asfa
the voice of super

File Name: 2015/31

17 December 2015

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

Email: economics.sen@aph.gov.au

Dear Sir / Madam,

Re: Inquiry into Economic Security for Women in Retirement

The Association of Superannuation Funds of Australia (ASFA) is pleased to provide this submission to the Inquiry into Economic Security for Women in Retirement.

ASFA is a non-profit, non-political national organisation whose mission is to advance effective retirement outcomes for members of superannuation funds through research and advocacy. We focus on the issues that affect the entire superannuation industry. Our membership, which includes corporate, public sector, industry and retail superannuation funds as well service providers some of whom deal with self managed superannuation funds (SMSFs), has over 90% of the approximately 14 million Australians with superannuation as members. ASFA members manage or advise on the bulk of the $2 trillion in superannuation assets. ASFA is the only organisation that represents all types of superannuation funds and associated service providers.

A. General observations

Economic security for women in retirement is an important issue. Despite increasing workforce participation by women, there still remains a significant disparity between the retirement incomes of men and women.

The average superannuation balances achieved in 2013/2014 for all persons 15 years of age and over were $98,535 for men and $54,916 for women. Among only those with superannuation (which excludes persons with a nil balance) the average balance for males was around $135,000, while for females it was around $83,000.[1]

Average superannuation balances at the time of retirement in 2013/2014 were $292,500 for men and $138,150 for women.[2] Median superannuation balances are significantly lower, at $100,000 for men and only $28,000 for women, which reflects the substantial proportion of people who have nil, or very little, superannuation.[3]

[1] ASFA, *Superannuation account balances by age and gender*, December 2015; Page 3
[2] "Retirement" for these purposes is assumed to be between 60 and 64 years of age
[3] ASFA, *Superannuation account balances by age and gender*, December 2015; Page 3. Median superannuation balances are where 50 per cent of the population surveyed have a greater amount and 50 per cent have a lesser amount

Close to 75 per cent of women within the 60 to 64 age group had superannuation balances less than $100,000, with nearly 60 per cent of women having less than $40,000, including some with nil. For men in the 60 to 64 age group with more than $100,000 in superannuation, the average balance was around $530,000, while for women in that cohort the average was $415,000.[4]

Around 26.9 per cent of men and 33.9 per cent of women reported having no superannuation. Around 55 per cent of women aged between 65 and 69 have no superannuation. A substantial number of women in this age group have never had superannuation, while others had superannuation at some stage but have withdrawn their benefit.[5]

The incidence of having superannuation and average account balances are higher for men. Given this, **men held around 64 per cent of total account balances in 2013/2014 compared with around 36 per cent for women.**[6]

B. Factors which contribute to womens' lower superannuation balances

There are a number of factors which contribute to women having consistently lower superannuation account balances than men. These include: -

1. **Broken working patterns**. While the phenomenon of experiencing time out of the workforce is not confined to women, caring for children, and on occasions for parents or other family members, is most often performed by women. This results in breaks from paid employment during periods of parental leave, which frequently are followed by significant periods of part time employment.

2. **The gender pay gap**. To the extent possible the design of the superannuation system needs to reflect the fact that, on average, women earn significantly less than men and as result have lower superannuation account balances.

3. **Increasing casualisation of the workforce**. While this is not unique to women this does have a tendency to affect roles which predominately employ women, such as the caring professions, hospitality and retail.

4. **Longevity risk**. A woman at retirement at age 65 can be expected to live 3 to 4 years longer than a man. This means that, all things being equal, a woman and woman with an equivalent amount of superannuation savings at retirement will see the woman either
   - receiving a lower income throughout her retirement; or
   - running out of her superannuation with a longer period left to live solely on the age pension

   when compared with the man.

5. **Structural issues in superannuation system**. These can adversely affect the superannuation savings of women.

6. **Adequacy of superannuation overall**. There is an argument that the current level of superannuation savings do not provide economic security in retirement for a proportion of the Australian population, so any measures which lifts superannuation savings overall will serve to increase economic security in retirement for women and men alike.

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[4] ASFA, *Superannuation account balances by age and gender*, December 2015; Page 10
[5] ASFA, *Superannuation account balances by age and gender*, December 2015; Page 4
[6] ASFA, *Superannuation account balances by age and gender*, December 2015; Page 12

C. Addressing the contributing factors within superannuation

1. Broken working patterns

People spend periods out of paid employment, or work part-time or casually, for a variety of reasons, such as: -

- to care for family – especially children but this can extend to other family members, such as parents;
- due to injury or illness;
- to study;
- as a result of redundancy or an inability to find suitable employment; or
- to have a career break.

This is particularly the case for women who often take time out of the workforce to have and to care for children. People returning from parental leave (generally women) frequently return to the workforce on a part-time basis, especially on the birth/adoption of a second or subsequent child.

During the time people are on parental leave generally little or no contributions are made to the person's superannuation. This can have a dramatic impact on the final superannuation balance of women who take time from paid employment to raise children.

There are a number of measures which can be taken to address the effect of broken working patterns upon superannuation, including: -

1.1 paying superannuation guarantee (SG) on income replacement payments;
1.2 amending the annual concessional contributions caps to enable people to "catch-up" on their superannuation contributions.

1.1 Make Superannuation Guarantee payable on income replacement payments (Parental leave / Salary Continuance / Workers' Compensation)

In situations where income is replaced as a result of a workplace or legislative entitlement to receive a salary or wage, such as paid parental leave, salary continuance payments or worker's compensation, it would be consistent, and appropriate, if the SG were to apply to such payments.

ASFA recommends that the Superannuation Guarantee should apply with respect to all substantive income replacement payments[7]

[7] ASFA, *Australia's future super – Delivering Income Steams in Retirement: A New framework,* November 2014, Page 27

1.2 Amend annual concessional contributions caps

With the "Better Super" changes in 2007 the abolition of Reasonable Benefits Limits saw the introduction of annual caps on contributions.

For the 2015/2016 financial year these concessional contribution caps are as follows: -

- members aged under 49 on the last day of the previous financial year - $30,000 per annum
- members aged 49 years or over on the last day of the previous financial year - $35,000 per annum. This is a temporary increase – the higher cap is not indexed and will cease when the concessional contributions cap is indexed to $35,000, which is likely to occur in the 2016-17 or 2017-18 financial year.

The annual concessional contribution cap can be overly restrictive for members who are attempting to "catch-up" by making additional superannuation contributions when their circumstances permit.

Options for ameliorating the restrictions imposed by the annual concessional contribution cap include: -

1. a lifetime cap on concessional contributions
2. a permanent higher annual concessional contributions cap (1.5 or 2 times the annual contributions cap) for those aged 50 or more (regardless of their superannuation balance). The Henry Review recommended twice the annual contributions cap for those over 50;[8] or
3. a permanent higher annual concessional contributions cap for those aged 50 years and over who have a small superannuation balance (under a prescribed amount). By way of a hypothetical example, for the 2015/2016 year a person aged 50 with total superannuation balances of less than, say, $500,000 could have a concessional contribution cap of, say, $50,000.

ASFA recommends that the annual concessional contribution caps be amended to enable people with broken working patterns to be able to "catch-up" their concessional superannuation contributions[9]

2. Gender Pay Gap – implications for superannuation

The superannuation system needs to reflect and cater for the reality of the gender pay gap between women and men. Women often receive less income due to factors including limited job opportunities or being employed in predominantly female occupations (such as the caring professions) which systematically pay lower incomes. This discrepancy in income results in women receiving lower superannuation contributions.

Receiving consistently lower contributions throughout their working life means women have significantly reduced superannuation balances on retirement because the compounding effect of earnings and growth is reduced. Even in circumstances where a woman has worked full time for 40 years she will, on average, have accrued in retirement significantly less superannuation than a man.

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[8] *Australia's future tax system – A report to the Treasurer;* December 2009; Recommendation 18(a); Page 84
[9] ASFA, *Supplementary submission in response to the tax discussion paper*, July 2015; Page 16

Measures could serve to compensate for this include: -

2.1 Retention – and possibly extension – of the Low Income Super Contribution (LISC); and
2.2 Introduction of flexibility to mitigate the effect of insurance on low balances.

2.1 Retain – and possibly extend – the Low Income Super Contribution

The single most effective, equitable and targeted measure to address the issue of people with low incomes is the LISC.

Prior to the introduction of the LISC, for members earning up to $37,000 per annum, superannuation was not concessionally taxed - it was in fact taxed at a rate higher than their effective marginal tax rate on personal income. Not only does this serve to detrimentally affect the superannuation savings of those people in society with the lowest incomes, often women, but it also represents a manifest inequity in tax treatment for those people.

Given that a flat rate of tax applies to superannuation contributions, without LISC the tax paid on superannuation contributions versus personal income is as follows: -

- superannuation contributions - every single dollar of concessional contributions is taxed at 15% in the fund from the first dollar contribution made
- personal income –
  - zero - on incomes up to $18,200; and then
  - 19% - only that income which is in excess of $18,200, up to $37,000 (which is where the LISC cuts out).

Without the LISC individual members would pay tax (ignoring Medicare levy) as follows: -

- for a member who earned up to the tax free threshold ($18,200)
  - personal income - tax free
  - superannuation contributions - taxed at the (nominal\headline) rate of 15%;
- for a member who earned the maximum $37,000 per annum
  - personal income - the average rate of income tax when taken as income is 9.65%
  - superannuation contributions - would be taxed at the (nominal\headline) rate of 15%.

At the very least individuals with an effective marginal tax rate of zero with respect to their personal income should not be required to pay tax at a higher rate on their “concessional” superannuation contributions than would apply to their personal income.

Taxing people on lower incomes at a higher rate of tax with respect to their superannuation contributions, compared to the level of tax they would pay if the amount were received as personal income, has the effect of significantly reducing their superannuation account balances. Given the compounding effect of earnings on superannuation – it has been suggested that approximately two thirds of a final superannuation balance is comprised of earnings (as opposed to contributions) - this has the effect of further decreasing the value of final superannuation balances.

The LISC currently benefits approximately 3.2 million Australians on low and modest incomes. The introduction of the LISC substantially increased the amount of tax assistance for persons earning less than $37,000 a year. For a person earning just $37,000 a year, aged 30 and retiring at aged 65, if the LISC applied over their working life it would boost their superannuation balance, in today’s dollars, by around 20 per cent, from $200,000 to $240,000.

There are notable differences in the average balances for men and women, particularly for younger women in age groups where they are most likely to have spent time out of the paid labour force due to family responsibilities. As a result, women are far more likely to have incomes around the $30,000 a year level, and therefore be eligible to receive a LISC, than are men.

Given all of the above - the LISC should be retained permanently.

When formulating tax policy for superannuation the following objectives should be considered: –

1. the importance of encouraging private provision of income in retirement, to substitute for or supplement the age pension, such that retirees can achieve economic security in retirement and, through consumption, contribute to the country's future economic prosperity; and
2. recognition that appropriate levels of support should be provided for individuals across differing ranges of income to ensure an equitable and sustainable tax and transfer system which serves all Australians.

The LISC assists in achieving both of these goals.

As it is paid directly to the superannuation accounts of those people who have low incomes, the LISC is an especially well targeted measure. The mechanism to administer the LISC has been developed and utilised successfully for a number of years. The ATO determines the amount, if any, to which an individual is eligible and remits it directly to the individual's fund to be allocated to the member's account.

Given this, the LISC is an ideal mechanism which could be extended to provide "top up" payments to the superannuation of individuals with low incomes, who would not be in a position to make additional contributions themselves.

ASFA recommends that the Low Income Super Contribution scheme should be retained permanently.

Furthermore, given its effectiveness in targeting low income earners and redressing the effect of tax on superannuation contributions, consideration could be given to extending the scheme to help address the issue of small superannuation balances[10]

2.2 Introduce flexibility to mitigate the effect of insurance on low balances

The provision of death and disability insurance is a valuable feature of Australian superannuation. It ensures that, in the event that a member experiences a disability prior to retirement age, they will be provided with a benefit in lieu of lost income. Similarly, should the member die prior to retirement age, a death benefit can be paid to their dependents. Given that Australians tend to be underinsured, the provision of death and disability insurance through superannuation represents a valuable form of protection.

Having said that, fees and insurance premiums can have an effect on the relatively small account balances of people who are lowly paid or who are employed part time or casually. This can be exacerbated during periods when little or no contributions are being received.

10 ASFA, *Australia's future super – Delivering Income Steams in Retirement: A New framework*, November 2014, Page 35

Until 1 July 2013 the SIS Regulations required superannuation benefits under $1,000 to be protected from erosion by fees.[11] Where the member had a withdrawal benefit of less than $1,000 the amount charged by a fund as an administration fee could not exceed the amount credited as investment returns.

The removal of member benefit protection has resulted in complaints about the erosion of superannuation accounts through the application of administration fees. Similarly, the deduction of insurance premiums also has the potential to erode account balances, especially during periods where little or no contributions are received.

A trustee which has a MySuper product must provide, on an “opt-out” basis, a level of insurance cover with respect to death and permanent incapacity. This has the potential to erode the benefits of members with low account balances.

Trustees should be given the discretion to take into consideration such factors as the age, account balance and employment status of a class of members and be able to offer insurance to a class of MySuper members on an “opt-in”, as opposed to “opt-out”, basis. By way of example, a trustee could determine that, as members under 25 are unlikely to have dependants, death benefit insurance for these members would be provided on an “opt-in” basis.

ASFA recommends that the statutory obligation should be amended such that the trustee should have the ability - after having taken into consideration such factors as the age, account balance and employment status - to offer insurance to a class of MySuper members on an “opt-in”, as opposed to “opt-out”, basis[12]

3. Increasing casualisation of the workforce

There is an increased trend towards the casualisation of the work-force, including an increase in the amount of part-time work and contracting. This can result in people holding down two, three or even four part time jobs. ASFA estimates that around 27 per cent of females and 21 per cent of males are employed on a casual basis.

Given caring responsibilities a relatively high proportion of people in part time or casual employment are women.

In the SG regime there is a threshold of $450-a-month before superannuation guarantee contributions become payable.[13]

This has a particular effect on those workers who combine a number of part time jobs, such as agency nurses; child care workers, aged care workers and cleaners, where one or more of their employers do not make superannuation contributions for them. Often this affects women who want to work part time due to child raising, or who are forced to do so through a lack of adequate or affordable childcare.

[11] Member benefit protection rules
[12] ASFA, *Australia’s future super – Delivering Income Steams in Retirement: A New framework*, November 2014, Page 27
[13] There are anecdotal reports of employers restricting the working hours of employees to ensure this threshold is not reached, to avoid having to make superannuation guarantee contributions with respect to those employees.

The existence of the $450 per month threshold for the payment of SG penalises low income earners, those who are permanent part-timers and those with multiple jobs, who receive little or no SG contributions.

ASFA recommends removing the $450-a-month threshold for superannuation guarantee[14]

ASFA estimates that around 250,000 individuals, the majority of them women, would benefit from the removal of the threshold through higher retirement savings. The cost to employers and the Commonwealth Budget would be modest. On the assumption that the 250,000 persons missing out on superannuation contributions because of the $450 per month threshold have average relevant wages of $3,000 a year the total wages bill for them would be $750 million per annum. Superannuation payments at the rate of 9.5 per cent would amount to some $70 million a year. This compares to a total wages bill for the economy of around $600 billion a year.[15]

The impact on the Commonwealth Budget would be negligible as most of the individuals benefiting from removal of the threshold would be on a zero or 15 per cent marginal personal tax rate. There could be increased expenditure on the low-income earners superannuation tax rebate but we estimate it would be less than $5 million a year.

4. Longevity risk for women

Women have a longer life expectancy than men. At 65 a women can be expected to live three to four years longer than a man.

Even if a woman has not experienced a substantive break in paid employment, and has managed to accrue the same amount of superannuation as a man of the same age, she will have less economic security in retirement relative to the man.

Given that she can be expected to live three to four years longer in retirement, this means that a woman, as compared with a man with the same superannuation benefit upon retirement at the same age: -

- will receive a lower income throughout her retirement; or
- will run out of her superannuation with a longer period left to rely solely on the age pension.

To attain equivalent economic security in retirement necessitates a woman entering retirement having a higher superannuation balance than a man retiring at the same age.

On the basis of the actuarially significant longevity risk faced by women when compared with men of the same age, there should be scope for employers who wish to contribute more superannuation for female employees to be able to do so, without being considered to have breached anti-discrimination legislation.

[14] ASFA, *Australia's future super – Delivering Income Steams in Retirement: A New framework*, November 2014, Page 26
[15] ASFA, *Equity and superannuation – the real issues*; September 2012; Page 3

By way of example Rice Warner, as part of a wide-ranging package of measures approved by the Human Rights Commissioner, contribute an extra 2% of salary in superannuation contributions for their female employees over and above what they contribute for their male employees.[16] Similarly, the ANZ Bank recently announced that it will be paying $500 more in superannuation contributions per annum with respect to its female employees.

ASFA recommends that employers should be able to contribute more to superannuation for women without being considered to have breached anti-discrimination legislation[17]

5. Structural issues within superannuation

There are a number of structural issues in superannuation which can adversely affect the security of women in retirement. These include that: -

5.1 superannuation is not compulsory for the self-employed; and
5.2 employer compliance with the SG regime needs to be improved.

5.1 Extend compulsory superannuation to the self-employed

Even if a women has worked full-time for 40 years, during any period when she has been self-employed there will have been no compulsion to make superannuation contributions during that period.

Nearly ten per cent of the labour force is self-employed. While tax concessions have led to some self-employed saving for retirement through superannuation, average balances and coverage have remained relatively low. Around 29 per cent of the self-employed have no superannuation.[18] Approximately one third of self-employed people are women.

While many self-employed and small business owners consider that their business is their superannuation, a considerable proportion of self-employed do not own a business with any material goodwill or value, other than their labour.

Around 50% of the self-employed do not have significant business or other financial assets. According to research from the Productivity Commission over 25% of the self-employed are dependent contractors, in that they have working arrangements similar to employees and are not conducting a business as such[19]. Other self-employed persons carry on businesses with little or no value other than the value of their labour, such as consulting, which means upon the retirement of the person the business has little or nothing in the way of sale value.

Even where there is an on-going business of some value, there is still a risk to individuals where their business fails, or the value of the goodwill in the business at retirement is diminished, which can result from factors such as the departure of the owner from the business. This can leave the owner(s) with inadequate savings to fund their retirement.

[16] http://ricewarner.com/research/superannuation/valuing-females-in-retirement
[17] ASFA, *Australia's future super – Delivering Income Steams in Retirement: A New framework*, November 2014, Page 28
[18] ASFA, *Equity and superannuation – the real issues;* September 2012; Page 3
[19] ASFA, *Equity and superannuation – the real issues;* September 2012; Page 2

In addition, the fact that the superannuation guarantee is not payable with respect to the self-employed is a distinction within the SG regime that, at best, is a source of confusion and, at worst, is exploited by the artificial creation of arrangements whereby individuals are considered to be self-employed to avoid the need to pay SG.

Research commissioned by CBus, AustralianSuper and REST, performed by Tria Partners in 2014, revealed systemic issues with respect to employer compliance with their SG obligations (Tria Research). In particular, the Tria Research indicated that over 50,000 persons had been involved in sham contracting arrangements.[20]

Accordingly, the self-employed should be subject to compulsory superannuation. While this may pose some design challenges with respect to the concept of "income" against which compulsory superannuation is to be applied, and the person/entity who is responsible for making the contributions, these should not preclude work being done in this area.

Consideration could be given to introducing a scheme similar to the Medicare surcharge, whereby a surcharge amount is payable unless a minimum amount of taxable income is contributed to superannuation. Utilising a concept of taxable income would ameliorate concerns with respect to potential adverse effects on the cash flow of start-up enterprises.

ASFA recommends that compulsory superannuation should be extended to the self-employed[21]

5.2 Improve employer compliance with SG obligations

The Tria Research revealed systemic issues with respect to employer compliance with their SG obligations.

The research found the non-payment of super by employers affects around 650,000 Australian workers, leaving them out of pocket around $2.5 billion annually. It found the average affected person loses around $3,750 per annum in superannuation, or around 9 months' worth of super for somebody on average earnings.

The loss of super impacts more heavily on younger and lower-income Australians. For a 25 year old, a one-off loss of this magnitude could equate to a loss of $13,500 at retirement in today's dollars. Those in more vulnerable circumstances, industries or modes of employment may endure multiple losses throughout their working life.[22]

At present, it can often take months or years for non-payment to be addressed. This has a significant impact on the retirement savings of thousands of Australians.

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[20] Tria Investment Partners; *Superannuation Guarantee non-compliance, Final report for CBus, AustralianSuper & REST, with contributions from ASFA;* 15 September 2014 & ASFA Media Release: 6 October 2014, *Super failure: Every year, $2.5 billion worth of missing superannuation owed to workers*, www.superannuation.asn.au/media-release-6-october-2014
[21] ASFA, *Australia's future super – Delivering Income Steams in Retirement: A New framework,* November 2014, Page 29
[22] Tria; *SG non-compliance, Op cit.*

ASFA recommends that the ATO should have adequate systems, processes and people to ensure employers comply with their superannuation guarantee obligations with respect to their employees[23]

6. Improve the adequacy of superannuation overall

Finally, there is the issue of adequacy of superannuation overall.

There is an argument that the current level of superannuation savings do not provide economic security in retirement for a proportion of the Australian population, especially those on lower incomes, so any measures which lift superannuation savings overall will serve to increase security in retirement for women and men alike.

In order to enable Australians to accrue sufficient superannuation to provide them with financial security in retirement, especially those on a lower income, ASFA believes that: -

6.1 the rate of SG should be increased from 9.5 percent to 12 percent as soon as possible;
6.2 a mechanism to review the rate of SG be created; and
6.3 a default, opt-out, increase in contributions of three per cent over and above SG be introduced (often referred to a "soft compulsion").

6.1 Increase the rate of SG from 9.5 percent to 12 percent as soon as possible

Increasing the SG by half a percent every year is an affordable increment to employers.

The Allen Consulting Group analysed the effects of the original proposed increase of the SG from its current level of nine per cent to 12 per cent. They concluded that: -

1. the reform would be beneficial for future retirees and so for all current Australian workers
2. the Age Pension alone is not enough
3. a nine per cent SG is not enough
4. the increase in the SG to 12% would be acceptable to workers
5. the increase in SG to 12% would be affordable for employers
6. the increase in the SG to 12% is affordable for the taxpayer.[24]

Some of the findings from the Allen Consulting Group Research regarding SG can be found in the annexure to this paper.

ASFA recommends that the rate of Superannuation Guarantee should be increased from 9.5 percent to 12 percent as soon as possible[25]

[23] ASFA, *Australia's future super – Delivering Income Steams in Retirement: A New framework*, November 2014, Page 30
[24] The Allen Consulting Group; *Enhancing Financial Stability and Economic Growth, The Contribution of Superannuation,* August 2011
[25] ASFA, *Australia's future super – Delivering Income Steams in Retirement: A New framework*, November 2014, Page 32

6.2 Create a mechanism to review the rate of superannuation guarantee

Concerns have been raised that twelve percent may not be sufficient for the majority of middle income earners. If economic conditions, investment markets or other financial circumstances were to deteriorate this shortfall could be exacerbated and, if income replacement goals are to be reached, the rate of SG may need to increase. The impact of SG should be modelled periodically to assess whether the rate of SG is achieving the objectives of the system.

ASFA recommends that a review mechanism should be built into the inter-generational report so that the current rate of SG contributions is modelled to determine whether it will be sufficient. If the inter-generational report indicates the rate of SG may be insufficient then this should be referred to the Productivity Commission for review[26]

6.3 Introduce a default, opt-out, increase in contributions of three per cent over and above SG

For a significant proportion of individuals contributions of 12% of earnings may not be sufficient to deliver appropriate outcomes in retirement.

This was identified by Dr Vince Fitzgerald as long ago as 1993, where he observed: -

> *"Our ultimate goal for the maintenance of pre-retirement income, through superannuation, is a national choice needing more discussion, but a 12 per cent total contribution appears only an interim goal; 18 per cent looks ultimately a more appropriate goal as it would over the decades make most Australians independent of the age pension".*[27]

Rice Warner has observed that, at a personal level, many retirees will not have adequate savings for their retirement. Their latest Retirement Savings Gap research measured a $768 billion savings gap as at 30 June 2014. This represents $187,200 per person less than the amount required for an 'adequate' retirement, which would pay retirees up to their life expectancy (more than 20 years).[28]

Compounding this issue is longevity risk: half of Australia's retirees will live well beyond their life expectancy.

As shown by the following table, while an increase in the SG to 12% will deliver substantially improved outcomes for individuals and households, it falls short of achieving either the ASFA modest or comfortable retirement standard for those on the median wage of approximately $50,000 per annum.

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[26] ASFA, *Australia's future super – Delivering Income Steams in Retirement: A New framework*, November 2014, Page 33
[27] Fitzgerald, *National Savings – A Report to the Treasurer,* June 1993, Page 49
[28] Rice Warner, *Retirement Savings Gap as at 30 June 2014,* July 2015; Page 4

Lump sum retirement benefits after 30 years in a taxed fund

	$30,000 wage	**$50,000 wage**	$100,000 wage
Lump sum - contributions made at rate of 9.5% of wage	$116,000	**$193,500**	$387,000
Lump sum - contributions made at rate of 12% of wage	$146,000	**$244,000**	$487,000
Lump sum - contributions made at rate of 15% of wage	$183,000	**$305,000**	$610,000

Source: ASFA[29]

ASFA calculates that the lump sum needed to support comfortable lifestyle for a couple is $640,000, providing an income of approximately $59,000 per annum, while that needed to support comfortable lifestyle for a single person is $545,000, representing an income of approximately $43,000 per annum.[30] These figures assume receipt of a part age pension.

For the middle 60% or so of members with income on either side of the median income (which is approximately $50,000), superannuation guarantee at the rate of 12% will not be sufficient to achieve a comfortable lifestyle in retirement.

Given that 12 per cent may not be sufficient for a number of individuals especially those with broken working patterns, it would be worth considering introducing a “default”, “opt-out” scheme with respect to an additional 3 per cent of contributions. Ideally contributions could be made from pre-tax income, however, consideration could be given to a regime whereby they are made from post-tax income.

ASFA recommends that there should be a default, opt-out, increase in contributions of three per cent over and above superannuation guarantee[31]

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Should you have any questions on any of the matters raised in this submission please contact me on or

Yours faithfully

Fiona Galbraith
Director, Policy

[29] ASFA, *The impact of delay or not getting at all to a 12% Superannuation Guarantee contribution rate*, September 2014; Page 5
[30] ASFA, *ASFA Retirement Standard*; December 2015; Page 4 & http://www.superannuation.asn.au/resources/retirement-standard/
[31] ASFA, Australia’s future super – *Delivering Income Steams in Retirement: A New framework*, November 2014; Page 34

ANNEXURE

The Allen Consulting Group
Enhancing Financial Stability and Economic Growth, The Contribution of Superannuation
August 2011

Some of the Allen Consulting Group's research findings with respect to the superannuation guarantee include: -

1 Reform would be beneficial for future retirees and so for current Australian workers

"Increasing the SG from nine to twelve per cent will ensure that future retirees will have a higher standard of living in retirement. ... recent polling shows that half of those currently in the workforce want more than $40,000 a year in retirement, while a third want more than $50,000 or more a year. Even after reviews and possible increases, the Age Pension will not be enough to match Australians' lifestyle expectations for their future retirement. Currently, fewer than 10 per cent of those aged over 65 receive over $40,000 per year".[32]

2 The Age Pension alone is not enough

"Using the ASFA Retirement Standard, a single person needs around $407 per week, and a couple needs to spend around $589 per week to fund a modest lifestyle. This is higher than the Age Pension, which currently pays $335.45 per week for a single person and $505.70 per week for a couple".[33]

3 A nine per cent superannuation guarantee is not enough

"Australia's current policy setting for retirement income policy will generate low incomes by international standards. OECD modelling shows that Australia's current policy settings will provide a 'replacement rate' for an average Australian income earner entering the labour market in 2006, of just 41.6 per cent. This compares to an OECD average of 59 per cent.

It also should be noted that since compulsory superannuation was first introduced there has been a significant increase in life expectancy. In 1983, a Australian female reaching the age of 65 could expect to live on average for another 18 years, while an Australian male could expect to live for a further 14 years. By 2002, these figures had risen to 21 years for females and 18 years for males. Even if nine per cent contributions were sufficient when the SG was announced, then the increase in life expectancy of between about 20 per cent (for females) and 30 per cent (for males) at age 65 implies that a substantial increase in the rate of the SG is required".[34]

4 The increase in the SG to 12% would be acceptable to workers

"The purpose of saving is to reduce current consumption in order to be able to increase consumption in the future (during retirement). It follows that it cannot be an automatic criticism of a policy to increase compulsory savings that it might make workers slightly worse off compared to what they would otherwise be able to spend prior to retirement.

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[32] The Allen Consulting Group; *Enhancing Financial Stability and Economic Growth, The Contribution of Superannuation*, August 2011, Page 18
[33] Ibid; Page 19
[34] Ibid; Page 21

... Most people are myopic when it comes to managing their finances and if left to their own devices are likely to put off saving for retirement until later in life. In particular, most young people would be unlikely to save any money for retirement unless they were required to do so. However, various survey findings indicate that people support measures which compel them to save.

… As noted above, the popularity of the policy to increase the SG indicates that people recognise their own myopia and need for 'pre-commitment' devices in savings technology".[35]

5 The increase in SG to 12% would be affordable for employers

"In the long run there will be no effect on employers, because employers will pass on the burden of increase either in the form of price rises on the goods and services they sell, or in the form of lowered wages (or wage growth) for their employees, or both. All employers will face the same superannuation obligation so no employer will suffer any specific disadvantage flowing from it.

Increasing the Superannuation Guarantee is like imposing a (pure) payroll tax, and it is well-known in the economic literature that such taxes are among the most efficient taxes available to government – in the long run they are known to impart minimal distortions (deadweight loss) on an economy, leading to no change in employment, profits, international competitiveness, or in the allocation of capital and labour in firm production".[36]

6 The increase in the SG to 12% is affordable for the taxpayer

"Recent research published by the Australian Treasury (Gruen and Soding, 2011) explores the impact of compulsory superannuation on both national savings and on the Commonwealth Budget.

... The Federal government's fiscal strategy commits it to achieve budget surpluses on average over the medium term. It follows that any budget shortfall arising from the tax-preferred status of compulsory superannuation will be offset elsewhere in the budget, on average over the medium term.

The boost to private saving therefore translates (on average over time) to the same boost to national saving because the public sector makes good any shortfall in tax revenues elsewhere in the budget. The current estimated boost to private (national) saving is about 1.5 per cent of GDP, rising significantly over the next decade, as the Superannuation Guarantee rises gradually from 9 to 12 per cent.

... The public sector's contribution is estimated to be about 0.4 per cent of GDP currently, rising gradually to nearly 0.7 per cent of GDP by the end of the decade, and then staying around that level to the middle of the century".[37]

[35] Ibid; Page 21
[36] Ibid; Page 23
[37] Ibid; Page 25