Deloitte Actuaries & Consultants Limited
ACN 092 651 057
AFSL 244576

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

DX: 111
Tel: +61 (0) 3 9671 7000
Fax: +6190)3 9671 6599
www.deloitte.com.au

30 October 2015

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

Committee Secretary
Senate Economics References Committee
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Dr Dermody,

**Re: Inquiry into economic security for women in retirement**

Thank you for the opportunity to make a submission to the Inquiry into economic security for women in retirement. Deloitte Touche Tohmatsu (Deloitte) strongly supports any efforts being made by the Government to improve the financial security of Australians in the retirement phase of their lives.

There are different ways this might be achieved, including assistance provided via the tax, pension, benefit, health and aged care systems in Australia. Yet it is likely that the superannuation savings system will be a central vehicle to achieve this goal. Australia has an established and mature superannuation system which has as one of its primary aims the provision of an adequate income in retirement. Deloitte believes that using this goal the Federal Government can initiate changes to the system that will benefit women in retirement.

Based on research carried out by Deloitte:

a. Most women are currently retiring on a benefit far less than that needed to sustain them in retirement, which means that they will need to access social security benefits at an earlier age than men and as a result will need to survive on these benefits far longer, on average, than men.

b. Despite massive demographic changes during this and the last century, women continue, on average, to live almost three years longer than men. With advances to longevity the average 30 year old woman of 2015 will live, on average to age 94 compared to a female retiree today of age 65 who has a life expectancy of 87.

c. In 2015 dollars the average 30 year old woman today will accumulate a lump sum of $350,000 at age 65 compared to a required lump sum as calculated by the ASFA (the Association of Superannuation Funds of Australia) “comfortable” retirement standard of $545,000 (which assumes the person will also receive a part Age Pension). This is a shortfall of 36% below the ASFA standard and 13% below the average expected accumulation of male retirees.

Deloitte believes that one of the fundamental impediments in women achieving a level of superannuation in retirement is that all tax concessions and incentives are linked to paid employment. The Superannuation Guarantee is only payable on taxable income. Concessional contributions, with the associated tax relief, only apply to taxable income. For women not in the workforce (due to having and raising children or caring for ageing relatives), the decision not to work in paid employment may not be one of choice but of necessity. Unfortunately our society does not recognise the value of this work in a monetary way and therefore there is no superannuation attached to this unpaid work.

Deloitte.



This problem can be compounded by the fact that most superannuation funds provide some level of death and disability insurance which provides a safety net to the worker should they become disabled or to their dependants should the worker die. Many women not in the workforce do not have these protections.

We believe that there are a number of ways in which accumulated retirement savings, via the superannuation system, could be increased for women (and also all workers who have irregular or broken work patterns) which would be both equitable and address a social need which is not currently being met:

1. **Lifetime contribution caps**. Under the current system an employee or self employed person can contribute each year up to either $30,000 or $35,000 concessional contributions, depending on age, by salary sacrifice or deductible contributions and $180,000 as non-concessional. While these amounts are significant and would result in a large retirement balance if made each year, the reality is only a small proportion of Australians can afford to make contributions at these levels and even if they do, our research shows that this tends to be in the 10 years prior to retirement when people are in "catch up" mode. When women are out of the workforce for reasons such as parental leave or move into more casual hours when raising a young family they are even further disadvantaged by having received no, or very low, contributions during these periods which further ensures that they are going to accumulate lower levels of superannuation than the equivalent male. The loss of investment earnings compounded over time further exacerbates this deficiency.

   Because women are more likely to move into and out of the workforce, these annual caps tend to be more binding on them than, on average, they are for a man with an equivalent job and income. We believe that it would be fairer to have a lifetime contribution cap which would allow women to catch up when they return to the workforce or increase their hours to the accepted full-time level. Over an average working life of 45 years we have calculated that a lifetime concessional cap of $580,000 would produce an income stream, from age 65, which would be expected to produce the ASFA Comfortable standard of income (currently $42,861 per annum for a single person) to the 75$^{th}$ percentile of life expectancy for a female retiring in 2050. Such a lifetime cap would produce a more desired outcome than the current system. (There is also a case for less emphasis on annual caps in the superannuation system more generally, with the appropriate lifetime contribution cap a function – among other things – of the changes adopted to annual caps.)

2. **Concessional contribution caps based on joint incomes**. Under the current system if a woman is out of the workforce for a period of time she is able to make non-concessional contributions but is unable to make concessional contributions as these are based on either Superannuation Guarantee payments by the employer or salary sacrifice contributions made out of taxable income. One possible solution for women on parental (or maternity) leave could be that their partner could make tax deductible or concessional contributions on behalf of his/her spouse up to an equitable limit. We believe this flexibility would have minimal impact on the budget deficit but would greatly assist in achieving a balance in retirement savings.

3. **A government provided basic level of lump sum death and disability insurance cover**. This cover would be a lump sum, scaling down from, say, $100,000 up to age 40 and provided to anyone not in the workforce as a result of parental leave. The cover would be provided for a maximum of 12 months from commencement of parental leave and would be offset against cover under other insurance the individual would have (either through employer provided insurance, personal insurance policies or on-going cover provided by their superannuation fund). The cost of this cover would be funded out of consolidated revenue. We estimate that the cost, based on ABS statistics of the percentage of the workforce to be on parental leave at any point in time and allowing for offsets, would be in the range of $15-20 million per annum.

Deloitte.



4. **Family law settlements**. There have been significant advances in the way in which property settlements are reached since the Family Law Act was introduced in 1975, however the division of superannuation tends to merely be a factor in the overall division of assets rather than being looked at as an asset in its own right. It is a fact that single women, particularly those who are divorced, are one of the most disadvantaged post retirement groups. Using actuarial principles it would be relatively straight forward to implement rules in the Family Court that required superannuation to be divided on more equitable grounds which better reflected the woman's ability to save additional monies for retirement as well as her additional longevity.

Deloitte firmly believes that the question of economic security for women in retirement needs to be addressed by government rather than industry. We do not believe that the answer lies in higher levels of Superannuation Guarantee contributions for women. While Deloitte actuaries have calculated that women need to contribute 2.1% per annum more than a male on the equivalent salary over their working life (due to periods out of the workforce for child raising and after taking into account additional longevity of approximately 3 years) to achieve the ASFA comfortable standard, we are concerned that in this time of salary packaging women would simply lose out by receiving a lower cash salary as well as being an extremely complex and, potentially inequitable system to administer. For example, if we had a male and female employee on a $100,000 package, Deloitte does not believe that all employers would pay the additional $2,100, but rather would reduce the taxable component by this amount leaving the two packages the same but with the woman receiving less cash. Other than for employees on award wages the implementation and enforcement of a differential contribution system would, in our opinion, not be workable.

In summary we strongly support the concept of increasing the economic security of women in retirement and believe that a central component of the policy response to this is best achieved through the superannuation system, supplemented by appropriate taxation and other incentives. Should further commentary be needed I can be contacted on or by email at .

Yours sincerely

Cindy Hook
Chief Executive Officer
Deloitte Touche Tohmatsu