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Submission to Treasury Consultation on the Objective of Superannuation

Prepared by Associate Professor Helen Hodgson, Curtin Law School

By authority of the NFAW Social Policy Committee

This submission is being made jointly by The National Foundation for Australian Women (NFAW) and Economic Security 4 Women.

NFAW is dedicated to promoting and protecting the interests of Australian women, including intellectual, cultural, political, social, economic, legal, industrial and domestic spheres, and ensuring that the aims and ideals of the women's movement and its collective wisdom are handed on to new generations of women. NFAW is a feminist organisation, independent of party politics and working in partnership with other women's organisations, including the National Women's Alliances Equality Rights Alliance and economic Security 4 Women. These organisations include those committed to increasing support for women in Australia as well as those with a special interest in women's history.

Economic Security 4 Women is an alliance of women's organisations united in the belief that economic wellbeing and financial security are essential for women and will enable women of all ages to have an equal place in society.

NFAW and ES4W welcome the opportunity to comment on the objective of the superannuation system. In 2015 NFAW made submissions on retirement income to the 2015 Tax Discussion Paper and to the Senate Committee Inquiry into Economic Security for Women in Retirement. This document is based on work done by members of the NFAW Social Policy Committee in submissions to those inquiries and Gender Budget analysis of the 2014-15 and 2015-16 budgets. These submissions are attached as appendices. We restate here that two significant shortcomings in the superannuation system, from a gender equity perspective, are the absence of superannuation guarantee payments on paid parental leave and other carer payments, and the legislated removal of the Low Income Superannuation Contribution. These shortcomings contribute to the gender superannuation gap between male and female retirement savings.

In this discussion paper we have been asked to consider the proposed objective of the superannuation system, as recommended by the Murray Review. The form of words under consideration is:

To provide income in retirement to substitute or supplement the Age Pension.

1. **Income Objective**
   NFAW and ES4W agree that the primary objective of the superannuation system is to provide income in retirement. The current structure of the superannuation scheme favours accumulation funds which are then drawn down annually. Productivity Commission research has shown that most retirees draw regular payments from their superannuation account, and only draw down lump sums for specific purposes including clearing pre-existing debt or purchasing durable goods. The ability to draw down lump sums should be retained. If necessary the social security "gifting" provisions should be applied where there is evidence that a lump sum is being drawn down to facilitate access to the age pension.

   Many retirees are concerned about longevity risk, and their superannuation running out: most Australians below the top wealth quintile will draw on the Age Pension at some stage in their retirement. There is currently no viable market in annuity products to insure against this risk due in part to conditions in financial markets but largely due to tax and regulatory penalties on such products. These hurdles need to be addressed through a review of the relevant legislation.

Recommendation: Retirement income streams should be the primary objective of the superannuation scheme and that legislative barriers in the taxation and superannuation laws that be reviewed to facilitate annuity products that guarantee a lifetime income stream.

2. Role of the Age Pension

We consider that the proposed form of words reduces the policy commitment to maintenance of the Age Pension at a level that will address poverty among the aged. As worded, the primary objective gives priority to superannuation over the age pension. The age pension is an important pillar of the retirement income system; and government policy must clearly support the retention of the age pension at a level that is adequate to support a modest standard of living.

There is a significant proportion of the population that will never accumulate sufficient superannuation to support themselves in retirement without access to the age pension, as they are engaged in insecure employment or because of breaks in workforce participation. The Actuaries Institute (2015) has estimated that only people in the top income quartile can expected to be self-sufficient in retirement, and that people in the lowest income quartile will need to rely on the age pension during retirement. Longevity risk remains a concern for those in between; and it is likely that this section of the community will need to supplement superannuation income with the age pension.

We support better integration of the superannuation system to ensure that superannuation is taken into account when determining an appropriate level of income support through the age pension.

Recommendation: Reference to substitution of the age pension should be deleted.

3. Standard of Retirement Income

Superannuation concessions should be structured to ensure that retirees have a comfortable lifestyle in retirement, taking into account housing needs. In our view superannuation accumulations in excess of the level required to meet this level of income should not be eligible for concessional tax treatment.

The benchmarks adopted by the Association of Superannuation Funds of Australia for a comfortable standard of living are $59,236 for couples and $43,184; and $23,797 and $34,266 for a modest standard of living (at December 2015). However this income level assumes home ownership. If a retiree is in the private rental market their living expenses will increase accordingly: the Commonwealth Rent Assistance requires a couple who are eligible tenants to contribute the first $188 per fortnight, then the benefit increases to a maximum of $123 on a fortnightly rent of $352 per fortnight. If the couple is able to find suitable accommodation costing $352 per fortnight, they would need $65,000 to meet the comfortable standard, and $40,000 to meet the modest standard of living.

We also note that the ASFA retirement standard assumes that the retiree is in reasonable health. The ASFA retirement income standards include some health costs, however changes to the health system that increase the health costs for retirees would require adjustment to the retirement income standards.

There are two approaches to limiting tax concessions on excessively high balances: the balance can be restricted or the exempt income can be capped.

Exempt income could be capped through a limit on the amount of income that is exempt from income tax when received by the retiree. The cap would be based on the retirement income standards with a reasonable uplift, in the order of 20%, for contingencies including increased health costs, and a further amount allowed to retirees who rent in the private rental market. Amounts received in excess of this amount would be taxed at marginal tax rates less an offset to reflect tax paid by the fund. Capping the exemption at the individual level takes account of withdrawals but it does not address the revenue leakage through excessively high balances in pension phase in superannuation. Accordingly a corresponding cap would need to be introduced on the exemption for the income of the superannuation fund, with the surplus taxed at marginal tax rates.

However a cap based on income would not address over accumulation of income in the accumulation phase, when tax is paid at concessional rates, and it could encourage tax planning strategies to minimise income of the superannuation fund.

An alternative approach would be to limit the balance that is eligible for concessional tax rates on the basis of actuarial tables, determined on an annual basis and published by the superannuation regulators. This should be increased where the member is in the private rental market by an amount equal to the additional amount allowed under the social security means tests: currently $146,500. The tables should be conservative, and a reasonable uplift, in the order of 20%, should be incorporated.

We are aware that this would be a more complex calculation, and resembles the former system of RBL's that was criticised for its complexity. However the improved data matching capability of the ATO that easily matches taxpayers with superannuation contributions will facilitate administration.

Recommendation: Tax concessions should be restricted to the income and/or accumulated balance sufficient to support a reasonable standard of living in retirement based on a comfortable standard of living, adjusted by a reasonable uplift factor and further adjusted where the member rents in the private rental market.

4. Wealth Accumulation and Estate Planning

One motivator to over accumulate in a superannuation account is the ability to accumulate wealth in superannuation, then to use estate planning strategies to pass that wealth to non-dependant beneficiaries without paying additional tax.

Since 2007 members have been able to make contributions of non-concessional contributions into a superannuation fund from amounts on which tax has already been paid. Accumulated earnings are taxed at 15% or are tax exempt once the fund is in pension phase, which clearly incentivises over investment in superannuation accounts. In particular, recontribution strategies exploit this to convert taxable components into tax free components.

Although a non-dependant is required to pay 16.5% tax on a death benefit from a superannuation fund, the tax payable on a “tax free” amount is 0%. All contributions are classified as “tax free” amounts when paid as benefits and are not subject to additional tax in the hands of the recipient. This allows a transfer of wealth that has been subject to concessional tax.

Recommendation: The amount that can be contributed as a non-concessional contribution should be significantly reduced. Alternatively the adoption of marginal rates of tax on excessive balances, as set out above, would discourage excessive contributions.

Recontribution strategies should be prohibited.

We further recommend that the treatment of a death benefit paid to a non-dependant be reviewed to ensure that tax is paid at marginal tax rates on contributions that are not exhausted during retirement.

Summary of Recommendations:

1. Retirement income streams should be the primary objective of the superannuation scheme and that legislative barriers in the taxation and superannuation laws that be reviewed to facilitate annuity products that guarantee a lifetime income stream.

2. Reference to substitution of the age pension should be deleted.

3. Tax concessions should be restricted to the income and/or accumulated balance sufficient to support a reasonable standard of living in retirement based on a comfortable standard of living, adjusted by a reasonable uplift factor and further adjusted where the member rents in the private rental market.

4. The amount that can be contributed as a non-concessional contribution should be significantly reduced. Alternatively the adoption of marginal rates of tax on excessive balances, as set out above, would discourage excessive contributions.

5. Recontribution strategies should be prohibited.

6. The treatment of a death benefit paid to a non-dependant should be reviewed to ensure that tax is paid at marginal tax rates on contributions that are not exhausted during retirement.

Attachments:

Appendix 1: Submission to Re:Think Discussion Paper; March 2015 and

Appendix 2: Supplementary Submission to Rethink Discussion Paper; July 2015

Appendix 3: Submission to the Senate Economics Committee Inquiry into Economic Security for Women in Retirement; October 2015

National Foundation for Australian Women

REAL WOMEN. VISIONARY LEADERSHIP

Submission to Treasury

Re:Think Tax Reform Discussion Paper

www.nfaw.org

Prepared by Associate Professor Helen Hodgson, Curtin University

By authority of the Social Policy Committee

The National Foundation for Australian Women is dedicated to promoting and protecting the interests of Australian women, including intellectual, cultural, political, social, economic, legal, industrial and domestic spheres, and ensuring that the aims and ideals of the women's movement and its collective wisdom are handed on to new generations of women.

NFAW is a feminist organisation, independent of party politics and working in partnership with other women's organisations, including the national women's alliances Equality Rights Alliance and Economic Security 4 Women. These organisations include those committed to increasing support for women in Australia as well as those with a special interest in women's history.

NFAW and the Equality Rights Alliance submit that tax reform must be examined through a gendered lens to identify any impact that reform may have on women. Specifically, the economic impact on women are often the result of gender blindness that does not recognise the different effect that policies have on women because of the circumstances of women's lives.

In particular, women are overrepresented among lower paid, casual workers and they are more likely than men to experience interruptions to their working career as a result of caring responsibilities to children and other family members. Therefore policies that impact negatively on lower income earners, or that allow higher tax benefits to wealthier members of the community, are more likely to disproportionately affect women.

As noted in the discussion paper, women are often the secondary income earner in Australian households, and female workforce participation rates are highly responsive to effective marginal tax rates. NFAW has a serious concern that the role of the transfer system has not been addressed in this discussion paper. The transfer system has a redistributive function, protecting those in need against poverty. Women are more likely to rely on income support though transfer payments, whether in the form of the age pension, through parenting payments or the Family Tax Benefit. The transfer system cannot provide effective support if the taxation system does not raise sufficient revenue to provide adequate benefits to support those in most need.

For this reason we believe that the primary focus of tax reform should be to safeguard the integrity of the tax system, and to ensure that the tax-transfer system, taken as a whole, is progressive. Lower taxes should be an outcome of the reform process, not the main driver.

Economic Participation by Women

There are a number of policy reasons to encourage workforce participation by women. The key reasons can be identified as:

- Children in workless households are at greater risk of poverty;
- Underemployment affects the ability of women to save for their retirement; and
- Lower participation rates for women than men constitute a significant source of labour to maintain productivity in the Australian economy.

NFAW supports reforms that facilitate greater economic independence of women therefore reforms to address the high EMTR faced by second income earners are welcome. However our research[1] shows that the provision of affordable and appropriate childcare is more important than EMTRs in decisions to return to the workforce. Again, these reforms are outside the tax system thus outside the scope of the discussion paper but the cost of subsidising childcare will be an additional revenue cost to the Government.

NFAW was invited to participate in the 2011 Tax Forum. Our position remains unchanged in respect of the issues that were discussed at the forum, and the discussion paper produced for that event is attached to this submission.

In addition we would like to comment on a number of issues that were raised in the current discussion paper.

Income Splitting:

As noted in the current discussion paper, proposals for income splitting impact most heavily on secondary income earners. Income splitting is promoted from time to time as a means of supporting single income families however the economic evidence shows that it reduces workforce participation among secondary income earners[2]. This is not consistent with the current need to increase workforce participation. It is also argued that income splitting is available to non-salary and wage earners through the use of business structures including family trusts and alienation of assets, and that this is a cause of complexity in the system. We support moves to address the inconsistencies between the taxation of income in trusts and companies, which should include strengthening the integrity measures that ensure that the person who earns the income is taxed on that income.

Income splitting between spouses has been successfully resisted by Australian feminists since the Asprey Report in 1975 on both economic grounds and to protect women's rights to earn income and own property. We strongly resist any attempt to introduce income splitting into the tax system.

We recognise that the transfer system is based on joint income which is not consistent with the tax system, but this is appropriate as the transfer system is designed to target need, and family income is a better measure of the resources available to a particular claimant.

Recommendation: We strongly recommend that the income tax system remain based on individual income not joint income.

Superannuation

The NFAW submission to the Tax Forum (refer to Appendix) raised a number of issues in relation to the superannuation system. The superannuation system is gender blind, therefore the design of the system does not recognise the interrupted pattern of women's workforce participation, and women are disproportionately reliant on the Age Pension in retirement. NFAW supports the inclusion of

[1] Coleman, M. and H. Hodgson (2011). Women's Voices. Canberra, National Womens Alliances. http://www.nfaw.org/wp-content/uploads/2012/06/Womens-Voices_21-September-2011.pdf

[2] Hodgson, H. (2008). "Taxing the Family - The Tax Unit: Should NZ Adopt a Family Based Income Tax?" New Zealand Journal of Tax Law and Policy **14**(3): 398 - 412.

superannuation guarantee payments as part of the paid parental leave system, as originally recommended by the Productivity Commission.

However, more significantly, the current superannuation system provides much greater tax benefits to those with the capacity to contribute more during their working life and high balances to support tax free pensions in retirement. Chart 3.5 in the Re:Think discussion paper highlights the extent to which superannuation concessions are concentrated among individuals earning more than $250,000 pa. These concessions are skewed to men as 29% of men are in the top two tax brackets compared to 14% of women. Further, when the repeal of the Low Income Superannuation Contribution takes effect, low income earners will again be paying a higher rate of tax on their superannuation contributions than on earned income. This particularly disadvantages women as they are overrepresented among low income earners.

The Financial System Inquiry[3] recommended that the taxation of superannuation should be reviewed, particularly in relation to the alignment of tax rates in the accumulation and pension phase of a fund. We also believe that the current level of contribution caps allow excessive accumulations of tax sheltered investments over a person's working life.

Recommendations: We submit that the following reforms should be considered:

- Tax the Accumulation Phase: Superannuation funds should be taxed at the owner's marginal rate of tax less a standard tax offset, which would be refundable to the superannuation fund. The Henry Review recommended the individual should be taxed, however we recommend that the fund be the taxing point.
- Tax on Withdrawals: This could be done by applying the marginal rate of tax to withdrawals then giving a credit for the 15% tax paid by the fund (note that this should be a refundable credit to assist people with total income below the tax threshold).
- Reduce the Contribution Caps: this would discourage excessive contributions into superannuation. Currently a person who is under 55 can contribute $30,000 pa into superannuation. A person who could afford to contribute this amount each year over 30 years would accumulate over $2m. However any move to restrict contributions needs to be structured to take account of the interrupted work patterns of women: for example $10,000 pa could be structured as a rolling 5 year $50,000 cap. Excess contributions could be accepted where the payments were under an industrial award or workplace agreement but would be taxed at the individual's marginal tax rates without any tax offset.
- Retain the Low Income Superannuation Contribution. This is currently the only policy instrument giving benefits to low income earners, and it should be retained.
- Remove the Exemption for employees earning less than $450 per month. This reform should be phased in to ensure that employers do not respond by reducing wages for these lowest income earners.

[3] Murray, D: *Financial System Inquiry* (2014) Commonwealth of Australia http://fsi.gov.au/files/2014/12/FSI_Final_Report_Consolidated20141210.pdf at p 137

Capital Gains Tax

The effectiveness of the capital gains tax to remove the preferential treatment applied to the realisation of assets has been severely compromised since 1999 by the application of the 50% discount. The original justification was to simplify the former indexation regime, which in turn was applied to recognise inflation; and to remove the averaging system that was applied to recognise the effect of receiving a lump sum.

The current level of discount is excessive with inflation rates are currently around 2 – 3 %. The effect of receiving a lump sum could still be significant for some recipients of capital gains, but the tax statistics show that capital gains received by taxpayers in the lowest tax brackets are correspondingly low: 75% of all net capital gains returned by individuals are less than $10,000, and when analysed by tax brackets 48% of capital gains are returned by taxpayers earning over $80,000[4].

The discount contributes to distortion in the investment market, and particularly diverts a significant proportion of investment funding into the housing market. Women significantly invest in the family home, and increased housing costs limit their ability to access affordable housing.

Recommendations:

- We support the Henry Review recommendation that a standard discount be applied across all investments, with deductibility of expenses restricted to the same proportion.
- Alternatively the discount could be based on a modified indexations basis, using the higher RBA target rate (3%) to index the cost of assets when calculating the taxable gain.

Negative Gearing

Negative gearing is, as pointed out in the discussion paper, no more than an application of the rules relating to the deductibility of expenses related to earning assessable income. The impact of negative gearing on investment markets, particularly the housing investment market, is a factor of the relationship between the capital gains tax discount and the ability to deduct expenses. Arguably, there is a dual purpose in purchasing an appreciating asset: the short term derivation of income and the longer term realisation of a capital gain. The discount on the capital gain increases the significance of that purpose when the investor decides to make a particular acquisition.

Although this reasoning could be applied to all investment acquisitions, the impact is particularly felt in the housing market as it has an impact on other purchasers and users of housing which is an essential commodity. There is evidence that younger adults and low income earners are increasingly unable to purchase a home, and are becoming reliant on the rental market[5]. This will have a long term impact on housing security in retirement.

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[4] Tax Statistics - Individuals 2012-13; Australian Taxation Office at Table 9 https://www.ato.gov.au/about-ato/research-and-statistics/in-detail/tax-statistics/taxation-statistics-2012-13/?anchor=indiv_detailed#indiv_detailed

[5] Burke, T, Stone, W and L Ralston: (2014) *Generational Change in Home Purchase Opportunity in Australia* AHURI http://www.ahuri.edu.au/publications/download/ahuri_51002_fr2
Hulse, K, Reynolds, M and J Yates (2014): Changes In The Supply Of Affordable Housing In The Private Rental Sector For Lower Income Households, 2006 – 2011 AHURI http://www.ahuri.edu.au/publications/download/ahuri_51018_fr1

The impact of negative gearing on rental investments is not identified in the Tax Expenditure Statements. Chart 4.3 in the Discussion Paper identifies the highest number of negatively geared taxpayers have a taxable income of less than $80,000. Further analysis shows that higher income earners claim higher deductions for property losses, including negative gearing (Chart 3.5) resulting in higher levels of tax subsidy. However both charts are based on taxable income.

An alternative source of data is the Reserve Bank data. According to the RBA data[6], in March 2012 23% of households in the top income quintile have an investment loan, reducing to 3% of people in the lowest income quintile. Gearing ratios are also higher for investors in the middle (60%) to highest (57%) quintile than for households in the lowest quintile (40%).

Housing affordability is an issue of supply as well as demand: negative gearing and the CGT discount affect the demand for property, but since the NRAS scheme was repealed, there is no incentive in the tax system for investors to increase the supply of new property for rental accommodation. It has been argued that changes to deductibility for rental expenses would decrease the supply of rental properties as investors exit the market, thus driving rents up. This effect would need to be managed.

We endorse the submission from the Equality Rights Alliance in relation to negative gearing and the impact on the housing market.

Recommendations:

- NFAW agrees with the suggestion in the discussion paper that rental deductions could be limited to the income earned.
- However the potential impact on the supply of rental properties could be reduced by limiting negative gearing to new properties or affordable housing schemes.

Business Taxes

NFAW recognises that many women are engaged in small business, and we support initiatives that support small business and generally. We are particularly aware that many rural women are part of the small business sector, either as farmers or in businesses supporting farmers.

The taxation of small business entities must be reformed to reduce the inconsistencies that emerge through the taxation of different entities. We recognise that different business structures have different succession planning and family consequences, and we believe that taxation should not be the primary driver of the choice of business structure.

We favour the direct attribution of the income of small business entities to the equity holders of that business, whether the legal structure is a trust or a corporation. To achieve this, a flow through system similar to the “S Corporation” structure should be adopted for companies operating a small business and trusts. Where there is no actual distribution of income, the income should be

[6] Reserve Bank of Australia: Statistical Tables: E7 Household Debt – Distribution; E4 Household Gearing – Distribution http://www.rba.gov.au/statistics/tables/index.html#money-credit

attributed to the equity holders; and in circumstances where attribution is not possible the entity should be taxed at the maximum rate of tax[7].

If the "S Corporation" structure was adopted in respect of small business entities, it would be possible to review the operation of the franking system in respect of payments from large companies. Currently the franking system introduces distortions in investment markets particularly in relation to non-resident shareholders. Other jurisdictions that adopted a form of imputation have moved away from imputation to other forms of double taxation relief, which can include tax exemptions or differential tax rates.

In the context of the dividend imputation system, lowering the company tax rate is of limited benefit to Australian shareholders who are taxpayers; as the dividend is effectively taxed at personal marginal tax rates. Australian entities, including superannuation funds in the pension phase, receive a full refund of the imputation franking credit, giving these investors an investment advantage. Lowering the corporate tax rate advantages non-resident shareholders and may affect the distribution and investment policies of the company, but is of no immediate benefit to Australian shareholders.

Recommendations:

- We recommend that the taxation of business entities be reviewed to adopt a flow through taxation structure for small business entities and trusts, and
- that the operation of the franking system be phased out.

GST

The goods and services tax was not on the table in the previous round of tax reform.

NFAW opposes the extension of the GST without payment of appropriate compensation to low income earners. Just as women are less likely to be able to save for retirement, they are more likely to consume most of their available income on household and family expenditure.

Data in the discussion paper shows that GST exempt goods are consumed in approximately equal proportions across all income levels, and presents this as an argument to extend the base of the GST. However adding GST to the cost of basic food, education and childcare would have a gendered effect. Women spend a higher proportion of their income on household expenses, and to the extent that the expenditure is higher for families this will impact on women in particular. This was recognised in the compensation package that accompanied the introduction of the GST which increased the Family Tax Benefit paid to the principal carer in the household.

In particular, at a time when affordability of childcare is a significant limitation on women's workforce participation, charging GST on childcare would be a further barrier. It would also require an increase in the subsidies paid to parents of children using childcare services.

Recommendations:

[7] ICAA & Deloittes: (2008) *Entity Flow-Through (EFT) Submission* ICAA, Deloitte http://www.charteredaccountants.com.au/Industry-Topics/Tax/Publications-and-tools-NEW/Publications-and-tools/Entity-flow-through-EFT-Submission.aspx

- NFAW opposes the extension of the GST without payment of appropriate compensation to low income earners.
- If GST is imposed on services that attract government subsidies, such as childcare, the subsidy must be increased to reflect the resulting increase in fees.

Simplification and Administration

We support moves to reduce the complexity of the tax system. However we note that a fair system will always need a range of integrity and targeting measures that will introduce complexity into the system. Reforms to reduce complexity must be carefully examined to ensure that they do not increase inequity in the tax system. For example the proposal to introduce standard deductions could increase the cost to the revenue unless there is also a cap to claims as taxpayers who were not entitled to claim deductions under the existing rules would make claims while taxpayers entitled to claim more than the standard deduction would still claim the higher amount.

We support the continued rollout of prefilling technology to empower taxpayers to complete their own tax returns; but we do not support the removal of lodgement requirements as this would create anomalies in the transfer system that relies on reported income details for means testing purposes.

We are concerned about the reductions in staffing levels in the Australian Taxation Office, particularly at a time when there is a focus on complex commercial activities such as international profit shifting. The ongoing downsizing will result in a deskilling within the tax office as experienced staff move to other employment.

Recommendations:

- We support proposals that reduce the compliance burden on individuals and small business
- Any reforms should not encourage inequities or reduce proper targeting of incentives on the grounds of simplification of the system
- The Australian Taxation Office, Centrelink and other Government Departments providing services to the Australian Public must be funded adequately to ensure that they can fulfil the requirements of those roles.

National Foundation for Australian Women
REAL WOMEN. VISIONARY LEADERSHIP

Supplementary submission to Re:Think Tax Reform Discussion Paper 2015

Women and Retirement Incomes

Introduction

In Australia there are three pillars for retirement incomes – income support, superannuation and individual savings. This section addresses women and income support in the retirement incomes system.

NFAW believes the current system is sustainable from a fiscal perspective. Australia spends an average of 3.5% of GDP on age related spending compared to an OECD average of 7.8%.

There is, however, a need to address the issue of an ageing population from an equity viewpoint. The challenge is to make the retirement income system fairer and more flexible by targeting public support more clearly at people who need it and by Improving incentives to save for the future. NFAW supports a systematic and comprehensive review of the Age pension(AP), superannuation and asset taxation.

There is a major gap between the financial security of Australian men and women in later life. Women face a much greater risk of poverty. Of all the household types in Australia, elderly single women are at the greatest risk of persistent poverty, with over half living in poverty. (HILDA survey 2008)

The retirement incomes system should be reformed to reflect the reality of women's lives.

Background

Many of the issues raised here have been identified previously.

"On average ,women have lower lifetime earnings compared to men, retire with less superannuation than men and own a smaller percentage of the nations wealth. Women are more likely than men to live in poverty, particularly after relationship breakdowns….. "

NFAW submission to the Mc Clure Welfare Review

"Responsible governments should always be looking for ways to keep spending under control. No areas should be off limits for regular examination. NFAW calls for a more balanced approach to the federal budget in terms of consideration of expenditure, tax expenditures and revenue measures"
NFAW Budget 2014/15 – A Gender Lens

"In Australia, nearly 60% of income support recipients are women. Women are more likely than men at all ages, to be receiving income support, presumably because they have lower incomes and assets." DSS 2012

"A growing body of evidence shows that the numbers of women facing housing stress and homelessness will rise sharply over the next decade as women with little superannuation and dependent on the AP retire in greater numbers. The health,social and economic implications of housing stress and homelessness will be significant and costly. There is an urgent need for federal housing policy to take a long term approach to address the challenges posed by this cohort of women."NFAW 2014

Key Statistics 2013*

About half of Age Pensioner (AP) recipients come from other income support payments.

- 56% of the 2.4m AP's were women
- 54% of female AP's were single widowed or divorced compared to 30% of men
- 26% of female AP's were not home owners
- 61% of females on the AP were on the maximum rate
- 70% of Carer Payment (CP)recipients were women
- 53% of CP recipients do not own their own home
- In 2008, nearly half CP recipients had no other income
- 31% of female Newstart Allowees (NSA) were aged 50+ years
- 76% of female NSA recipients were single, widowed or divorced
- 70% of female NSA recipients reported nil income per week
- Of long term NSA recipients, 55% of women had been on the payment for more than 5 years, compared to 29% of men
- Since 2010, there has been an over 40% increase in the number of people over 50 on NSA
- In 2012, 62% of all single rent assistance (RA) recipients were women (547 000)

*DSS 2013 Irregular statistical publication.

Adequacy

The level of the pension is slightly below the OECD benchmark for poverty (50% of median income). However, there have been significant increases in the pension over the last decade with increasing numbers having superannuation as well as the pension. The main group still suffering persistent poverty remain those who are fully reliant on the pension who are in private rental accomodation, whose after housing costs are much higher than those who own a home or are in public housing. These are overwhelmingly women, especially single women.

ISA- Rice Warner modelling (June 2015) shows that

- The retirement system is especially failing single women. Over two thirds of single women aged 55 to 69 will retire on incomes below a comfortable standard.

As NFAW and others have noted previously, the growing gap between pension levels and allowances is inequitable and unjustifiable. The growing number of women going onto NSA because of changes to Parenting Payment and closure of other payments, results in a dire level of poverty.

Reform of the retirement system needs to include a formal mechanism that addresses the needs of women whose workforce participation is intermittent, interrupted and precarious. These women are less likely to pay superannuation because often, when they do paid work , it is in low wage industries. NFAW has previously suggested a government funded system of crediting superannuation accounts for these women. This would address the questions of adequacy and fairness. It could contribute to ending poverty traps for groups such as carers.

Alternatively, as ACOSS has proposed (2009), a universal retirement income supplement, could be introduced, paid as part of the AP. It would be substituted for tax concessions that mainly benefit high income earners.

As pointed out above, social security recipients who rent privately face a particularly high risk of financial hardship. Three quarters of pensioners in extreme housing stress paying more than half their incomes in rent were older women (Welfare Rights 2013). NFAW believes the maximum rate of RA urgently needs to be increased and indexed to housing rents changes.

2015/16 Budget Changes

The AP has a progressive impact on retirement incomes because it is paid at flat rates regardless of previous labour force status and is income tested compared to superannuation which provides greater support for people with higher earnings throughout their working life and limited support to people whose labour force attachment is weak.

Apart from the home, the financial and other assets of age pensioners are tested against a limit, so as to target the pension. The AP is also subject to an income test. Pensioners are assessed under both, the one giving the lowest payment is applied.

The new asset test arrangement increases the cut in point for pension decreases and tapers the pension away more quickly. Ben Phillips of NATSEM (June 2015) has modelled the effect of these changes. His modelling suggests

- 300 000 pensioner families will be worse off, compared to 155 000 who will be better off.
- The majority of pensioners affected by the changes are low income families with modest to high assessable assets. These families are low income by definition as their incomes are not high enough to be impacted by the income test.

"The pension changes are likely to lead to behavioural changes …. The new pension taper rate implies a doubling of the "wealth tax". Beyond the asset test first taper pensioners now lose $78 per annum for every $1000 in assets beyond the threshold - double the previous loss of $39 per annum. Given this loss is greater than typical returns there will now be an incentive to draw down assets to increase pension payments….likely that high asset families will remain in a better long term position relative to lower asset pensioner families."

The 2015/16 changes to the AP asset test, deliver benefits to the lower end but can be hard on those with accumulated assets. The changes are piecemeal and could have significant behavioural effects. Both the Henry Tax Review and the Shephard National Committee of Audit recommended widening the existing deeming rules – the separate AP asset test should be replaced by a comprehensive means test that deems income.

Both the Harmer Review of Retirement Incomes and Australia's Future Tax System found the existing means test was complicated and inefficient, with the assets test singled out as a particular cause for concern. The losers are the current aged, most of whom didn't benefit from the superannuation reforms of the past 25 years, yet excessive superannuation concessions to the very wealthy continue.

The Henry proposal provides a more coherent way of improving incentives to save and work.

ACOSS (2015) notes that changes to the AP taper rates and thresholds should not proceed without an overall review of the retirement income system, including the tax concesions available to retirees drawing superannuation pensions. Under current arrangements the rate at which superannuation pensions must be paid ranges from 4% at age 55-64 to 7% at age 80-84 and reaching 14% for a person over 94. A person drawing the minimum rate of superannuation pension, which is exempt from tax, can effectively maintain the balance of their account, also exempt from tax, for many years into retirement and still be eligible for AP.

NFAW acknowledges that the superannuation system is still maturing, but the retirement income system needs to be reviewed to ensure that accumulated superannuation balances are use for the intended purpose, ie to provide an income stream during retirement. As recommended by the Henry Review and the Financial System Inquiry, products need to be developed that encourage pensions while allowing for longevity risk and additional costs at the end of life.

AP means and assets tests should be comprehensively reviewed to ensure that the combination of private and public funded pensions allow for an adequate standard of living.

The proposed changes are not grandfathered, therefore for those estimating the need for private savings plus the AP, many will be unable to achieve their goals.

Eligibility

For women with lower levels of education and incomes through their working lives, who have a disability or who care for family members, retirement is less likely to be voluntary. They are much less likely to be employed and very likely to rely on social security for all or most of their income before and after retirement. For these women, the AP eligibility age has the greatest impact.

Further increases in the eligibility age makes little sense for those with a limited capacity to continue to work.

Before increasing the pension age, other income support payments, especially NSA, should be increased to an adequate level.

Proposals that the preservation age should be aligned with the pension age need to be modelled for distributional impact. The Productivity Commission (2015) notes that increasing the preservation age will increase workforce participation by around 2%, and this increase will be from workers who are in better paid positions. The fiscal savings from increasing preservation age to 65 would be around $7 bn and this would be from tax collections not pension savings.

About half of Australians who retire between the age of 45 and 70 do so involuntarily. Among women about 25% of these involuntary retirements are in order to care for family members. There is also evidence that many women retire at the same time as an older spouse. These women may be ineligible for the AP, and would be reliant on other, lower benefits. They may need to draw on their own superannuation to receive an adequate level of income.

Based on the Productivity Commission modelling aligning the preservation age with pension eligibility would be regressive as high income earners would work longer, saving more into superannuation while those who are forced to retire involuntarily would be at a high risk of poverty as they will not receive an adequate income prior to AP eligibility.

Accordingly NFAW does not support increasing the preservation age.

Prepared by Frances Davies and Dr Helen Hodgson

for the NFAW Social Policy Committee

Appendix 3: Submission to Senate Economics Committee Inquiry into Economic Security for Women in Retirement October 2015

National Foundation for Australian Women

REAL WOMEN. VISIONARY LEADERSHIP

Submission to the Senate Economics Committee Inquiry into
Economic Security for Women in Retirement

www.nfaw.org.au

Prepared by Associate Professor Helen Hodgson, Curtin Law School

By authority of the Social Policy Committee

Appendix 3: Submission to Senate Economics Committee Inquiry into Economic Security for Women in Retirement October 2015

The National Foundation for Australian Women is dedicated to promoting and protecting the interests of Australian women, including intellectual, cultural, political, social, economic, legal, industrial and domestic spheres, and ensuring that the aims and ideals of the women's movement and its collective wisdom are handed on to new generations of women.

NFAW is a feminist organisation, independent of party politics and working in partnership with other women's organisations, including the National Women's Alliances Equality Rights Alliance and economic Security 4 Women. These organisations include those committed to increasing support for women in Australia as well as those with a special interest in women's history.

NFAW has a track record of making submissions to inquiries that relate to the economic effect of policies on women, including Parliamentary Committee and Productivity Commission inquiries.

This document is based on work done by members of the Social Policy Committee in submissions to those inquiries, and in the Gender Budget document that has been prepared in response to the Federal Budget with additional material from eS4W and its member organisation FECCA. Relevant NFAW submissions are attached as appendices to this paper.

Components of the Retirement Income System

The Australian retirement income system is based on three pillars: the age pension; compulsory superannuation through the superannuation guarantee; and voluntary savings including additional superannuation. Housing is commonly referred to as the fourth pillar of retirement security. In this submission we will address each of these issues from a gender perspective.

NFAW believes the current system is sustainable from a fiscal perspective. Australia spends an average of 3.5% of GDP on age related spending compared to an OECD average of 7.8%.

There is, however, a need to address the issue of an ageing population from a gender equity viewpoint. The challenge is to make the retirement income system fairer and more flexible by targeting public support more clearly at people who need it and by improving incentives to save for the future. NFAW supports a systematic and comprehensive review of the Age Pension (AP), superannuation and asset taxation.

There is a major gap between the financial security of Australian men and women in later life. Women face a much greater risk of poverty. Of all the household types in Australia, elderly single women are at the greatest risk of persistent poverty, with over half living in poverty[8].

The retirement incomes system should be reformed to reflect the reality of women's lives, the impact on their retirement savings of their unpaid contributions to the national economy[9] and to improve their economic security in retirement.

Age Pension:

NFAW supports a strong age pension as the foundation of Australia's retirement income system.

[8] HILDA survey 2008
[9] eS4W 'Counting Care Work in Australia' http://www.security4women.org.au/past-projects/2012-projects/the-australian-care-economy

Appendix 3: Submission to Senate Economics Committee Inquiry into Economic Security for Women in Retirement October 2015

As set out in Appendix 1, in 2013 about half of Age Pensioner (AP) recipients transition from other income support payments.

Women are overrepresented among both AP recipients and other income support benefits, resulting in a high proportion of women on the AP, with 61% of women receiving the maximum rate.

Notably,

- 54% of female AP's and 76% of NewStart Allowance (NSA) recipients were single widowed or divorced compared to 30% of men;
- 31% of female NewStart Allowance recipients were aged 50+ years and in 2012, 62% of all single rent assistance (RA) recipients were women[10].

The level of the AP in Australia is slightly below the OECD benchmark for poverty (50% of median income). It is currently approximately equal to the Association of Superannuation Funds of Australia (ASFA) modest retirement income figure[11], although there have been significant increases in the pension over the last decade and increasing numbers of retirees receive superannuation as well as the pension.

It is worth noting that the ASFA standards assume that the retiree owns a home. The main group still suffering persistent poverty remain those who are fully reliant on the pension who are in private rental accommodation, whose after housing costs are much higher than those who own a home or are in public housing. These are overwhelmingly women, especially single women[12].

The AP has a progressive impact on retirement incomes because it is paid at flat rates regardless of previous labour force status and is targeted through the application of income and assets tests. In contrast, superannuation provides greater support for people with higher lifetime earnings and limited support to people whose labour force attachment is weak.

Both the Harmer Review of Retirement Incomes and Australia's Future Tax System found the existing AP means test was complicated and inefficient, with the assets test singled out as a particular cause for concern. The Henry Tax Review and the Shephard National Committee of Audit recommended widening the existing deeming rules to replace the separate asset test with a comprehensive means test that deems income.

NFAW reviewed the changes to the AP asset test proposed in the 2015-16 Budget and found that they would deliver benefits to the lower end but would be hard on those with accumulated assets. The changes are piecemeal and could have significant behavioural effects.

Eligibility Age

[10] DSS 2013 Irregular statistical publication

[11] Clare, R, (2014) Spending patterns of older retirees: New ASFA Retirement Standard – September quarter 2014 ASFA http://www.superannuation.asn.au/policy/reports Retrieved September 2015

[12] WHIN and WHGNE, Living Longer on Less (2013) http://www.whin.org.au/projects/living-longer-on-less.html

For women with lower levels of education and incomes through their working lives, who have a disability or who care for family members, retirement is less likely to be voluntary[13]. They are much less likely to be employed and very likely to rely on social security for all or most of their income before and after retirement. The AP eligibility age has the greatest impact on these women.

Further increases in the eligibility age make little sense for those with a limited capacity to continue to work, whether due to personal disability or caring responsibilities in respect of partners or aging relatives.

Before increasing the pension age, other income support payments, especially NSA, should be increased to an adequate level and the preservation age for superannuation should be linked to the AP eligibility age.

Recommendations:

- NFAW supports the retention of a strong Age Pension system, with maximum benefits paid at a level that is no lower than the ASFA modest retirement income standard.
- The age of eligibility for the Age Pension should remain unchanged.
- The rate of other allowances e.g. NewStart should be equalised with the Age Pension.

Superannuation:

There are several major causes of the gender superannuation gap. The main reasons are:

1. the gender pay gap, which sees most women earning less than men doing similar work;
2. the interrupted career paths of women and the impact on their career progression, a result of women taking time out of the workforce to care for children and other family members;
3. the over-representation of women in the casual and part- time workforce as women continue to juggle these unpaid care needs with their workforce participation
4. the design of the compulsory superannuation system which is based on the male, full time breadwinner model of workforce participation.

These causes are interrelated; but can stand alone: for example the gender pay gap can be seen from age 21, without reference to any career interruptions[14].

ISA- Rice Warner modelling[15] shows that the retirement system is especially failing single women, especially the design of the compulsory superannuation contributions system. Over two thirds of single women aged 55 to 69 will retire on incomes below a comfortable standard.

Notably the retirement income system grants substantial tax concessions to voluntary savings invested in superannuation, relative to other forms of savings.

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[13] Productivity Commission, (2015) Superannuation Policy for Post Retirement http://www.pc.gov.au/research/completed/superannuation-post-retirement

[14] Workplace Gender Equality Agency (2015) Gender Pay Gap Statistics, September 2015, https://www.wgea.gov.au/sites/default/files/Gender_Pay_Gap_Factsheet.pdf accessed 17/09/2015

[15] ISA Rice-Warner Nearly Half of Australians Will Not have a Comfortable Retirement. Industry Super Australia, June 2015

Superannuation is an illiquid form of savings that can only be accessed on retirement or severe hardship, and many women prefer a more accessible form of savings that is available if needed quickly. This can be particularly important to single mothers, or women facing family violence who may have to flee a situation at short notice.

There is also a clear anomaly in the rate of tax paid by low income earners on their superannuation, which in many cases is higher than the marginal rate of tax paid on their taxable income. As discussed in the next section of this submission, this needs to be addressed.

The superannuation guarantee system can be regarded as a system of income deferral, under which a proportion of a person's employment earnings is deferred to retirement. When viewed in this way, clearly any factors that reduce a woman's employment earnings relative to her male counterpart will be reflected in her superannuation balance at retirement.

As the superannuation system matures, superannuation balances for both men and women are increasing. However the share held by women, which increased between 2005 and 2010, has not continued to grow since 2009-10.[16]

This is consistent with labour market data. Workforce participation data shows that women's seasonally adjusted workforce participation rates increased from 51.3% when the superannuation guarantee commenced in 1993 to 59% in March 2011, but has since stagnated, ranging between 58.3% and 59% in the four years to 2015[17]. Further, the gender pay gap[18] has been over 17% since 2010, spiking at 18.6% in November 2014 before dropping to 17.9% in August 2015[19].

Both of these labour market factors would contribute to the lack of improvement in the gender superannuation gap since 2010.

It is well established that women's labour market participation rates are highly elastic, and that high effective marginal rates of tax are a disincentive to women's participation in the labour market, particularly when combined with the cost of obtaining suitable care for children and other family members. This has a particular impact on retirement savings, where superannuation contributions are directly linked to employment earnings.

The current tax reform process raises the issue of effective marginal tax rates, however the current discussion paper does not discuss the transfer aspects of EMTR's. Secondary earners are particularly affected by the transfer system as the means testing applied to benefits available to parents, including family tax benefits and child care benefits can result in significant reductions in benefits that will be a significant factor in deciding whether to engage in paid work[20].

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[16] Clare, R. (2014). An Update on the Level and Distribution of Retirement Savings. Sydney, Association of Superannuation Funds of Australia.
[17] ABS 6202.0
[18] Based on Adult Full Time Average Weekly Earnings
[19] ABS 6302
[20] Hodgson, H. (2014). "Progressivity in the tax transfer system: Changes in family support from Whitlam to Howard and beyond." eJournal of Tax Research **12**(1): 218.

There are two categories of policy proposals that can be applied to address the gender superannuation gap.

Support for Low Income Earners

Firstly there is a strong body of evidence that the current superannuation system is skewed to provide higher levels of subsidy to higher paid workers. Women are underrepresented among high income earners as a result of the gender pay gap and the higher rates of casual and part time employment.

Women are more likely to be low paid employees- that is earning below, at, or just above the minimum wage. Research undertaken by Fair Work Australia utilising data from 2007 found that 51 per cent of low paid employees were women compared with 47 per cent of the total workforce.21

Migrant and refugee women experience the intersecting disadvantages of being from culturally and linguistically diverse (CALD) backgrounds and being women. For women from CALD backgrounds, this disadvantage is compounded. Women from CALD backgrounds are overrepresented in insecure employment fields that include industries such as manufacturing, accommodation, food services, cleaning and labouring. They are more likely to be employed on a casual basis and to be at a disadvantage negotiating terms of employment.

Almost one in three older Australians were born overseas. Over 1.35 million Australians aged 50 years and over were born in non-English speaking countries, which equates to almost 20% of all Australians aged 50 years and over.[22] Many people from CALD backgrounds rely on the pension as they were on lower incomes during their working lives and will not have accumulated significant assets. Nearly 40% of age pension recipients were not born in Australia.[23]

Accordingly, any proposals that increase equity within the superannuation system to redistribute subsidies from high to lower income earners will assist many women.

There is a clear anomaly in the rate of tax paid by low income earners on their superannuation, which in many cases is higher than the marginal rate of tax paid on their taxable income. This needs to be addressed in some way.

One method of addressing this anomaly would be to move from a flat rate of tax on superannuation funds to taxing the fund at the member's marginal rate, less a tax offset to encourage saving. In the absence of a more comprehensive reform, the Low Income Superannuation Contribution, which is currently due to lapse in 2017, should be retained.

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[21] Nels L, Nicholson P, Wheatley T (2011), *Employees earning below the federal minimum wage: review of data, characteristics and potential explanatory factors* Minimum Wages and Research Branch, Fair Work Australia.
[22] FECCA, (2015) 'Review of Australian Research on Older People from Culturally and Linguistically Diverse Backgrounds' (March 2015), 6.
[23] Department of Social Services, (2013) 'Statistical Paper No 12 – Income Support Customers: A Statistical Overview 2013'

Alternatively, as ACOSS proposed in 2009[24], a universal retirement income supplement could be introduced, paid as part of the AP. It would be substituted for tax concessions that mainly benefit high income earners.

Interrupted Workforce Participation

The second area where the gender superannuation gap should be addressed is through addressing the interrupted workforce patterns that most women experience. There are a number of superannuation measures under the current regime that do not work well for workers with an interrupted career pattern.

It is common for new mothers to take some time out of paid employment, before returning in a part time capacity. The time out of paid employment or in part time employment will largely depend on the number and age of their children. This is of particular concern as it is the compounding effect of long term investments that contributes to an adequate superannuation balance at retirement. Some important strategies include:

Superannuation included in Paid Parental Leave

The original proposal that superannuation contributions should be paid on paid parental leave should be enacted. This should be a factor in both the government and private superannuation schemes. NFAW strongly supports a government subsidised paid parental leave scheme that is complementary to private PPL schemes.

We oppose any moves that would reduce access to the government scheme where an employer scheme exists, as this is likely to result in employers withdrawing from employer sponsored schemes, weakening the system overall. The NFAW submission to the Productivity Commission is attached as appendix 2 to this submission.

Carer Credits

We also support a system of carer credits that would allow a top up to superannuation if a person has withdrawn from the paid labour market due to caring responsibilities, as proposed by the Australian Human Rights Commission[25]. The LISC could be used as a mechanism to provide such a carer credit. Currently the LISC is only available if superannuation payments have been made into their superannuation account. It could be extended to also include a person who is either receiving a carer allowance or parenting payment, or is the parent of a child under 8 years, subject to the existing income restrictions.

Child Care

A further barrier to labour market participation is the child care system. Many mothers restrict their participation as they are unable to access appropriate and affordable childcare that would allow them to increase their working hours. NFAW welcomes proposals to reform the funding of the

[24] Australian Council of Social Service (2009). Progressive Tax Reform: Reform of the personal income tax system, ACOSS.

[25] Australian Human Rights Commission (2013). Investing in Care: Recognising and valuing those who care, Volume 1: Research Report. Sydney, Australian Human Rights Commission,

childcare sector however we are concerned by proposals that would reduce Family Tax Benefits paid to single parents and other low income earners. Refer to appendix 3 for the NFAW response to the Productivity Commission.

Rolling Contribution Caps

Women are returning to full time employment as their children reach an appropriate age, as seen in the increasing levels of workforce participation among older cohorts of women. Once a woman returns to the workforce there is an opportunity to increase contributions, and there is evidence that older women do make additional contributions through salary sacrifice arrangements[26] however this is subject to the system of superannuation caps.

We support a review of the superannuation caps to allow women to increase contributions over their working life. NFAW has previously supported a system of rolling caps where a woman is not participating in the labour market due to caring responsibilities. We prefer a rolling cap to a lifetime cap, as this could result in other distortions of the labour market as it could encourage workers to meet their lifetime cap early and reduce labour market participation among older workers. The compounding effect of superannuation would also result in a higher final balance for workers able to contribute the lifetime cap early.

Facilitating Higher Employer Contributions

We would support initiatives that encourage employers to pay higher rates of superannuation to female employees: however such initiatives should not be imposed on female workers without consent as it could reduce their take-home income.

No Joint Superannuation Accounts

We understand that there is a proposal circulating that would allow superannuation accounts to be held in joint names by spouses. We do not support such proposals. There is ample literature showing that joint taxation systems are inefficient and discourage labour market participation by the secondary income earner in the relationship[27]. Similar effects are likely to result from a joint superannuation account.

We note that under the current superannuation system spouses are able to transfer contributions to a spouse, and in the event of a separation, superannuation is an asset in the pool of matrimonial property that must be divided. Neither of these mechanisms is perfect, and NFAW has supported proposals that would facilitate the transfer of superannuation between spouses where one spouse is a carer. However any such proposal must be constructed in a way that limits any incentive to reduce workforce participation by the secondary income earner, and be limited to circumstances where the partner has restricted workforce participation due to caring responsibilities.

Recommendations:

[26] ABS (2007). 6361.0, Employment Arrangements, Retirement and Superannuation, Australia. Canberra, Australian Bureau of Statistics.

[27] Apps, P. (2007). "Taxation and Labour Supply." Australian Tax Forum **22**(3): 89 - 116.

- The superannuation system must be completely reviewed to limit the concessions currently received by Australians with higher balances in superannuation, who are predominantly male.
- The Low Income Superannuation Credit should not be repealed; or an alternative mechanism should be introduced.
- Carers in receipt of cares allowance or parenting payment, or with a child under 8 years, should also be eligible for the LISC or similar mechanism
- Paid Parental Leave entitlements should include superannuation
- Barriers to labour market participation, including child care and out of school care should be addressed but not by removing financial support from low income families
- The system of superannuation caps should be reviewed to take account of the female workforce participation cycle, either through rolling caps or a lifetime cap.
- Employers should be encouraged to offer increased superannuation support, including salary sacrifice arrangements, to female employees, as long as it does not impact take home wages.
- NFAW does NOT support proposals for joint superannuation accounts as it impacts on the efficiency of the labour market; however current mechanisms to share superannuation between spouses within marriage or on divorce should be strengthened and encouraged.

Housing

As pointed out above, social security recipients who rent privately face a particularly high risk of financial hardship. Three quarters of pensioners in extreme housing stress paying more than half their incomes in rent were older women[28]. NFAW believes the maximum rate of Commonwealth Rent Assistance (CRA) urgently needs to be increased and indexed to housing rents changes.

With changing demographics, the need for additional affordable housing to meet the needs of the disadvantaged and particularly vulnerable women is set to rise. Women make up the largest proportion of individuals and households facing low-socio economic status, and the absolute number of vulnerable women is projected to grow as the population ages and women live longer. The ABS 2011-12 Survey of Income and Housing reveals:[29]

- More women (79%) than men (70%) aged 65 years and over and not in the labour force depended on government pensions and allowances as their main source of personal income.
- Significantly more female lone parents than male lone parents aged 15 years and over were living in low income households (42% compared to 27% respectively).
- While a similar proportion of females and males living in low income households were experiencing rental stress (38%), the increase from 29% in 2003-04 for female lone parents was significant but the increase for male lone parents, from 31% in 2003-04, was not significant.

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[28] Welfare Rights Centre (NSW) and Shelter NSW: (2013) The impact of Rent Assistance on housing affordability for low-income renters: NSW http://www.welfarerights.org.au/sites/default/files/news/rent%20assistance%20report_0.pdf

[29] ABS, Gender Indicators February 2014. Available at: http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/4125.0~Feb%202014~Main%20Features~Latest%20Highlights%20(Economic%20Security)~10002

Affordable and social housing is critical to meeting the needs of the vulnerable women. In 2011–12, social housing created a pathway out of homelessness for more than 13,000 households, and provided accommodation to 160,000 households with a member with disability.[30] The pressure on affordable and social housing is only set to rise.

Many other changes in the lives of women will impact on housing needs of women into the future. As AHURI reported, "Over the next 10 to 20 years then, Australia's female population will not only be much older, and also include significant populations of (older) Indigenous women and women from CALD backgrounds, as well as older women with disabilities, it will also include more women who have never married or had children, more women living in de facto relationships or remaining unpartnered for extended periods of time, more women who have had their first child in their 30s (or later still) and more women who are divorced or separated and who will not formally remarry."[31]The proportion of women experiencing multiple disadvantages will increase demand for housing support.

"Change in the housing stock is likely to raise additional challenges for women raising children as the growing proportion of households living in higher or medium density dwellings will mean that greater numbers of families will not have access to private open space and will instead rely upon public open space. Governments will need to ensure that the urban forms of our emerging higher density cities offer an environment that is safe for women and children, provides opportunity for supervised play and learning, and is not entirely dependent upon car-based transport. Clearly this represents a significant challenge for the planning of our cities. State and local governments, in consultation with the private sector, have an important role in leading the development of cities that are more 'friendly' to women and children."[32]Women also face particular insecurity in retirement, and will increasingly depend on the availability of affordable housing.[33]

Addressing supply issues in affordable housing provides an opportunity to also prevent other housing related problems, such as financial stress or disconnection from family and/or employment. Housing also provides a firm foundation to deal with more complicated issues many disadvantaged people are facing. Having sufficient affordable housing to support effective programming models such as 'housing first' or other integrated models of care, will be critical to achieving positive outcomes for disadvantaged women facing housing stress.

The risk of renting

Past policies have privileged home ownership to the detriment of the third of all households who are renters. Rental housing must be placed on Australia's national policy agenda as a key issue to address poverty. Access to affordable housing needs to be regarded in the same context as health and education as a means to escape from poverty. We need to get excitement into all levels of Government about affordable rental housing! We also need to establish an understanding of how

[30]Australian Institute of Health and Welfare, Housing Assistance in 2013. Available at: http://www.aihw.gov.au/WorkArea/DownloadAsset.aspx?id=60129545051
[31]AHURI, *Too Big to Ignore Report – Future Issues for Australian Womens Housing 2006-2025.*Available at: http://www.nfaw.org/wp-content/uploads/2012/06/AHURI-Too-Big-To-Ignore-Report-Future-Issus-for-Australian-Womens-Housing-2006-2025.pdf
[32]Ibid, AHURI
[33]Ross Claire, ASFA 2011, *Developments in the level and Distribution of retirements saving*; Available here: http://www.superannuation.asn.au/policy/reports/

housing insecurity and a lack of access to affordable housing have a different effect on women compared to men."[34]

Work by Professor Judith Yates has found that "women in private rental carry a significant burden of rental stress. The impact of the lack of affordable housing is felt disproportionately by women because of the higher number of women in low paid jobs, women heading single parent families and the higher rates of poverty among older women living alone."[35]

Public housing saves many low income older women from housing poverty as well as income poverty. The prospect of increasing numbers of older women facing income and housing poverty means further investment to increase the supply of public and affordable housing is required.

Older women

A further consideration and challenge is meeting the needs of older women and men. While Commonwealth aged care policy has more recently emphasised ageing in place, this is not an adequate response or solution when so many older people do not have any secure and/or suitable housing in which they can age. This focus has arguably led to a neglect of the range of alternative options such as forms of congregate housing, boarding houses, and retirement villages. A particular gap that has emerged as a result of policy changes is the failure to provide any alternatives for the accommodation role of former hostels; the role of these facilities has seen increasing emphasis on care of more disabled residents, and most of the decline of 15 places per 1000 population aged 70 and over has been associated with a squeezing out of hostel places. This is not to argue for an increase in residential aged care places but for attention to alternative forms of housing with close integration with community care services.

Older people, with distinctive characteristics, make up a substantial part of Australia's homeless population. The age profile and living circumstances of increasing numbers of older people across all parts of Australia suggest a multifaceted social problem. This is of particular concern given the changes in Australia's demography.

A range of agencies have successfully developed and operated housing and integrated services for financially disadvantaged older people, including those with complex health needs in both the community and public sectors. Only a small number of agencies provide specialised and innovative housing models for these groups, and there remains a need for further investment. Outreach, as conducted by Assistance with Care and Housing for the Aged program, is a highly cost effective model to prevent homelessness and quickly house older people at high risk of homelessness. The flexible model with a person centred focus works successfully with older people in crisis. It remains however a very small program and is absent in large parts of Australia. ACHA needs to be expanded in scale and in geographic coverage.

The success of outreach with older people rests on the availability of affordable accessible housing to enable older people to age in place. Not only have Australian public and community housing

[34]NFAW, National Strategy for Affordable Rental Housing, Conference summary: Equality Rights Alliance, ES4W, National Foundation for Australian Women and National Rural Women's Coalition. http://www.nfaw.org/wp-content/uploads/2012/06/A-National-Strategy-for-Affordable-Rental-Housing.pdf
[35]Ibid, NFAW
http://www.nfaw.org/wp-content/uploads/2012/06/A-National-Strategy-for-Affordable-Rental-Housing.pdf

providers operated innovative service integrated housing for financially disadvantaged people, but the private sector makes provision across the full market spectrum. These models can be drawn on and developed to reduce late life homelessness in Australia"[36] It is important to note, however, that such models of care are a specialised field and it is preferable to have a small number of agencies do this work very well, rather than a large number trying and failing.

Many older people receiving rental assistance live in private boarding houses. There are also rental retirement villages that enable those with low assets to buy in. Some of these providers would be candidates as private sector partners in NRAS, a program that requires ongoing support.

When aging in place is no longer an option, the cost of aged care is a particular concern to older women, particularly those who do not have housing or other assets that can be realised to pay a contribution. The latest figures from the Aged Care Funding Authority show that around 90% of the funding for residential care is from government, with care subsidies accounting for 66% of this and Government contributions to accommodation deposits accounting for 9%. Contributions from residents is a small component of the total cost of aged care: the Basic Daily Care Fee which accounts for 19% of total funding is contributed from the age pension, and means tested care fees account for a further 4%.

Recommendations:

- Continuing and increasing public and private investment in affordable housing, including through the expansion of the National Rental Affordability Scheme (NRAS);
- Ensuring that vulnerable women have access to secure, appropriate, affordable and adaptable accommodation, through increasing the supply of affordable housing, funding of emergency services and homelessness prevention programs, and adequate support for renters, as a growing proportion of the housing market;
- Identifying innovative approaches to addressing housing supply issues including options that support or enable superannuation funds to invest in affordable housing.
- Reforming the current taxation arrangements related to housing which provide significant support to private investors, and which do not meet current or future needs, while public investment in affordable housing declines.
- Establishing a long-term, national affordable housing plan, including improved coordination across the Commonwealth, state and territory governments, stream-lined planning processes, and making affordable housing a requirement for all developments.
- Directing a proportion of the savings from superannuation reform into increased funding for residential aged care.

Attachments

Appendix 1: Submission to Re:Think Discussion Paper; March 2015 and

Appendix 2: Supplementary Submission to Rethink Discussion Paper; July 2015

[36] University of Queensland, Institute for Social Science Research, *Addressing later life homelessness, Report of the National Homelessness Research Partnership with FAHCSIA.*June 2013

Appendix 3: Submission to Senate Economics Committee Inquiry into Economic Security for Women in Retirement October 2015

Appendix 3: Final Submission to Productivity Commission Review of Childcare and Early Childhood; September 2014

Appendix 4: Submission to the Senate Standing Committee on Community Affairs Inquiry into the Fairer Paid Parental Leave Amendment Bill 2015; July 2015

Appendix 5: Submission to the Senate Standing Committee on Economics Inquiry into Affordable Housing; March 2014