



30 October 2015

Senate Standing Committee on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Email: economics.sen@aph.gov.au

Subject: Economic security for women in retirement

Dear Secretariat

The Financial Services Council (FSC) thanks the Committee for the opportunity to provide feedback to the Inquiry into the economic security for women in retirement.

The FSC has over 115 members representing Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks, licensed trustee companies and public trustees. The industry is responsible for investing more than \$2.6 trillion on behalf of 11.5 million Australians. The Financial Services Council promotes best practice for the financial services industry by setting mandatory Standards for its members and providing Guidance Notes to assist in operational efficiency.

This submission focusses on a number of policy settings which we consider should be reviewed in order to assist women to improve their financial independence and therefore their ability to achieve positive retirement outcomes whilst minimising reliance on the Age Pension. The FSC notes that addressing unequal outcomes in retirement for women is a multidimensional policy challenge that involves complex issues, such as historical and cultural biases. The FSC considers the policy solutions proposed in this submission as part of a process to address retirement outcomes for women that should be implemented in conjunction with other initiatives.

The FSC would welcome the opportunity to appear before the Inquiry should it choose to conduct additional public hearings. Please contact me on [redacted] if you have any further questions in relation to this submission.

Yours sincerely

BLAKE BRIGGS
Senior Policy Manager

EXECUTIVE SUMMARY

The success of the superannuation system as a vehicle to boost retirement incomes and reduce reliance on the Age Pension is based on the premise of long term participation in the system and relies on an assumption of linear contributions along the course of an uninterrupted working life.

Building economic security in retirement for women on the other hand is a complex issue, affected not only by the socio-economic disparity between men and women, but also by the deep social and cultural attitudes which affect womens' working lives. These unique features often result in lower rates of pay, periods of unemployment and the necessity to take part time roles and as well situations such as divorce, negatively affect individual women's retirement outcomes.

Factors which affect women's economic security are many and complex:

Workforce participation rates – impact of caring roles on economic security

Although women comprise 46 per cent of all employees in Australia, only 24.8 per cent are working full time and 21.2 per cent are working part time.¹ Women constitute 69 per cent of all part time employees, 35.8 per cent of all full-time employees² and 54.8 per cent of all casual employees³.

This pattern of workforce participation is due in large part to the fact that women will generally adopt the responsibility for the care of children or elderly family members. Not only are women more likely to work part time whilst in these caring roles, but also to take 'blocks' of time from the workforce, such as taking a career break to have a child.

As the superannuation system is built on the premise of long term superannuation contributions, any interruption to earnings where no contributions are made will have a detrimental effect on the compounding benefit of these contributions.

The FSC suggests the Government provide for the superannuation guarantee to care givers who are recipients of the Commonwealth Paid Parental Leave scheme, based on the contributions they would have received should they have continued in employment.

Gender pay rate disparity – the continuum from graduation to senior leadership level

Currently full-time average weekly ordinary earnings⁴ for women are 17.9 per cent less than for men⁵. In non-public sector organisations with 100 or more employees, the gender pay gap for full-time annualised total remuneration is 24.7 per cent⁶.

In fact, disparity can commence at graduation, with graduate salaries for women at 9.4 per cent less than for men. Over the course of an anticipated working life of 40 years, this represents a significantly lower amount paid in superannuation contributions when compared with men and along with interruptions to a woman's working life due to caring and other responsibilities, contributes to the current average superannuation balance disparity for women, currently at 46.6 per cent less than that for men⁷.

These statistics are similarly reflected at the senior leadership level. The Workplace Gender Equality Agency (WGEA) reports that women hold 12 per cent of chair positions, 23.7 per cent of directorships, represent 17.3 per cent of CEOs and 26.1 per cent of key management personnel in organisations who report to the WGEA⁸. In addition 33.5 per cent of organisations who report to the WGEA have no key management personnel who are women.

The FSC suggests that nationally consistent anti-discrimination legislation be enacted to provide clarity to employers by explicitly permitting lawful discrimination in circumstances where employers are making higher superannuation contributions to female staff to address any gender gap in retirement savings. Aligning national anti-discrimination laws will provide clear guidelines and direction for employers who wish to increase superannuation balances for women by ‘topping up’ contributions.

POLICY OPTIONS

1. Superannuation contributions on Commonwealth Paid Parental Leave

The current Commonwealth Paid Parental Leave (PPL) scheme provides for 18 weeks pay at minimum wage. The PPL scheme does not provide for superannuation contributions.

For primary carers the absence of a superannuation component will be a contributor to lower retirement outcome for Australian carers and has a disproportionate impact on female employees who are more likely to take work breaks to care for children.

The Government’s PPL policy has previously been to implement a parental leave scheme that provides 26 weeks of paid parental leave, at their actual wage or the national minimum wage (whichever is greater), plus superannuation. The Financial Services Council (FSC) is supportive of this scheme, however the Commonwealth’s current fiscal position is challenging and the proposed parental leave scheme expensive to implement.

The superannuation component of the Government’s policy, however, can be implemented in stages at a lower cost through an amendment to the existing Commonwealth scheme.

The Parliamentary Library provides that the current PPL scheme has a cost of \$1.6 billion per annum. With the superannuation guarantee (SG) currently set at 9.5 per cent, introducing an SG component to the current scheme would likely cost around \$150 million per annum.

<p>Recommendation: The Government provide for the superannuation guarantee to care givers who are recipients of the Commonwealth Paid Parental Leave scheme.</p>

The FSC also recommends the Government consider a further stage of PPL policy implementation; for the Government to provide all primary carers under the Commonwealth PPL scheme the SG contributions that they would have otherwise received should they continued in paid employment.

This will bring the Government scheme into closer alignment with the conditions afforded some employees of the Australian Public Sector.

The significant impact of lower or nil SG contributions during a break to care for a child is a product of the compounding effect of a long term investment. Maintenance of the full SG contribution an employee would have otherwise received would have a significant effect on reducing the long-term savings gap of Australians who take breaks to care for a child, predominately female employees.

Under this proposal the Commonwealth PPL scheme would retain its existing eligibility criteria, reducing the cost to the Commonwealth and ensuring the scheme remains targeted to middle and lower income employees. This would also help ensure the scheme has the effect of reducing age pension reliance in the longer term.

Recommendation: The Government provide for the superannuation guarantee to primary care givers who are recipients of the Commonwealth Paid Parental Leave scheme based on the contributions they would have received should they have continued in employment.

2. Increase the Superannuation Guarantee Contribution to 12 per cent

Research by Rice Warner for the FSC consistently demonstrates that a superannuation guarantee rate of 9.5 per cent is insufficient for most Australians to achieve an adequate level of retirement savings⁹. Women in particular are affected by lower contribution rates due to their longer life expectancy and lower incomes over their working life.

The recent pause in the SG at 9.5 per cent has resulted in a \$136 billion blow out in the retirement savings gap, that is, the gap between the amount the working population will accumulate by retirement and the amount required for an adequate retirement for their life expectancy.

Rice-Warner's research shows that an average 25 year old woman entering the workforce today will have a personal savings gap of \$108 000 by the time she retires around 40 years later.

Rice Warner research shows an average Australian woman must contribute 18 per cent of her income to super from the time she enters the workforce to achieve an adequate, self-funded retirement without the support of the age pension. For a mature woman, aged 55-59, excluding the potentially devastating impact on retirement savings of a divorce or caring for elderly relatives, contribution rates must be closer to 50 per cent if she does not wish to fall back on the age pension.

Recommendation: 12 per cent SG is achieved by 2022.

3. Removing barriers in the Sex Discrimination Act 1984

Female Australians, on average, earn \$295 per week less than their male counterparts. Over a woman's career this results in lower retirement savings for approximately \$700 000. Lower retirement savings for women is a product of multiple factors, one of which is the structuring of our retirement system to favour men who typically have unbroken work patterns over their lifetime.

Rice Warner Actuaries and ANZ Bank have recently implemented policies to seek to address this gap and improve the retirement outcomes of their employees. Examples of such policies include:

- Higher superannuation guarantee contributions for female employees;

- Free financial advice for employees with low balances;
- Specialist financial planning services for female employees; and
- Payment of SG on unpaid parental leave and employer sponsored paid parental leave.

The *Sex Discrimination Act 1984* (SDA) treats some of these policies as discriminatory whilst others are not. To implement a package of reforms that includes discriminatory elements, however, the anti-discrimination laws in all States and Territories present a barrier to addressing the unequal retirement outcomes for women.

Most state and federal anti-discrimination law contains special measures provision to allow employers to redress past imbalances where the measures will not constitute unlawful discrimination. Many employers may regard this as insufficient clarity in order to proceed with measures such as higher superannuation contributions for female employees. New South Wales, on the other hand, will consider and grant applications for exemption to allow employers to lawfully provide higher super contributions to female permanent and fixed term employees in NSW. There does not appear to be national consistency in various anti-discrimination legislations.

The FSC understands:

- Rice Warner Actuaries secured approval of a ‘special measures’ package under s7D(1) of the SDA that was deemed not to be discriminatory; and
- ANZ Bank secured an exemption under the laws of New South Wales.

Recommendation: Promote nationally consistent anti-discrimination legislation that provide clarity to employers by explicitly permitting lawful discrimination in circumstances where employers are making higher superannuation contributions to female staff to address any gender gap in retirement savings.

4. Low Income Superannuation Contribution

The Low Income Superannuation Contribution (LISC) compensates individuals for the 15 per cent contributions tax paid by individuals on their superannuation contributions when their adjusted taxable income is less than \$37 000 per annum. Were those individuals not compelled to contribute 9.5 per cent of their income to superannuation, they would pay no income tax on the first \$18 200 of their income, and 19 per cent tax on the next \$18 800 of income, up to the \$37 000 threshold.

It was a long-standing flaw in the superannuation system that low-income earners would pay a higher rate of tax on their compulsory contributions than they would if that money was paid to them as income.

The FSC is concerned that for individuals with incomes less than \$37 000 a contributions tax that is higher than the corresponding income tax rate acts as a disincentive for unemployed individuals to seek employment, considering it increases the effective marginal tax rate applying to employment income. In the context of Australia’s structural decline in labour force participation and aging population challenges, it is poor policy to implement a tax that would discourage Australia’s unemployed from seeking employment. Repeal of the LISC will also act as a disincentive for the 3.6 million low income Australian employees who currently benefit from this policy.

The tax is also inequitable, and disadvantages those least able to afford the additional tax. Examination of the demographic characteristics of the working population who would be affected by the repeal of the LISC demonstrates that the repeal inequitably impacts young people and women.

The impact of removing the LISC for young people is significant as it undermines the benefits of compounding long-term growth that is central to the superannuation system achieving its goal of reducing reliance on Government retirement benefits. Contributions by young people early in their careers are as important to improving self-sufficiency in retirement as contributions made by mature individuals later in life who have achieved higher incomes. Removing the LISC for a young, low-income employee would undermine their superannuation savings at retirement by as much as \$30 000 and increase their financial reliance on the Government.

It is estimated that women are overwhelmingly the largest beneficiary of the LISC. Treasury has estimated that over 2.1 million Australian women will benefit from the LISC by over \$500 million in 2013-14. It is widely understood that women currently retire with at least 35 per cent lower superannuation savings than men. The FSC is concerned that the repeal of the LISC will unwind any progress made to close this gender gap¹⁰ and address the tax inequality for low income earners.

Due to the impact that the repeal of the LISC would have on workforce participation and the long-term retirement savings of low-income earners, the FSC recommends that the Government not repeal the LISC.

Recommendation: The Government continue the payment of the LISC.

The eligibility criteria for the LISC requires that at least 10 per cent of an individual's income to be sourced from employment and/or the carrying on of a business. This test is inconsistent with the eligibility test for the Commonwealth Paid Parental Leave Scheme (PPL), potentially resulting in some individuals not receiving the LISC as a result of being a low income individual who has also taken in that year.

Recommendation: Eligibility for the LISC and the Commonwealth PPL scheme be aligned at the lower threshold.

5. Lower the threshold for not paying superannuation contributions

A disproportionate amount of low income employees are women. As a result, the \$450 per month threshold, below which employers are not required to make SG contributions, contributes to inadequate retirement savings for women.

The threshold equates to \$112.50 per week, or approximately seven hours of work at minimum wage. There is no reliable data on the number of employees that would fall within this category or the magnitude of the foregone contributions that result from the threshold.

The threshold is little changed from the advent of the compulsory superannuation system. The threshold is arbitrarily set and has little relevance to current work patterns.

Introducing flexibility around the threshold would have little regulatory impact on Australian employers as most employers have at least one employee to whom they must make superannuation contributions. The contribution rate on an income below \$112.50 is less than \$11 per week, and therefore adds little to the cost of employment. Further, the introduction of SuperStream will significantly simplify the processing of contributions for employers, reducing any regulatory impact.

The long-term nature of superannuation and power of compound growth, however, ensures that even modest contributions such as \$11 per week may have a significant impact on the quality of an individual's retirement. A contribution of only \$11 per week to an individual's superannuation savings, based on annual investment growth of 7.5 per cent, results in a retirement balance of \$140 000 after 40 years of retirement.

Introducing flexibility around the threshold would also interact with the retention of the Low Income Superannuation Contribution, to ensure there is a tax benefit arising for low income employees from participating in the superannuation system.

Recommendation: The Government examine options to allow employers to pay contributions to employees who earn below the threshold of \$450 per month.

¹ ABS (2015), *Labour force, Australia, Jul 2015*, cat. no. 6202.0, viewed 13 August 2015, <http://www.abs.gov.au/ausstats/abs@.nsf/mf/6202.0/>

² *Ibid*

³ ABS (2014), *Forms of Employment, Australia, November 2013*, cat. no. 6359.0, viewed 13 August 2015, <http://www.abs.gov.au/ausstats/abs@.nsf/mf/6359.0>

⁴ *Ordinary time earnings used comprise regular wages and salaries in cash, excluding amounts salary sacrificed. For more information refer to:* <http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0>

⁵ ABS (2015), *Average Weekly Earnings, May 2015*, cat. no. 6302.0, viewed 13 August 2015, <http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0>

⁶ WGEA (2014), Agency reporting data

⁷ Clare R. (2015), *Superannuation and high account balances, April 2015*, ASFA Research and Resources Centre

⁸ WGEA (2014), Agency reporting data

⁹ *Ibid*

¹⁰ Superannuation Savings Gap for Women at 30 June 2009, Rice Warner Actuaries, March 2010