

Chapter 11

Conclusion

Achieving dignity and economic security in retirement

11.1 Many women face an insecure retirement. Men's superannuation balances at retirement are on average twice as large as women's. In practice this means that women, particularly single women, are at greater risk of experiencing poverty, housing stress and homelessness in retirement.

11.2 The size and persistence of the superannuation savings gap is entirely inconsistent with basic Australian principles of equity and fairness, and closing the gap is fundamental to ensuring women have dignity and security in retirement.

Three pillars of Australia's income system

11.3 This problem of economic insecurity for women in retirement is born of many interacting factors. At its heart, however, is the fact that women and men experience work very differently. Women are more likely to work in lower paid roles and lower paid fields, are more likely to work part-time or casually, and are more likely to take breaks from paid employment to provide unpaid care for others. As a consequence, over their lifetimes women will earn significantly less than men.

11.4 Australia's retirement income system does not adequately accommodate this difference. It structurally favours higher income earners who work full-time, without breaks, for the entirety of their working life. The women (and men) who do not fit this pattern of work face a significant handicap when saving for their retirement.

11.5 Australia's retirement income system is made up of three complementary elements, or pillars:

- a publicly-funded, means-tested Age Pension;
- mandatory employer contributions to private superannuation; and
- voluntary savings—including voluntary superannuation and other long-term saving through property, shares and managed funds.¹

11.6 The various factors that contribute to women's economic security in retirement highlight the need for a multifaceted approach incorporating both long and short term measures to improve retirement outcomes for women.

1 Dr Diana Warren, 'Historical development and recent reforms', in Committee for Economic Development of Australia, *The Super Challenge of retirement income policy*, September 2015, p. 26.

Gender pay gap

11.7 A significant contributor to the gender gap in retirement savings is the gender pay gap. As noted in chapter 2, the gender pay gap is the difference between women's and men's average weekly full-time equivalent earnings, expressed as a percentage of men's earnings. The gender pay gap was 18.8 per cent in November 2014, and was 17.9 per cent in November 2015. Over the past 20 years, the gender pay gap has hovered between 15 and 19 per cent.²

11.8 The gender pay gap increases to 23.9 per cent for full-time workers when taking into account total remuneration, which includes superannuation, overtime, bonus payments and other discretionary pay. Men working full-time earn around \$17,000 more than women each year in their base salary, but this extends to \$27,000 when assessing total remuneration.³

11.9 Addressing the gender pay gap is central to improving economic security for women in retirement as this disparity impedes accumulation of wealth and superannuation over a lifetime. The gender pay gap exists across industries where female dominated sectors have historically been lower paid compared to male dominated industries, as well as within organisations.

11.10 The historical undervaluing of 'women's work' in female dominated industries and sectors will not be rectified without intervention. Indeed, the committee contends that a concerted and sustained effort is required to close the gender pay gap, which has remained largely unchanged over the last two decades. For example, despite reform, the committee is concerned that the Australian Services Union's (ASU) equal pay case has been the only successful case under the *Fair Work Act 2009*. The ASU's experience in bringing forward its case exposed the adversarial nature of the process, which is overly lengthy and resource intensive. The committee considers that the Equal Remuneration Orders under the Fair Work Act should be reviewed to examine how the system can be improved to ensure the mechanisms for pursuing equal pay cases are accessible and not overly burdensome for applicants.

11.11 Many Australian organisations have been proactive in addressing the gender pay gap, by conducting gender pay audits, developing gender pay strategies and setting targets for women in leadership roles. The committee commends these initiatives. Noting, however, that only about 20 per cent of organisation reported that they had introduced strategies to address the gender pay gap, the committee is firmly of the view that much more work needs to be done in this area. The committee stresses the importance of ongoing monitoring and analysis in order to track progress on addressing the gender pay gap, and the importance of the ongoing work of the Workplace Gender Equality Agency (WGEA) in providing tools and incentives to

2 Workplace Gender Equality Agency, *Submission 79*, p. 5.

3 Bankwest Curtin Economics Centre and Workplace Gender Equality Agency, *Gender Equity Insights 2016: Inside Australia's Gender Pay Gap*, 2016, p. 13.

assist organisations. The WGEA is the statutory agency created in 2012 to promote and improve gender equality in the workplace.

Women's workforce participation

11.12 Women's workforce participation has increased dramatically over the last 40 years, resulting from an increase in the proportion of women of childbearing age working. In 1978, only 39 per cent of the female population over 15 years of age was in paid employment (compared to men's employment rate of 75 per cent), whereas in 2015 the employment rate was 55 per cent (the rate was 66.7 per cent for men).⁴ Despite these developments, the increase in the number of women in the workforce as a proportion of the adult population has stagnated over the past decade, and the proportion of women working full-time is similar to the proportion in 1978.⁵ Women are also more likely to be employed part-time.

Increasing women's participation

11.13 Increasing women's workforce participation is critical to a healthy, productive economy as well as to gender equity. Flexible working arrangements assist parents and carers, who are predominantly women, as well as older workers to re-enter or remain in the paid workforce. The committee supports the work of the WGEA in helping employers promote flexible work strategies. Evidence presented to the committee suggests that further work is necessary to engender greater awareness among both employers and colleagues about the rights to access flexible work arrangements, as well as promote management strategies to enable career progression and development opportunities for part-time workers.

Tax system and incentives for women to return to full-time work

11.14 Another important consideration is the effect that Australia's tax and benefit systems, including tax and benefit provisions targeted at children, have on the incentives for second earners to enter (or re-enter) the workforce. In particular, the committee is concerned with the extent to which a second earner may be discouraged from working or working full-time because effectively they may be taxed at higher marginal tax rates.

11.15 In this regard, the committee considers that further investigation is necessary to examine the way in which income tax, the Family Tax Benefits and the cost of child care combine to provide a disincentive for second income earners to participate in paid work and to identify mechanisms to ameliorate such disincentives.

4 Women and Work Research Group, *Submission 76*, p. 3.

5 Women and Work Research Group, *Submission 76*, p. 4.

Childcare

11.16 The committee recognises that access to affordable and adequate childcare is a major consideration affecting a woman's decision to participate in the workforce. The committee contends that access to affordable childcare, now and in the future, is one of the factors that will contribute to improving women's economic security in retirement through increased workforce participation.

11.17 There have been numerous proposals to vary the existing paid parental leave (PPL) scheme. In the committee's view, any proposed changes should be assessed in terms of workforce participation and retention. The committee recognises that there are significant benefits in maintaining 26 weeks paid parental leave through the combination of government and employer funding.

Older women in the workforce

11.18 A number of submissions highlighted the importance of providing opportunities for older women to participate in the paid workforce. Such engagement would offer a number of benefits including the ability for women to save more for retirement. The committee found, however, that age discrimination acts as a significant barrier for women wishing to re-enter the workforce. The committee drew attention to labour market programs such as Restart, which provides a wage subsidy to businesses that employ workers 50 years or older.⁶

11.19 The committee considers that programs such as Restart should be reviewed to ensure they are providing the most effective assistance to mature workers. In addition, the committee sees significant benefit in further investigation of the way in which means testing of the Age Pension may act as a disincentive to mature age workforce participation.

Unpaid work

11.20 The committee supports the view that the retirement income system should better acknowledge and value unpaid care. Carers who take extended breaks from the workforce, and often return to work part-time, are significantly disadvantaged in a system that only values paid employment. The committee considers it is time that the government acknowledges the contribution that unpaid carers provide to this country and to explore mechanisms that would at the very least recognise the importance of including superannuation payments in the various carers' payments and PPL schemes.

6 Department of Employment, 'Restart—help to employer mature age workers', <https://www.employment.gov.au/restart-help-employ-mature-workers-0> (accessed 4 April 2016)

Australia's retirement income system

11.21 Australia's retirement income system is made up of a number of interrelated components, which cannot be viewed in isolation. This system has been subjected to tinkering, often without due consideration given to how the different components interconnect. For example, the committee considers that any objective for superannuation should acknowledge its interdependency with the other pillars, including the Age Pension.

11.22 In making any changes to this system, the overriding consideration should be about achieving a system which has dignity in retirement as its centrepiece. HESTA captured one of the overriding messages coming out of this inquiry—that the retirement income system more broadly must 'come back to that basis of dignity in retirement'.⁷

11.23 In the committee's view, the government needs to heed the call for less tinkering with the various elements of the retirement income system, including both superannuation and the Age Pension. The committee argues that there should be greater focus on determining the adequacy of retirement income and strategies to achieve a minimum level for all Australians. This determination must go beyond retirement income and also take account of the costs of housing health and aged care. The committee believes that any changes to the retirement income system should be based on the principle of 'dignity in retirement, with the knowledge that it really is the interplay of the pillars and that genuine desire to have some faith in the government age pension that will deliver retirement outcomes for women'.⁸

Incentives to contribute to superannuation

11.24 While compulsory superannuation has significantly expanded access to superannuation for women, the superannuation framework does not easily accommodate women's experience of work. Future changes to the structure and operation of the superannuation system should be examined with specific reference to the impact on women's retirement incomes. For this reason, the committee believes that the stated objective of the superannuation system should include a specific reference to women's retirement incomes. Doing so will underline the importance of closing the gender superannuation gap, and help ensure that focus on the issue is maintained in the policymaking process in the years ahead.

11.25 The committee agrees with the view put by many inquiry participants that superannuation tax concessions should be targeted at those most in need. The committee acknowledges that gender is only one aspect of the broader issue of the equity and efficiency of superannuation tax concessions. However, because women are overrepresented in lower-income, lower-wealth cohorts, the committee considers

7 Ms Mary Delahunty, HESTA, *Committee Hansard*, 18 February 2016, p. 9.

8 Ms Mary Delahunty, HESTA, *Committee Hansard*, 18 February 2016, p. 9.

that a fairer distribution of superannuation tax concessions, in which the benefit of those concessions is more evenly shared across the labour force, would help address the gender retirement savings gap.

11.26 It is the committee's view that the distribution of superannuation tax concessions should be fair, efficient and effective. Current superannuation taxation arrangements compound rather than ameliorate the superannuation savings gap. The committee considers that superannuation tax concessions should be better targeted to facilitate improved outcomes for women in retirement.

Low Income Superannuation Contribution

11.27 The committee concurs with the overwhelming view of participants in the inquiry that the Low Income Superannuation Contribution (LISC) should be retained beyond June 2017. The LISC is a government superannuation payment of up to \$500 made to the accounts of people earning \$37,000 or less per year. The LISC is not a 'handout' to lower-income earners, but a mechanism to ensure lower-income earners do not pay more tax on their compulsory superannuation contributions than they pay on their income. Retaining the LISC is a basic issue of equity. Conversely, repealing the LISC would be a retrograde step, and would be particularly damaging for the more than 2 million women who receive a benefit from it.

11.28 The committee notes that certain reforms to superannuation tax concessions that are currently being discussed by some commentators might mean the LISC is no longer required. In particular, suggestions that concessional contributions might be taxed on the basis of a person's marginal tax rate minus a discount might remove the need for the LISC. Absent such reforms, the committee maintains that the retention of the LISC is critical.

Superannuation Guarantee

11.29 The superannuation guarantee (SG) requires employers to contribute a percentage of an employee's earnings into a superannuation fund which the employee cannot access until they reach the superannuation preservation age. The current SG rate stands at 9.5 per cent. The clear message given to the committee during the inquiry was that the current SG rate is too low. The increase in the SG rate to 12 per cent is a critically important reform, and one that will be particularly beneficial in helping women build adequate savings for retirement. The committee shares the concern of many inquiry participants that the government's delay in increasing the SG rate will have a significant detrimental effect on the superannuation balances of many women.

Other initiatives

11.30 The committee also considered other measures designed to improve superannuation savings, and:

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- found the exemption for employers to pay the SG if an employee's monthly wages are less than \$450 per month to be outdated, unnecessary and ultimately detrimental to the interests of casual and part-time workers;
 - reserved judgement on the merits of mandatory superannuation contributions for self-employed people; and
 - considered there may be merit in introducing joint superannuation accounts, but determined that this measure was unlikely to produce a significant reduction in the aggregate gap between men and women's superannuation balances. It was also aware of possible risks, such as the potential for joint superannuation accounts to undermine efforts to improve and secure financial independence of women, both during their working lives and in retirement.

11.31 In relation to the apparent need for superannuation products to better address longevity risk for superannuation accounts in retirement phase, the committee notes that the government is currently undertaking a Review of Retirement Income Stream Regulations, including:

- the regulatory barriers restricting the availability of relevant and appropriate income stream products in the Australian market; and
- the minimum payment amounts for account-based pensions, to assess their appropriateness in light of current financial market conditions.⁹

11.32 It is the committee's hope that in undertaking this work, the government gives appropriate consideration to gender issues and the specific needs of women in retirement.

Concessional contribution caps on voluntary superannuation

11.33 The committee examined matters relating to voluntary superannuation contributions, including how current settings in relation to concessional contribution caps affect women wishing to make higher voluntary concessional contributions. At the moment annual caps stand at \$30,000 for people aged under 49 years and \$35,000 for people aged 49 years or older. The committee did not receive any clear evidence on how many women would be pushing up against the concessional contribution caps in any given year. The committee considers that the number of women who are prevented from building adequate retirement savings as a result of current concessional contribution caps is likely to be relatively small. As a consequence, reform in this area is unlikely to significantly improve outcomes in aggregate for Australian women.

11.34 Nonetheless, the committee considers that there is a case to be made for allowing women who have had interrupted work patterns and who later on have the

9 The Treasury, 'Review of Retirement Income Stream Regulation', 21 July 2014, <http://www.treasury.gov.au/ConsultationsandReviews/Consultations/2014/Review-of-retirement-income-stream-regulation> (accessed 9 February 2016).

capacity to make additional contributions to do so. The committee notes concerns that more flexible concessional contribution caps would be disproportionately utilised by higher income workers. The committee suggests that any changes in this direction would need to be designed to ensure they do not simply exacerbate inequities in the current distribution of superannuation tax concessions.

Super co-contribution scheme

11.35 The committee also assessed the effect of the government's co-contribution scheme for low-income earners in relation to women's superannuation balances.

11.36 The committee considers that the costs and benefits of proposals for the government directly boosting the superannuation accounts of younger people, including Industry Super Australia's Super Seed scheme, would require additional and careful consideration before adoption. Proposals to build the superannuation balances of young, low income people at an early stage in their working lives so that they might better benefit from the power of compound interest are potentially powerful. However, such a measure may benefit individuals who later in life may not require support. More broadly, the committee welcomes the fact that proposals such as Super Seed help to focus attention on this aspect of superannuation policy, and stimulate valuable discussion regarding innovative policy approaches.

Employer initiatives—additional super contributions for female employees

11.37 A number of companies participating in the inquiry outlined schemes they had implemented to provide higher superannuation payments to their female employees. For example, some companies, such as Rice Warner, have taken it upon themselves to augment the SG with additional contributions for their female employees. While the committee welcomes initiatives by companies to introduce higher SG rates for female employees, it is wary of making higher SG rates for women mandatory. In its assessment, it considers there are better, more targeted ways to narrow the gender retirement savings gap. ANZ provides another example of a company helping to boost their female employees' superannuation savings by paying female staff an extra \$500 per year in superannuation contributions.

11.38 The committee joins with other inquiry participants in applauding the steps taken by individual companies such as ANZ and Rice Warner to address the gender superannuation gap. While such steps are not by themselves sufficient to close the gap, they are a useful step in the right direction. The committee particularly welcomes the fact that these initiatives have served to highlight the issue of the retirement savings gap and stimulate public discussion on this critical issue.

11.39 The committee agrees that modest changes to anti-discrimination legislation would help clarify the legal standing of such schemes, and encourage further companies to pursue their own schemes. In particular, the committee shares the concerns expressed by several inquiry participants that smaller companies might lack the resources to be able to navigate a very complex and time consuming legal

environment, and might be discouraged from doing so in the absence of appropriate legislative changes.

The Age Pension

11.40 The Age Pension is broadly recognised as a critical means of providing Australians with economic security in retirement. This importance is reflected in the fact that it is one of three retirement income pillars in Australia (the others being compulsory superannuation and private savings). Evidence received during this inquiry highlighted the importance of the Age Pension in providing economic security for women in retirement.

11.41 The committee views the Age Pension as an integral component of Australia's retirement incomes system, and considers an adequate and accessible Age Pension to be critical in ensuring the economic security of women in retirement. As many of the experts participating in this inquiry point out, the Age Pension is not only important for women currently in retirement, but will remain important for the foreseeable future, even as the superannuation system matures.

11.42 The committee notes and shares the concerns expressed by various experts and organisations during this inquiry regarding changes to the Age Pension that the government has proposed or implemented in recent years. In particular, the committee is concerned that the proposed move to increase the eligibility age for the Age Pension will leave many workers, and a disproportionate number of women, trapped on Newstart Allowance for longer periods. While the government has abandoned plans to index the Age Pension to CPI, the committee observes that evidence received in the inquiry highlighted the damage this change would have had on the incomes of the 70 per cent of Australians of retirement age who receive a full or part Age Pension payment.

Housing and economic security in retirement

11.43 Home ownership is a significant component of the third retirement pillar—voluntary private savings. The adequacy of retirement income and economic security in retirement are highly dependent on home ownership and access to affordable housing. The committee has noted in its *Out of Reach?: The Australian housing affordability challenge* report that affordable and secure housing brings health and wellbeing advantages for renters especially as they grow older. People who retire without owning a home, particularly single women, are at greater risk of living in poverty and experiencing housing stress.

11.44 The supply of social housing is an essential part of the housing stock, which provides low income people and homeless people or people at risk of homelessness with a pathway to secure long term accommodation. While social housing provides a necessary safety net for older Australians, there is a serious shortage of this type of housing.

11.45 The committee supports the development of innovative government initiatives to encourage private sector development of affordable housing options. The committee considers that in the absence of any credible alternative scheme the Australian Government should consider continuing with the National Rental Affordability Scheme (NRAS). The scheme is designed to stimulate and add to the supply of affordable housing by offering annual financial incentives to private investors and community organisations to build and rent homes to low- and moderate-income households at a rate at least 20 per cent below market rates.

11.46 As the supply of social or community housing is limited, increasing numbers of older people are relying on private rental accommodation. The committee is concerned that the retirement income system does not adequately address the rising housing costs for older people renting in retirement, particularly single women, who are at greater risk of living in poverty. The evidence received during this inquiry supports the findings of the committee's *Out of Reach?: The Australian housing affordability challenge* report that the adequacy of the Commonwealth Rental Assistance (CRA) scheme intended to meet housing costs for low-income renters needs to be addressed. A number of submissions recommended that CRA be reviewed to ensure it adequately meets rising housing costs in Australia. The committee considers that increasing CRA is one of the most significant measures that could be taken to assist immediately those retirees under the greatest financial stress.

Accessing equity in the home

11.47 Submissions raised the possibility of developing home equity release schemes as many older people who own their own home may be income poor if their cash income is not enough to meet their daily needs. While home owning retirees may have the benefit of not paying rent and be considered asset rich, the family home is an illiquid asset.

11.48 The committee considers that there may be merit in further considering the development of products to unlock equity in the home for those who find themselves asset rich but cash poor in retirement. However, the committee is of the view that any such proposals should have regard to the evidence of women's greater reliance than men on the home as their primary asset in retirement. Further, the committee is concerned that any proposals to enable access to home equity for retirement income should not be tied to a move to include the principal residence in the assets test for the Age Pension.

Financial literacy

11.49 Many submissions argued that improving financial literacy more broadly and targeting programs to address the particular circumstances women may find themselves in across their lifetime, could improve outcomes for women in retirement. A range of inquiry participants suggested that while Australian women typically had fairly good levels of financial literacy, they would benefit from targeted information to better understand their needs in retirement.

11.50 The committee believes that financial literacy tools and programs could have an important role in encouraging women, particularly young women, to engage with their superannuation and think carefully about planning for their retirement. The committee acknowledges that government and industry have already developed a range of targeted programs and tools.

Summary

11.51 The causes of gender inequality in retirement are complex, and a solution is correspondingly complex. While there are no simple answers, the committee is of the view that Australia needs to redouble its efforts to achieve equality at work—paying women equally, offering access to career development and leadership opportunities, and accommodating rather than penalising those who care for others. Government, business, and individuals have a role to play in achieving women's full participation in our workplaces.

11.52 The committee has made 19 recommendations intended to help women increase their participation in the workforce and improve their superannuation savings as a means of achieving dignity and economic security in retirement. It looks at promoting measures that will assist women in retirement to live comfortably and securely as they age.

Senator Chris Ketter
Chair

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Subcommittee Chair

