFA, women are currently retiring on an average balance of \$105,000, just over half of the average retirement balance of men. It is about a fifth of what is required for a comfortable income in retirement.

Reforms to achieve adequacy

The first issue is to develop policies that will support providing adequate superannuation to assure women's financial security in retirement. The drivers of adequacy of superannuation at retirement are:

1. Your wage or salary
2. The consistency of your workforce participation
3. The percentage of the Superannuation Guarantee applied to your wage or salary
4. The extent of voluntary contributions beyond the Superannuation Guarantee.

Women's account balances in superannuation are low because of the following reasons:

- On average they earn lower wages than men
- They are more likely to have broken work patterns due to carer/family responsibilities
- They are more likely to work in occupations with low remuneration.

The maximum benefits can be obtained by focussing on reforms to the system that assist women on low incomes to have adequate savings to achieve a comfortable retirement income.

With this in mind the following proposals become key in addressing the issue of whether women have adequate superannuation in order to provide a comfortable retirement income:

1. Retain the Low Income Superannuation Contribution
2. Increase the Superannuation Guarantee from 9.5 percent to 12 percent as soon as possible.
3. Abolish the \$450 per month Superannuation Guarantee threshold
4. Apply the superannuation guarantee with respect to all substantive income replacement payments
5. Retain and develop the Superannuation Co-Contribution Scheme

Recommendation 1

Retain the Low Income Superannuation Contribution (LISC)

Why: There exists an inherent unfairness in a system where workers who earn less than \$37,000 a year pay a higher rate of tax inside of superannuation than they do outside, and those earning less than \$18,200 a year will pay tax inside the superannuation system but not at all outside super.

It is estimated that of the 3.2 million workers eligible for LISC, 2.1 million are female, and that 1 in 2 working women and 80% of the female part time workforce receive a tax penalty for saving for retirement.

This is a highly effective policy in addressing the economic inequities of women and others on low incomes. Because there is no need for individual action – it is effected automatically through the taxation system – it has a 100% take up. All women on low incomes directly benefit from this policy.

AustralianSuper considers that this is the single most important reform to boost superannuation for low income earning women. The LISC has been repealed with effect from July 2017. AustralianSuper strongly recommends the LISC be retained.

At AustralianSuper, in 2015 17.6% of our female accumulation members receive the LISC. In the same year 10.3% of male accumulation members received the LISC. In 2014, 15% of our female and 8.1% of our male accumulation members received the LISC.

Recommendation 2

Increase Superannuation Guarantee (SG) from 9.5% to 12% as soon as possible.

Why: Without an increase in the compulsory component of superannuation, the objective of funding retirement incomes will not be met.

AustralianSuper modelling projects balances and retirement incomes based on Superannuation Guarantee contributions alone, over 20, 25 and 30 year drawdown periods. Based on a 40 year unbroken working life, AWOTE for men and women, and 25 year drawdown period shows that:

- i At 9.5% SG neither men nor women will reach ASFA comfortable standard; and
- ii At 12% SG retirement income men will exceed ASFA comfortable standard but women will not. This is because of the persistent gender pay gap.

The Superannuation Guarantee level is currently stalled at 9.5% until 2021 and not scheduled to reach 12% until 2025.

Whilst acknowledging the impost to employers, AustralianSuper believes that the longer the delay in the rise of the Superannuation Guarantee, another generation of women will potentially face economic insecurity in retirement as a direct result of inadequate retirement savings.

Recommendation 3

Abolish to \$450 per month Superannuation Guarantee threshold

Why: The changing nature of the workforce and advances in technology mean that this threshold is outmoded and denies superannuation guarantee to both low income earners and the increasing number of casual and contract workers.

Currently, if an employee earns less than \$450 per month, the employer is not obliged to pay the superannuation guarantee on behalf of the employee. ASFA estimates the \$450 per month superannuation threshold affects around 250,000 individuals².

The \$450 per month threshold is an outdated policy using an arbitrary threshold: \$450 per month equates to \$5,400 a year which was the income tax free threshold when the Superannuation Guarantee was first introduced. The tax free threshold is now \$18,200 a year.

The nature of the workplace has changed. It is estimated that 35 per cent of Australia's workforce now work on a casual or contract basis.³ The \$450 per month threshold excludes the large number of workers who are subject to the casualization of the workforce or work on a contract basis. Mooted industrial relations reforms may exacerbate this further.

An ASFA/HILDA study indicated that the majority of workers earning less than \$5,400 a year are women, younger and older workers⁴.

There is an argument that paying superannuation to those earning less than \$450 per month is an administrative cost and burden on employers. However, after 23 years of compulsory

² Clare, Ross, *Equity and Superannuation – The Real Issues*, ASFA, September 2012, p.14.

³ Palan, Simon, *Australia's large casual workforce masking real unemployment rate*, ABC News, June 15, 2015, <http://www.abc.net.au/news/2013-06-12/australia-casual-workforce-masking-unemployment-figures/4749900>

⁴ Clare, Ross, *Equity and Superannuation – The Real Issues*, ASFA, September 2012, p.13.

superannuation, nearly all of Australia's workforce now has an existing superannuation fund.^{5&6} Moreover, administrative costs to employers are significantly reduced with automation and EFT⁷ and the upcoming Superstream reforms.

Recommendation 4

Apply the Superannuation Guarantee to all income replacement payments

Why: Paid parental leave, salary continuance payments or worker's compensation are income replacements that do not attract SG, potentially significantly affecting superannuation balances for those with a broken work pattern.

Some employers are already taking steps to reduce incidences of this oversight in employment arrangements. AustralianSuper pays SG on paid and unpaid parental leave for up to 12 months, at what we consider to be minimal cost to AustralianSuper as an employer. We acknowledge that this measure will apply differently for employers in other fields, and may cost more in industries where there are more female than male employees.

Paying SG on salary continuance payments and worker's compensation also demonstrates a maturity of the superannuation system, acknowledging that superannuation guarantee payments should be made in relation to *all* employment conditions, including when someone is unable to engage in their employment due to illness or injury. Such reforms of course would need to be appropriately costed as part of any reform consideration.

Recommendation 5

Retain and Develop the Superannuation Co-Contribution Scheme

Why: The Superannuation Co-Contribution Scheme is currently used by people on low incomes to build retirement savings.

⁵ Labour Force Statistics at August 2015 show that there are just over 12.5 million Australians either employed or looking for work. <http://www.abs.gov.au/ausstats/abs%40.nsf/mf/6202.0>. A Challenger report in 2010 estimated that there were 11.3 million Australians with non-zero superannuation balances at the same time the ABS was reporting 11.85 million Australians employed or looking for work. <http://www.abs.gov.au/AUSSTATS/abs@.nsf/allprimarymainfeatures/AD4DEE098D3BCF87CA2577B4000F2828?opendocument>

⁶ Clare, Ross, *Equity and Superannuation – The Real Issues*, ASFA, September 2012, p.3.

⁷ Clare, Ross, *Equity and Superannuation – The Real Issues*, ASFA, September 2012, p.15 <http://www.superannuation.asn.au/policy/reports>

The Government will currently contribute up to \$500 to anyone under the age of 71 earning less than \$50,454 that makes voluntary contribution from after-tax dollars.

The co-contribution scheme has been in place since 1 July 2003 but has been significantly diminished over time. It was initially set at a rate of \$1.50 for every \$1 contributed up to \$1,500. Lower income earners received up to \$3,000 co-contribution for \$1,000 of personal contributions in that year.

Over time it was then lowered to match \$1 co-contribution for \$1 personal contribution up to \$1,000. It has since been lowered again to a maximum entitlement of \$500 for a personal contribution of \$1,000.

Correspondingly, in recent years the number and size of superannuation co-contribution entitlements made has decreased significantly.

This is concerning because according to the Committee for Economic Development in Australia (CEDA), there is some evidence that the superannuation co-contribution scheme has delivered benefits to some low income employees, particularly women. In 2004:

- 55% of beneficiaries had incomes of less than \$30,000
- 39% were single
- **63% were female**
- 47% were “baby boomers” – the group with the lowest level of superannuation savings relevant to retirement needs

An increased, enhanced, age-specific, gender-specific or balance tested co-contribution scheme for low income earners would directly address low balances of women in retirement.

We look forward to providing further detail on these issues at the public hearing and in our follow-up submission to the Committee.

If you have any questions please do not hesitate to contact myself on 03 8648 3847 or Jane Hume on 8648 3992 in the first instance.

Yours sincerely

A handwritten signature in black ink, appearing to read "Louise du Pre-Alba". The signature is written in a cursive, flowing style.

Louise du Pre-Alba
Head of Policy