



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

31 December 2016

Dear Sir/Madam,

Inquiry into the Superannuation (Objective) Bill 2016 [Provisions]

On 10 November 2016, the Senate referred the provisions of the Superannuation (Objective) Bill 2016 to the Senate Economics Legislation Committee for inquiry and report.

The Bill establishes a legislative framework to guide the development of future superannuation policy. It does this by enshrining in law that the primary objective of the superannuation system is to provide income in retirement to substitute or supplement the age pension. It requires new bills and regulations relating to superannuation to be accompanied by a statement of compatibility with the objective of the superannuation system. The subsidiary objectives of the superannuation system will be prescribed by regulation.

Women in Super

Women in Super (WIS) is a national advocacy and networking group for women employed in the superannuation and financial services industries.

WIS advocates to improve retirement outcomes for women including through access to superannuation.

WIS develops and supports initiatives to further our understanding of women and superannuation, to improve women's access to superannuation and to develop a robust superannuation system without gender bias.

Executive Summary

Women in Super supports the articulation of a Primary Objective of Superannuation within legislation and the requirement that legislative and regulatory proposals are tested against the objective.

Subject to the articulation of an appropriate Primary Objective of Superannuation, Women in Super supports the articulation of subsidiary objectives to provide guidance and clarity around the interpretation of the primary objective. WIS believes the subsidiary objectives of the superannuation system should be founded on the core principles of certainty, adequacy, fairness, sustainability, stability and equity.

Women in Super has responded to various consultations regarding the Primary Objective of Superannuation. Women in Super would support the establishment of an independent body to oversee the development of the system and hopefully diminish short termism and the influence of the budget cycle.

The Financial Services Inquiry (FSI) recommended that the Government seek broad agreement before legislating the Primary Objective of Superannuation.

Women in Super notes that there is not broad agreement for the adoption of the Government's proposed Objective of Superannuation which is the same statement originally proposed in the FSI report. Most parties have called for inclusion of statements regarding superannuation improving income in retirement and being of benefit to all Australians.

Women in Super does not support the proposed Primary Objective of Superannuation. Women in Super believes the objective should specifically mention men and women and include an aspiration regarding improving income in retirement.

Women in Super does not consider that the proposed Primary Objective of Superannuation and subsidiary objectives (to be regulated) provide an appropriate framework to guide the development of the superannuation system and ensure that women and men can equally look forward to adequate income in retirement.

Women in Super recommend that gender analysis be undertaken to evaluate the impact of all superannuation and retirement income system changes including changes to the Age Pension.

Women in Super notes that there are deficiencies in the requirements regarding production of a 'Statements of Compatibility' included in the Superannuation (Objective) Bill 2016 whereby there would be no compulsion for a statement of compatibility to address subsidiary objectives. This is particularly concerning in the context of the proposed (limited) objective. It should also be noted that

failure to produce a statement of compatibility would not prevent legislation or regulations being passed and would in no way impact the validity of such legislation.

Superannuation and Women

Women in Super is concerned about the persistently inequitable superannuation outcomes experienced by women and their high levels of Age Pension dependency and poverty in retirement.

Women, on average have half the superannuation savings of men. The median super balance for a woman in the 55-64 age group was \$80,000 compared to \$150,000 for a man - a 47% super gender gap. (most up to date figures prepared for AIST using ABS 2013-14 data)

Whilst compulsory superannuation has extended superannuation to many women who would otherwise have received no superannuation, the system as currently designed magnifies and compounds pay and workforce participation differences. Superannuation taxation concessions favour high income earners (50% of female employees earn less than \$37,000pa) and most women receive no super contributions for periods spent out of the workforce caring for others. Compound interest grows the savings of men but many women do not benefit.

The superannuation gender savings gap is widening and is unlikely to narrow without concerted attention and targeted policies.

Outcomes for men and women are so disparate that there is a need to examine the impact of all changes to ensure that they contribute to improving retirement outcomes for women and certainly do not exacerbate the problem.

The Senate Inquiry into Women's Economic Security in Retirement led by Senator Jenny McAllister commenced in late 2015. The report "A Husband is not a retirement plan – achieving economic security of women in retirement" canvassed the issues and made 19 recommendations many of which are relevant to superannuation and the following three are particularly relevant to consideration of a suitable Objective of Superannuation:

Recommendation 8 paragraph 5.38 The committee recommends that the Australian Government ensure that any changes to the retirement income system are measured against the guiding principle of dignity in retirement and should:

- deliver a decent standard of living for both men and women in retirement;
- take into consideration the interrelationship between the three pillars of the retirement income system—the Age Pension (including income and assets tests); the superannuation system (with

particular reference to tax concessions); and private savings—as well as mature age workforce participation, housing, health and aged care;

- recognise the diversity of experience and outcomes in retirement incomes for different groups in society, particularly but not restricted to women;
- adequately assess and mitigate the risks placed on the individual;
- determine mechanisms for developing benchmarks for the adequacy of

retirement incomes to inform future policy; and

- introduce mechanisms to measure and assess reforms to ensure they are meeting objectives.

Recommendation 10 paragraphs 6.14–6.15 The committee recommends that the Australian Government set an objective for superannuation that supports the continuation of a strong three pillar retirement income system.

In drafting this objective for the superannuation system, the Australian Government should include specific reference to women's retirement incomes, to ensure gender equity is a continuing focus for policy makers.

Recommendation 15 paragraph 6.95 The committee recommends that all government policy analysis in relation to retirement incomes include specific analysis comparing the impact of each proposal on men and women.

Women in Super and the Australian Institute of Superannuation Trustees (AIST) held the second **Women's Super Summit** in November 2016 which recommended gender analysis of superannuation policy proposals and inclusion of the words 'women and men' in the objective of superannuation.

Recent superannuation changes

The only way to make a significant impact on the gender gap in superannuation is to introduce changes which automatically impact women. For example, whilst the Low Income Super Contribution (LISC) and Co Contribution are both worth up to \$500 to low income earners, fund reports indicate that less than one in six low income earners make a \$1000 superannuation contribution to access the Government co-contribution. Payment of the LISC (soon to become the LISTO) is automatic so more than six times as many women will receive a LISC payment.

New government measures that recalibrate superannuation tax concessions received by high income earners - while reducing the concessions received by high income earning men - do not improve the superannuation prospects of women. It is disappointing to see the saving made within the system has not been used to improve outcomes for women.

The LISC/ LISTO could have been extended to make a meaningful improvement for many women. Instead, the Government has given the LISC a new name 'LISTO' and treated this rebate of unfair tax payments as a 'new measure' (despite applying to 2.1 million women for the past three years) and counted it as a 'new cost' which offsets the tax savings. Even so, a further \$2.1 billion of 'net' savings have been taken out of the superannuation system - yet nothing meaningful has been done for women.

Moreover, the new measures to allow 'catch-up' payments are unlikely to assist many women, as most women cannot afford to make additional voluntary contributions. Research shows there are very few women who will be able to make use of these provisions, and ultimately, very few who will benefit at the end of the day.

The Primary Objective of Superannuation

Women in Super does not support the proposed Primary Objective of Superannuation.

The absence of a reference to adequacy or the standard of living we expect in retirement means any 'statement of compatability' can ignore qualitative outcomes.

The absence of a specific reference to women means any 'statement of compatability' can ignore the impact of changes on the superannuation gender gap.

Inclusion of adequacy and gender in the primary objective would guarantee their inclusion in any statement of compatibility. Gender analysis would be a particularly powerful tool in revealing the effects of proposed policies on women.

Women in Super recommends that the Primary objective of Superannuation include a reference to achieving adequate income in retirement or improving income in retirement, and also refer to achieving this outcome for women and men.

Adequacy

A reference to adequacy in the Primary Objective of Superannuation can be supplemented in a subsidiary objective and associated explanatory information. This issue has been considered by many other countries.

The European Union has defined adequacy (and sustainability) in the context of providing for current and future pension provisions as follows :

Adequacy: The adequacy of pensions is measured by their ability to prevent poverty, the degree to which they match the level of pre-retirement income and how they compare to the average incomes of people below pensionable age.

The European Parliament, in the same report, also notes that there is a need to be vigilant with adequacy as even if current retirees are receiving an adequate level of income in retirement this may not be the case in the future. For example there can be specific groups at risk of inadequate income in retirement (such as women and single retirees) which is certainly the case in Australia today and we need to deal with the challenges presented by vulnerable groups in order to avoid poverty and significant drops in future levels of retirement income.

WIS notes that the majority of discussion in Australia in relation to the adequacy of retirement income focuses on fixed dollar amounts, or income replacement rates relative to pre-retirement income. Such discussion fails to consider the circumstances of the individual, and assumes everyone would require the same percentage of pre-retirement earnings to live 'comfortably' in retirement. Likewise, the same criticism can be levelled at the concept of a single level of income applicable to all.

We need to be mindful of the longevity issue in deciding what constitutes an adequate level of income in retirement as women on average live longer than men so actually need higher superannuation savings to deliver the same level of income as that delivered to men but over a longer timeframe.

The European Union definition of adequacy includes the prevention of poverty and the New Zealand RIS includes a 'wellbeing' factor. If we adopted either in an Australian context this would take into account the many Australians who will be dependent on the Age Pension (including a disproportionate number of women and indigenous Australians) and ensure that the age pension delivers an adequate income level.

WIS would be in favour of setting a benchmark for 'modest comfort' which could be a determinant for extra government assistance with respect to accumulation of superannuation savings but beyond which government assistance in the form of taxation concessions reduces.

In this way it would be clear that superannuation is not a vehicle for unlimited wealth accumulation or a method of leaving bequests to future generations.

Subsidiary Objectives of Superannuation

WIS is supportive of the introduction of subsidiary objectives to enhance the understanding of the purpose of superannuation for current and future policy makers subject to the inclusion of references to adequacy and gender in the primary objective as detailed above.

The secondary objectives of superannuation should be based on certainty, adequacy, fairness, sustainability, stability and equity which includes the recognition of the interrelationship between the Age Pension and other compulsory and voluntary methods of superannuation savings; the balancing of needs between the different generations of Australians; the understanding of different working lives and patterns of men and women; and the recognition that it is the shared responsibility of all stakeholders to deliver a Retirement Income System that benefits all Australians.

In addition to the above comments regarding women and adequacy the following observations are made regarding the other factors we believe are relevant to the setting of subsidiary objectives.

Sustainability WIS believes that sustainability in the context of superannuation relates to achieving a RIS that delivers on its objectives not just for the current population of retirees but for future generations too.

Essentially, there is a need to balance the financing of superannuation in the accumulation stage (for example tax concessions) in order to achieve the desired amount of superannuation savings required and on the other hand the payment of income in the retirement phase especially in relation to the costs of the Age Pension and the taxation of other sources of retirement income.

Despite the ageing of the Australian population there are a number of factors available to policy makers and industry to increase the contribution level of the workforce whether that is by increasing the actual number of workers as a percentage of the population or by working to increase the financial amount they contribute. Many countries have implemented a number of initiatives designed to increase workforce participation such as increasing the workforce participation of women, removing barriers to keeping older workers in the workforce and increasing the affordability and availability of child care. Equally importantly, other initiatives undertaken aim to improve the skill and therefore the income level of the average worker of the future such as increasing the overall quality of education at all levels and for all ages.

However, while many initiatives should be directed at enabling more Australians to save for their retirement to reduce reliance on the Age Pension, there should also be a recognition that there will always be a certain number of Australians who will be dependent on the Age Pension. In order to have a fiscally sustainable system we do not need to have no Age Pension but as the Discussion Paper notes there may be a limit to the support that can be given especially in relation to the accumulation phase and those who have already saved enough to achieve a 'comfortable' standard of living in retirement.

Issues such as longevity are also vitally important in ensuring we have an adequate and sustainable RIS as there is an acknowledgement that not only do women live longer on average than men but that future generations are likely to live longer than current ones.

Fairness We believe that including the secondary objective of fairness for the RIS would ensure that in creating superannuation policies there would be an emphasis on ensuring all Australians had access to superannuation irrespective of income earned thus enabling them to save for retirement. This would be particularly true for any Australian who cannot (for whatever reason) participate in the workforce for a long, sustained period of time.

Presently, government assistance is distributed across the lifecycle in both the accumulation and pension phases in the forms of co-contributions, low-income contributions, and tax concessions.

Government assistance programs are not applied equally – the low paid in particular are most disadvantaged, although the Low Income Super Contribution (LISC) made some progress in alleviating some taxation disadvantages. Women are disproportionately represented amongst low income earners.

WIS believes ‘adequacy’ should be a key consideration in deciding on distribution of government assistance and mechanisms beyond taxation concessions and matching of additional contributions (which are difficult for many low income earners) are required.

There are arguments that fairness should be looked at over an individual’s lifetime. For example, high income earners benefit from tax incentives when saving for their retirement during their working life but do not receive the Age Pension when in retirement and the opposite is true of low income earners so when analysing benefits (tax concessions vs Age Pension) over a lifetime fairness is met. However, if the primary objective of superannuation is to reduce dependency on the Age Pension for future generations, then innovative and forward thinking policies are required which bring all groups of Australians, especially the vulnerable ones, into the Retirement Income System at the accumulation stage. This would open the way for a policy debate on retargeting the majority of benefits accorded by tax concessions to the lower income groups in order to enable them to access superannuation.

Stability Public confidence in the retirement income system is important as decisions are made today based on existing policies and the assumption that there will not be any major changes to those policies on retirement, especially any changes that might negatively impact the level of retirement income received. This is deemed to be the reward for putting away money today into a system where it cannot be accessed until retirement. It allows for consumption smoothing.

If there is constant tinkering of superannuation policies then there will be less confidence in the system and people will be reluctant to put money aside for the future. We would welcome a more stable RIS but do believe that we need to be able to measure whether or not the RIS is meeting its objectives and if not, it is inevitable that policy changes may well be necessary at some point in the future.

Equity in addition to differential outcomes for women compared to men, mention should be made of outcomes for indigenous Australians compared to non-indigenous Australians. The different workforce

experiences of many indigenous Australians impact their superannuation savings, and insurance and administrative requirements can cause disadvantage.

Government proposed subsidiary objectives

The subsidiary objectives proposed by the Government are:

- facilitate consumption smoothing over the course of an individual's life;
- manage risks in retirement;
- be invested in the best interests of superannuation fund members;
- alleviate fiscal pressures on Government from the retirement income system; and
- be simple, efficient and provide safeguards.

The proposed subsidiary objectives do not provide guidance regarding the issue of adequacy, outcomes for women (equity), fairness or stability. The issue of sustainability is only dealt with in the context of alleviating fiscal pressure on Government and equates greater saving with greater self reliance. Women in Super does not accept that superannuation will substitute for the Age Pension without the capacity to assist women and men to significantly improve their income in retirement. Australia has reasonable current and projected levels of expenditure on the Age Pension which must maintain its value as it will remain an important component of the retirement incomes of many women.

Statement of Compatibility

The SUPERANNUATION (OBJECTIVE) BILL 2016, TREASURY LAWS AMENDMENT (FAIR AND SUSTAINABLE SUPERANNUATION) BILL 2016, EXPOSURE DRAFT EXPLANATORY MATERIALS at 1.36 & 1.37 (page 9) states that a Statement of Compatibility must only include an assessment of whether a Bill or regulation is compatible with the primary objective. Assessment with respect to the subsidiary objectives is not required.

Women in Super notes that there are deficiencies in the requirements regarding production of a 'Statements of Compatibility' included in the Superannuation (Objective) Bill 2016 whereby there would be no compulsion for a statement of compatibility to address subsidiary objectives. This is particularly concerning in the context of the proposed (limited) objective. It should also be noted that failure to produce a statement of compatibility would not prevent legislation or regulations being passed and would in no way impact the validity of such legislation.

Measuring the Outcomes of the Objectives of Superannuation

If legislated objectives are established for superannuation there must be a system for assessing the success of the system as measured against the objectives. An example of such an assessment tool is provided by the 'Super Tracker' developed by the Australian Institute of Superannuation Trustees and Mercer. The 'Super Tracker' measures the performance of the superannuation system and proposed policy changes against a set of measures including a measure of gender equity and is recommended by WIS.

Gender Analysis

WIS is particularly concerned that gender analysis is incorporated into any chosen measurement of superannuation and the retirement income system due to the gender super gap. We do not believe this will happen unless gender is mentioned in the Primary Objective of Superannuation.

Introducing the idea of gender analysis to all government economic and fiscal policies especially those relating to superannuation will ensure that both men and women are treated fairly despite having very different work patterns, fiscal behaviour and responsibilities (budgetary/caring).

Specific measures are required to improve the level of accumulation of superannuation savings by women as if the current accumulation levels continue; many women are likely to experience poverty in retirement.

Conducting a gender analysis of superannuation policies can be a particularly powerful tool in revealing and address the disproportionate effects of policies on women – changes to the tax system can inadvertently discriminate against women. It can be used to ensure financial and budgeting measures reflect overall policy commitments and that the gender impact of any proposed changes are fully understood and do indeed lead to the desired policy outcomes.

Contact

Catherine Wood	Chair
Sandra Buckley	Executive Officer

Yours sincerely,

Catherine Wood
Chair, Women in Super