The Senate

Economics
References Committee

'A husband is not a retirement plan'
Achieving economic security for women in retirement

April 2016

ISBN 978-1-76010-417-7

Printed by the Senate Printing Unit, Parliament House, Canberra.

Senate Economics References Committee

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Senator Sean Edwards (Deputy Chair)	South Australia, LP
Senator Sam Dastyari (Chair until 22 October 2015)	New South Wales, ALP
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Senator Dean Smith	Western Australia, LP
Senator Nick Xenophon	South Australia, IND

Senators participating in this inquiry

Senator Larissa Waters	Queensland, AG

Subcommittee

For the purposes of this inquiry, the committee resolved to form a subcommittee.

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Senator Sean Edwards (Deputy Chair)	South Australia, LP
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Abbreviations

ACOSS	Australian Council of Social Service
ACTU	Australian Council of Trade Unions
AEU	Australian Education Union
AFA	Association of Financial Advisors
AHRC	Australian Human Rights Commission
AIFS	Australian Institute of Family Studies
AIRAANZ	Association of Industrial Relations Academics Australia and New Zealand
AIST	Australian Institute of Superannuation Trustees
APS	Australian Public Service
ATO	Australian Taxation Office
ASIC	Australian Securities and Investments Commission
ASFA	Association of Superannuation Funds of Australia
ASU	Australian Services Union
AWOTE	Average Weekly Ordinary Time Earnings
CAPPA	Centre for Applied Policy in Positive Ageing
CBA	Commonwealth Bank of Australia
CEDA	Committee for Economic Development of Australia
CPI	Consumer Price Index
CPSU	Community and Public Sector Union
CRA	Commonwealth Rental Assistance
ECEC	Early childhood education and care
FSC	Financial Services Council
FSI	Financial System Inquiry
FSU	Finance Sector Union

HILDA	Household, Income and Labour Dynamics in Australia
ISA	Industry Super Australia
LISC	Low Income Superannuation Contribution
NCOSS	NSW Council of Social Service
NFAW	National Foundation for Australian Women
NRAS	National Rental Affordability Scheme
OECD	Organisation for Economic Co-operation and Development
PPL	Paid Parental Leave
PwC	PricewaterhouseCoopers
SG	Superannuation guarantee
WiSER	Women in Social Economic Research, Curtin University
WGEA	Workplace Gender Equality Agency
WIRE	Women's Information and Referral Exchange
WWRG	Women and Work Research Group, University of Sydney

Overview and list of recommendations

Many Australian 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.

This is a problem born of many interrelated 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. Over their lifetimes, as a consequence, they will earn significantly less than men.

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.

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.

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.

Recommendation 1 **paragraph 3.15**

The committee recommends that the Australian Government review the *Fair Work Act 2009* to determine the effectiveness of Equal Remuneration Orders in addressing gender pay equity, and consequently in closing the gender pay gap. The review should consider alternative mechanisms to allow for a less adversarial consideration of the undervaluing of women's work.

Recommendation 2 **paragraph 3.51**

The committee recommends that the Australian Government continue to support the work of the Workplace Gender Equality Agency and ensure that it is adequately resourced.

Recommendation 3 **paragraphs 4.16–4.17**

The committee recommends that the Australian Government consider carefully the recommendation from the Australian Human Rights Commission's *Supporting Working Parents: Pregnancy and Return to Work National Review*, to amend the *Sex Discrimination Act 1984* to:

- extend the discrimination ground of 'family responsibilities' under the Sex Discrimination Act to include indirect discrimination; and
- include a positive duty on employers to reasonably accommodate the needs of workers who are pregnant and/or have family responsibilities.

Following its inquiry into Employment Discrimination against Older Australians and Australians with Disability, the Australian Human Rights Commission's findings may provide further opportunity to introduce measures to address age discrimination experienced by older Australians, particularly women.

Recommendation 4 **paragraph 4.35**

The committee recommends that the Australian Government consult with stakeholders on practical options to implement the relevant findings from the Australian Human Rights Commission's *Supporting Working Parents: Pregnancy and Return to Work National Review,* which recommends strengthening the 'right to request' provisions under s 65 of the *Fair Work Act 2009* by:

- **removing the qualification requirements in section 65(2)(a) of the Fair Work Act (that is, the requirements for 12 months continuous service);**
- **introducing a positive duty on employers to reasonably accommodate a request for flexible working arrangements; and**
- **establishing a procedural appeals process through the Fair Work Commission for decisions related to the right to request flexible working arrangements to ensure processes set out in the Fair Work Act have been complied with.**

Recommendation 5 **paragraph 4.43**

The committee recommends that the Australian Government refer the question of effective marginal tax rates for second-earners to the Productivity Commission for review, noting the significance of women's workforce participation.

Recommendation 6 **paragraph 4.63**

The committee recommends that the Commonwealth Paid Parental Leave Scheme continue to be improved over time to allow for 26 weeks paid parental leave through the combination of government and employer funding.

Recommendation 7 **paragraph 4.80**

The committee recommends the Australian Government investigate further the interaction between means testing of the Age Pension and mature age workforce participation.

Recommendation 8 **paragraph 5.38**

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

- **deliver a decent standard of living for both men and women in retirement;**

- take into consideration the interrelationship between the three pillars of the retirement income system—the Age Pension (including income and assets tests); the superannuation system (with particular reference to tax concessions); and private savings—as well as mature age workforce participation, housing, health and aged care;
- recognise the diversity of experience and outcomes in retirement incomes for different groups in society, particularly but not restricted to women;
- adequately assess and mitigate the risks placed on the individual;
- determine mechanisms for developing benchmarks for the adequacy of retirement incomes to inform future policy; and
- introduce mechanisms to measure and assess reforms to ensure they are meeting objectives.

Recommendation 9 paragraphs 5.57–5.58

The committee recommends that the superannuation guarantee should be paid on the Commonwealth Paid Parental Leave Scheme.

The committee recommends that mechanisms for improving the retirement incomes of carers be examined.

Recommendation 10 paragraphs 6.14–6.15

The committee recommends that the Australian Government set an objective for superannuation that supports the continuation of a strong three pillar retirement income system.

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

Recommendation 11 paragraph 6.25

The committee recommends that superannuation tax concessions be re-targeted to ensure that they are more equitably distributed and assist people with lower superannuation balances to achieve a more comfortable retirement.

Recommendation 12 paragraph 6.40

The committee recommends that the concessional superannuation contributions of lower income earners are not taxed at a higher rate than their ordinary income, and that the Australian Government commit to retaining the Low Income Superannuation Contribution beyond 30 June 2017.

Recommendation 13 paragraph 6.53

The committee recommends that the Australian Government revise the current schedule for the increase in the superannuation guarantee (SG) rate to 12 per cent, and ensure the gradual increase in the SG rate is implemented earlier than the current timetable.

Recommendation 14 **paragraph 6.72**

The committee recommends that the Australian Government amend the *Superannuation Guarantee (Administration) Act 1992* to remove the exemption from paying the superannuation guarantee in respect of employees whose salary or wages are less than $450 in a calendar month.

Recommendation 15 **paragraph 6.95**

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

Recommendation 16 **paragraphs 7.49–7.50**

The committee recommends the Australian Government amend the *Sex Discrimination Act 1984* to ensure companies are able to make higher superannuation payments for their female employees when they wish to do so. As part of this process the Australian Human Rights Commission should explore options and advise the Australian Government on appropriate legislative changes.

Following any amendments to the legislation, the Australian Human Rights Commission should develop guidelines and advice for any organisation contemplating providing additional superannuation payments for women.

Recommendation 17 **paragraph 8.38**

The committee recommends that, in order to provide certainty and security for the majority of Australians who will receive the Age Pension in retirement, the government:

(a) abandon its proposal to increase the Age Pension retirement eligibility age to 70; and

(b) commit to maintaining the current method of indexation and benchmarking for the Age Pension.

Recommendation 18 **paragraph 9.32**

In light of the growing number of older people, particularly women, who are relying on private rental accommodation in retirement, the committee recommends that the Australian Government urgently review the adequacy of Commonwealth Rent Assistance.

Recommendation 19 **paragraph 9.33**

The committee reiterates recommendation 26 of its 2015 report, *Out of Reach?: The Australian housing affordability challenge*:

> In light of the anticipated rise in the number of older Australians in the private rental market, and the insecure tenancy confronting many older renters, the committee recommends that the Australian Government look closely at its aged care policy so that it takes account of the particular difficulties confronting older Australians in the rental market. The aim would be to determine how policies designed to assist older Australians to remain in their home could take

better account of, and accommodate, the added difficulties for older people accessing safe and secure housing and in conducting modifications to rental dwellings, and more broadly in renting in the private rental market.

Chapter 1

Introduction

1.1 No Australian should face an insecure retirement because of their gender. This committee's inquiry has found that many women do.

1.2 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.

1.3 This is a problem born of many interrelated 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. Over their lifetimes, as a consequence, they will earn significantly less than men.

1.4 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.

1.5 This is not a legacy issue. The forces that lead to the differences between women's and men's patterns of work continue to act on young women today.

1.6 The committee's inquiry has examined policy measures to close the gap between the economic security of women and men in retirement in the longer term; as well as measures to assist older women who have already retired, or are approaching retirement, to ensure they have adequate income to live comfortably.

1.7 There is no simple solution. The causes of gender inequality in retirement are complex, and a solution is correspondingly complex.

1.8 We should redouble our 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.

1.9 In retirement, our 'three pillar' retirement system—the age pension, compulsory superannuation, and voluntary savings—has served us well, and provides the foundation for the committee's thinking about this inquiry.

1.10 Of significance for Australian women, the aged pension continues to be the principle means by which we take care of those who have provided unpaid care. Support for this important Australian institution is essential.

1.11 Compulsory superannuation has improved retirement for many Australian women, where previously women were excluded. However, the current superannuation tax concessions are poorly targeted and serve to reinforce the gender retirement savings gap. Men, in aggregate, receive double the superannuation tax concessions as women. Rebalancing the taxation of superannuation to better support those on low and medium income is critical.

1.12 In undertaking its work, the committee has sought to thoroughly understand and describe the problem before identifying solutions. The committee recognises that a full transformation will take time, and will be affected by fiscal constraints. It is hoped that the report provides a long term road map for a transformation of retirement income policy to benefit women.

1.13 These qualifications do not dim the committee's sense of urgency about the need to commence this transformation. In early 2016, the committee held a hearing in the auditorium at Melbourne Girls College, and spoke with students from this school. These girls eagerly anticipate their future contribution to Australian society. We owe it to these girls, and girls Australia over, to ensure that their reward at the end of their lives will be a dignified and secure retirement. If we are to deliver this, we need to start now.

About the inquiry

1.14 On 17 August 2015, the Senate referred the matter of economic security for women in retirement to the Economics References Committee for inquiry and report by the first sitting day in March 2016.[1] On 22 February 2016, the Senate granted an extension of time to report to 29 April 2016.[2]

1.15 At the time of the referral of the inquiry, the Senate noted that:

> …although women's increasing workforce participation has contributed significantly to Australia's economic productivity and to women's financial independence, significant socio-economic disparity remains between men and women, illustrated by the pay gap between men and women which sits at 18.8 per cent and the gap in superannuation at retirement is 46.6 per cent.[3]

1.16 Consequently, the terms of reference for the inquiry into the economic security for women in retirement referred in particular to:

(i) the impact inadequate superannuation savings has on the retirement outcomes for women,

(ii) the extent of the gender retirement income gap and causes of this gap, and its potential drivers including the gender pay gap and women's caring responsibilities,

(iii) whether there are any structural impediments in the superannuation system [impacting on the superannuation savings gap],

(iv) the adequacy of the main sources of retirement income for women, and

1 *Journals of the Senate*, No. 107, 17 August 2015, p. 2959.

2 *Journals of the Senate*, No. 138, 22 February 2016, p. 3749.

3 *Journals of the Senate*, No. 107, 17 August 2015, p. 2959.

(v) what measures would provide women with access to adequate and secure retirement incomes; including:

- assistance to employers to assist female employees' superannuation savings,
- Government assistance, with reference to the success of previous schemes, and
- any possible reforms to current laws relating to superannuation, social security payments, paid parental leave, discrimination, or any other relevant measure.[4]

1.17 The committee received 92 submissions and held five public hearings:

- 6 October 2015 in Adelaide;
- 19 November 2015 and 12 February 2016 in Sydney;
- 18 February 2016 in Richmond, Victoria; and
- 19 February 2016 in Canberra.

Students from Melbourne Girls' College observing the public hearing held at their school on 18 February 2016.

4 *Journals of the Senate*, No. 107, 17 August 2015, p. 2959.

Subcommittee

1.18 For the purposes of this inquiry, the committee resolved to form a subcommittee comprising Senator McAllister, Senator Edwards, Senator Ketter and Senator Dastyari. The committee resolved further that Senator McAllister would be chair and Senator Edwards deputy chair of the subcommittee.

Acknowledgement

1.19 The committee thanks the many organisations and individuals who participated in the public hearings as well as those that made written submissions. In particular, the committee would like to thank the women who told the committee of their personal experiences.

1.20 The committee also thanks the Secretary to the committee, Dr Kathleen Dermody, and committee staff, in particular Ms Penny Bear and Dr Sean Turner. Their professionalism and enthusiasm has contributed greatly to the committee's deliberations.

Structure of the Report

1.21 The report comprises 11 Chapters, including this one, followed by:

- Chapter 2—background
- Chapter 3—narrowing the gender pay gap
- Chapter 4—women's working experience
- Chapter 5—Australia's retirement income system, including valuing paid care
- Chapter 6—superannuation
- Chapter 7—voluntary superannuation contributions, co-contribution schemes and employer schemes
- Chapter 8—the Age Pension
- Chapter 9—housing and economic security in retirement
- Chapter 10—financial literacy
- Chapter 11—conclusion, achieving dignity and economic security in retirement

Chapter 2
Background

2.1 The terms of reference of the inquiry are comprehensive. This chapter provides background to the report and provides an overview of Australia's retirement income system. This chapter also briefly outlines the gendered gap in pay, the gap between the accumulated wealth and retirement savings of men and women, the factors across women's working lives that affect their economic security in retirement, the economic security of women currently in retirement and the need for both short and longer term measures to improve the economic security of women in retirement.

Australia's retirement income system

2.2 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]

Pillar 1—Age Pension

2.3 Introduced in 1909, the Commonwealth Age Pension was originally designed as a social welfare safety net for those not able to support themselves fully during retirement. The Age Pension is Australia's largest social security payment, totalling an estimated $44 billion in 2015–16. The maximum rate of the Age Pension is $784.80 per fortnight for single persons and $599.10 per fortnight for each member of a couple.[2] Generally, the Age Pension is available to men and women aged 65 years and over who are citizens of Australia and have been permanent residents for at least 10 years, with eligibility subject to means testing in the form of an income test and an assets test.[3]

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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.

2 Department of Human Services, ' Payment rates for Age Pension', last updated 20 March 2016, https://www.humanservices.gov.au/customer/enablers/payment-rates-age-pension (accessed 20 April 2016).

3 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. 27. The access age for the Age Pension will rise to 67 by July 2023. Department of Human Services, webpage, 'Age Pension', https://www.humanservices.gov.au/customer/services/centrelink/age-pension (accessed 19 April 2016).

Pillar 2—compulsory superannuation

2.4 Superannuation was fairly uncommon in Australia until the 1970s, when it began to be included in industrial awards.[4] In 1985, only 39 per cent of the workforce had superannuation—24 per cent of women and 50 per cent of men had access to super.[5] At that stage, superannuation coverage was concentrated in higher paid white-collar positions in large corporations and, in the public sector.[6]

2.5 Superannuation became a major component of Australia's retirement system following the introduction of the Superannuation Guarantee in 1992. The Superannuation Guarantee 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. For most employees, superannuation coverage expanded following the introduction of compulsory superannuation. In 1993, 81 per cent of employed Australians were covered by superannuation and the gender gap in superannuation coverage had narrowed, with 82 per cent of employed men and 78 per cent of employed women covered by superannuation. The employer contribution rate has increased over time, from 3 per cent in 1992 to the current rate of 9.5 per cent.[7]

Pillar 3—voluntary savings

2.6 The largest asset for most Australian households is housing followed by superannuation. Other financial assets such as shares, managed funds and cash in bank accounts make up a much smaller proportion of household wealth. In an effort to encourage Australians to make additional savings for their retirement, governments have implemented a range of incentives, such as the introduction of the superannuation co-contribution scheme. The upper age limit for voluntary superannuation contributions has also been increased from 65 to 75 years for older workers, on the condition that they remain attached to the workforce.[8]

Other factors affecting economic security in retirement

2.7 Retirement income is not the only factor contributing to economic security in retirement. Access to affordable housing, health and aged care are also fundamental to

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4 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. 32.

5 Mrs Sandra Buckley, Executive Officer, Women in Super, *Committee Hansard*, 6 October 2015 p. 18.

6 Women in Super, *Submission 50*, p. 6.

7 Dr Diana Warren, 'Historical development and recent reforms', in Committee for Economic Development of Australia, *The Super Challenge of retirement income policy*, September 2015, pp. 32–33.

8 Dr Diana Warren, 'Historical development and recent reforms', in Committee for Economic Development of Australia, *The Super Challenge of retirement income policy*, September 2015, pp. 36–37. When the Superannuation Guarantee was introduced, only people aged 65 or younger were allowed to make voluntary superannuation contributions.

ensuring economic security and allowing people to maintain their living standards in retirement.[9]

Gender pay gap, gender retirement savings gap, and gender wealth gap

2.8 The gender pay gaps and gender wealth gaps that persist over women's working lives contribute to the gap in retirement savings and the disparity in men's and women's economic security in retirement.

Gender pay gap

2.9 A significant contributor to the gender gap in retirement savings is the gender pay gap. 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. The Workplace Gender Equality Agency (WGEA) noted that over the past 20 years the gender pay gap has hovered between 15 and 19 per cent.[10]

2.10 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.[11]

2.11 There are a number of interrelated work, family and societal factors that influence the gender pay gap. Stereotypes still persist about the type of work women and men 'should' do, and the way women and men 'should' engage in the workforce. Factors that contribute to the gender pay gap include:

- women and men working in different industries (industrial segregation) and different jobs (occupational segregation). Historically, female-dominated industries and jobs have attracted lower wages than male-dominated industries and jobs;
- a lack of women in senior positions, and a lack of part-time or flexible senior roles. Women are more likely than men to work part-time or flexibly because they still undertake most of society’s unpaid caring work and may find it difficult to access senior roles;
- women's more precarious attachment to the workforce (largely due to their unpaid caring responsibilities);
- differences in education, work experience and seniority; and

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9 Australian Council of Social Service, *Submission 61—attachment 1*, p. 16.

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

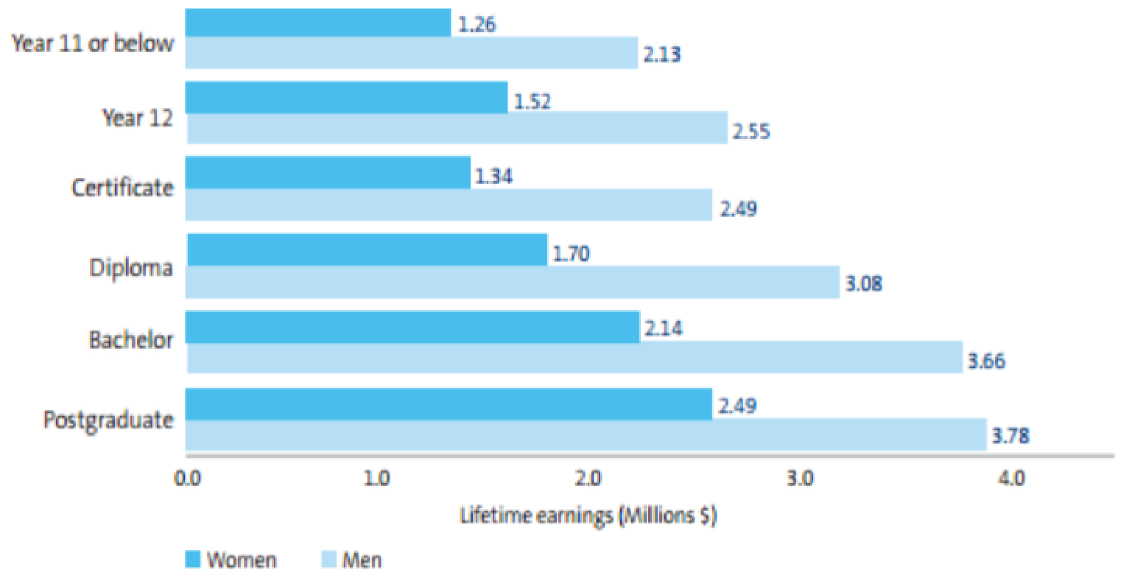
11 Bankwest Curtin Economics Centre and Workplace Gender Equality Agency, *Gender Equity Insights 2016: Inside Australia's Gender Pay Gap*, 2016, p. 13.

- discrimination, both direct and indirect.[12]

2.12 The gendered disparity in earnings begins when women first enter paid employment, with female graduates earning less than men, on average. While the gender pay gap exists across all age groups, the divergence between male and female earnings increases after women reach 25–34 years of age, which reflects a reduction in workforce participation by women when they have children.[13]

2.13 Gender pay gaps represent a career long penalty for women which is reflected in prospective lifetime earnings. The figure below shows the gender gap in prospective lifetime earnings across education groups.[14]

Gender gap in lifetime earnings, million dollars[15]



Notes: Values are in 2011–12 dollars. Lifetime earnings estimates are derived from all employees, including those working part-time. Some fields of study have not been shown due to small sample sizes.
Source: Cassells et al. 2012

2.14 Recent research by the WGEA and Bankwest Curtin Economics Centre showed that:

> …if women and men move through managerial positions at the same pace, working full-time and reaching a KMP [key management personnel] role in their tenth year, men can expect to earn $2.3 million and women $1.7 million in base salary over this period—a difference of $600,000. Even in a scenario where women move towards a KMP role at a rate twice as fast

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12 Workplace Gender Equality Agency, 'What is the gender gap?', https://www.wgea.gov.au/addressing-pay-equity/what-gender-pay-gap (accessed 16 April 2016).

13 Workplace Gender Equality Agency, *Submission 79*, p. 4.

14 Bankwest Curtin Economics Centre, *Submission 80*, p. 20.

15 Bankwest Curtin Economics Centre, *Submission 80*, p. 20.

as men their accumulated earnings would will still be lower than men's—$1.6 million compared to $1.7 million.[16]

2.15 Based on the 2015 Organisation for Economic Co-operation and Development (OECD) *Indicators of Gender Equality in Employment* data, Australia had the 24th largest gender pay gap of the 34 OECD countries. Australia's gender pay gap of 17.9 per cent is above the OECD average of 15.5 per cent.[17]

Retirement savings gap

2.16 As the Senate noted at the time the inquiry was referred, on average women retire with approximately half the level of retirement savings of men. In 2011–12, the average superannuation balance at retirement was $105,000 for women and $197,000 for men, resulting in a gender retirement superannuation gap of 46.6 per cent.[18] The committee acknowledges that the average superannuation balance at retirement for both women and men is low, and measures should be taken to improve this level.

2.17 The table below shows the disparity between men's and women's superannuation balances over time across all age groups.[19]

Average superannuation balances by age, 2011-12

Age group	Women's average superannuation ($)	Men's average superannuation ($)	Difference ($)	Gender superannuation gap (%)
20-24	$4,403	$5,533	$1,130	20.4
25-29	$13,399	$18,899	$5,500	29.1
30-34	$22,765	$32,819	$10,054	30.6
35-39	$36,142	$53,221	$17,079	32.1
40-44	$43,826	$66,503	$22,677	34.1
45-49	$60,618	$102,358	$41,740	40.8
50-54	$71,661	$136,707	$65,046	47.6
55-59	$91,216	$203,909	$112,693	55.3
60-64	$104,734	$197,054	$92,320	46.9
65-69	$90,185	$172,767	$82,582	47.8
70-74	$65,121	$142,790	$77,669	54.4
75-79	$24,027	$55,291	$31,264	56.5
80-84	$15,536	$52,006	$36,470	70.1
85+	$17,544	$35,555	$18,011	50.7
Total	**$44,866**	**$82,615**	**$37,749**	**45.7**

2.18 The gender gap in retirement savings is the result of a combination of interrelated factors across the course of a woman's working life. These factors include:

16 Bankwest Curtin Economics Centre and Workplace Gender Equality Agency, *Gender Equity Insights 2016: Inside Australia's Gender Pay Gap*, 2016, pp. 6–7.

17 National Seniors Australia, *Submission 62*, p. 11.

18 Workplace Gender Equality Agency, *Submission 79*, p. 4.

19 Workplace Gender Equality Agency, *Submission 79*, pp. 4–5.

- the gender pay gap—men earn more, on average, than women, and as compulsory employer superannuation contributions are based on a percentage of income, they will be higher for men than for women;
- time out of paid employment—women are also more likely to take time out of paid employment to care for children or other family members and therefore miss out on employer superannuation contributions; and
- differences in working hours—women are more likely to work part-time because of caring responsibilities and therefore earn less and receive lower levels of employer superannuation contributions.[20]

Gender wealth gap

2.19 The gender wealth gap refers to the difference between men's and women's accumulation of assets. In 2006, the accumulated wealth of single adult men was, on average, 14.4 per cent higher than that of single women.[21] Although female labour market participation has increased, the rate of wealth accumulation by single women to finance retirement needs has been slower than that of single men's. The gender wealth gap among single men and women more than doubled from 10.4 per cent to 22.8 per cent between 2002 and 2010.[22]

2.20 There is also a difference in the composition of women's and men's wealth. Among single, older women, 60 per cent of their assets and 74 per cent of their total debt relates to the family home.[23] In particular, single women hold a higher proportion of their assets in their home than single men, and divorced women have significantly lower asset balances than widows.[24] The composition of wealth held in superannuation for women is 12.4 per cent compared to 18.8 per cent for men.[25]

2.21 Bankwest Curtin Economics Centre explained:

> The factors contributing to the gender wealth gap extend beyond commonly identified labour market differences between men and women (such as lower rates of labour force participation and lower wage rates). The negative effects of single parenthood are particularly severe for women, and

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20 Australian Institute of Family Studies, *Submission 18*, p. 9.

21 Studies of the gender wealth gap are confined to comparisons between single female and single male households, as Australian data collections do not permit an analysis of the gender wealth gap amongst partnered men and women.

22 Bankwest Curtin Economics Centre, *Submission 80*, pp. 4–5.

23 Bankwest Curtin Economics Centre, *Submission 80*, pp. 4–5; Professor Alan Duncan, Director, Bankwest Curtin Economics Centre, *Committee Hansard*, 12 February 2016, p. 23.

24 WiSER, Curtin University, *Submission 6, Annexure 3*—Helen Hodgson and Lisa Marriott, 'Retirement Savings and Gender: An Australasian Comparison', *Australian Tax Forum*, 2013, p.738

25 Bankwest Curtin Economics Centre, *Submission 80*, pp. 4–5; Professor Alan Duncan, Director, Bankwest Curtin Economics Centre, *Committee Hansard*, 12 February 2016, p. 23.

additional barriers to wealth accumulation exist for women from culturally and linguistically diverse backgrounds and those living in rural areas.[26]

Women's working lives

Industrial and occupational segregation

2.22 Historically, female-dominated industries and jobs have attracted lower wages than male-dominated industries and jobs. This is evident early in women's working lives in the gender pay gap for graduates.

2.23 Although women outnumber men graduating from higher education, the starting salaries for male graduates are higher than for women:

- female graduate salaries are 95 per cent of male graduate salaries (a difference of $2,000 per annum); and
- female postgraduate salaries are only 82 per cent of male postgraduate salaries (or $15,000 per annum).[27]

2.24 This gap in graduate and postgraduate salaries is in part due to fewer women working in higher paid occupations such as science and engineering. Instead, women are more likely to be employed in lower paid occupations. For example:

- women make up 60–70 per cent of workers in three lower paid occupations—clerical and administration, community and personal services and sales; and
- women make up 60–80 per cent of workers in lower paid health, social assistance, education and training industries.[28]

Career breaks, unpaid care and workforce participation

2.25 The female workforce participation rate in 2013–14 was 65 per cent, compared to 78.4 per cent for men. Women were more likely to be employed part-time, with 43.4 per cent of employed females aged 20–74 years employed part-time compared to 14.4 per cent of employed males in the same age group.[29]

2.26 The Australian Human Rights Commission's *Investing in care: Recognising and valuing those who care* report observed that the current superannuation system,

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26 Bankwest Curtin Economics Centre, *Submission 80*, pp. 4–5.

27 Australian Council of Trade Unions, *The Gender Pay Gap Over the Life Cycle*, March 2016, p. 5, http://www.actu.org.au/media/886499/the-gender-pay-gap-over-the-life-cycle-h2.pdf (accessed 5 April 2016). See also *ANZ Women's Report: Barriers to achieving gender equity*, 2015, pp. 36–37.

28 Australian Council of Trade Unions, *The Gender Pay Gap Over the Life Cycle*, March 2016, p. 5, http://www.actu.org.au/media/886499/the-gender-pay-gap-over-the-life-cycle-h2.pdf (accessed 5 April 2016). See also, Industry Super Australia, *Submission 74*, pp.54–55.

29 Australian Human Rights Commission, *Submission 36*, p. 3.

which is tied to paid work, results in inequitable outcomes and savings for women who are, or have been, unpaid carers.[30] It found:

- Women are more likely than men to provide unpaid caring work;
- Women made up the majority of carers, representing 70 per cent of primary carers and 56 per cent of carers overall;
- Women comprised 92 per cent of primary carers for children with disabilities, 70 per cent of primary carers for parents and 52 per cent of primary carers for partners. While 57.5 per cent of mothers whose youngest child is aged 0–5 years were participating in the labour force, 94 per cent of fathers, whose youngest child is 0–5 years, were working or looking for work; and
- 63 per cent of employed female parents are employed in part-time work, compared to 7 per cent of employed male parents.[31]

2.27 In its earlier 2009 report *Accumulating poverty? Women's experiences of inequality over the lifecycle*, the Australian Human Rights Commission noted that the limited availability of flexible work arrangements and quality affordable childcare present a barrier for women's participation in the paid workforce and, subsequently, the accumulation of retirement savings in superannuation.[32]

Women in leadership

2.28 The 2015 *ANZ Women's Report: Barriers to achieving gender equity* observed that although women in Australia are better educated and have more employment opportunities than ever before, they remain under-represented in senior leadership roles in both the corporate and public sectors:

- women make up 20.4 per cent of ASX 200 board positions;
- women represent 17.3 per cent of CEOs, 26.1 per cent of key management personnel, 27.8 per cent of other executives/general managers, 31.7 per cent of senior managers and 39.8 per cent of other managers; and
- women represent 31 per cent of all federal, state and territory parliamentarians.[33]

2.29 The factors contributing to low female representation in senior leadership positions include unconscious bias in the workplace, and a lack of flexibility in senior

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30 Australian Human Rights Commission, *Investing in care: Recognising and valuing those who care, Volume 1: Research Report 2013*, p. 10.

31 Australian Human Rights Commission, *Submission 36*, p. 3.

32 Australian Human Rights Commission, *Accumulating poverty? Women's experiences of inequality over the lifecycle*, 2009, p. 16.

33 *ANZ Women's Report: Barriers to achieving gender equity*, 2015, p. 56.

management roles.[34] The WGEA noted that only 6.3 per cent of managerial roles are offered on a part-time basis.[35]

Women approaching retirement

2.30 As access to superannuation was limited prior to 1992, many women currently approaching retirement have only had access to the superannuation system for part of their working life. In addition, the rate of the Superannuation Guarantee, which only increased gradually from 3 per cent in 1992 to 9 per cent in 2002, and did not again increase until 2013, has been insufficient to result in adequate superannuation savings.[36] Women in Super noted:

> Even for women coming up to retirement the picture is not good. The median superannuation account balance for a women aged 55–64 years is $80,000 (for a man in the same age group it is $150,000) and 1 in 3 women currently live alone between the ages of 55–70 years. Many females will need to work longer than their male colleagues in order to save more for retirement. Reasons for this include the gender pay gap, career breaks and not being allowed to participate in earlier schemes due to their sex and prevailing belief that their husbands would provide for them.[37]

Women in retirement

2.31 Women are at greater risk of experiencing poverty in retirement.[38] Older single women are one of the fastest growing cohorts of people living in poverty.[39] According to the Household, Income and Labour Dynamics in Australia (HILDA) Survey, in 2012, 38.7 per cent of older single females were living in poverty.[40]

2.32 As women currently accumulate significantly less savings for their retirement, women account for over half those receiving the Age Pension, and single women are most likely to be solely reliant on the full Age Pension for income.[41] The Australian Human Rights Commission provided the following statistics:

> In 2011, women comprised 56.5 per cent of the 2.23 million recipients of the age pension. Just over half (53.6 percent) of female age pension recipients were single and 71.8 percent of single age pension recipients are

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34 *ANZ Women's Report: Barriers to achieving gender equity*, 2015, p. 56.

35 Workplace Gender Equality Agency, *Submission 79*, p. 10.

36 Women in Super, *Submission 50*, p. 6.

37 Women in Super, *Submission 50*, p. 7.

38 Australian Human Rights Commission, *Submission 36*, p. 1.

39 COTA Australia, *Submission 86*, p. 12.

40 Industry Super Australia, *Submission 74*, p. 11.

41 Australian Human Rights Commission, *Accumulating poverty? Women's experiences of inequality over the lifecycle*, 2009, p. 22.

> women. Sixty-one percent of female age pensioners received the maximum rate, and 27.3 percent were not home owners.[42]

2.33 Women have a higher life expectancy than men which exacerbates the effect of the retirement savings gap. Women are also more likely to re-enter the workforce after retirement due to financial constraints, and are twice as likely as men to sell their house and move to lower cost accommodation due to financial circumstances in retirement.[43]

2.34 It cannot be assumed that women will be able to rely on a male partner's savings for financial support in retirement, as one third of women are not in relationships by retirement age, and 40 per cent of couples will not have sufficient savings to cover the gap in women's superannuation.[44] As one submission observed, 'a husband isn't a superannuation plan'.[45]

2.35 Research by the Australian Institute of Family Studies (AIFS) found that retirees often coped with the change in their financial circumstances in retirement by cutting back on normal weekly spending. It noted that this was more common for women, particularly single women, with 30 per cent reporting they had cut down on weekly spending, compared to 21 per cent of partnered women.[46]

2.36 Dr Debra Parkinson, Women's Health in the North, explained that many women involved in the *Living Longer on Less* research project were going without in retirement. She stated:

> The women we spoke to said they could not afford power. Their strategies were to sit with a hot water bottle and a blanket at night, and they would light candles rather than turn on the power. Our connections with the Metropolitan Fire Brigade say that they know about this. There are fires that should not be happening because people are saving money on power. They try to save on food by rarely eating meat or fish or by no longer having three meals a day. One ate just fruit and vegetables all week, and she would shop on a Saturday, just before the markets closed, to get the old fruit and vegetables. A couple of women said they had not had a professional haircut for a decade. Some had no money for even a $4 cup of coffee, which meant they could not socialise—they were too embarrassed that they could not pay for a cup of coffee.[47]

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42 Australian Human Rights Commission, *Submission 36*, pp. 1–2.

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

44 Industry Super Australia, *Submission 74*, p. 4.

45 Women's Health Goulburn North East and Women's Health in the North, *Submission 5*, p. 23.

46 Australian Institute of Family Studies, *Submission 18*, p. 29.

47 Dr Debra Parkinson, Manager, Research, Advocacy and Policy, Women's Health in the North, *Committee Hansard*, 18 February 2016, p. 44.

Need for long and short term approaches

2.37 Many submissions and witnesses highlighted the need for long and short term approaches to address the need to improve women's economic security in retirement. The Age and Disability Discrimination Commissioner, the Hon Susan Ryan AO, expressed concern that most of the underlying causes of the gender gap in retirement savings will require a lot of work and are unlikely to be resolved in the near future. She stated:

> I am concerned not only for the women who are now approaching retirement—say, women in their 60s or late 50s—who in general will not have adequate retirement savings and may, in some circumstances, be facing an old age of poverty, but also younger women who, because of these entrenched inequalities in pay, caring responsibilities and so on, will, as we go forward, still be facing poverty in retirement. So I think it is important to look at immediate changes that could be made as well as those that could be made in the longer term.[48]

2.38 The AIFS also noted the need for longer and shorter term approaches to addressing women's economic security in retirement:

> …the current situation in which the majority of retirees are reliant on the age pension as their main source of retirement income; and single women are the least likely to be able to afford even a modest lifestyle in retirement. Changes to superannuation policy to address the issue of the gender gap in superannuation savings, along with policies that encourage the increased labour force participation of women, may assist retirees in decades to come. However, for the current cohort of retirees, these changes will have no effect on their standard of living. For those who are already in retirement, policy reform targeting assistance to those in genuine financial hardship is the only type of reform that will bring real improvements to living standards.[49]

2.39 This chapter has provided a brief overview of the retirement income system, and the various factors that contribute to women's economic security in retirement, highlighting the need for a multifaceted approach incorporating both long and short term measures to improve retirement outcomes for women.

48 The Hon Susan Ryan AO, Age and Disability Discrimination Commissioner, Australian Human Rights Commission, *Committee Hansard*, 12 February 2016, p. 1.

49 Australian Institute of Family Studies, *Submission 18*, p. 26.

Chapter 3

Narrowing the gender pay gap

3.1 As noted in the previous chapter, the gender pay gap is a significant contributing factor to achieving economic security for women in retirement as it impedes accumulation of wealth and superannuation over a lifetime. This chapter discusses measures to address the gender pay gap across industries where female dominated sectors have historically been lower paid compared to male dominated industries. The second part of the chapter discusses various measures to narrow the gender pay gap within organisations. These measures include gender reporting and developing gender pay strategies, including setting targets for women in leadership roles.

Equal pay for work of equal value

Pay equity

3.2 As noted in the previous chapter, industrial and occupational segregation is one of several major factors contributing to the gender pay gap. Historically, female dominated sectors, like health care and teaching, have not been rewarded as favourably as more male dominated sectors.[1] The Workplace Gender Equality Agency (WGEA) explained pay equity as follows:

> Pay equity is achieved when women and men receive equal pay for work of equal or comparable value. This means that women and men performing the same role at the same performance standard are paid the same amount. It also means that women and men performing different work of equal or comparable value are paid equitably.[2]

Fair Work Act 2009

3.3 The Australian Services Union (ASU) noted that legislative changes introducing equal remuneration for work of equal or comparable value into the *Fair Work Act 2009* achieved some success in ameliorating unequal pay.[3] Under the Fair Work Act:

- The Fair Work Commission can make an equal remuneration order requiring that certain employees be provided equal remuneration for work of equal or comparable value. An application for an equal remuneration order can be made by an affected employee, a union which is entitled to represent an affected employee or the Sex Discrimination Commissioner.

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1 Workplace Gender Equality Agency, *Submission 79*, p. 9.

2 Workplace Gender Equality Agency, 'Guide to gender pay equity: Practical steps to improve pay equity between women and men in your organisation', ', p. 5. https://www.wgea.gov.au/sites/default/files/Pay_Equity_Toolkit_Main.pdf (accessed 15 April 2016).

3 Australian Services Union, *Submission 81*, p. 14.

- Once an equal remuneration order has been made, it will prevail over a modern award, enterprise agreement, a Fair Work Commission order or any other industrial instrument if it is more beneficial than these instruments.
- An employer that contravenes an equal remuneration order can be liable for a penalty.[4]

3.4 To date, the ASU has run the only successful case in the federal jurisdiction under the Fair Work Act.[5] The ASU noted that under the previous legislation, of the '17 or so cases', none had been successful.[6]

3.5 In the view of the Australian Council of Social Service (ACOSS):

> The *Fair Work Act 2009* introduced changes that enhanced the ability of Fair Work Australia to make orders that provide for pay equity between male and female employees. The Act now refers to a right to equal pay for work of comparable value as well as equal value. The case for community sector workers was the first test of these new provisions.[7]

3.6 ACOSS described the decision on the successful ASU Equal Remuneration Order as a 'key milestone in addressing unequal pay for women'. It stated further that the decision was:

- a milestone/great step towards ensuring viable, effective social services by requiring appropriate levels of pay for the staff we depend upon to deliver those services; and
- the first step in addressing the historical undervaluing of community sector workers.[8]

3.7 The ASU stressed the importance of maintaining a legislative framework to ensure equal pay. It also noted that:

> …it is perhaps more important that the legislative framework is accessible and not unnecessarily burdensome for applicant workers and unions. The ASU's Equal Pay Case established that the value that is placed on work is related to gender and the market, without regulation, is not a sufficient way

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4 Fair Work Ombudsman, 'Gender Pay Equity', https://www.fairwork.gov.au/how-we-will-help/templates-and-guides/best-practice-guides/gender-pay-equity (accessed 14 April 2016).

5 Document provided by the Australian Services Union following the public hearing held in Melbourne on 18 February 2016, p. 1.

6 Document provided by the Australian Services Union following the public hearing held in Melbourne on 18 February 2016, p. 1.

7 ACOSS, 'Analysis of FWA decision on ASU's Equal Remuneration Order application for community sector workers, 1 February 2012', p. 2, http://www.acoss.org.au/images/uploads/ACOSS_analysis_PE_decision_1_Feb_2012.pdf (accessed 14 April 2016).

8 ACOSS, 'Analysis of FWA decision on ASU's Equal Remuneration Order application for community sector workers, 1 February 2012', p. 1, http://www.acoss.org.au/images/uploads/ACOSS_analysis_PE_decision_1_Feb_2012.pdf (accessed 14 April 2016).

> to regulate work in caring and other female dominated sectors. Pay inequalities are imbedded in the way we think about work, efficiency and profit and are often dismissed and legitimised by referring to the market as justification.[9]

3.8 The ASU contended that the legislation provides an adversarial system requiring a party or parties to make an application to the Fair Work Commission. It informed the committee that the success of its case came at significant cost, effort and preparation.[10] The House of Representatives Standing Committee on Employment and Workplace Relations 2009 report, *Making it Fair: Pay equity and associated issues related to increasing female participation in the workforce*, observed that equal remuneration orders 'rely on an applicant(s) initiating proceedings and any equal remuneration order applies only to those applicants'. In other words, according to the report 'an equal remuneration order does not amend the industrial instrument for all employees engaged under its terms.'[11] The ASU agreed with the observation made by the Chair, Ms Sharryn Jackson MP, that:

> It is true that the Fair Work Act does widen the scope for applications to be taken at the federal level for equal pay for work of comparable value. However, the experience of similar provisions in some state Industrial Relations legislation still demonstrate relatively few cases have been dealt with. All cases have been adversarial, lengthy and often costly.
>
> …
>
> I am convinced that an alternative mechanism that allows for a non-adversarial consideration of the undervaluing of women's work and a comprehensive scheme to correct undervaluation across industries is more efficient and preferable.[12]

3.9 Ms Linda White, ASU, suggested that there may be scope for the Fair Work Commission to examine modern award base rates to determine whether they are comparable for work of equal or comparable value.[13]

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9 Document provided by the Australian Services Union following the public hearing held in Melbourne on 18 February 2016, p. 1.

10 Document provided by the Australian Services Union following the public hearing held in Melbourne on 18 February 2016, p. 1.

11 House of Representatives Standing Committee on Employment and Workplace Relations, *Making it Fair, Pay equity and associated issues related to increasing female participation in the workforce,* November 2009, p. 119.

12 House of Representatives Standing Committee on Employment and Workplace Relations, Making it Fair, *Pay equity and associated issues related to increasing female participation in the workforce*, November 2009, p. xv. See Document provided by the Australian Services Union following the public hearing held in Melbourne on 18 February 2016, p. 2.

13 Ms Linda White, Assistant National Secretary, Australian Services Union, *Committee Hansard*, 18 February 2016, p. 37.

Pay Equity Unit

3.10 The ASU noted that the *Making it Fair* report made a number of comprehensive and detailed recommendations, and while some of the recommendations have been implemented, such as the creation of the Pay Equity Unit, the 'majority of the recommendations that were unanimously supported at the time still require action from government'.[14]

3.11 The Fair Work Commission established the Pay Equity Unit, which commenced operation on 1 July 2013. This unit was established to undertake pay equity related research and provide information to inform matters relating to pay equity under the Fair Work Act, including:

- annual minimum wage reviews;
- four-yearly reviews of modern awards; and
- equal remuneration cases.[15]

Work value approach to equal remuneration decisions

3.12 With regard to gender pay equity determinations, members of the Association of Industrial Relations Academics of Australia and New Zealand (AIRAANZ) supported a work value approach, rather than making comparisons between men's and women's work, to address pay inequity through tribunals. It explained that:

> …there have been attempts through provisions in national legislation and industrial cases [to] address pay inequity between men and women. Unfortunately there has been a tendency to rely upon direct comparisons between men's and women's work to establish gender-based discrimination. These approaches have meant that they have not been effective in tackling gender based pay inequality in a systematic fashion. This (male comparator) logic has been reinforced in the recent Childcare Equal Remuneration Decision, 2015. The Members see merit in providing more explicit guidance for the tribunals to move away from male comparators in their deliberations and to rely instead upon more complex analysis of work value.[16]

3.13 In its submission to the *Post Implementation Review of the Fair Work Act*, the Australian Human Rights Commission recommended that the provisions be amended to clarify 'that there is no requirement for a male comparator to be identified in order to make an equal remuneration order'.[17]

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14 Document provided by the Australian Services Union following the public hearing held in Melbourne on 18 February 2016, p. 2.

15 Fair Work Commission, 'The Pay Equity Unit', https://www.fwc.gov.au/creating-fair-workplaces/research/pay-equity-research (accessed 14 April 2016).

16 Summary of the consultation meeting of the Association of Industrial Relations Academics of Australia and New Zealand (AIRAANZ) received on 8 March 2016, p. 1.

17 Australian Human Rights Commission, *Investing in care: Recognising and valuing those who care, Volume 1: Research Report 2013*, p. 38.

Committee View

3.14 The committee considers that addressing gender pay equity is a necessary part of closing the pay gap. The historical undervaluing of 'women's work' in female dominated industries and sectors will not be rectified without intervention. The committee is concerned that the ASU's equal pay case has been the only successful case under the current legislation. The ASU's experience in bringing forward its case was foreshadowed in the *Making it Fair* report, namely that the adversarial nature of the process 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 bringing forward equal pay cases are accessible and not overly burdensome for applicants.

Recommendation 1

3.15 The committee recommends that the Australian Government review the *Fair Work Act 2009* to determine the effectiveness of Equal Remuneration Orders in addressing gender pay equity, and consequently in closing the gender pay gap. The review should consider alternative mechanisms to allow for a less adversarial consideration of the undervaluing of women's work.

Narrowing the gender pay gap within organisations

3.16 This section discusses measures to address the gender pay gap within organisations.

Gender reporting and gender pay audits

3.17 Ms Yolanda Beattie, Mercer, argued that organisations should be encouraged to disclose information around gender pay gaps. She stated:

> Transparency is very powerful and sunlight is a very powerful disinfectant. As we create more transparency about what companies are doing, market forces, arguably, are the best way to then influence how companies respond.[18]

3.18 Inkling Women is an organisation that works with other Australian organisations to increase the representation of women in leadership positions. Dr Gemma Munroe, Inkling Women, noted:

> We have worked with hundreds of organisations and we have only found one organisation where, after conducting a pay audit, it was found that women were being paid more than men—and I think they were being paid 0.8 per cent more. In other examples that we have seen, men have been paid significantly more than women.[19]

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18 Ms Yolanda Beattie, Principle and Practice Leader, Diversity and Inclusion, Mercer, *Committee Hansard*, 18 February 2016, p. 30.

19 Dr Gemma Munroe, Chief Executive Officer, Inkling Women, *Committee Hansard*, 18 February 2016, p. 24.

3.19 A number of submissions supported the work of the WGEA and noted the importance of gender reporting and data collection in addressing the gender pay gap.[20]

3.20 The WGEA is a statutory agency created by the Workplace Gender Equality Act 2012, which replaced the Equal Opportunity for Women in the Workplace Act 1999. The role of the WGEA is to promote and improve gender equality in the workplace. The WGEA provides advice and assistance to employers in relation to the gender pay gap, gender composition of the workforce, employer policies and strategies relating to gender equality.

3.21 In addition, submissions urged current and future governments to ensure that the WGEA is adequately resourced.[21]

3.22 Women in Super outlined the importance of gender reporting in tracking progress. It stated:

> The collation and analysis of data from employers will enable us to understand where to focus efforts and how we are progressing over time so that issues in the system can be addressed.[22]

3.23 The *Workplace Gender Equality Act 2012* requires non-public sector employers with 100 or more employees to report to the WGEA annually against six standardised gender equality indicators:

- gender composition of the workforce;
- gender composition of governing bodies of relevant employers;
- equal remuneration between women and men;
- availability and utility of employment terms, conditions and practices relating to flexible working arrangements for employees and to working arrangements supporting employees with family or caring responsibilities;
- consultation with employees on issues concerning gender equality in the workplace; and
- any other matters specified by the Minister—sex-based harassment and discrimination.[23]

3.24 Under the *Workplace Gender Equality Act 2012*, there will be new reporting requirements for 2016. Relevant employers will be required to provide data about the number of appointments, promotions and resignations by manager, non-manager and gender. Reporting on promotions and resignations must also include employment status—part-time, full-time or casual. Employers will also be required to provide

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20 Women in Super, *Submission 50*, p. 17; National Australia Bank, *Submission 63*, p. 11; Australian Institute of Superannuation Trustees, *Submission 45*, p. 5.

21 Finance Sector Union, *Submission 29*, p. 4; Women's Health Goulburn North East and Women's Health in the North, *Submission 5*, p. xii.

22 Women in Super, *Submission 50*, p. 17.

23 Workplace Gender Equality Agency, *Submission 79*, p. 1.

information about employees leaving the workforce following parental leave in order to examine the effect of parenthood on workforce retention.[24]

3.25 With regards to the new reporting requirements, Ms Beattie, Mercer, noted:

> That is data that most companies never look at, and we will be forced to look at it through that legislation for the first time this year. Whilst time will tell, I do think that that will start creating a mandatory legislated evidence base that, hopefully, will cause CFOs [Chief Financial Officers] who have to sign off on that report to start thinking, 'What is this costing and what are we going to do about it?'[25]

3.26 Unions NSW argued that there is limited data on additional superannuation contributions and the inclusion of mandatory reporting requirements, including gender breakdowns of superannuation payments, should also be considered.[26]

Policy and strategy

3.27 The WGEA's 2014–15 data showed an increase in the percentage of employers with a gender equality strategy from 18.3 per cent in 2013–14 to 20.6 per cent in 2014–15. The data also showed increases in the proportion of employers conducting gender pay gap analyses, introducing policies or strategies for flexible working and supporting employees experiencing domestic violence.[27]

3.28 The WGEA requirements include reporting on whether organisations have policies or strategies in place to address the gender pay gap. The WGEA explained the distinction between policies and strategies addressing gender inequity in the workplace:

> From our perspective, we see many organisations that have a policy in place around a particular workplace issue such as flexible work arrangements, but the organisation will often lack a strategy. The strategy will actually drive the policy. From our perspective, we would like to see organisations have both a policy and a strategy that is going to drive and seek outcomes from that policy, rather than just having a policy there available that often is not utilised by the workforce.[28]

3.29 The WGEA explained the difference between gender equality policies and strategies as follows:

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24 Workplace Gender Equality Agency, 'New data to explore promotion rates of women and men', 31 March 2016, https://www.wgea.gov.au/media-releases/new-data-explore-promotion-rates-women-and-men (accessed 4 April 2016).

25 Ms Yolanda Beattie, Principle and Practice Leader, Diversity and Inclusion, Mercer, *Committee Hansard*, 18 February 2016, p. 31.

26 Unions NSW, *Submission 67*, p. 16.

27 Workplace Gender Equality Agency, 'Men out-earn women by $27,000 a year: new data', 25 November 2015, https://www.wgea.gov.au/media-releases/men-out-earn-women-27000-year-new-data (accessed 4 April 2016).

28 Ms Libby Lyons, Director, Workplace Gender Equality Agency, *Committee Hansard*, 19 February 2016, p. 40.

> A policy on a particular area of employment includes relevant underlying principles and practices applied across the employment lifecycle to support and improve the desired outcomes in the workplace. It provides an overall framework for responsibility and accountability and may include measurable objectives.
>
> A strategy defines a range of objectives in a particular area of endeavour and the underlying business rationale. Typically, it also indicates how these objectives will be realised, and provides an assessment of risks and success factors. Developing specific project plans for discrete initiatives also provides the detail of how the strategy is executed. Without a strategy, it is either difficult or impossible to gauge whether day-to-day activity and investment are helping the organisation effectively progress towards the desired end-goal.[29]

3.30 The WGEA provided the example of PricewaterhouseCoopers' (PwC) response to a recently conducted gender pay equity audit of their organisation, in which PwC publically disclosed an organisation-wide gender pay gap of 11.4 per cent in favour of males. PwC attributed the gender pay gap to a range of factors such as the low representation of women in senior positions, including the 18 per cent share of partnerships held by women. As a result of the audit, PwC has adopted a target for a minimum of 40 per cent women and 40 per cent men making up future partner intakes, and resolved to be stringent in their annual remuneration reviews.[30]

3.31 Mercer proposed directing additional resources to the WGEA to enable it to work with businesses to effect faster and better change. It stated:

> Some organisations like Google, LinkedIn and other Silicon Valley companies have begun to share their data. More recently professional services companies such as PWC, Ernst & Young and KPMG have followed suit. These companies recognise that an honest assessment of the gender equity issue is the essential first step in solving it. The Australian Government, through the Workplace Gender Equality Agency, can work with businesses to support those willing to go above minimum legislative requirements by providing hands on assistance on the optimal ways to manage their organisation's gender equity and gain real business benefits from driving change.[31]

3.32 Women in Super outlined the importance of ensuring gender equality policies are not just reported on but actively implemented by organisations. It stated:

> …86 per cent of OECD countries have a regular measure of performance of gender equality policies and a majority of countries also have regular reporting requirement to parliament. Yet only a few countries have integrated gender equality requirement into managers' performance and accountability despite the acknowledgment that policies are only as good as

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29 Workplace Gender Equality Agency, *Submission 79*, p. 12.

30 Workplace Gender Equality Agency, *Submission 79*, p. 15.

31 Mercer, *Submission 22*, p. 3.

> their implementation and effective implementation requires 'soft' and 'hard' levers.[32]

3.33 The Australian Council of Trade Unions (ACTU) argued that the low number of organisations undertaking gender pay gap analysis reflected a need for broader engagement across all organisations.[33]

Incentives

3.34 Women's Information and Referral Exchange (WIRE) supported the WGEA's role in encouraging businesses to make gender equity and gender pay equity a part of good business practice, through awareness, incentives and demonstrated outcomes.[34]

3.35 Industry Super Australia observed that the WGEA reporting framework relies on a proactive response from employers. It noted that although organisations are required to report on the existence of policies and strategies, they are not necessarily penalised if they do not have them.[35]

3.36 Ms Libby Lyons, WGEA, noted that the agency was very conscious of the burden that its reporting requirements already have on organisations. She observed:

> There is a lot of data that they have to provide us, and it is often difficult for them to gather it all together, particularly for smaller organisations that do not have a lot of resources dedicated to these sorts of things. We are ever conscious of that.[36]

3.37 Rather than increase the reporting burden on organisations, the WGEA encourages organisations to apply for an Employer of Choice for Gender Equality citation as a means to promote employer best practice. In order to be eligible for the citation, organisations must demonstrate best practice in the area of taking a strategic and systematic approach to workplace gender equality.[37] Ms Lyons stated:

> In order to receive one of those citations—and there were 92 organisations last year—you have to provide more detailed information around these issues of policies, strategies, actions and leaders leading the way in terms of what they are doing to address gender equality. Encouraging more and more organisations to apply for that I think is one way of addressing these issues without requiring an extra burden on organisations.[38]

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32 Women in Super, *Submission 50*, p. 17.

33 Australian Council of Trade Unions, *Submission 69*, p. 16.

34 WIRE Women's Information and Referral Exchange, *Submission 48*, p. 20.

35 Industry Super Australia, *Submission 74*, pp. 32–33.

36 Ms Libby Lyons, Director, Workplace Gender Equality Agency, *Committee Hansard*, 19 February 2016, p. 40.

37 Workplace Gender Equality Agency, *Submission 79*, p. 15.

38 Ms Libby Lyons, Director, Workplace Gender Equality Agency, *Committee Hansard*, 19 February 2016, p. 40.

Pay secrecy in employment contracts

3.38 One proposal put to the committee to address the gender pay gap was to improve transparency regarding wages within organisations.[39] Ms Veronica Black, Finance Sector Union, observed:

> If people are very clear on who is being paid what for doing what job, that makes a difference. There is a massive culture of secrecy in the finance industry. People are explicitly told that they are not to discuss pay outcomes with their colleagues, and you will have two people sitting side by side doing the same job on very, very different pay arrangements. As long as that secrecy continues, then you continue to see those kinds of issues. I think that, once it is out in the open and people are clear that they are being treated in an unfavourable way compared to others, it is harder for organisations to continue to justify paying people so differently when it is as clear and out there as that.[40]

3.39 The committee notes that Education and Employment Legislation Committee is currently conducting an inquiry into the Fair Work Amendment (Gender Pay Gap) Bill 2015, a private senators' bill which would amend the *Fair Work Act 2009* 'to remove restrictions on employees' rights to disclose the amount of, or information about, their pay or earnings'.[41]

3.40 The committee notes the WGEA's submission to the inquiry into the Fair Work Amendment (Gender Pay Gap) Bill 2015 considers that while greater pay transparency may contribute to an environment where women are better equipped with information when undertaking pay negotiations, 'there is no hard evidence linking the removal of legal prohibitions on employees discussing their pay to lower gender pay gaps'. The WGEA considered the 'best way to address gender pay gaps is for organisations to analyse and take remedial action to address gender pay gaps'.[42]

Committee view

3.41 The committee notes the evidence that pay secrecy arrangements are commonplace in some sectors and could pose a barrier to pay equity. The committee does not see any compelling reason for employers to impose these restrictions on employees.

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39 Women's Health Goulburn North East and Women's Health in the North, *Submission 5*, p. 53; Ms Veronica Black, National Coordinator, Organising and Development, Finance Sector Union, *Committee Hansard*, 19 November 2016, p. 9.

40 Ms Veronica Black, National Coordinator, Organising and Development, Finance Sector Union, *Committee Hansard*, 19 November 2016, p. 9.

41 Fair Work Amendment (Gender Pay Gap) Bill 2015, http://www.aph.gov.au/Parliamentary_Business/Bills_LEGislation/Bills_Search_Results/Result?bId=s1017 (accessed 5 April 2016).

42 Workplace Gender Equality Agency, *Submission 15*, Education and Employment Legislation Committee's inquiry into the Fair Work Amendment (Gender Pay Gap) Bill 2015, p. 11.

Women in leadership roles

3.42 As noted in the previous chapter, women continue to be under-represented in senior leadership roles. Inkling Women observed that gender discrimination in the workplace continues to be one of the reasons for the underrepresentation of women in leadership positions. It noted:

> Gender discrimination in workplaces remains widespread. It is also often subtle, unnamed, unnoticed by many men and women, and commonly unintentional. Nonetheless, workplace cultures that persistently, if subtly, devalue the contributions of women or exclude the participation of women contribute to the attrition of women from the workplace and particularly from the pathway to seniority and higher pay. A sense of exclusion from important networks, both formal and informal, is reported by professional women.[43]

3.43 Recent analysis by the WGEA and the Bankwest Curtin Economics supports the argument that increasing female representation on boards may help to address the gender pay gap. The research found that 'a greater representation of women on boards is associated with significant reductions in gender pay gaps, even after taking account of other factors that are likely to influence pay gaps at an organisational level'.[44]

Targets and quotas

3.44 Some submissions expressed the view that introducing quotas or targets may improve the current levels of female representation in senior leadership roles. The National Australia Bank suggested that consideration should be given to setting gender targets and the publishing of the gender composition of listed company and public sector executive management and boards.[45]

3.45 Dr Gemma Munroe, Inkling Women, stated:

> We would suggest that, in most organisations, if you have that critical figure of 40 per cent of women in leadership roles—our view is that 60 per cent would be better, but the research shows that there are actually 30 per cent of women in leadership roles—productivity, performance and customer satisfaction increases as does innovation, decision making, profitability and market share. We believe we need to move towards quotas in business and government.[46]

3.46 Even so, Inkling Women observed that:

> Neither a target nor quota can overcome the underlying barriers to gender equity in isolation. However they are powerful signals and commitments that continuing gender disparity is not acceptable, and will catalyse the

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43 Inkling Women, *Submission 38*, p. 4.

44 Bankwest Curtin Economics Centre and Workplace Gender Equality Agency, Gender Equity *Insights 2016: Inside Australia's Gender Pay Gap*, 2016, p. 61.

45 National Australia Bank, *Submission 63*, p. 11.

46 Dr Gemma Munroe, Chief Executive Officer, Inkling Women, *Committee Hansard*, 18 February 2016, p. 24.

> necessary actions to ensure a pipeline of high-potential women is maintained and developed into a pool of high-performing women to compete for senior and leadership roles.[47]

3.47 The WGEA provides guidelines for setting and meeting targets to increase gender diversity in the workplace. The WGEA supports setting voluntary targets rather than quotas:

> These targets allow employers to set goals which are realistic taking into account their particular circumstances and the industry in which they operate. Setting targets is a common business practice and so easily understood and applied. We know from those who are already well down this track that targets work. It is important, of course, that targets are rigorous, that the necessary infrastructure is put in place to underpin their achievement and that managers are held accountable for outcomes.[48]

3.48 Underrepresentation of women in leadership roles is also evident in the Australian Public Service (APS). The Community and Public Sector Union (CPSU) informed the committee that while women make up 58 per cent of the APS workforce overall, at more senior levels (from Executive Level 2 to Senior Executive Service) the majority of employees are men. It also noted:

> The average classification for a woman is APS4 whereas for a man it is APS6. In the APS we also have the complication of different pay arrangements for different agencies across the APS. What we have found over some time in that area is that women working at the same classification level as a man are more likely to be in lower paying agencies.[49]

3.49 In March 2016, the Australian Public Service Commission announced that it would be launching a gender equality strategy for the APS to address this issue.[50]

Committee view

3.50 Closing the gender pay gap, which has remained largely unchanged over the last two decades, will require a concerted and sustained effort. The committee commends the many Australian organisations that have taken proactive measures to address the gender pay gap, by conducting gender pay audits, developing gender pay strategies and setting targets for women in leadership roles. The committee believes

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47 Inkling Women, *Submission 38*, p. 6.

48 Workplace Gender Equality Agency, *How to set gender diversity targets, Guidelines for setting and meeting targets to increase gender diversity in the workplace*, 2013, p. 2, https://www.wgea.gov.au/sites/default/files/SETTING-GENDER-TARGETS-Online-accessible.pdf (accessed 18 April 2016).

49 Ms Melissa Donnelly, Deputy Secretary, Community and Public Sector Union, *Committee Hansard*, 12 February 2016, p. 13.

50 Australian Public Service Commission, 'APSC News: fostering a flexible, efficient high performing APS', March 2016, http://www.apsc.gov.au/publications-and-media/current-publications/apsc-news/apsc-news-march-2016-fostering-a-flexible,-efficient,-high-performing-aps (accessed 1 April 2016).

that there is still much work to be done, noting only about 20 per cent of organisations reported to the WGEA that they had introduced strategies to address the gender pay gap. 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 WGEA in providing tools and incentives to assist organisations.

Recommendation 2

3.51 The committee recommends that the Australian Government continue to support the work of the Workplace Gender Equality Agency and ensure that is adequately resourced.

Chapter 4
Women's working experience

4.1 In conjunction with the gender pay gap, women's workforce participation has a significant effect on lifetime wealth accumulation and retirement savings. Women are more likely to take time out of paid employment to care for children or family members, and are more likely to be employed part-time due to caring responsibilities. Many of the submissions and witnesses argued that increasing women's workforce participation rates would improve greatly women's economic security in retirement. This chapter assesses the various causes and barriers to women's workforce participation, including gender and age discrimination. It also examines measures to maintain women's attachment to the paid workforce, flexible working arrangements, access to affordable childcare and paid parental leave.

Women's workforce participation

4.2 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).[1] 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.[2] Women are also more likely to be employed part-time. Approximately two-thirds of the part-time workforce are women, with 46.4 per cent of all employed women working part-time compared to only 18 per cent of all men. Overall, women undertake the majority of unpaid domestic work and men the majority of paid work.[3]

4.3 In addition to lower workforce participation rates, the ASU noted that women with caring responsibilities were more likely to be employed in lower paying jobs and in more insecure employment such as part-time, casual or labour-hire employment.[4]

4.4 Professor Patricia Apps, a Professor of Public Economics at the University of Sydney, observed:

> …while female employment participation rates have risen dramatically, most women are either working part-time or are not in the workforce. The result is a gender gap in labour supply in the order of 40 to 50 per cent across the entire life cycle, not just when their children are young. This creates a loss of human capital, which partly explains lower wages later on,

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

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

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

4 Australian Services Union, *Submission 81*, p. 12.

> prevents the necessary expansion of the tax base and undermines economic growth. [5]

4.5 Dr Brendon Radford, National Seniors, pointed out that 'by providing the support to get women back into the workforce, you are actually creating greater productivity within the country in economic growth because more people are working and more people are paying taxes'.[6] The AIST observed that:

> …if Australia could match Canada with 6 percent more women in the paid workforce (i.e. an 88 percent female participation compared with men's), the Australian economy would increase by about $25 billion a year. If the gap was closed completely, it would be by about $195 billion or 13 percent of Australia's GDP.[7]

Gender discrimination and workforce participation

4.6 Many submissions highlighted the ongoing prevalence of gender discrimination in the workplace, particularly around parental leave. A National Review conducted by the Australian Human Rights Commission (AHRC) in 2014 (*Supporting Working Parents: Pregnancy and Return to Work National Review*) found that one in two (49 per cent) mothers report experiencing discrimination in the workplace at some point during pregnancy, parental leave or upon return to work. Interestingly, the research found that over a quarter of fathers and partners also reported experiencing discrimination relating to parental leave and return to work. Thirty-two per cent of all mothers who were discriminated against during pregnancy went to look for another job or resigned. Further, almost one in five (18 per cent) mothers indicated that during their pregnancy or when they returned to work they were either made redundant or that their jobs were restructured; or they were dismissed or that their contract was not renewed.[8]

4.7 Consistent with the findings of the AHRC, the Finance Sector Union (FSU) found a similar prevalence of discrimination among its members, and argued that discrimination legislation should be strengthened to provide adequate protection from unlawful treatment for pregnant women and carers.[9]

4.8 The ACTU argued that addressing gaps in anti-discrimination law would help to reduce the effect of discrimination on women's workforce participation. In particular, discrimination relating to pregnancy and returning to work after parental

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5 Professor Patricia Apps, *Committee Hansard*, 12 February 2016, p. 28.

6 Dr Brendon Radford, Senior Policy Advisor, National Seniors, *Committee Hansard*, 19 February 2016, p. 6.

7 Australian Institute of Superannuation Trustees, *Submission 45*, p. 15.

8 Australian Human Right Commission, *Supporting Working Parents: Pregnancy and Return to Work National Review—Report*, 2014, p. 8.

9 Finance Sector Union, *Submission 29*, p. 4.

leave, which continues to be a widespread issue that contributes to women's under-participation or withdrawal from the workforce.[10]

4.9 The ACTU supported the AHRC's recommendation, as made in its National Review report, that the *Sex Discrimination Act 1984* should be amended to extend the discrimination 'ground of "family responsibilities" to include indirect discrimination, and include a positive duty on employers to reasonably accommodate the needs of workers who are pregnant and/or have family responsibilities'.[11]

Age discrimination and workforce participation

4.10 The AHRC observed that older women are 'more likely than men to face age discrimination due to perceptions that they have outdated skills, are too slow to learn new things or that they will deliver an unsatisfactory job'. As such, older women face greater barriers to obtaining employment.[12]

4.11 Importantly, the AHRC is currently conducting a national inquiry into Employment Discrimination against Older Australians and Australians with Disability. The AHRC inquiry's Issues Paper stated:

> There are considerable economic costs associated with low labour force participation of older Australians. According to Deloitte Access Economics, an extra 3 percentage points of labour force participation among workers aged 55 and over would result in a $33 billion boost to GDP—or around 1.6% of national income.[13]

4.12 The Hon Susan Ryan AO, Age and Disability Discrimination Commissioner, explained that the women the AHRC had spoken to during the consultation for its current inquiry had experienced both direct and indirect discrimination. For example:

> Either they are subjected to direct discrimination—like they are offered redundancies or they are told they are not required anymore—or they experience indirect but very damaging age discrimination, such as not being able to apply for promotions or not being able to apply for training courses which are essential to keep their skills up-to-date.[14]

4.13 Women in Super highlighted the effect of age discrimination on women's security in retirement. It stated:

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10 Australian Council of Trade Unions, *Submission 69*, p. 4.

11 Australian Council of Trade Unions, *Submission 69*, p. 17; Australian Human Right Commission, *Supporting Working Parents: Pregnancy and Return to Work National Review—Report*, 2014, p. 12.

12 Australian Human Right Commission, *Submission 36*, p. 2.

13 Australian Human Right Commission, Issues *Willing to Work: Employment Discrimination against Older Australians and Australians with Disability—Issues Paper: Employment discrimination against older Australians*, 2015, p.8,https://www.humanrights.gov.au/sites/default/files/document/publication/discussion-paper-age.pdf (accessed 30 March 2016)

14 The Hon Susan Ryan AO, Age and Disability Discrimination Commissioner, Australian Human Rights Commission, *Committee Hansard*, 12 February 2016, p. 2.

> Age discrimination (although illegal since the introduction of the Age Discrimination Act 2004) impacts the ability of many older women to accumulate superannuation in later life. Many women (and men) need to work past retirement age for many reasons including inadequate superannuation. However, for many finding a full-time or part-time job is difficult. For those who have been out of the workforce for a period of time and find the need to return to work due to changed circumstances in their 50s and beyond (for example divorce, death of a partner) it is difficult to find suitable work.[15]

4.14 COTA Australia expressed concern about the effect of a combination of sex and age discrimination on older women returning to the workforce. It referred, in particular, to:

> …the impact on living standards and retirement incomes of women who exit the workforce in their 40s and 50s to care for grandchildren and/or ageing parents and then, when the need has passed, find themselves unable to return to work due to a combination of age and sex discrimination and the way the labour market tends to operate.[16]

Committee view

4.15 The committee considers that increasing women's workforce participation will significantly improve retirement outcomes for both younger and older women. The evidence the committee received clearly demonstrated that, despite anti-discrimination legislation, both age and gender discrimination continue to persist in Australian workplaces, creating a significant barrier to women's workforce participation.

Recommendation 3

4.16 The committee recommends that the Australian Government consider carefully the recommendation from the Australian Human Rights Commission's *Supporting Working Parents: Pregnancy and Return to Work National Review*, to amend the *Sex Discrimination Act 1984* to:

- **extend the discrimination ground of 'family responsibilities' under the Sex Discrimination Act to include indirect discrimination; and**
- **include a positive duty on employers to reasonably accommodate the needs of workers who are pregnant and/or have family responsibilities.**

4.17 Following its inquiry into Employment Discrimination against Older Australians and Australians with Disability, the Australian Human Rights Commission's findings may provide further opportunity to introduce measures to address age discrimination experienced by older Australians, particularly women.

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15 Women in Super, *Submission 50*, p. 23.

16 COTA Australia, *Submission 86*, p. 7.

Flexible work arrangements

4.18 Many submissions and witnesses highlighted the importance of workplace flexibility arrangements for parents, carers and older workers. The WGEA highlighted the need to promote and encourage flexible work for both men and women. According to data provided by the WGEA, only 60.2 per cent of employers have a policy or strategy on flexible working arrangements. Half (50 per cent) of employers have policies on flexible working but only 14.6 per cent have a strategy for flexible working. A similar share of employers (58 per cent) have a family and caring responsibilities policy or strategy, the majority of which have a policy (47.2 per cent) rather than a strategy (14.6 per cent). The WGEA provides organisations with the tools to develop strategies for providing flexible working arrangements.[17]

4.19 In addition to the resources that the WGEA provides, the Fair Work Ombudsman has developed a best practice guide for individual flexibility arrangements for employers.[18]

4.20 The Fair Work Act provides employees in the national workplace relations system with a legal right to request flexible working arrangements. To be eligible, employees must have worked for their employer for at least 12 months on a full-time or part-time basis. Long-term casual employees—employed on a regular and systematic basis for at least 12 months—who have a reasonable expectation of ongoing employment are also eligible. Employees are eligible to request flexible working arrangements in the following circumstances:

- the employee is a parent, or has responsibility for the care of a child who is of school age or younger;
- the employee is a carer (within the meaning of the *Carer Recognition Act 2010*);
- the employee has a disability;
- the employee is 55 or older;
- the employee is experiencing violence from a member of the employee's family; or
- the employee provides care or support to a member of their immediate family or household who requires care or support because they are experiencing violence from the member's family.

4.21 Under the Fair Work Act, employers must seriously consider a request for flexible working arrangements but may refuse on reasonable business grounds (which are discussed further below).[19]

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17 Workplace Gender Equality Agency, *Submission 79*, p. 13.

18 Fair Work Ombudsman, 'Use of individual flexibility arrangements', https://www.fairwork.gov.au/how-we-will-help/templates-and-guides/best-practice-guides/use-of-individual-flexibility-arrangements (accessed 12 April 2016).

4.22 A number of submissions, however, proposed strengthening the 'right to request' provisions under s 65 of the Fair Work Act to provide an enforceable right to request flexible working arrangements.[20] Parents, carers and older workers all have a right to request flexible working arrangements. For example, Ms Veronica Black, FSU, proposed strengthening the 'right to request' provision in the Fair Work Act, as currently:

> …workers can request flexible working arrangements, but the right is to request, not a right to have. In fact, there is no process for appealing against a decision of your employer should they decide they are not prepared to grant you that flexibility.[21]

4.23 Ms Katie Biddlestone, SDA National, expressed a similar view:

> We feel that in its current form it really is not working as a mechanism for workers to obtain flexible working arrangements. Because there are no rights, an employee can ask a question, but that is really all that the legislation provides for. We would like to see an improvement around section 65 of the Fair Work Act to ensure that there is an appeal mechanism for employees to go to the Fair Work Commission. So if there is a question around whether an employer is unreasonably refusing a request for flexible work arrangements, there is an independent body which can make that assessment and a ruling in relation to that.[22]

4.24 Carers Australia suggested that the right to request should be extended to include employees who have worked with an employer for less than twelve months. Ms Anna Morison, Carers Australia, stated

> Obviously, that is there for some very good reasons, but it does discriminate against those [carers]…that are looking to get back into employment and it also sort of discriminates against our young carers, those that might have had a very delayed start to their employment career, and maybe are still caring, and are looking at entering their first job. If they still have caring responsibilities they are properly going to need flexibility right from the start. There are options there where we could look at strengthening that legislation and that framework.[23]

4.25 One carer, Ms Kathryn Squires, shared her own experience of difficulties balancing caring with paid work. She explained:

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19 Fair Work Ombudsman, 'The right to request flexible working arrangements', https://www.fairwork.gov.au/how-we-will-help/templates-and-guides/best-practice-guides/the-right-to-request-flexible-working-arrangements (accessed 12 April 2016).

20 See for example, ACTU, *Submission 69*, pp. 13–14; Carers Australia, *Submission 39*, p. 18.

21 Ms Veronica Black, National Coordinator, Organising and Development, Finance Sector Union, *Committee Hansard*, 19 November 2015, p. 11.

22 Ms Katie Biddlestone, National Women's Officer, Shop, Distributive and Allied Employees Association, *Committee Hansard*, 19 November 2015, p. 31.

23 Ms Anna Morison, Senior Policy Officer, Carers Australia, *Committee Hansard*, 19 February 2016, p. 16.

> I moved away from Canberra a number of years ago. I started working in event management up in Queensland, which was great. My parents became quite frail, so after about seven years up there I returned to Canberra. I lost a lot of my jobs on events because I was no longer local. I managed to retain a couple of those contracts. That is only a couple of times a year now. It is hard to hold on to those jobs. Another job I started in the last couple of years was a job in Sydney as a PA. That was really difficult, and I have now lost that job because I was often saying, 'I can't come because one of my parents is really ill and I have to stay and care for them.'[24]

4.26 The Age and Disability Discrimination Commissioner found that more could be done to change attitudes in the workplace towards people accessing flexible working arrangements:

> So, again, we do need more promotion, and this is where government can do communications campaigns and initiate national discussions around these issues, so that a parent returning to work will know: 'I do have these rights,' and her coworkers and her immediate boss will know: 'This woman was entitled to go off on leave. She is entitled to come back. She is entitled to flexibility'.[25]

4.27 The Age and Disability Discrimination Commissioner noted that older people also have the right to request flexibility. However, she noted that in discussions with older people they expressed concern that it would put them in a 'bad light' with their employer.[26]

4.28 Carers Australia observed that there needs to be greater recognition that 'people need to leave work for different sorts of reasons, not just that they are parents of children—people care for elderly parents and people with disabilities'.[27]

4.29 The WGEA highlighted the need for more part-time or flexible senior management roles, with only 6.3 per cent of managerial positions being offered on a part-time basis in 2014–15.[28] In addition, there is a lack of training and opportunities for promotion for women who work part-time. The Age and Disability Discrimination Commissioner reasoned that there needed to be a discussion with employers on how to create more flexible workplaces, 'pointing to those who are doing it, like the ANZ and other employers who have worked out how to do it, and encouraging all employers to see the benefits'.[29]

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24 Ms Kathryn Squires, Carer, *Committee Hansard*, 19 February 2016, pp. 15–16.

25 The Hon Susan Ryan AO, Age and Disability Discrimination Commissioner, Australian Human Rights Commission, *Committee Hansard*, 12 February 2016, p. 6.

26 The Hon Susan Ryan AO, Age and Disability Discrimination Commissioner, Australian Human Rights Commission, *Committee Hansard*, 12 February 2016, p. 6.

27 Ms Morison, Carers Australia, *Committee Hansard*, 19 February 2016, p. 16.

28 Workplace Gender Equality Agency, *Submission 79*, p. 11.

29 The Hon Susan Ryan AO, Age and Disability Discrimination Commissioner, Australian Human Rights Commission, *Committee Hansard*, 12 February 2016, p. 4.

4.30 The committee received evidence suggesting that some employers, and in particular smaller businesses, struggle with the complexity and administrative burden of implementing flexible workplace arrangements for their employees. For example, Mrs Andrea Slattery from the SMSF Association referred to her own experience as a small business owner in this respect:

> We run a small business ourselves and we have a flexible workplace arrangement for all of our employees. We have 25 employees, very much along the lines of other small businesses. One of the things that is most difficult is actually physically managing the flexibility arrangements. When you have between about 10 and 50 employees, you do not have the capacity to have a HR person on site with all the forms and red-tape administration issues that you have.[30]

4.31 Ms Yolanda Beattie, Mercer, observed that 'it is one thing to mandate [flexible] requirements; it is another to equip employers to do it'. She stated:

> We know that part-time work and job sharing is one of the hardest types of flexible work for employers to implement. It is the hardest, but it is not impossible. It just takes a different and more innovative way of thinking. That is really about rethinking job design and unpacking roles so that they can be designed in ways that can be done in three days or four days. You often hear about people having the experience of, 'I am getting paid for four days, but my outcomes haven't changed'. I think there is guidance needed for employers to be able to deliver that and achieve that realistically. When you put it in legislation, you require that conversation to happen and that investment to be made by employers—to really investigate how to make it happen and do it well.[31]

4.32 Mrs Slattery suggested that the government might provide small businesses with some guidance and support to help facilitate the introduction of flexible workplace arrangements.[32] It is worth noting at this juncture that the WGEA and the Fair Work Ombudsman have, in fact, already prepared and published a range of resources to help employees and employers implement flexible workplace arrangements. At the same time, there may be scope for the WGEA and the Fair Work Ombudsman to improve the resources available to small businesses in this regard.

Committee View

4.33 Increasing women's workforce participation is critical for the economy as well as 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 promoting flexible

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30 Mrs Andrea Slattery, Managing Director/Chief Executive Officer, SMSF Association, *Committee Hansard*, 12 February 2016, p. 11.

31 Ms Yolanda Beattie, Principle and Practice Leader, Diversity and Inclusion, Mercer, *Committee Hansard*, 18 February 2016, p. 32.

32 Mrs Andrea Slattery, Managing Director/Chief Executive Officer, SMSF Association, *Committee Hansard*, 12 February 2016, p. 11.

work strategies for employers. Evidence presented to the committee suggests that further work is necessary to develop greater awareness among both employers and employees regarding employee rights to access flexible work arrangements, as well as management strategies to enable career progression and development opportunities for part-time workers.

4.34 Further, while noting the increased difficulty that smaller employers have in offering flexible conditions, the committee considers that calls to strengthen the 'right to request' provisions in the Fair Work Act have merit. The committee recognises that implementation of such a measure would require careful consultation with employers and employee representatives to ensure workable arrangements are established.

Recommendation 4

4.35 The committee recommends that the Australian Government consult with stakeholders on practical options to implement the relevant findings from the Australian Human Rights Commission's *Supporting Working Parents: Pregnancy and Return to Work National Review*, which recommends strengthening the 'right to request' provisions under s 65 of the *Fair Work Act 2009* by:

- **removing the qualification requirements in section 65(2)(a) of the Fair Work Act (that is, the requirements for 12 months continuous service);**
- **introducing a positive duty on employers to reasonably accommodate a request for flexible working arrangements; and**
- **establishing a procedural appeals process through the Fair Work Commission for decisions related to the right to request flexible working arrangements to ensure processes set out in the Fair Work Act have been complied with.**

Tax transfer system and workforce participation

4.36 The OECD released a report on 12 April 2016 examining the effects of tax and benefit systems, including tax and benefit provisions targeted at children, on the incentives for second earners to enter (or re-enter) the workforce in OECD countries. The report outlined the effect of family-based taxation on second earners. It stated:

> Family-based taxation has been adopted by a number of countries for equity purposes as it ensures that families with the same total income pay the same total income tax—irrespective of who earned the income. However, in such a system a second earner is effectively taxed at higher marginal tax rates than a single individual would be. Similarly, the withdrawal of tax allowances and credits on the basis of family income and the presence of dependent spouse allowances (which are both strongly justifiable on equity grounds) can act to reduce second earner participation incentives.[33]

33 OECD, *Taxing Wages 2016—Special feature: Measuring the tax wedge on second earners*, 12 April 2016, p. 32, http://www.oecd.org/ctp/tax-policy/taxing-wages-20725124.htm (accessed 13 April 2016).

4.37 The OECD's findings were reflected in the views presented by witnesses to the committee. Professor Miranda Stewart noted that the 'combined effective marginal tax rate on women, as a result of taxes on work combined with withdrawal of family benefits and childcare support, is a substantial disincentive to work'.[34]

4.38 The Grattan Institute indicated that the high effective marginal tax rates experienced by second-income earners is linked to comparatively low female workforce participation in Australia.[35]

4.39 The Australian Institute of Superannuation Trustees (AIST) observed that Canada has significantly increased its women's workforce participation rates by reducing the effective marginal tax rate for second earners. The workforce participation gap for Canadian women is approximately 86 per cent of men's compared with 82 per cent in Australia.[36]

4.40 WiSER (Women in Social Economic Research) from Curtin University pointed to an apparent contradiction between, on the one hand, the provision of tax subsidies to encourage retirement savings, and, on the other, income tax and Family Tax Benefit policy settings that reduce financial incentives for second earners in families with children to engage in paid work. It explained:

> …whilst the individual is ostensibly the formal unit of assessment in Australia's income tax system, Family Tax Benefits Parts A and B shift the tax-transfer system towards a family unit based system. The tax benefits impose very high effective marginal tax rates on second earners (most commonly women) in households. Part A is means tested and withdrawn at rates of 30 per cent and an additional 20 per cent if the family qualifies. When added to the marginal tax rate, these withdrawals can cause a second earner to lose 80–90 per cent of gross earnings on returning to work, and this is before childcare costs are met.[37]

4.41 Dr Helen Hodgson, National Foundation for Australian Women (NFAW), observed that second earners who are returning to work part-time are most affected, as the interplay between income tax, the family tax benefit and cost of childcare may result in second-earners losing more than they earn.[38]

Committee view

4.42 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

34 Professor Miranda Stewart, Tax and Transfer Policy Institute, Australian National University, *Submission 78*, p. 6.

35 Grattan Institute, *Submission 87*, p. 6. See also BPW Coffs Harbour, *Submission 34*, p. 2.

36 Australian Institute of Superannuation Trustees, *Submission 45*, p. 14.

37 WiSER, Curtin University, *Submission 6*, p. 8.

38 Dr Helen Hodgson, Member, Social Policy Committee, National Foundation for Australian Women, *Committee Hansard*, 19 November 2015, p. 40.

to provide a disincentive for second income earners to participate in paid work and to identify mechanisms to ameliorate such disincentives.

Recommendation 5

4.43 The committee recommends that the Australian Government refer the question of effective marginal tax rates for second-earners to the Productivity Commission for review, noting the significance of women's workforce participation.

Access to affordable childcare

4.44 The Productivity Commission's 2014 report on childcare and early childhood learning found that women's workforce participation could be increased through access to affordable childcare. Child care costs, particularly for women returning to work part-time, may serve as a disincentive to return to the workforce.[39]

4.45 One witness noted the International Monetary Fund 2013 report, *Women, work, and the economy: macroeconomic gains from gender equity*, which found that:

> …where childcare costs go down by 50 per cent, the women's workforce participation rate can increase by up to 10 per cent. They also find that in OECD countries where greater percentages of GDP are spent on child care and education for under fives there are also greater female workforce participation rates.[40]

4.46 The ACTU argued that the provision of universal access to quality, affordable early childhood education and care (ECEC) was one of the most significant changes that could be made to support women's workforce participation and bolster women's retirement incomes.[41]

4.47 National Seniors Australia pointed to international examples where accessible childcare has positively affected women's workforce participation. It noted:

> In countries where the cost of childcare is low and heavily subsidised, there is a correspondingly high uptake of childcare. In Denmark, for example, where there is a high proportion of children in childcare, mothers do not report childcare price as being reasons for not working or working only part-time. In Australia, where the proportion of children in care is much lower, there are constant complaints that the cost is too high and the availability of childcare is low.[42]

4.48 Submissions included a number of proposals to improve access to quality affordable childcare. These included:

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39 Productivity Commission, *Childcare and Early Childhood Learning: Inquiry Report Overview and Recommendations*, No. 73, 31 October 2014, p. 53.

40 Ms Karen Volpato, Senior Policy Advisor, Australian Institute of Superannuation Trustees, *Committee Hansard*, 6 October 2016, p. 46.

41 Australian Council of Trade Unions, *Submission 69*, p. 13.

42 National Seniors Australia, *Submission 62*, p. 20.

- reviewing current fringe benefits tax legislation and revising it to allow organisations to provide more cost-effectively subsidised childcare, healthcare and aged parent care assistance as employee benefits;[43] and
- adjusting means testing to achieve a progressive scale of the proportion of household disposable income spent on childcare costs.[44]

4.49 To demonstrate the link between affordable childcare and increased workforce participation, Mrs Sandra Buckley, Women in Super, drew on the Canadian experience, noting that Canada is often seen as culturally similar to Australia. She stated:

> In the eighties, I believe Canada introduced a large subsidy program for child care. They did not necessarily make it extremely mean. There was tapering but, essentially, if you wanted access to child care, you got access to substantially reduced [costs of] child care. Sometimes it was as low as $5 a day. Within 10 years, the female workforce participation rate had increased to 80 per cent, so there was a direct lineal transaction, if you like. I guess the point is that there are a lot of structural barriers.[45]

4.50 The Family Assistance Legislation Amendment (Jobs for Families Child Care Package) Bill 2015 is currently before the Parliament. The Bill forms part of the government's Jobs for Families Child Care Package, which as a whole is a response to the Productivity Commission's report on childcare and early childhood learning. The Bill proposes to introduce the Child Care Subsidy which will a replace the Child Care Benefit and Child Care Rebate with a single, means tested subsidy.[46]

4.51 The St Vincent De Paul Society expressed concerns that the government's current proposal may disadvantage low-income women if access to childcare is made contingent upon participation requirements.[47]

4.52 The ACTU welcomed the government's commitment to increase funding for the early education and child care sector from 1 July 2017. However, in its view, 'public investment continues to fall short of levels needed to enable families to access ECEC services and fully participate in the workforce'. The ACTU stated:

> Australia has one of the lowest expenditures on early childhood education and care of all OECD countries spending 0.45% of GDP compared to the OECD average of 0.6%.
>
> The fact that the families package is contingent on proposed cuts to family tax benefits is highly inequitable and is likely to push low-income women

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43 Mercer, *Submission 22*, p. 5.

44 Women's Health Goulburn North East and Women's Health in the North, *Submission 5*, p. xii.

45 Mrs Sandra Buckley, Executive Officer, Women In Super, *Committee Hansard*, 6 October 2015, p. 21.

46 Senate Education and Employment Legislation Committee, *Family Assistance Legislation Amendment (Jobs for Families Child Care Package) Bill 2015*, 4 April 2016, p. 3.

47 St Vincent de Paul Society, *Submission 17*, p. 5.

with dependent children into poverty thereby eliminating any possibility of saving for their retirement.[48]

4.53 The Women and Work Research Group observed that it was unclear how proposed changes to the childcare package would affect female labour force engagement, especially as they are linked to cuts to family tax benefits.[49]

Recognition for grandparents providing childcare

4.54 National Seniors Australia noted the high number of grandparents providing childcare and proposed consideration of a scheme to provide some remuneration to grandparents. At the moment they can receive 69c per hour for looking after a non-school-aged child. Dr Radford remarked that 'it is the equivalent of $34.80 for 50 hours of work, which is quite horrendous, really'.[50] National Seniors Australia noted:

> As a recent National Seniors report has shown, grandmothers already provide a significant amount of informal childcare in Australia. Many grandmothers are already sacrificing their own incomes so that daughters and daughters-in-law can return to the workforce. Many of these women are also carrying the burden of care for elderly dependents at the expense of their own financial security.[51]

Committee view

4.55 The Productivity Commission, international experiences and evidence before the committee highlight the significance of access to affordable child care in promoting women's workforce participation. The committee considers 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.

Paid parental leave

4.56 Many submissions drew attention to the importance of paid parental leave for women's workforce participation.[52] All employees in Australia are entitled to Paid Parental Leave (PPL), subject to meeting certain requirements:

> Employees can receive parental leave pay from the Australian Government (18 weeks at the minimum wage) and paid parental leave from their employer. Not all employers offer paid parental leave, however those employees who get paid parental leave from their employer are also entitled

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48 Australian Council of Trade Unions, *Submission 69*, p. 13.

49 Women and Work Research Group, *Submission 76*, p. 6.

50 Dr Brendon Radford, Senior Policy Advisor, National Seniors Australia, *Committee Hansard*, 19 February 2016, p. 9.

51 National Seniors Australia, *Submission 62*, p. 24.

52 See for example, Professor Miranda Stewart, Tax and Transfer Policy Institute, Australian National University, *Submission 78*, p. 6; Women and Work Research Group, *Submission 76*, p. 7.

> to the Australian Government's Paid Parental Leave. Employees whose employers do not provide paid parental leave are still entitled by law to parental leave.[53]

4.57 The government has proposed changes to PPL to prevent employees with access to employer-provided parental leave from accessing the government's PPL scheme (so-called 'double dipping'). The changes, which are contained in the Fairer Paid Parental Leave Bill 2015, are summarised in the explanatory memorandum to the bill:

> Currently, eligible primary carers can receive employer-provided paid maternity leave and Government-funded Parental Leave Pay. Under the amendment to the Paid Parental Leave scheme, primary carers will no longer receive both their employer provided paid maternity leave and the full 18 weeks of Government-funded Parental Leave Pay.
>
> Eligible mothers without access to employer-provided paid maternity leave will continue to be eligible for the full 18 weeks of Parental Leave Pay at the rate of the national minimum wage, and mothers who receive less than the total value of Government-funded Parental Leave Pay from their employer will be entitled to the residual amount from the Government.[54]

4.58 Many submissions raised concerns about changes to PPL which have been proposed by the government.[55] For example, the Women and Work Research Group expressed concern about the effect of any proposed cuts to the PPL scheme, especially as the current scheme has been shown to encourage women's workforce retention.[56]

4.59 The Police Federation of Australia calculated that its members would be $11,500 worse off under the proposed changes to the PPL. It reasoned that the proposed changes will likely reduce the amount of time on parental leave for some of its members, while for others it may result in a separation from the workforce completely.[57]

4.60 The Financial Services Council noted that the government's original PPL policy was to implement a parental leave scheme that would have provided mothers with 26 weeks of paid parental leave at their actual wage or the national minimum wage (whichever is greater), plus superannuation (superannuation contributions for PPL are discussed in chapter 5). While the Financial Services Council supported the scheme, it acknowledged the government's argument that the proposed scheme is currently unaffordable due to the Commonwealth's fiscal position.[58]

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53 Industry Super Australia, *Submission 74*, p. 31.

54 Explanatory Memorandum, Fairer Paid Parental Leave Bill 2015, p. 1.

55 See for example: Women and Work Research Group, *Submission 76*, p. 7; Finance Sector Union, *Submission 29*, p. 5; Unions NSW, *Submission 67*, p. 8.

56 Women and Work Research Group, *Submission 76*, p. 7. See also Finance Sector Union, *Submission 29*, p. 5.

57 Police Federation of Australia, *Submission 52*, p. 3.

58 Financial Services Council, *Submission 57*, p. 3.

4.61 The ACTU argued that the 18 weeks available leave on the PPL is significantly shorter than the period of paid leave available in other OECD countries which have similar social, demographic and economic circumstances. For example, Canada provides 35 weeks paid leave, the UK provides 39 weeks and Sweden provides 60 weeks. It also noted that Australia is one of only two OECD countries that does not pay leave based on a replacement wage. As such, the ACTU recommended that the minimum period of paid parental leave should be 26 weeks at no less than the national minimum wage.[59] Unions NSW also recommended that PPL should be extended to 26 week, but in its view PPL should provide full wage replacement.[60] The ACTU and Unions NSW support for 26 weeks PPL is in line with recommendations by the World Health Organisation.[61]

Committee view

4.62 The committee notes that the Hon Christian Porter, Social Services Minister, recently announced that proposed changes to the PPL contained in the Fairer Paid Parental Leave Bill 2015 were unlikely to be passed in the current Parliament. However, the government indicated that it was committed to making the changes if re-elected.[62] The committee considers that any proposed changes to the PPL should be assessed in terms of workforce participation and retention. The committee sees significant benefits in providing 26 weeks paid parental leave through a combination of government and employer funding.

Recommendation 6

4.63 The committee recommends that the Commonwealth Paid Parental Leave Scheme continue to be improved over time to allow for 26 weeks paid parental leave through the combination of government and employer funding.

Sharing caring responsibilities

4.64 Inkling Women argued that parental leave, rather than maternity leave, must become the norm. It noted:

> For both men and women to accommodate a more equitable balance of work and familial/caring responsibilities, greater flexibility is required in workplaces. It is essential that parental leave is parental, with equivalent respect and acceptance for men temporarily stepping away from the

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59 Australian Council of Trade Unions, *Submission 69*, pp. 14–15.

60 Unions NSW, *Submission 67*, p. 5.

61 Australian Parliamentary Library, *Bill Digest No. 12, 2015–16: Fairer Paid Parental Leave Bill 2015*, 19 August 2015, p. 8, http://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/bd/bd1516a/16bd012 (accessed 15 April 2016).

62 Judith Ireland, 'Expectant mothers given short-term reprieve', *Sydney Morning Herald*, 6 April 2016.

workplace as for women. Parental leave must be as available, generous and accepted for men as it is for women.[63]

4.65 National Seniors noted that the current leave arrangements for fathers is only two weeks.[64] It suggested that while the shift from maternal to parental leave makes it possible in theory for either parent to take on caring activities, it is more often the case that women take the leave rather than men—this has been the case in Sweden and Denmark. National Seniors noted:

> International evidence has shown that leave entitlements for fathers need to be of an adequate duration, well paid at a rate of between 60 to 80 per cent of average wages, dedicated to men on a 'use it or lose it' basis and unable to be taken at the same time as a spouse in order to be most effective.
>
> Norway, Sweden and Finland provide men with generous leave entitlements that are both long in duration and high in amount. Norway, in particular, has had great success with its paternal leave system, which provides 14 weeks of dedicated leave to fathers paid at 90.8 per cent of average income. In contrast the Netherlands provide men with leave at only very low level of income which discourages uptake.
>
> One of the key aspects of the Norwegian scheme is that men cannot take the leave at the same time as the spouse. As a result of this there has been a relatively high take up of father-specific leave in Norway providing women with an opportunity to reenter the workforce while their male spouse undertakes care duties.[65]

4.66 Dr Helen Hodgson, NFAW, observed that women's workforce participation, in particular full-time employment, is unlikely to increase unless there is a cultural shift, with men taking on a greater share of unpaid work. She stated:

> There is this issue around balancing unpaid work in the home and caring responsibilities with paid work. I think Australian women have reached a point where I am not sure that there will be much more growth there until there is better support for the unpaid work at home. That involves the child care. That involves changing gender distribution of household work. I do not research in that area myself, but I have heard a lot of the research around that. It is a combination of a cultural and attitudinal shift within the household and real support that will pick up some of those responsibilities outside the household that will allow women to then take on that extra day a

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63 Inkling Women, *Submission 38*, p. 6.

64 Dad and Partner Pay is available to working fathers and partners. On eligibility, see Department of Human Services, 'Eligibility for Dad and Partner Pay', https://www.humanservices.gov.au/customer/enablers/eligibility-dad-and-partner-pay (accessed 27 April 2016).

65 National Seniors Australia, *Submission 62*, pp. 18–19. See also, The Hon Susan Ryan AO, Age and Disability Discrimination Commissioner, Australian Human Rights Commission, *Committee Hansard*, 12 February 2016, p. 5.

> week of work. I know this is a significant factor in the work that the Productivity Commission has been doing in the childcare review.[66]

4.67 In order to encourage sharing of caring duties, workplace discrimination also needs to be addressed for fathers and partners. In a 2014 report, the Australian Human Rights Commission found that over a quarter of fathers and partners reported experiencing discrimination relating to parental leave and return to work.[67]

Older women and carers

4.68 The Age and Disability Discrimination Commissioner highlighted the importance of workforce participation for older women. She stated:

> My own view is that boosting the participation rates and making it possible for older women to maintain employment is the strongest change we can make in terms of enabling those women to save more, to have more savings for retirement, and also to have better health when they go into retirement. Australia is about the middle. I would not say that we could find another country that has a model retirement savings scheme. As senators will be aware, the Australian compulsory mandated superannuation guarantee sees us as world's best. So we are looking at the other factors. As I said, Australia could be at the top of the OECD in workforce participation, there is nothing intrinsic to the Australian economy that would not permit that, and yet we are only kind of around the middle.[68]

4.69 ACOSS explained that the main barrier to increasing workforce participation among older people is the labour market failing to adapt to the aging workforce. It explained:

> Age discrimination is rife. Neither employers nor mature age workers invest sufficiently in updating their skills. Older workers and their employers have not adapted well to structural changes in the labour market, especially the decline of manual jobs.[69]

4.70 The NSW Council of Social Service (NCOSS) noted that access to education and training over the lifecycle is a key factor for women, influencing paid workforce participation and lifetime earnings. NCOSS supported funding for outreach courses for women re-entering the workforce, particularly after periods of care or establishing economic independence after a separation.[70]

4.71 Dr Brendon Radford, National Seniors, explained that in order to ensure mature age workers remain attached to the workforce:

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66 Dr Helen Hodgson, Member, Social Policy Committee, National Foundation for Australian Women, *Committee Hansard*, 19 November 2015, p. 41.

67 Australian Human Right Commission, *Supporting Working Parents: Pregnancy and Return to Work National Review—Report*, 2014, p. 8.

68 The Hon Susan Ryan AO, Age and Disability Discrimination Commissioner, Australian Human Rights Commission, *Committee Hansard*, 12 February 2016, p. 6.

69 Australian Council of Social Service, *Submission 61—Attachment 1*, p. 22.

70 NSW Council of Social Service (NCOSS), *Submission 68*, p. 13.

> …we need to focus on people before they become unemployed, because this is a group of people who are at most risk. They are very vulnerable to being long-term unemployed or unemployed as they age. We need to find a way to target them and give them opportunities to career plan, link them up with skills and retrain them before they become unemployed, because it might keep them in the job that they are in or, if they do actually become unemployed, give them a head start. We have had a paper come out recently that says that people in later life do not perform career planning. This is something that really needs to happen, because they end up unemployed and they do not know what to do.[71]

4.72 The National Australia Bank supported the provision of tax incentives for employers to engage older workers.[72] Ms Susan McGrath, COTA Australia, argued that labour market programs such as Restart, a program that provides a wage subsidy to businesses that employ workers 50 years or older,[73] should begin immediately after a mature age worker becomes unemployed. She stated:

> That period is critical if somebody is not supported instantly, given the combination of factors they face around age discrimination. It is absolutely crucial that they are moved immediately in and that there is a well-organised level of support to get them back into work. We feel that much more can be made of labour market programs like Restart. They can be much more tightly targeted around specific labour markets. Much more work can be done in that space.[74]

4.73 Mr Ian Yates, COTA Australia, observed that there is a risk that some older people, aged 55 to 65, who become unemployed may rely on superannuation savings rather than unemployment benefits. He stated:

> So you get a compound of the effect of loss of income, drawing down of other assets and then drawing down of super, which means that they then approach retirement or the age pension age having exhausted, essentially, the buffers that they intended to have.[75]

4.74 Professor Miranda Stewart argued that the Age Pension assets test creates a disincentive to work and save. She stated:

> The age pension means test (which is an income test and an alternative asset test) creates perverse disincentives both to work in mature age and to save earlier during the lifecourse. These disincentives affect both men and

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71 Dr Brendon Radford, Senior Policy Advisor, National Seniors, *Committee Hansard*, 19 February 2016, p. 4.

72 National Australia Bank, *Submission 63*, p. 3.

73 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)

74 Ms Susan McGrath, National Policy Manager, COTA Australia, *Committee Hansard*, 19 February 2016, p. 4.

75 Mr Ian Yates, Chief Executive, COTA Australia, *Committee Hansard*, 19 February 2016, p. 5.

> women on the age pension, although they do not affect the top 20 per cent who do not receive the age pension. Encouragement to do paid work in retirement may be of particular importance for women who have long life expectancies.[76]

4.75 Mr Yates explained that New Zealand has a significantly higher mature age workforce participation rate than Australia.[77] Professor Stewart similarly informed the committee that New Zealand has significantly higher workforce participation rates among mature-aged workers aged between 55 and 69 than Australia. She explained:

> Labour force participation among men aged 65 to 69 is 33 per cent in Australia but is 15 percentage points higher in NZ, at 47 per cent. Among women the corresponding figures are 20 per cent in Australia and 34 per cent in NZ, a difference of 14 percentage points. The Australian figures are very close to the OECD averages, but the NZ figures show there is considerable room for increase.[78]

4.76 In New Zealand, the only criterion for the public age pension is age (65 years); unlike Australia, the New Zealand pension is not means tested. Instead:

> New Zealand has a relatively high universal basic pension which is taxed 'from the first dollar' in the personal income tax, so that a net pension is paid. The NZ universal pension is taxed at a marginal tax rate of 10.5 per cent or 17.5 per cent.[79]

4.77 Professor Stewart noted that it seems likely that the higher rates of mature age workforce participation in New Zealand are the result of its pension system model.[80]

Carer payment 25-hour rule

4.78 Carers Australia highlighted the fact that the current '25 hour rule' for Carer Payment recipients restricts their capacity to remain engaged with the workforce while caring.[81] Paid employment or unpaid voluntary work does not affect the carer's qualification for the Carer Payment, except when the cessation of care to undertake the paid employment or voluntary work (including the carer's travel time) exceeds 25 hours per week.[82] Carers Australia argued for a more flexible approach where

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76 Professor Miranda Stewart, Tax and Transfer Policy Institute, Australian National University, *Submission 78*, p. 7.

77 Mr Ian Yates, Chief Executive, COTA Australia, *Committee Hansard*, 19 February 2016, p. 7.

78 Professor Miranda Stewart, Tax and Transfer Policy Institute, Australian National University, *Submission 78—Attachment 1*, p. 12.

79 Professor Miranda Stewart, Tax and Transfer Policy Institute, Australian National University, *Submission 78—Attachment 1*, p. 11.

80 Professor Miranda Stewart, Tax and Transfer Policy Institute, Australian National University, *Submission 78—Attachment 1*, pp. 11–12.

81 Carers Australia, *Submission 39*, p. 6.

82 Department of Social Security, '3.6.4.70 Changes to Carer Situation—Effect on CP Qualification Guide to Social Security Law Version 1.220', http://guides.dss.gov.au/guide-social-security-law/3/6/4/70 (accessed 4 April 2016).

carers could engage in employment, education and training under certain circumstances. Ms Anna Morrison, Carers Australia, explained:

> The advantage of that is either that you keep your toe in the water, if it is about maintaining some attachment to the workforce, or for someone that has been caring for 10 or 15 years and has been on carer payment it is an opportunity to start thinking: 'Right, what's going to happen when all of this ends and I am back on Newstart allowance? How can I start to get myself job ready? How can I update my skills? Can I get any work experience?'[83]

Committee view

4.79 The committee considers that increasing older women's workforce participation will improve the financial circumstances of many women approaching retirement, enabling them to continue saving. The committee considers that programs such as Restart should be reviewed to ensure they are providing the most effective assistance to mature workers. 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.

Recommendation 7

4.80 The committee recommends the Australian Government investigate further the interaction between means testing of the Age Pension and mature age workforce participation.

83 Ms Anna Morison, Senior Policy Officer, Carers Australia, *Committee Hansard*, 19 February 2016, p. 17.

Chapter 5

Australia's retirement income system

5.1 A number of submissions recommended that the Australian Government should undertake a comprehensive review of the retirement income system, including the interrelationship between the social security, taxation and superannuation systems.[1] This chapter discusses issues raised about the broader retirement income system, including: the need for gender analysis of proposed policy changes; the apportionment of risk under existing arrangements; determining benchmarks for adequate retirement income; mechanisms to measure and assess changes; and valuing unpaid care in the retirement income system.

Calls for a comprehensive review

5.2 COTA Australia called for a holistic review of the retirement incomes system, recommending that the government commission an independent chair and expert members to conduct the review. It argued that the review should include a public engagement process involving key stakeholders. COTA Australia argued that the review should 'cover pensions and allowances, all aspects of superannuation policy (including the taxation treatment of superannuation assets and income), issues affecting mature age workforce participation, housing and the costs associated with aged care and health in older age'.[2]

5.3 ACOSS noted that many stakeholders have been calling for a comprehensive review of the retirement income system for some time. ACOSS argued that any review should include careful consideration of superannuation tax concessions, setting an appropriate income target for superannuation purposes, and the 'longer term structure of the Age Pension, including the rate, income and assets tests, and the interaction with other income support payments'.[3] Noting that living standards and economic security in retirement do not rely on income alone, ACOSS also made the point that any retirement income review should also consider the significance of universal and affordable basic health and aged care services; and secure and affordable housing.[4]

5.4 National Seniors also called for a comprehensive review to:

> …ensure that the income, taxation, superannuation and social security systems are working together to maximise the retirement incomes of all Australians, particularly women. This should involve modelling of the

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1 See for example, National Seniors Australia, *Submission 62*, p. 2; COTA Australia, *Submission 86*, p. 4; Industry Super Australia, *Submission 74*, p. 4.

2 COTA Australia, *Submission 86*, p. 4.

3 Australian Council of Social Service, *Submission 61—Attachment 1*, pp. 4–5, 6.

4 Australian Council of Social Service, *Submission 61—Attachment 1*, p. 16.

> various policy options to ensure that the impact of any changes on individuals, households and the economy can be determined.[5]

5.5 Industry Super Australia considered there was an urgent need for a dedicated, cross-partisan review of all components of the retirement income system, including the social security, taxation and superannuation policy settings. Industry Super Australia also noted that measures to improve economic security for women should be considered as part of this review, to ensure they improve rather than negatively affect women's outcomes.[6]

Gender analysis of retirement policy

5.6 COTA Australia considered that a retirement income system review should embed in its goals and methodology an explicit recognition of the diversity of experience and outcomes in retirement incomes for different groups in society, particularly but not restricted to women.[7] It supported the findings of the OECD's 2012 report, *Closing the Gender Gap*, which called for gender equality to be embedded in public policy, including through gender disaggregated data collection and analysis, and outlining a program of action to achieve better outcomes. As such, COTA Australia recommended:

> Although the Australian Government has made significant progress over a long period of time, it still needs to do more to develop, monitor and evaluate public policies, such as those impacting on retirement incomes, using a gender lens, to achieve more effective and fairer outcomes. This includes:
>
> - Strengthening the capacity, skills and mechanisms for regular impact monitoring and evaluation of gender initiatives, including the capacity for the collection and analysis of relevant gender-disaggregated data across all policy areas;
> - Incorporating gender impact assessments in the design, implementation and evaluation of laws, policies, regulations, programs and budgets in a systematic and comprehensive way;
> - Strengthen incentives as well as compliance and accountability measures to make the implementation of gender equality and mainstreaming initiatives across government more effective.[8]

5.7 The AIST also called for the application of a gender lens when assessing policy, in particular when assessing superannuation policy.[9] The NFAW also supported systematic and comprehensive review of the retirement income system, with particular emphasis on addressing the issue of an aging population from a gender

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5 National Seniors Australia, *Submission 62*, p. 2.

6 Industry Super Australia, *Submission 74*, p. 44.

7 COTA Australia, *Submission 86*, p. 4.

8 COTA Australia, *Submission 86*, p. 4.

9 Australian Institute of Superannuation Trustees, *Submission 45*, p. 4.

equity viewpoint. It stated that 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'.[10]

Managing risks

5.8 The Women and Work Research Group (WWRG) noted that while the Age Pension serves to socialise the risks of old age, the other two pillars of the retirement income system—compulsory superannuation and voluntary savings—are private.[11]

5.9 Australia's superannuation system is unique as the system is based on defined contributions rather than defined benefit accounts. Professor Siobhan Austen, Women in Social Economic Research (WiSER), Curtin University, explained:

> Defined contributions have this particular feature that the money is owned by the person whose superannuation account it is. Past the preservation age, they can access that money and make decisions about its use—take it as a lump sum or convert it into an annuity of one type or another.[12]

5.10 Mr Ian Yates, COTA Australia, observed that Australia's emphasis on defined contributions rather than defined benefits arrangements mean Australia's retirement income system tends to individualise risk. He explained further that Australia has a system that puts all the risks, a combination of 'investment and recycle risk', on the individual. Mr Yates cited the current inflation risk which, according to Mr Yates, has 'not been a heavy issue'; 'major event risk', which is 'the potential that I will have a major health issue or need aged care and what if I do not have resources what am I going to be able to do'; and longevity risks. He explained:

> All of those risks in our system, with the exception of the last, where government carries some of it through the pension system, are left to the individual to carry. As we think about our retirement income system going forward we need to think about ways that we can assist individuals to manage that risk.[13]

5.11 Professor Austen noted that countries such as Canada and the Netherlands, which have defined benefits systems, perform much better than Australia in terms of old age poverty. She explained that the Netherlands provides an interesting example as:

> …they have got these defined benefits systems, a lot of the risks are pooled and there is a lot more centralised control over the design of the pensions that are structured for participants, and quite often those schemes have things like spousal benefits. There is greater regulation of what people can

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10 National Foundation for Australian Women, *Submission 14*, p. 2.

11 Women and Work Research Group, *Submission 76*, p. 2.

12 Professor Siobhan Austen, WiSER, Curtin University, *Committee Hansard*, 19 February 2016, p. 29.

13 Mr Ian Yates, Chief Executive, COTA Australia, *Committee Hansard*, 19 February 2016, p. 5.

> do with their pot of money that they have accumulated through superannuation contributions.[14]

5.12 COTA Australia recommended that its proposed retirement income system review should examine ways to mitigate the risks the Australian system and policies place on the individual.[15]

Adequacy of retirement incomes

5.13 Ms Mary Delahunty, HESTA, argued that the conversation around the superannuation system, and the retirement income system more broadly must 'come back to that basis 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'.[16]

Measuring adequacy

5.14 ACOSS called for the establishment of an income benchmarking commission. The proposed commission, an independent statutory expert body, would be required:

> …to report and make recommendations to the Parliament every five years on the adequacy and indexation of social security payments, to prevent poverty and ensure that payments keep pace with increases in the cost of living and improvements in community living standards.[17]

5.15 ACOSS recommended that the role of the proposed commission should include developing benchmarks for the adequacy of retirement incomes to inform policy on public support through the superannuation system as well as social security payments, including:

> - income targets for compulsory saving for retirement (transfers of individual income from working life to retirement) taking account of the relative living standards of typical low and middle income households before and after retirement; and
> - income targets for public support through the tax system for voluntary saving for retirement (transfers between taxpayers to support retirement income), taking account of typical incomes provided by pensions and compulsory superannuation, and typical living standards among taxpayers across all age groups.[18]

5.16 A recent report from the Centre for Applied Policy in Positive Ageing (CAPPA) outlined the problems that arise when trying to determine the best way to measure retirement income adequacy. It stated:

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14 Professor Siobhan Austen, *Committee Hansard*, 19 February 2016, p. 29.

15 COTA Australia, *Submission 86*, p. 4.

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

17 Australian Council of Social Service, *Submission 61—Attachment 1*, p. 8.

18 Australian Council of Social Service, *Submission 61—Attachment 1*, p. 8.

> Among the many contested features of Australia's retirement income system is how much money a person needs to get by. What a person 'needs' is inherently subjective, depending on personal values and informed by a person's income and spending patterns before retirement. What type of lifestyle the tax and transfer system should support is open to debate. Beyond alleviating poverty, what is the point at which the system is aiming? [19]

5.17 There are two main approaches to addressing adequacy in retirement incomes: income replacement and 'minimum adequate retirement income'. These approaches are discussed further below.

Income replacement

5.18 Income replacement measures retirement income as a percentage of pre-retirement income. The principle behind this measure is that 'a person's income in retirement should be a reasonable proportion of their pre-retirement wages'.[20]

5.19 ACOSS observed that any income replacement benchmark should take into account higher housing and child care costs during a working life. It noted:

> It makes no sense to require people to save (reduce current consumption) for their retirement if their current living standards are lower than their expected living standard after they retire.[21]

Minimum adequate retirement income

5.20 An alternative approach to income replacement for setting retirement income targets is to set as a benchmark 'minimum living standards' above poverty levels for different types of retired households.[22] ACOSS argued that setting minimum adequate retirement income as a benchmark provides a 'better way to set a "ceiling" for the value of tax concessions for superannuation, since few would support taxpayer subsidies for people to achieve a living standard which is considered "luxurious"'.[23]

5.21 The Association of Superannuation Funds of Australia (ASFA) has developed two income standards—'modest' and 'comfortable'. According to the ASFA standards:

> A modest retirement lifestyle is considered better than the Age Pension, but still only able to afford fairly basic activities.
>
> A comfortable retirement lifestyle enables an older, healthy retiree to be involved in a broad range of leisure and recreational activities and to have a good standard of living through the purchase of such things as: household goods, private health insurance, a reasonable car, good clothes, a range of

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19 Emily Millane, *Getting the Measure of the Problem: Retirement income standards and real adequacy*, CAPPA Centre for Applied Policy in Positive Ageing, November 2015, p. 5.

20 Emily Millane, *Getting the Measure of the Problem: Retirement income standards and real adequacy*, CAPPA Centre for Applied Policy in Positive Ageing, November 2015, p. 9.

21 Australian Council of Social Service, *Submission 61—Attachment 1*, p. 18.

22 Australian Council of Social Service, *Submission 61—Attachment 1*, p. 18.

23 Australian Council of Social Service, *Submission 61—Attachment 1*, p. 19.

electronic equipment, and domestic and occasionally international holiday travel. [24]

5.22 It is important to note that both the modest and comfortable retirement standards assume that the retirees own their own home outright and are relatively healthy.[25]

5.23 ASFA calculates the lump sums required for a comfortable retirement assuming 'that the retiree/s will draw down all their capital, and receive a part Age Pension', as follows:

Category	**Savings required at retirement**
Comfortable lifestyle for a couple	$640,000
Comfortable lifestyle for a single person	$545,000

5.24 The superannuation balances required to achieve a modest retirement are as follows:

Category	**Savings required at retirement**
Modest lifestyle for a couple	$35,000
Modest lifestyle for a single person	$50,000

5.25 ASFA notes that the 'lump sums needed for a modest lifestyle are relatively low due to the fact that the base rate of the Age Pension (plus various pension supplements) is sufficient to meet the expenditure required at this budget level'.[26]

5.26 Dr Diana Warren, AIFS, expressed the view that policy should be targeted at people at the low end of the retirement standards. She noted there is a big gap between the modest and comfortable ASFA retirement standards and the 'evidence from the HILDA survey shows that most people are not able to afford that comfortable standard anyway'.[27]

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24 Association of Superannuation Funds of Australia, 'ASFA Retirement Standard', 2015, p. 3, available at http://www.superannuation.asn.au/resources/retirement-standard (accessed 18 April 2016).

25 Association of Superannuation Funds of Australia, 'ASFA Retirement Standard', 2015, p. 3, available at http://www.superannuation.asn.au/resources/retirement-standard (accessed 18 April 2016).

26 Association of Superannuation Funds of Australia, 'ASFA Retirement Standard', 2015, p. 4, available at http://www.superannuation.asn.au/resources/retirement-standard (accessed 18 April 2016).

27 Dr Diana Warren, Australian Institute of Family Studies, *Committee Hansard*, 18 February 2016, p. 4.

5.27 The Grattan Institute cautioned against adopting the ASFA comfortable retirement standard as the benchmark for what the retirement incomes system should achieve. It stated:

> …the ASFA comfortable standard entails an 'affluent' lifestyle in retirement that is more luxurious than what most households achieve during their working lives. Such a high living standard is an inappropriate benchmark for the retirement incomes system. The fact that many households aspire to this level of retirement income is irrelevant. We would all like to be rich. Given that average living standards before retirement are less than the ASFA comfortable benchmark, the only way living standards can reach this level in retirement is by many households living even less comfortably before retirement.[28]

5.28 ACOSS highlighted the importance of deciding what an adequate income target should be as a benchmark for developing and reviewing retirement income policies. It stated:

> Setting the appropriate income target for superannuation purposes is a core task yet to be undertaken through a sound public review of the retirement income system. Resolving this question is essential before designing the major structural changes required, which might then deliver greater stability and certainty for the system in the future.[29]

5.29 CAPPA's research found that widely used measures of retirement income adequacy, including the ASFA standard, do not properly consider the growing number of Australians either renting in retirement or still paying off their mortgage. It observed:

> The conversation has to include housing costs for the growing number of Australians who don't find themselves owning their home outright in retirement. This needs to inform both policy design and the public as they plan for retirement.
>
> …
>
> How well Australia prepares for an older society is determined in large part by the quality of policy design. This, in turn, is dependent on an accurate discussion around the real income needs in retirement which includes all groups of Australians, not just those fortunate enough to own their home.[30]

Measuring and assessing changes to the retirement income system

5.30 Women in Super recommended establishing an independent publicly-funded body to oversee and regulate superannuation.[31] In its view, such a body would reduce the number of changes and remove the focus on short-termism which 'currently

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28 Grattan Institute, *Submission 87*, p. 4.

29 Australian Council of Social Service, *Submission 61—Attachment 1*, p. 20.

30 Emily Millane, *Getting the Measure of the Problem: Retirement income standards and real adequacy*, CAPPA Centre for Applied Policy in Positive Ageing, November 2015, p. 18.

31 Women in Super, *Submission 50*, p. 21.

undermines the system and builds a level of mistrust, stress and uncertainty'.[32] The AIST also recommended developing a governance mechanism to assess progress on superannuation and to provide greater certainty and consumer confidence.[33]

5.31 Ms Sarah Saunders, National Seniors, emphasised the need for a clearly articulated retirement income strategy that is above politics and crosses portfolios. She maintained that Australians want certainty in the retirement income system. She stated:

> As a nation we cannot allow ad hoc, random changes to prop up budgets, as they undermine faith in the system for not just this generation of retirees, but younger people and women, who are not convinced that by the time they get to retirement the rules would not have changed and that it might have been better to put that money towards something else—for example, the asset test and taper rate changes that were announced in the 2015 budget—which people were only given 18 months' notice of—will, based on current deeming rates, see a single woman who has worked and saved living off less than the full age pension.[34]

5.32 Since 1992, almost every Federal Budget has contained changes to either the taxation of superannuation or the rules regarding voluntary contributions.[35] Ms Saunders shared an email from a National Seniors member that demonstrated the effect of constant changes within the retirement income system:

> Over the last four prime ministers, the concessional contribution limit has gone from $50,000 to $25,000 and then back to $35,000. I have just heard now on the ABC news that there is a proposal to reduce to $11,000 the amount that can be contributed annually to super...What a merry-go-round.[36]

5.33 Ms Catherine Nance, PwC Australia, outlined the need for monitoring and evaluating any changes to the superannuation system. She observed:

> There tends to be a lot of tinkering of the super system with no real assessment of whether it achieved anything or what it was ever meant to achieve. There are numerous examples in the past of changing tax in small ways where the cost would have far outweighed the revenues or any benefits. It would be nice if there was more rigour in the system going forward about measuring success versus objectives.[37]

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32 Women in Super, *Submission 50*, p. 21.

33 Australian Institute of Superannuation Trustees, *Submission 45*, p. 16.

34 Ms Sarah Saunders, Deputy Chief Executive, National Seniors Australia, *Committee Hansard*, 19 February 2016, p. 3.

35 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. 33.

36 Ms Sarah Saunders, Deputy Chief Executive, National Seniors Australia, *Committee Hansard*, 19 February 2016, p. 3.

37 Ms Catherine Nance, Partner, PwC Australia, *Committee Hansard*, 18 February 2016, p. 16.

5.34 Witnesses also raised concerns about changes to the Age Pension creating instability and uncertainty, which is discussed further in chapter 8.

5.35 Ms Nance suggested that the New Zealand model for reporting against their retirement policy objectives could be considered for Australia.[38] In New Zealand, the Retirement Commissioner is mandated under the *Superannuation and Retirement Income Act 2001*, to review retirement income policies every three years.[39] Ms Nance noted:

> There are different types of models, but I think it needs to be something like an independent agency that is reporting to parliament. The other thing would be a regulatory check that, before anything was changed, it was assessed as to what extent it was adding to those objectives, which would be helpful.[40]

5.36 The Financial Systems Inquiry did not consider that there was strong evidence that a publicly funded independent body to assess the superannuation system's performance and report on superannuation policy changes would significantly improve incomes. It also acknowledged that establishing and operating a new authority would involve costs to government.[41]

Committee view

5.37 The committee considers that the government needs to heed the call for less tinkering with all elements of the retirement income system, including both superannuation and the Age Pension. The committee believes there should be greater focus on determining the adequacy of retirement income and strategies to achieve this minimum level for all Australians. This determination should 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'.[42]

Recommendation 8

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

- **deliver a decent standard of living for both men and women in retirement;**

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38 Ms Catherine Nance, Partner, PwC Australia, *Committee Hansard*, 18 February 2016, p. 16.

39 New Zealand Commission for Financial Capability, 'Retirement Income Policy', http://www.cffc.org.nz/retirement/retirement-policy/ (accessed 4 April 2016).

40 Ms Catherine Nance, Partner, PwC Australia, *Committee Hansard*, 18 February 2016, p. 16.

41 The Australian Government the Treasury, *Financial System Inquiry: Final Report*, November 2014, p. 99.

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

- **take into consideration the interrelationship between the three pillars of the retirement income system—the Age Pension (including income and assets tests); the superannuation system (with particular reference to tax concessions); and private savings—as well as mature age workforce participation, housing, health and aged care;**
- **recognise the diversity of experience and outcomes in retirement incomes for different groups in society, particularly but not restricted to women;**
- **adequately assess and mitigate the risks placed on the individual;**
- **determine mechanisms for developing benchmarks for the adequacy of retirement incomes to inform future policy; and**
- **introduce mechanisms to measure and assess reforms to ensure they are meeting objectives.**

Valuing unpaid care

5.39 Many submissions highlighted the fact that unpaid care, which is still mostly undertaken by women, is not valued in the retirement income system. In particular, the superannuation system, which is tied to paid work, does not recognise that many women will take career breaks or work part-time to provide unpaid care to their children, partners, elderly parents and other family members. The Age Pension, which is not linked to paid employment, plays an important role in ensuring carers have access to a decent retirement income (the significance of the Age Pension is discussed further in chapter 8). A number of submissions urged the committee to consider potential mechanisms that would recognise and reward unpaid work in the retirement income system. The Victorian Women's Trust observed that:

> Over many decades, millions of Australian women have enjoyed less economic security than others for their roles as unpaid primary carers simply because our society has not validated their contribution and instituted formal strategies for adequate financial recompense.
>
> …
>
> Without efforts to come to terms with the issue of unpaid work, access to superannuation reinforces a social and economic divide between the retirement incomes of those who work and the retirement incomes of those in unpaid work.[43]

5.40 Carers Australia argued that assisting carers to increase their superannuation savings should be viewed in the context of estimates by Deloitte Access Economics that the replacement cost of informal care was $60.3 billion in 2015.[44]

Carer credits

5.41 A number of submissions supported recommendations to further investigate the introduction of carer credits made in the Human Rights Commission's 2013 report,

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43 Victorian Women's Trust, *Submission 33*, p. 3.

44 Carers Australia, *Submission 39*, p. 15.

Investing in care: Recognising and valuing those who care.[45] Carer credits were proposed as a potential mechanism to recognise and reward unpaid work in the retirement income system.[46]

5.42 The Queensland Nurses Union supported further investigation of carer credit systems that are used in other countries with social insurance-based public pension schemes such as the UK, Sweden, Canada, Finland and Germany. It noted:

> 'Carer credits' are a method of explicitly recognising in a country's pension system years spent providing unpaid care for a child or a family member with a disability, long term illness or frailty due to old age. In most instances, the state credits an individual's (notional) pension account while they are out of the workforce providing care. The value of the credits is sometimes linked to the earnings of the individual prior to leaving the workforce but in many cases is based on a proportion of a 'fictional' salary of the minimum wage or average earnings during periods of workforce absence.[47]

5.43 HESTA provided a number of international examples of how European countries are using caring credits as a mechanism to acknowledge the value of unpaid care in their various retirement income systems. It noted:

> Over the last two decades, Europe has seen a move from the reliance on social pensions—often called zero pillars by the World Bank – to a multi pillar approach with a contributory element. Social pillars are often more equitable for genders as they seek to equalise and do not carry a link to labour participation. The projected increase in elderly population rates and the decreasing birth rates puts pressure on the funding of both the zero and first pillar pensions and has caused many European nations to re-examine the financial sustainability of their systems.
>
> Redistribution is still a guiding principle of many European pension schemes and so there are many examples of mechanisms used to value the unpaid caring work, we have chosen a few to highlight that are not often quoted. [48]

5.44 Some of the examples of the various European approaches provided by HESTA included:

- Belgium—qualification for a public pension in Belgium is related to time in the labour force. To recognise the role of an unpaid carer in this system they count 3 years caring for children as 'gainful employment' and make a contribution matching this to the numerator of the benefit formula.

45 Australian Human Rights Commission, *Submission 36*, p. 4.

46 See for example, WiSER - Curtin University, *Submission 6*, p. 14; HESTA, *Submission 59*, p. 13; The McKell Institute, *Submission 53*, p. 8.

47 The Queensland Nurses' Union, *Submission 42*, p. 5.

48 HESTA, *Submission 59*, pp. 11–12.

- France—the French system combines a private sector with two tiers and a public scheme with a safety net element. For children born or adopted since 2010, a credit is given to the mother in the public scheme—this is regardless of her labour participation. Periods out of work or working part-time caring for a child are also credited in the public and occupational pension schemes as if the parent had earned the minimum wage.
- United Kingdom—recent changes to the system in the United Kingdom have strengthened the recognition for carers. The public scheme has two tiers, one flat and one earnings based. There is a large and growing private pension sector. Both tiers of the public pension provide protection for periods out of paid work caring for others. This covers those not in paid work at all but also those earning below a lower earnings limit because of their caring duties. A system of weekly National Insurance credits are awarded and count towards a basic state pension and second pension entitlement.[49]

Superannuation Guarantee for carers allowance and paid parental leave

5.45 Carers Australia supported previous recommendations by the Australian Human Rights Commission to:

> Specifically recognise and reward unpaid caring work in the retirement income system by providing superannuation payments for those on Carer Payment, Parenting Payments and recipients of the government-funded Paid Parental Leave.[50]

5.46 The Age and Disability Discrimination Commissioner expressed a preference for superannuation contributions rather than carer credits to be paid at the time of retirement. She explained:

> My own view is that it is better to get the payment as you go along. If you were to go out of the workforce for three years to care, I think it would be more helpful that every month you saw a certain amount—it would be a small amount, but a certain amount—going into your superannuation account. That is my own preference, rather than waiting till the retirement point, with a system of credits. But I do think the carer credit idea could be further investigated. The problem with delaying benefits up to the point of retirement is that we know, particularly with our young workers, that people do not think in a very long-term way.[51]

Superannuation Guarantee for carers allowance

5.47 Many submissions recommended including superannuation payments in the Commonwealth Carer Payment.[52] The Hon Susan Ryan AO, Age and Disability

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49 HESTA, *Submission 59*, pp. 11–12.

50 Carers Australia, *Submission 39*, p. 15.

51 The Hon Susan Ryan AO, Age and Disability Discrimination Commissioner, Australian Human Rights Commission, *Committee Hansard*, 12 February 2016, pp. 5–6.

52 See for example, Australian Human Rights Commission, *Submission 36*, p. 7; Financial Planning Association of Australia, *Submission 49*, p. 3; Carers Australia, *Submission 39*, p. 15.

Discrimination Commissioner, advocated the payment of the superannuation guarantee to people receiving carer allowance. She noted:

> Carer allowance is quite a low allowance, as you would all be aware, but there is no SG. Again, you are in the workforce, you have your SG going in, things are going well, but you have to leave to care. Not only do you lose your salary and go to a very reduced carers payment, but you have no SG. If parliament could see fit to extend the payment of SG in that case, I think that would be a significant way to keep women buoyant, if you like, in the retirement savings area. It would also encourage in them the possibility that they could return to work, because they can see their super growing, whereas the alternative is either to go on Newstart, if they are under 65—now moving up—or to wait until they are 65 and go on the age pension. The committee will be aware that the majority of Australians on the full age pension are women and, within that majority, the majority of those women are single women—that is, women without partners.[53]

5.48 Mr Daley outlined the ACTU's view on recognising unpaid care by providing the superannuation contributions to carers. He stated:

> …there are a number of people who, across the entire spectrum of Australian society, are not receiving adequate contributions to their super even though they exist substantially in unpaid work these days. We think that the carers area is one that simply stands out as an area of worthy significance at the moment. We would identify that as an area where we think an early move should be made in respect of payments to ensure that people who act as carers receive some payment towards their superannuation. But we also think that consideration is needed across a wide range of areas, particularly in respect of workers compensation, long-term disability payments and the like. I understand that these things are a cost to the government, but there is a balance between what is right and fair and proper in the payment of money to people in those situations.[54]

Superannuation Guarantee for paid parental leave

5.49 Many submissions and witnesses supported including superannuation payments in Commonwealth Paid Parental Leave (PPL).[55]

5.50 COTA Australia submitted that the exclusion of superannuation payments on PPL highlighted the 'gendered cultural and structural bias of the superannuation system'. COTA Australia considered that 'it is highly anachronistic, unfair and

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53 The Hon Susan Ryan AO, Age and Disability Discrimination Commissioner, Australian Human Rights Commission, *Committee Hansard*, 12 February 2016, p. 2.

54 Mr Daley, Australian Council of Trade Unions, Capital Stewardship Officer, *Committee Hansard*, 19 November 2016, p. 20.

55 See for example, Australian Human Rights Commission, *Submission 36*, p. 6; Australian Institute of Superannuation Trustees, *Submission 45*, p. 6; COTA Australia, *Submission 86*, p. 11.

inefficient to view Parental Leave as an illegitimate break from working life, with the short and long term costs of it largely to be carried by individual women'.[56]

5.51 The Financial Services Council noted that the government's initial PPL policy included superannuation. It noted that the current PPL scheme could be amended to include a superannuation component at a much lower cost than the government's original policy.[57]

5.52 The McKell Institute, an independent, not-for-profit, public policy institute, supported providing the Superannuation Guarantee (SG) on Commonwealth PPL, arguing that PPL should be considered no differently to income generated from paid employment. It estimated the cost of applying the Superannuation Guarantee to PPL in 2015–16 as follows:

> The current paid parental leave scheme is expected to cost government \$2.1 billion over 2015–16. This is excluding any superannuation payments as part of the PPL scheme. However, if government paid maternity leave was inclusive of the 9.5% Superannuation Guarantee, the cost to government would increase by approximately \$199.5 million in 2015-16, bringing the total forecast expenditure to approximately \$2.3 billion over 2015–16. Such a contribution would go a long way to ensuring the 8 month gap with no super contributions by many new mothers is partially offset.[58]

5.53 The ACTU argued that not applying the SG to PPL 'unfairly discriminates against primary carers (predominantly women) and is a small, though still significant, factor contributing to the discrepancy between male and female retirement savings'.[59]

5.54 The CPSU noted that applying the SG to paid parental leave could have a significant effect on women's retirement savings. It noted that 'even just six months of superannuation on the paid parental leave of a 35-year-old woman earning \$50,000 could add an extra \$10,000 to her final balance.'[60]

5.55 Industry Super Australia's modelling indicated that paying the SG on paid parental leave for a woman who earns average female earnings and follows a typical disrupted pattern of participation in paid work, 'will increase retirement savings by 1.7 per cent, and will boost overall retirement income (including Age Pension) by 0.4 per cent'.[61]

Committee view

5.56 The committee supports the view that the retirement income system should better acknowledge and value unpaid care. Carers who take extended breaks from the

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56 COTA Australia, *Submission 86*, p. 11.

57 Financial Services Council, *Submission 57*, p. 3.

58 The McKell Institute, *Submission 53*, p. 14.

59 Australian Council of Trade Unions, *Submission 69*, p. 10.

60 Community and Public Sector Union, *Submission 55*, p. 17.

61 Industry Super Australia, *Submission 74*, p. 42.

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.

Recommendation 9

5.57 The committee recommends that the superannuation guarantee should be paid on the Commonwealth Paid Parental Leave Scheme.

5.58 The committee recommends that mechanisms for improving the retirement incomes of carers be examined.

Chapter 6

Superannuation

6.1 As discussed in chapter 2, the problem of economic insecurity for women in retirement is starkly illustrated by the gender gap in superannuation savings (hereafter the 'superannuation savings gap'), which currently stands at 46.6 per cent at the point of retirement. 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.

6.2 This and the following chapter explore a range of superannuation policy issues and suggest several policy changes that directly relate to the structure and operation of the superannuation system. This chapter considers:

- whether, as part of the current push to enshrine the purpose of superannuation in legislation, explicit reference might be made to women's retirement incomes;
- the fairness and efficiency of the current distribution of superannuation tax concessions, with specific reference to how the distribution of those concessions affects women's retirement incomes, and possible reforms in this regard;
- policy proposals in relation to the compulsory superannuation system, including:
  - retaining the Low Income Superannuation Contribution (LISC);
  - accelerating the increase in the superannuation guarantee (SG) rate to 12 per cent, and possibly increasing the SG rate higher still;
  - requiring that employers pay female employees a higher SG rate;
  - removing exemptions from the SG, including the exemption from the requirement for employers to make SG payments to an employee earning less than $450 in a given month; and
  - extending the SG to cover self-employed people; and
- if several other structural and operational reforms might help close the superannuation savings gap.

6.3 While the policy issues suggested in this chapter are important, the committee reiterates the need to address underlying social, economic and cultural biases that give rise to the retirement income gap. In particular, the committee again notes the need to address the gender wage gap and gendered workforce participation patterns. Without efforts to address underlying structural biases, as discussed elsewhere in this report, the policy directions suggested in this chapter can only make a difference at the margin. The committee therefore suggests that the recommendations made in this chapter regarding the superannuation system be read in conjunction with the broader structural changes recommended elsewhere in this report.

6.4 The committee also emphasises the importance of considering superannuation policy holistically alongside Age Pension policy. Issues relating to the Age Pension are considered in chapter 8.

Summary of the superannuation savings gap

6.5 As noted in the terms of reference and discussed in chapter 2, the average superannuation balance of women at retirement is about half that of men.[1] The superannuation savings gap is driven by a combination of interrelated factors, all of which have been explored in previous chapters, including:

- women's lower workforce participation rate and disproportionate representation in part-time and casual employment;
- occupational and industrial segregation;
- the gender pay gap;
- pregnancy related workplace discrimination; and
- the disproportionate amount of unpaid caring work undertaken by women.

6.6 There was a general recognition by inquiry participants that these underlying factors would need to be addressed to close the superannuation savings gap. The Australian Institute of Family Studies (AIFS), for instance, made the point that the superannuation savings gap is primarily a result of the gender wage gap, women taking longer periods out of paid employment, and the higher incidence of part-time work by women. The AIFS argued that as long as any of these three trends persist and superannuation contributions continue to be based on earnings, the superannuation savings gap will remain.[2]

6.7 At the same time, many inquiry participants, even while acknowledging the need to address broader structural biases, also discussed how the current structure and operation of the superannuation system reinforced the gender retirement savings gap, and outlined areas for possible reform. The ideas put forward by participants in this regard are considered below and in the next chapter.

Defining the objective of superannuation

6.8 Currently, the objective of the superannuation system is not set out in legislation, but is generally understood to be to provide income in retirement to

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1 Workplace Gender Equality Agency, *Submission 79*, p. 4.

2 Australian Institute of Family Studies, *Submission 18*, p. 13. A similar point was made by Mercer. See Ms Yolanda Beattie, Principle and Practice Leader, Diversity and Inclusion, Mercer Australia, *Committee Hansard*, 18 February 2016, p. 28.

substitute or supplement the Age Pension. The Financial System Inquiry (FSI) report recommended that the government:

> Seek broad political agreement for, and enshrine in legislation, the objectives of the superannuation system and report publicly on how policy proposals are consistent with achieving these objectives over the long term.[3]

6.9 In its response to the FSI report, released on 20 October 2015, the government agreed to the FSI's recommendation that the objective of the superannuation system should be enshrined in legislation.[4] The government also advised that it planned to develop and introduce legislation to this end by the end of 2016.[5] On 9 March 2016, the Assistant Treasurer, the Hon Kelly O'Dwyer MP, released a discussion paper on the issue to start a public consultation process, and called for written submissions.[6]

6.10 Some inquiry participants submitted that the stated objective of the superannuation system and the measures by which the objective is assessed should include references to gender. For example, the AIST reasoned:

> Both transparent objectives for the superannuation system and agreed KPIs should include a gender lens—recognising the needs of women—as well as a methodology for assessing the impact of both current and proposed policies through a gender lens.[7]

6.11 Mrs Buckley, Women in Super, spoke firmly in favour of enshrining the objective for the superannuation system in legislation. Asked if this objective should include specific reference to women, Mrs Buckley responded:

> Yes, definitely. In every submission that we have done, including our submission to the FSI, we would have stated that we believe that any policy measure, whether that is tax or otherwise, should have a gender analysis. It is something that the EU has mandated as compulsory.[8]

Committee view

6.12 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

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3 Treasury, *Financial System Inquiry: Final Report*, November 2014, p. 95.

4 Treasury, *Financial System Inquiry: Final Report*, November 2014, p. 12.

5 Treasury, *Financial System Inquiry: Final Report*, November 2014, p. 6.

6 Treasury, webpage, 'Objective of Superannuation', 9 March 2016, http://www.treasury.gov.au/ConsultationsandReviews/Consultations/2016/Objective-of-superannuation, accessed 13 April 2016.

7 Australian Institute of Superannuation Trustees, *Submission 45*, p. 5.

8 Mrs Sandra Buckley, Executive Officer, Women in Super, *Committee Hansard*, 6 October 2015, p. 20.

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.

6.13 Furthermore, arising from the earlier discussion of the integrated nature of Australia's retirement system, the committee considers that any objective for superannuation should acknowledge its interdependency with the other pillars, including the age pension (see chapter 8).

Recommendation 10

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

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

Taxation of superannuation

6.16 A wide range of participants in the inquiry contended that current superannuation tax concessions are poorly targeted and serve to reinforce the gender retirement savings gap.[9] The committee heard that the inequitable distribution of tax concessions on superannuation contributions and earnings not only favours high income earners and high wealth households generally, but also disproportionately disadvantages women.

6.17 For example, the National Foundation for Australian Women suggested that the superannuation system was not currently 'fit for purpose', with tax concessions overly generous and misdirected. The winners in this system were generally higher income men, whereas women on low-incomes or reliant on the Age Pension lose out.[10] Similarly, ISA argued that:

> …tax concessions on super operate in a regressive way, so that very significant benefit is derived at the top end—mainly male income-earners.

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9 In a broad sense, the evidence received by the committee in this regard echoed the finding of the Financial Systems Inquiry Final Report (November 2014) that tax concessions in the superannuation system 'are not well targeted at improving retirement incomes'. Treasury, *Financial System Inquiry: Final Report*, November 2014, p. 90.

10 Dr Helen Hodgson, Member, Social Policy Committee, National Foundation for Australian Women, *Committee Hansard*, 19 November 2015, p. 36.

> Yet at the bottom end, where there is a great concentration of female workers, in fact there is a tax penalty for super contributions.[11]

6.18 ISA highlighted both the general inequity in the distribution of superannuation tax concessions and the gendered dimension of this inequity. According to ISA, of an estimated $30 billion in revenue foregone each year due to superannuation tax concessions, 35 per cent flowed to the top 10 per cent of income earners, whereas only 29 per cent flowed to the bottom 70 per cent. Moreover, ISA estimated that only 33 per cent of superannuation tax concessions went to women, meaning men receive about double the support through the tax system as women to build their superannuation balances.[12] ISA proposed a package of tax reforms to improve the efficiency and fairness of the superannuation system:

- Superannuation contributions tax reform: Taxing superannuation contributions at marginal rates, with a 25 per cent offset on the gross contribution, capped at $7,500 and paid to the superannuation fund.
- Contributions cap: A cap of $50,000 per year, with additional 'catch up' contributions allowed in limited circumstances (the concept of 'catch up' contributions is discussed in the next chapter).
- Superannuation earnings tax reform: Accumulation and retirement earnings taxed at 15 per cent, with all tax rebated for earnings below $50,000 per year in the retirement phase.[13]

6.19 Similarly, the ACTU argued that superannuation tax concessions originally designed to encourage people to save for their retirement were instead being used by high income earners to minimise their tax. To provide for greater equity in the superannuation system, the ACTU recommended progressive taxation of superannuation contributions, based on a taxpayer's marginal rate minus a rebate. It argued:

> Addressing the inequitable nature of current tax settings will improve women's retirement incomes, particularly for those on lower-incomes and increase incentives for women to contribute to their retirement savings by putting money into superannuation. It will also help generate revenues to help maintain the value of entitlements like the Age Pension that support women in retirement.[14]

6.20 Rice Warner also set out some options for reforming the taxation of superannuation, with the intent of making the system fairer and simpler:

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11 Ms Robbie Campo, Deputy Chief Executive, Industry Super Australia, *Committee Hansard*, 6 October 2015, p. 10.

12 Industry Super Australia, *Submission 74*, p. 23.

13 Industry Super Australia, *Submission 74*, p. 35.

14 ACTU, *Submission 69*, p. 7. See also Ms Gerardine Kearney, President, Australian Council of Trade Unions, *Committee Hansard*, 19 November 2015, p. 17.

> The tax system is inequitable in its treatment of superannuation. In our submission to the tax white paper task force we suggest that a 20 per cent rebate be applied in personal tax returns for all concessional contributions made. This will be more beneficial than maintaining the LISC proposal, which is favoured by many in the superannuation industry today.
>
> We have also suggested a tax on fund earnings of 12 per cent for the accumulation and pension phases. It has a number of advantages. Set at that level, it would raise an extra $400 million of revenue in the first year, which could be diverted to fund some of the other solutions we and others have proposed.[15]

6.21 The Grattan Institute reiterated recommendations made in its recent report on superannuation taxation reform, *Super tax targeting*. These recommendations included limiting pre-tax concessional contributions to $11,000 per year, capping lifetime contributions from post-tax income to $250,000, and taxing superannuation earnings in retirement at 15 per cent. It contended that current superannuation tax concessions:

> …provide the greatest boost to high-income earners that don't need them. Most of these high-income earners are men. Better targeting of super tax breaks could free up revenue to provide more targeted support for retirement incomes for those that need it most, and to reduce marginal effective tax rates for low- and middle-income earners to encourage greater female workforce participation.[16]

6.22 A large number of other submissions and witnesses also called for reforms to current superannuation taxation arrangements. While recommendations in this respect varied, there was broad agreement that greater equity in the distribution of superannuation tax concessions would help address the superannuation savings gap.[17]

Committee view

6.23 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

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15 Mr Michael John Rice, CEO, Rice Warner, *Committee Hansard*, 19 November 2015, p. 43.

16 Grattan Institute, *Submission 87*, p. 2.

17 For example, Australian Council of Social Service, *Submission 61 (Attachment 1)*, pp. 46–47; Rice Warner, *Submission 82*, p. 8; Darebin City Council, *Submission 19*, p. 3; AI Group, *Submission 47*, pp. 6–7; Ms Pauline Vamos, Chief Executive Officer, Association of Superannuation Funds of Australia, *Proof Committee Hansard*, 6 October 2015, p. 33; Dr Cassandra Goldie, Chief Executive Officer, Australian Council of Social Service, *Proof Committee Hansard*, 12 February 2016, p. 33; Ms Catherine Nance, Partner, PricewaterhouseCoopers Australia, *Proof Committee Hansard*, 18 February 2016, p. 16; Mr Ian Yates, Chief Executive, COTA Australia, *Proof Committee Hansard*, 19 February 2016, pp. 6–7; Mr David Robert Richardson, Senior Research Fellow, The Australia Institute, *Proof Committee Hansard*, 19 February 2016, p. 13.

are overrepresented in lower-income, lower-wealth cohorts, the committee considers 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.

6.24 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.

Recommendation 11

6.25 The committee recommends that superannuation tax concessions be re-targeted to ensure that they are more equitably distributed and assist people with lower superannuation balances to achieve a more comfortable retirement.

Compulsory superannuation

Low Income Superannuation Contribution (LISC)

6.26 The LISC is a government superannuation payment of up to $500 made to the accounts of people earning $37,000 or less per year.[18] Individuals earning less than $37,000 per year would pay no income tax on the first $18,200 of their income, and 19 per cent tax on the next $18,800 of income, up to the $37,000 threshold. The LISC addressed the flaw in the superannuation system where the 15 per cent contributions tax paid by individuals on their superannuation contributions is higher than the rate of tax if that money were paid as income.[19]

6.27 In effect, it provides for a refund to the superannuation accounts of low-income earners of the 15 per cent tax paid on concessional superannuation contributions. The LISC is intended to ensure that low income earners' superannuation contributions are not taxed at a higher rate than their take home pay.[20] Without the LISC, as ISA explained, low income workers would effectively pay a 'tax penalty' on their 'concessional' contributions:

> The tax penalty works because tax on super contributions is taxed at 15 per cent, and the tax that applies on contributions is higher than the tax that applies to people's take-home pay. So it is about the interaction between the tax-free threshold and the first tax bracket with the contributions. The low-income super contribution was a measure that was

18 ATO, webpage, 'Low income super contribution', https://www.ato.gov.au/Individuals/Super/In-detail/Growing/Low-income-super-contribution/, accessed 8 April 2016.

19 Financial Services Council, *Submission 57*, p. 5.

20 Association of Superannuation Funds of Australia, *Submission 84*, p. 5.

> designed to return that differential between super tax and your marginal tax rate.[21]

6.28 The LISC was repealed by Schedule 7 of the *Minerals Resource Rent Tax Repeal and Other Measures Act 2014,* and will no longer be available after 30 June 2017. Many inquiry participants argued that the abolition of the LISC was a retrograde step that would make the tax treatment of superannuation contributions even more regressive than is currently the case.

6.29 Women are statistically more likely than men to benefit from the LISC. The Australia Institute observed that while women constituted 45 per cent of all taxpayers, they made up 57 per cent of those who received the LISC.[22] Similarly, Mercer advised the committee that of the 3.6 million Australians who benefited from the LISC, 2.2 million are women.[23] Underlining the importance of the LISC for women's superannuation balances, ISA noted that approximately one in two working women receive a benefit from it.[24]

6.30 The evidence received during the inquiry was overwhelmingly in favour of retaining the LISC beyond 30 June 2017, or otherwise ensuring that lower-income earners did not pay more tax on their superannuation contributions than on their ordinary income.[25] For example, BT Financial Group submitted that the LISC helped level the playing field for lower income earners, thus helping generate 'fairer outcomes for the community, and better retirement outcomes for more Australians.'[26]

6.31 ISA described retaining the LISC as a 'policy no-brainer', given the 'very significant impact' the measure had on those who receive it.[27] Women in Super also

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21 Ms Robbie Campo, Deputy Chief Executive, Industry Super Australia, *Committee Hansard*, 6 October 2015, p. 10.

22 The Australia Institute, *Submission 8,* p. 9.

23 Mercer, *Submission 22*, p. 8.

24 Ms Robbie Campo, Deputy Chief Executive, Industry Super Australia, *Committee Hansard*, 6 October 2015, pp. 10–11.

25 For example, in addition to the sources cited below, also see Australian Education Union, *Submission 26*, p. 9; National Seniors Australia, *Submission 62*, p. 27; National Australia Bank, *Submission 63*, p. 5; Association of Financial Advisors, *Submission 77*, p. 8; COTA Australia, *Submission 86*, p. 10; Grattan Institute, *Submission 87*, p. 4; Ms Annie Butler, Assistant Federal Secretary, Australian Nursing and Midwifery Federation, *Committee Hansard*, 19 November 2015, p. 3; Mrs Andrea Slattery, Managing Director/Chief Executive Officer, SMSF Association, *Committee Hansard*, 12 February 2016, p. 7; Ms Catherine Nance, Partner, PricewaterhouseCoopers Australia, *Committee Hansard*, 18 February 2016, p. 15.

26 BT Financial Group, *Submission 60*, p. 3.

27 Ms Robbie Campo, Deputy Chief Executive, Industry Super Australia, *Committee Hansard*, 6 October 2015, pp. 10–11, 13.

reported that the major outcome of the Women's Super Summit held in February 2014 was agreement on the need to fight to retain the LISC.[28]

6.32 HESTA told the committee that the LISC was the 'difference between a fair system and an unfair system for those earning under $37,000'. HESTA sought to provide the committee with some insight into what its removal would mean for many of HESTA's members, and used the example of a hypothetical 42-year-old female nurse to demonstrate its point. It explained that since the LISC was introduced it has contributed approximately $139 million to members' accounts that they would not have otherwise received:

> So what does that mean to our 42-year-old nurse? Using some—as one of my colleagues said—bush modelling, we can pretty much determine that. For our 42-year-old nurse with around $17,000 in her superannuation account at the moment and a retiring age of 67, this means an extra $20,000 to her in retirement. If we go back to that definition of dignity in retirement and superannuation as a top-up, that is an incredibly large amount.[29]

6.33 Similarly, REST referred to the importance of LISC for its members, observing that:

> …25 per cent of our current REST members have received a LISC over the last 12 months. Female members are 35 per cent more likely to receive LISC than their male counterparts. That translates in our circumstances to over 350,000 members receiving a LISC in one year, with almost $100 million being put towards their retirement savings. When you think about the compounding effect of that, that makes a big difference.[30]

6.34 AustralianSuper explained that the efficacy of the LISC was a function of its automatic payment through the tax system:

> This is a highly effective policy in addressing the economic inequities of women and others on low incomes, because there is no need for individual action: it is effected automatically through the taxation system. It has a 100 per cent success rate, a 100 per cent take-up. All women on low incomes directly benefit from this policy.[31]

6.35 ASFA also argued that the LISC was an effective means of redressing the inherent inequity in the taxation of superannuation contributions of lower-income

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28 Mrs Sandra Buckley, Executive Officer, Women in Super, *Committee Hansard*, 6 October 2015, p. 23.

29 Ms Mary Delahunty, General Manager, Business Development, HESTA, *Committee Hansard*, 18 February 2016, p. 9.

30 Mr Damian Hill, Chief Executive Officer, REST Industry Super, *Committee Hansard*, 12 February 2016, p. 20.

31 Ms Louise du Pre-Alba, Head of Policy, AustralianSuper, *Committee Hansard*, 6 October 2015, p. 38.

earners. It conceded that retaining the LISC would have an immediate budgetary cost, but submitted that it would help reduce government expenditure over the long term:

> We think it would cost the budget, on current numbers, around $1 billion. Whilst this is not insignificant, we do know that it would boost balances by about 20 per cent. When you look at the savings in the long term in terms of age pension and other social benefits, like many measures in superannuation as the system matures and the ability to reduce government expenditure, particularly on age pension which is about $7 billion a year, a lot of these measures will become self-funding.[32]

6.36 The Australian Human Rights Commission stated that retaining the LISC was 'a question of equity', noting that 'it is not fair to tax concessional superannuation contributions at a rate higher than that of [a taxpayer's] income'.[33] Ms Susan Ryan AO, Age and Disability Discrimination Commissioner, acknowledged that the LISC carried a cost to government, but maintained:

> …the long-term benefits of having more women, in this case, able to support themselves in retirement or draw a lesser age pension has to be a good trade-off…[34]

6.37 Some witnesses, while supportive of retaining the LISC, suggested that the objectives of the policy might also be achieved by alternative means. For example, the Financial Services Council noted that a 20 per cent rebate on marginal tax rates for concessional contributions (as opposed to a flat 15 per cent for all taxpayers earning below $300,000 a year), would leave lower-income and middle-income earners better off than they would be under the LISC.[35] Rice Warner made a similar point in its submission.[36]

Committee view

6.38 The committee concurs with the overwhelming view of participants in the inquiry that the LISC should be retained beyond June 2017. 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.

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32 Ms Pauline Vamos, Chief Executive Officer, Association of Superannuation Funds of Australia, *Proof Committee Hansard*, 6 October 2015, p. 29.

33 Australian Human Rights Commission, *Submission 36*, p. 5.

34 The Hon Susan Ryan AO, Age and Disability Discrimination Commissioner, Australian Human Rights Commission, *Committee Hansard*, 12 February 2016, pp. 2–3.

35 Mr Blake Briggs, Senior Policy Manager, Superannuation, Financial Services Council, *Committee Hansard*, 19 February 2016, p. 25.

36 Rice Warner, *Submission 82*, p. 30.

6.39 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.

Recommendation 12

6.40 The committee recommends that the concessional superannuation contributions of lower income earners are not taxed at a higher rate than their ordinary income, and that the Australian Government commit to retaining the Low Income Superannuation Contribution beyond 30 June 2017.

Increasing the Superannuation Guarantee (SG) rate

6.41 The Superannuation Guarantee (SG) rate is the minimum percentage of an employee's earnings that an employer must pay to a complying superannuation fund or retirement savings account. The SG rate is currently 9.5 per cent. The majority view of submitters and witnesses appearing before the committee was that delivering economic security for women in retirement required a higher SG rate. While the SG rate is currently scheduled to rise gradually to 12 per cent by July 2025, the next increase in this process (from 9.5 to 10 per cent) is not due to occur until July 2021. As explained below, many witnesses and submitters contended that the increases should commence without delay.

6.42 In March 2012, the former Labor government legislated a gradual increase in the SG rate, starting with an increase from 9 to 9.25 per cent in July 2013, and rising to 12 per cent by July 2019. Prior to the 2013 Federal Election, the then Opposition Leader, the Hon Tony Abbott MP, announced that a Coalition government would freeze the SG rate at 9.25 per cent for two years, thereby delaying the increase to 12 per cent until July 2021. (However, the SG rate increased from 9.25 per cent to 9.5 per cent in July 2014, as previously legislated.) In the 2014–15 Budget, the government announced that the current SG rate would be frozen until July 2021, and the eventual increase in the SG rate to 12 per cent would be delayed until July 2025, six years later than originally planned. The rephasing of SG increases was given effect by the *Minerals Resource Rent Tax Repeal and Other Measures Act 2014*.

6.43 The evidence received by the committee revealed a broadly shared view from a range of organisations and individuals of the importance of a 12 per cent SG rate in addressing low levels of superannuation savings, especially for women. For example, BT Financial Group argued that increasing the SG rate to 12 per cent would be 'one of the single biggest contributors to improving retirement savings adequacy', and urged that the increase occur as soon as possible.[37]

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37 BT Financial Group, *Submission 60*, p. 4.

6.44 Asked about the pause in the SG rate increase, Women in Super also suggested that the increase should occur as soon as possible. Mrs Buckley explained that a 12 per cent SG 'would definitely help women in achieving some form of balance'.[38]

6.45 AustralianSuper told the committee that without an increase of the SG rate to 12 per cent, the 'objective of funding adequate retirement incomes simply will not be met'.[39] While acknowledging the cost to employers of a higher SG rate, AustralianSuper maintained that:

> …the longer the delay in the rise of the superannuation guarantee, another generation of women will potentially face economic insecurity at retirement as a direct result of inadequate retirement savings.[40]

6.46 The FSC pointed to research undertaken by Rice Warner which showed the pause in the SG rate at 9.5 per cent had:

> …resulted in a $136 billion blow-out in the retirement savings gap. That is the gap between the amount that people will accumulate by retirement and the amount they require—that is, the gap between what we have and what we actually need.[41]

6.47 The FSC acknowledged that even a 12 per cent SG rate would leave many women (and many low and middle income earners generally) with insufficient superannuation to fund their own retirement. However, the FSC also suggested that an important measure of the superannuation system's success was the number of people who were able to move from the full pension to the part-pension, or even off the part-pension completely, and a 12 per cent SG rate was critical to progress in this regard.[42]

6.48 A large number of other submitters and witnesses argued that accelerating the increase in the SG rate to 12 per cent would have an important and positive impact on the retirement savings of millions of women.[43] Some submitters went further still, arguing that even a 12 per cent SG rate would leave too many women with inadequate

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38 Mrs Sandra Buckley, Executive Officer, Women in Super, *Committee Hansard*, 6 October 2015, p. 26.

39 Ms Jane Hume, Senior Policy Adviser, AustralianSuper, *Committee Hansard*, 6 October 2015, p. 38.

40 Ms Jane Hume, Senior Policy Adviser, AustralianSuper, *Committee Hansard*, 6 October 2015, p. 38.

41 Ms Sally Loane, Chief Executive Officer, Financial Services Council, *Committee Hansard*, 19 February 2016, pp. 22–23.

42 Ms Sally Loane, Chief Executive Officer, Financial Services Council, *Committee Hansard*, 19 February 2016, pp. 23.

43 See, for example, Women and Work Research Group, *Submission 76*, p. 11; SMSF Association, *Submission 83*, p. 3; UnitingCare Australia, *Submission 9*, p. 4; Australian Education Union, *Submission 26*, p. 14; Mrs Andrea Slattery, Managing Director/Chief Executive Officer, SMSF Association, *Committee Hansard*, 12 February 2016, p. 7.

retirement savings given the persistent gender wage gap and gendered workforce participation patterns. For example, REST argued for the SG rate to increase to 15 per cent by 2027, and COTA also recommended an eventual SG rate of 15 per cent.[44]

6.49 In contrast to the evidence discussed above, AI Group submitted that raising the SG rate had a number of disadvantages. These disadvantages, according to AI Group, would include increases in the disparities in superannuation balances to the relative disadvantage of lower-income earners; higher costs on the Budget; and opposition from employers, who would consider the higher SG rate an additional cost.[45] AI Group added that it disagreed that increasing the SG rate to 12 per cent would assist in closing the gender retirement gap, contending that the measure 'would in fact widen the gap between the retirement incomes of men and women'.[46]

6.50 While not criticising the 12 per cent SG target specifically, the Grattan Institute sounded a general note of caution on increasing the SG rate. It contended that the benefits of increasing the SG rate:

> …must be weighed carefully against their costs, especially any falls in the living standards of working age households. Retirement incomes, measured as a replacement rate relative to pre-retirement incomes, already exceed 100 per cent for many low-income earners.[47]

6.51 Dr Hodgson from National Foundation for Australian Women noted that with wage growth currently flat, it was likely extra SG contributions would be coming from the take-home pay of low income workers. This risked undermining 'their ability to meet their day-to-day needs and to make savings'. Dr Hodgson noted that while some unions tend to think of superannuation as an 'add-on to wages', employers see it as part of the total wages bill. She argued that, in practice, employers 'are not going to wear an extra half a percent in superannuation costs added to their wages bundle. It has to come out of the overall wages cost of the business'.[48]

Committee view

6.52 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

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44 REST Industry Super, *Submission 40*, p. 6; COTA Australia, *Submission 86*, p. 11.

45 AI Group, *Submission 47*, p. 7.

46 AI Group, *Submission 47*, p. 7.

47 Grattan Institute, *Submission 87*, p. 2.

48 Dr Helen Hodgson, Member, Social Policy Committee, National Foundation for Australian Women, *Committee Hansard*, 19 November 2015, p. 40.

participants that the government's delay in increasing the SG rate will have a significant detrimental effect on the superannuation balances of many women.

Recommendation 13

6.53 The committee recommends that the Australian Government revise the current schedule for the increase in the superannuation guarantee (SG) rate to 12 per cent, and ensure the gradual increase in the SG rate is implemented earlier than the current timetable.

Should a higher SG rate apply for female employees?

6.54 With regard to the SG rate, some organisations argued that employers should be required to make higher SG payments for their female employees. Others countered that a female-specific SG rate was too blunt an instrument, and might also have unintended consequences.[49]

6.55 Arguing the case for a mandatory 2 per cent boost to the SG rate for female employees (on top of a 12 per cent SG rate), the ACTU explained that the proposal was based on the continued persistence of the gender pay gap over many decades. Until the pay gap was closed, it argued, the higher SG rate would provide a means of helping to equalise the amount of money women received in retirement.[50] Ms Kearney told the committee:

> We recognise that there is an argument to say we should not really align things along gender lines, and I do understand those arguments. But unfortunately the barriers for the pay inequity are so entrenched and so long term to overcome that this is something that could fill that gap.[51]

6.56 Women in Super argued that measures to benefit women's retirement incomes 'should be system based, compulsory and measureable, not employer or individual based or voluntary'.[52] Women in Super applauded companies that had, in the absence of a mandatory higher SG rate for women, voluntarily introduced higher

49 Both sides in this debate made a distinction between a mandatory SG premium for female employees and the arrangements some employers have voluntarily put in place to make higher superannuation contributions to their female employees. The voluntary employer schemes in question are discussed separately in the next chapter.

50 Mr Brian Daley, Capital Stewardship Officer, Australian Council of Trade Unions, *Committee Hansard*, 19 November 2015, p. 19.

51 Ms Gerardine Kearney, President, Australian Council of Trade Unions, *Committee Hansard*, 19 November 2015, p. 19. A number of other unions and union representatives also argued that the SG rate should be 2 per cent higher for women. See, for example, National Tertiary Education Union, *Submission 20*, p. 9; Australian Education Union, *Submission 26*, p. 14; Dr Kristin Van Barneveld, Director of Research, Community and Public Sector Union, *Committee Hansard*, 12 February 2016, p. 14.

52 Mrs Sandra Buckley, Executive Officer, Women in Super, *Committee Hansard*, 6 October 2015, p. 19.

superannuation contributions for female employees. However, Mrs Buckley was concerned that:

> …you are creating a group of employees who have access to that extra two per cent and a group who will never have access to it. The feeling within our policy group was we want to get away from a system that benefits one group but not another.[53]

6.57 The idea of mandating a higher SG rate for women was criticised by a number of witnesses. For example, PwC explained that while it was supportive of companies pursuing their own voluntary initiatives to pay women more superannuation than men, it did not support a mandatory higher SG rate for women:

> We feel that, for two reasons, there can be unintended consequences if you make it more costly to employ females. We would be very scared about those unintended consequences of employers not employing them, or just reducing their cash salary to compensate. This issue is a broader issue about lower income people and people who are in and out of the traditional paid workforce. You need to fix the issue for them, not just focus on females. Increasing SG to 12 per cent for everyone eventually would be great, but paying females more, we felt, would have very poor unintended consequences.[54]

6.58 PwC suggested that if a higher SG rate for women was compulsory, there would be a particularly high risk of negative unintended consequences for women's employment prospects with smaller businesses:

> If you think about the number of people that are employed by small businesses, whilst some of the big companies are actually introducing some great policies, we certainly think that in the small business area it is less likely that they will be as generous and the negative consequences of some of those initiatives might actually be more harmful to women than benefit them in the long run.[55]

6.59 PwC told the committee that policy should address the underlying structural drivers of the retirement savings gap, and these drivers were not specific to women:

> Our approach is to consider the structuralist issues that would disadvantage anyone who is on a lower income or who would have a period of time out of a paid or traditional workforce. We have not structured it into a female-versus-male debate because, as we see it, you need to fix the structural problems. Those sorts of problems do not just affect females, although females are probably overrepresented in the group. They also affect

53 Mrs Sandra Buckley, Executive Officer, Women in Super, *Committee Hansard*, 6 October 2015, p. 23.

54 Ms Catherine Nance, Partner, PricewaterhouseCoopers Australia, *Committee Hansard*, 18 February 2016, p. 16.

55 Mr Marco Feltrin, Partner, PricewaterhouseCoopers Australia, *Committee Hansard*, 18 February 2016, p. 17.

> Indigenous people and other lower income people and, increasingly and possibly in the future, they might affect men who choose to have periods of time out of the workforce for child rearing or elder care.[56]

6.60 Ms Pauline Vamos, speaking to ASFA's proposal for employers to pay a higher SG rate for women before or immediately after they go on maternity leave, also argued that such schemes should not be mandatory. 'The last thing we want', Ms Vamos said, 'is employers to shy away from employing women because there is an extra cost'.[57] Ms Vamos's colleague, Ms Fiona Galbraith, added that if a mandatory higher SG rate for female employees created new barriers to female employment, particularly in small businesses, that would be:

> …the worst outcome—if it were to end up in discrimination at the point of not being employed in the first place because you are a female and you are going to cost the employer more. Unfortunately, much and all as we support Women in Super's position of trying to make it as equitable across people as possible, the reality is that a measure like that is probably only going to be something that larger employers will be in a position to do.[58]

6.61 Asked to respond to arguments that a higher SG rate for women might undermine the willingness of employers to hire women, the ACTU suggested similar arguments were often raised in discussions about wages. This was the case, it suggested:

> …whether we are talking about pay rises, whether we are talking about penalty rates, whether we are talking about raising the minimum wage. There is always an argument that there will be a reduction in employment rates. The fact of the matter is: none of those factors really have been shown to do that. I think the economic benefits would far outweigh any of those arguments. Having economic stability for women means that they have a more secure retirement, that they can contribute to the economy, that they are less reliant on welfare, that their health would be better and that they would be more productive. I think the arguments for it far outweigh the arguments that say that there would be an impact on employment, and I do not believe there is any evidence to show that that is the case.[59]

Committee view

6.62 The committee welcomes initiatives by companies to introduce higher SG rates for female employees (as discussed in the next chapter). However, the committee

56 Ms Catherine Nance, Partner, PricewaterhouseCoopers Australia, *Committee Hansard*, 18 February 2016, p. 15.

57 Ms Pauline Vamos, Chief Executive Officer, Association of Superannuation Funds of Australia, *Committee Hansard*, 6 October 2015, p. 34.

58 Ms Fiona Galbraith, Director of Policy, Association of Superannuation Funds of Australia, *Committee Hansard*, 6 October 2015, p. 36.

59 Ms Gerardine Kearney, President, Australian Council of Trade Unions, *Committee Hansard*, 19 November 2015, p. 19.

is wary of making higher SG rates for women mandatory, as it considers there are better, more targeted ways to narrow the gender retirement savings gap.

Removing exemptions from the SG

6.63 Under subsection 27(2) of the *Superannuation Guarantee (Administration) Act 1992* (SGA), if an employee's monthly wages are less than $450 per month, their employer is not liable to make SG payments to that employee. If an employee is under 18 years of age or is a private or domestic worker, such as a nanny, they must also work for 30 or more hours per week to qualify for the SG.[60]

6.64 Evidently, the $450 threshold was originally introduced because of the administrative burden to employers of administering small amounts of superannuation. The view put to the committee by ISA and others was that this rationale was no longer valid, given technological changes and systems innovation since the requirement was introduced—including the recent introduction of the SuperStream standard for processing superannuation data and payments electronically.[61]

6.65 The committee heard that the $450 threshold exemption had an especially detrimental effect on women in part-time or casual work, and this was of particular concern given the growing casualisation of the workforce. Women in Super observed:

> There are a number of women who work part-time, casual jobs, who might have two or three jobs, none of which actually gets them to the $450 monthly threshold. So they end up, perhaps, earning more than that but with no super as a result, because no one employer is obliged to pay their superannuation contribution.[62]

6.66 ASFA also expressed concerns about the effect of the $450 threshold on the superannuation balances of the growing number of casual and part-time workers, including people in multiple jobs.[63] ASFA estimated that around 250,000 individuals, the majority of them women, would likely benefit from the removal of the threshold through higher retirement savings. Assuming that the 250,000 persons missing out on superannuation contributions because of the $450 per month threshold have average relevant wages of $3,000 a year, ASFA estimated that:

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60 Australian Taxation Office, 'Working out if you have to pay super', 1 June 2015, https://www.ato.gov.au/Business/Super-for-employers/Working-out-if-you-have-to-pay-super/ (accessed 9 February 2016).

61 Ms Robbie Campo, Deputy Chief Executive, Industry Super Australia, *Committee Hansard*, 6 October 2015, p. 16.

62 Mrs Sandra Buckley, Executive Officer, Women in Super, *Committee Hansard*, 6 October 2015, p. 20.

63 Association of Superannuation Funds of Australia (ASFA), *Submission 84*, p. 7; Ms Pauline Vamos, Chief Executive Officer, Association of Superannuation Funds of Australia, *Committee Hansard*, 6 October 2015, p. 28.

> …the total wages bill for them would be $750 million per annum. Superannuation payments at the rate of 9.5 per cent would amount to some $70 million a year. This compares to a total wages bill for the economy of around $600 billion a year.
>
> The impact on the Commonwealth Budget would be negligible as most of the individuals benefiting from removal of the threshold would be on a zero or 15 per cent marginal personal tax rate. There could be increased expenditure on the low-income earners superannuation tax rebate but we estimate it would be less than $5 million a year.[64]

6.67 AustralianSuper also outlined its concerns with the $450 threshold exemption, and explained why it believed it should be removed:

> The $450 per month threshold is an outdated policy. It is 23 years old. It uses an arbitrary threshold. It equates to $5,400 per year, which was the income-tax-free threshold when the superannuation guarantee legislation was first introduced. The tax-free threshold is now $18,200 per year. The nature of the workforce has changed since then, as well. It is estimated that 35 per cent of Australia's workforce now work on a casual basis. The $450 per month threshold excludes the large number of workers who are subject to the casualisation of the workforce. An ASFA review of a HILDA study indicated that the majority of workers earning less than $5,400 per year are women, younger and older workers. There is an argument that paying superannuation to those earning less than $450 per month is an administrative cost and burden on employers. However, we think that the cogency of this argument has diminished, because there are now significantly reduced administration costs from automation, from electronic funds transfer and SuperStream reforms as well.[65]

6.68 The Australian Nursing and Midwifery Federation noted that many of its members in aged care often worked sporadic hours for multiple employers, particularly in rural and regional settings where shifts were sometimes hard to come by.[66] As a result, these workers often failed to clear the $450 a month threshold with any single employer:

> …[I]n all of the industries that we represent, it is endemic that our members have part-time, temporary employment. They may be guaranteed two shifts a week—so, 16 hours a week—and they may pick up another shift, but there is no guarantee. So their certainty of earnings is very precarious, and that is why it is often the case that they either work in other health facilities or in other industries to try to supplement their income. But we cannot work out the rationale for the $450 a month threshold. We do not think it works

64 Association of Superannuation Funds of Australia (ASFA), *Submission 84,* p. 8.

65 Ms Louise de Pre-Alba, Head of Policy, AustralianSuper, *Committee Hansard*, 6 October 2015, p. 39.

66 Ms Annie Butler, Assistant Federal Secretary, Australian Nursing and Midwifery Federation, *Committee Hansard*, 19 November 2015, p. 7

> effectively. And it certainly does not work effectively in the industries where we have an interest.[67]

6.69 The clear consensus in submissions that addressed the issue was that the $450 threshold should be removed.[68] Other submissions also argued that the exemption for those under 18 working less than 30 hours a week should also be removed.[69]

6.70 Asked if the introduction of SuperStream would make it easier for employers to make payments to employees earning less than $450 per month, the ATO confirmed this was likely correct:

> At the moment, we have just finished implementing for large and medium business and we are now in the middle of the small business implementation. Once that system is in place and all small businesses are using a SuperStream solution, there is a much easier and more efficient method of meeting their SG obligations, whether it is through a clearing house or their payroll software. In fact, it does simplify it quite considerably into single payment and single data stream. To your point—does it reduce some of the complexity—yes, it does.[70]

Committee view

6.71 The committee considers the $450 threshold exemption outdated, unnecessary and ultimately detrimental to the interests of casual and part-time workers, of whom a large proportion are women. The committee is satisfied that removing the exemption would not impose an undue administrative burden on employers, particularly in light of the recent introduction of the SuperStream standard. Removing the exemption will go some way toward improving the economic security of women in retirement. The impact in this respect may be modest in terms of the overall value of superannuation balances, but the committee notes that even small amounts can make a big difference to the dignity and economic security of people in retirement. Besides, simply on the

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67 Mr Nick Blake, Senior Federal Industrial Officer, Australian Nursing and Midwifery Federation, *Proof Committee Hansard*, 19 November 2015, p. 7. HESTA made a similar point about the effect of the $450 threshold on workers in the health and community services sector. Ms Mary Delahunty, General Manager, Business Development, HESTA, *Committee Hansard*, 18 February 2016, pp. 9–10.

68 See, for example, Australian Human Rights Commission, *Submission 36*, p. 6; Australian Institute of Superannuation Trustees, *Submission 45*, p. 6; Rice Warner, *Submission 82*, p. 31; and COTA Australia, *Submission 86*, p. 6; Ms Gerardine Kearney, President, Australian Council of Trade Unions, *Committee Hansard*, 19 November 2015, p. 17; Ms Kasy Chambers, Executive Director, Anglicare Australia, *Committee Hansard*, 19 November 2015, p. 26; Mr Gerald Dwyer, National Secretary-Treasurer, Shop, Distributive and Allied Employees Association, *Committee Hansard*, 19 November 2015, p. 29.

69 ACTU, *Submission 69*, p. 8; Mercer, *Submission 22*, p. 8.

70 *Committee Hansard*, 19 February 2016, p. 47.

grounds of fairness, people earning less than $450 a month deserve equal treatment to those earning much more.

Recommendation 14

6.72 The committee recommends that the Australian Government amend the *Superannuation Guarantee (Administration) Act 1992* to remove the exemption from paying the superannuation guarantee in respect of employees whose salary or wages are less than $450 in a calendar month.

Compulsory superannuation for the self-employed

6.73 People who are self-employed, either as a sole trader or in a partnership, are not required to make SG payments to themselves.[71] The absence of a requirement to make superannuation contributions means a significant proportion of self-employed people make insufficient or no contributions to their superannuation. This was a cause for concern for some witnesses and submitters, who noted that this issue affected an increasing number of women.

6.74 Women in Super noted that many small business owners commonly take the view that 'my business is my super'. Often, however, businesses were not of sufficient value to provide self-employed people with economic security in retirement.[72] Other witnesses also noted the high risk to self-employed people of relying on the value of their business to provide for their retirement, tends to concentrate risk in a single asset.[73] Women in Super suggested that the solution to this problem was to increase awareness among the self-employed of the value of superannuation:

> It could be through the ATO when they do their tax return, including a booklet on superannuation to say, 'Yes, it's not compulsory but you might want to look at it.' There is a lot of work that needs to be done in that area. It is a growing number of women, which is obviously concerning from our perspective.[74]

6.75 ASFA expressed similar concerns about the prevalence of self-employed people without any superannuation, a cohort which includes a large number of women. It noted that nearly 10 per cent of people working today are self-employed and about 29 per cent of them have no superannuation.[75] ASFA also noted that around

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71 ATO, webpage, 'The self-employed', https://www.ato.gov.au/Business/Super-for-employers/Working-out-if-you-have-to-pay-super/The-self-employed/, accessed 11 April 2016.

72 Mrs Sandra Buckley, Executive Officer, Women in Super, *Committee Hansard*, 6 October 2015, pp. 21–22

73 See, for example, Ms Catherine Nance, Partner, PricewaterhouseCoopers Australia, *Committee Hansard*, 18 February 2016, p. 20.

74 Mrs Sandra Buckley, Executive Officer, Women in Super, *Committee Hansard*, 6 October 2015, p. 22.

75 Ms Pauline Vamos, Chief Executive Officer, Association of Superannuation Funds of Australia, *Committee Hansard*, 6 October 2015, p. 28.

25 per cent of the self-employed are actually dependent contractors, 'in that they have working arrangements similar to employees and are not conducting a business as such'.[76] ASFA added that:

> …the fact that the superannuation guarantee is not payable with respect to the self-employed is a distinction within the SG regime that, at best, is a source of confusion and, at worst, is exploited by the artificial creation of arrangements whereby individuals are considered to be self-employed to avoid the need to pay SG.[77]

6.76 ASFA recommended that the self-employed should be subject to compulsory superannuation. ASFA acknowledged this might present some 'design challenges'—for instance, in terms of the concept of 'income' against which superannuation should be paid—but maintained these challenges should not preclude work being undertaken in this respect. It submitted:

> Consideration could be given to introducing a scheme similar to the Medicare surcharge, whereby a surcharge amount is payable unless a minimum amount of taxable income is contributed to superannuation. Utilising a concept of taxable income would ameliorate concerns with respect to potential adverse effects on the cash flow of start-up enterprises.[78]

6.77 However, the SMSF Association expressed some caution about extending the mandatory SG to cover the self-employed, suggesting that 'businesses probably need the flexibility to be able to decide on how they contribute to super'. Business owners will commonly want to invest their income back into their business to provide it with working capital and help it grow, particularly in the early years. The SMSF Association added that the majority of people who are self-employed or small business owners already contribute to their superannuation on a voluntary basis:

> You will find even people that are self-employed might be taking a wage and therefore having a compulsory super payment paid through. There are a lot of small business owners, for instance, that are employed as well. So we would not be encouraging at all the concept of mandating SG for a self-employed person, because the system is actually working very well when it comes to the SMSF sector. As an example, women account for 47 per cent of the SMSF sector, and it is an area that has been shown to be active in their contributions on a regular basis.[79]

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76 Association of Superannuation Funds of Australia (ASFA), *Submission 84*, p. 9.

77 Association of Superannuation Funds of Australia (ASFA), *Submission 84*, p. 10.

78 Association of Superannuation Funds of Australia (ASFA), *Submission 84*, p. 10.

79 Mrs Andrea Slattery, Managing Director/Chief Executive Officer, SMSF Association, *Proof Committee Hansard*, 12 February 2016, pp. 8–9.

Committee view

6.78 The committee reserves judgement on the merits of mandatory superannuation contributions for self-employed people. However, the committee notes that any proposed reforms in this regard would need to consider carefully how a requirement for self-employed people to make superannuation contributions might affect their ability to build their businesses. At the same time, the committee encourages all self-employed workers, and in particular self-employed women, to consider the need to make superannuation contributions to ensure they have enough money to live on when they retire. The committee would also welcome any government initiatives that actively encourage self-employed women to think about their economic security in retirement and consider making superannuation contributions.

Other proposed structural changes to the superannuation system

Contributions by a working spouse

6.79 Currently, a person can receive an 18 per cent tax offset on super contributions up to $3,000 made on behalf of a non-working or low-income-earning spouse (thus, to a maximum offset value of $540).[80] A person can also have up to 85 per cent of their own concessional super contributions from the previous financial year put into their spouse's superannuation account, providing their spouse is under 65 years of age and not retired. Split contributions count towards the contributing spouses concessional cap, and are taxed at the concessional rate.[81]

6.80 Some inquiry participants suggested improving incentives for a working spouse to contribute to the superannuation account of a spouse with caring responsibilities in a tax effective manner. For example, PwC Australia suggested increasing the quantum of the tax offset available under the Spouse Super Contribution for people that make contributions to a super or retirement account on behalf of their spouse who is earning a low income or not working. PwC Australia argued that this was a useful mechanism for women who take career breaks, but have a partner that still works, to continue to build their retirement savings.[82]

6.81 The Women Lawyers' Association SA submitted that taxation arrangements for spousal contributions and contribution splitting did not provide an adequate incentive for couples to:

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80 ATO, webpage, *Super related tax offsets*, accessed 6 April 2016, https://www.ato.gov.au/individuals/income-and-deductions/offsets-and-rebates/super-related-tax-offsets/.

81 AustralianSuper, 'Split your super contributions with your spouse', https://www.australiansuper.com/~/media/Files/Forms/Split%20your%20super%20contributions%20with%20your%20spouse.ashx, accessed 6 April 2016.

82 PwC Australia, *Submission 23*, p. 3.

> …take steps themselves to try to equalise the inequity in superannuation balances that results from the traditional division of labour where a couple has children and one parent acts as breadwinner while the other undertakes the majority of the child care.[83]

Committee view

6.82 The committee notes that it only received a small amount of evidence addressing the issue of spouse superannuation contributions. With this qualification, the committee suggests more generous arrangements in relation to spouse contributions would likely only benefit a small number of higher income earners. As such, while the idea may be worthy of further consideration in the context of a broader review of retirement incomes, the committee does consider the issue a high priority for reform.

Joint superannuation for couples

6.83 There were mixed responses from inquiry participants to proposals to allow couples to create joint superannuation accounts. Those in favour of joint accounts argued that they could improve retirement incomes for women by reducing fee costs.[84] For example, Rice Warner noted that 450,000 couples with SMSF arrangements already held joint accounts, and in other respects most Australian families pool their finances. It acknowledged that the effect of the reduction in fees (and the corresponding increase in superannuation balances) would be modest, but suggested that 'joint accounts will produce higher levels of engagement and therefore encourage more people to save for retirement'.[85]

6.84 ANZ also suggested that joint accounts might help promote greater engagement by households with their superannuation. Moreover, in the event of a separation or divorce, the division of superannuation assets might be simplified.[86]

6.85 Mrs Pauline Taylor also argued in favour of joint of family superannuation accounts, suggesting superannuation funds could be shared more equitably and fund balances would benefit from lower fees.[87]

6.86 The alternative view was that joint accounts would not provide any real assistance in reducing the gender retirement savings gap.[88] Asked about ISA's views

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83 Women Lawyers' Association SA, *Submission 31*, p. [4].

84 National Seniors, *Submission 62*, p. 3; The McKell Institute, *Submission 53*, p. 6.

85 Rice Warner, *Submission 82*, p. 31; Mr Michael John Rice, CEO, Rice Warner, *Committee Hansard*, 19 November 2015, p. 45.

86 Ms Joyce Phillips, Chief Executive Officer, ANZ Global Wealth, *Committee Hansard*, 6 October 2015, p. 7.

87 Mrs Pauline Taylor, *Submission 37*, p. [4].

on proposals for joint superannuation accounts as a way of responding to the fact that women are far more likely than their male partners to be primary caregivers and undertake unpaid labour, Ms Campo responded that ISA did not see this as a structural solution.[89] Ms Campo's colleague, Mr Goodwin, added that the real problem was one of adequacy:

> Therefore, splitting what is there will not resolve the issue of inadequate retirement income for women. That is the case for most women who are in a relationship, and it is definitely the case for women who are not in a relationship.[90]

6.87 The National Foundation for Australian Women indicated that it opposed joint superannuation accounts, on the grounds that joint accounts would be a move away from the notion of economic independence for women in their working life and in retirement:

> We think that there are issues of household dynamics that would suggest that that is not a great idea, and that there are other ways of simplifying division of superannuation in the event of a separation. In the meantime, I think it is better to encourage separate control. If the woman has control over her own superannuation, she has a better chance of actually being able to say what happens and of having control over her own retirement.[91]

6.88 Similarly, ACOSS expressed opposition to joint superannuation accounts, on the grounds they would 'increase women's financial dependence on their partners and again mainly benefit higher income couples'.[92]

Committee view

6.89 The committee considers there may be merit in introducing joint superannuation accounts, however this is unlikely to produce a significant reduction in the aggregate gap between men and women's superannuation balances. The committee also notes there are significant risks involved in moves in this direction. In particular, the committee notes concerns that joint superannuation accounts may undermine efforts to improve and secure the financial independence of women, both during their working lives and in retirement. Any consideration of introducing joint superannuation accounts should have regard to such risks.

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88 Mercer, *Submission 22*, p. 14; Women in Super, *Submission 50*, pp. 21–22; Industry Super Australia, *Submission 74*, p. 47.

89 Ms Robbie Campo, Deputy Chief Executive, Industry Super Australia, *Committee Hansard*, 6 October 2015, p. 15.

90 Ms Ailsa Goodwin, Senior Manager, Regulatory Policy, Industry Super Australia, *Committee Hansard*, 6 October 2015, p. 15.

91 Dr Helen Hodgson, Member, Social Policy Committee, National Foundation for Australian Women, *Committee Hansard*, 19 November 2015, p. 37–38.

92 Dr Cassandra Goldie, Chief Executive Officer, Australian Council of Social Service, *Committee Hansard*, 12 February 2016, p. 33.

Retirement products addressing longevity risk

6.90 Some submissions noted that women may benefit more from products that address longevity risks (such as annuities) as women have a longer life expectancy than men. As such, they recommended increasing the availability of annuities[93] and removing regulatory barriers impeding the development of income stream products.[94] The most common superannuation income stream products are account-based pensions which allow for lump sum withdrawals and do not provide certainty of how long an income stream will last. Annuities generate a regular income stream for a determined period, and lifetime annuities manage the risk of outliving retirement savings by sustaining an income for the life of the recipient.[95]

6.91 ASFA suggested that, as things stood, the superannuation system was only 'half designed', in the sense that it was designed for accumulation but lacked design features for income streams in retirement:

> That is why providers are very limited in what they can offer. There is no competition there and there is not a framework around governance or transparency. The work that has been started around opening up and being able to provide different types of income stream products is very important.[96]

6.92 The Productivity Commission noted that there were a range of reasons for the current low demand for annuities including: the preference for flexibility; the difficulty retirees' face in understanding the risk of outliving their savings and the role of the Age Pension in managing this risk; and the removal of concessional treatment of annuities.[97]

Committee view

6.93 In relation to the apparent need for superannuation products that 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

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93 UnitingCare Australia, *Submission 9*, p. 4.

94 Commonwealth Bank of Australia, *Submission 64*, p. 3.

95 Productivity Commission, *Superannuation Policy for Post-Retirement, Research Paper Volume 1: Chapters*, July 2015, p. 76.

96 Ms Pauline Vamos, Chief Executive Officer, Association of Superannuation Funds of Australia, *Committee Hansard*, 6 October 2015, p. 31.

97 Productivity Commission, *Superannuation Policy for Post-Retirement, Research Paper Volume 1: Chapters*, July 2015, p. 75.

- the minimum payment amounts for account-based pensions, to assess their appropriateness in light of current financial market conditions.[98]

6.94 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.

Recommendation 15

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

98 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).

Chapter 7

Voluntary superannuation contributions, co-contribution schemes and employer schemes

7.1 In this chapter, the committee continues its consideration of possible reforms to the superannuation system to help address the superannuation savings gap.

7.2 The previous chapter dealt with the distribution of superannuation taxation concessions; issues relating to compulsory superannuation contributions; and several other structural and operational matters relating to the superannuation system that affect women's retirement income. This chapter focuses on 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. The committee also assessed the effect of the government's co-contribution scheme for low-income earners in relation to women's superannuation balances.

7.3 This chapter also discusses voluntary schemes put in place by individual companies, such as Rice Warner and ANZ, to provide higher superannuation payments to their female employees. Whereas the previous chapter addressed the possibility of a mandatory higher superannuation guarantee (SG) rate for all female employees across the Australian workforce, this chapter explores the value of voluntary company schemes. In this chapter, the committee also considers whether there is a need for modest legislative reform to help facilitate the implementation of similar voluntary schemes in the future.

Concessional contribution caps

7.4 At present, the amount of concessional contributions that can be made to a person's superannuation account is subject to an annual cap of $30,000 for people aged under 49 years and $35,000 for people aged 49 years or older. The concessional contributions cap is indexed in line with average weekly ordinary time earnings (AWOTE), in increments of $5,000 (rounded down).[1]

7.5 Some witnesses suggested that the annual caps did not allow for the fact that many workers have interrupted working careers. Several recommendations for reform were put to the committee to allow people to make 'catch up' payments, including a shift to a lifetime concessional contribution cap or a rolling cap that allowed the unused portion of the annual cap (or a portion thereof) to be rolled over for use in

1 ATO, webpage, 'Contributions cap', https://www.ato.gov.au/Rates/key-superannuation-rates-and-thresholds/?page=2, accessed 11 April 2016. Concessional contributions include employer SG contributions, employer contributions made through a salary sacrifice arrangement, and personal contributions claimed as a tax deduction by a self-employed person.

future years. Because women are more likely than men to take significant periods of time out of the workforce, it was argued that such reforms would go some way to closing the gender superannuation gap.

7.6 For example, BT Financial Group advocated greater flexibility in contribution caps, allowing workers to make additional contributions at times when they could afford to do so. This flexibility would better reflect changing income levels and expenditure patterns over a person's lifetime, and especially benefit 'those with broken work patterns such as parents who have taken extended time out of the workforce to raise children'.[2]

7.7 The Association of Financial Advisors (AFA) submitted that current concessional contribution cap arrangements 'favour those with consistent work patterns and disadvantage those who take career breaks'. To address this bias, it recommended that the government consider introducing lifetime concessional contribution caps for low income earners and individuals with broken careers.[3]

7.8 The CBA also recommended that consideration be given to more flexible contribution caps. It suggested this might be achieved through a three year averaging rule, enabling individuals to make contributions in excess of the concessional cap in any given year provided they had not contributed in excess of the cumulative cap over the prior two year period.[4]

7.9 PwC's preferred model was a lifetime concessional contributions cap, which it argued would better enable some women re-entering the workforce to make high enough contributions to meet their needs in retirement. It suggested the lifetime cap should be based on the level of savings required to provide the average person with a comfortable standard of living in retirement.[5]

7.10 ASFA submitted that the annual concessional contribution cap 'can be overly restrictive for members who are attempting to "catch-up" by making additional superannuation contributions when their circumstances permit'.[6] ASFA suggested there were several options for improving the capacity of members to make catch-up payments, including a shift to a lifetime cap on concessional contributions, or increasing the concessional cap for workers over 50, with the higher limit potentially restricted to members with a superannuation balance below a certain level.[7] ASFA provided an example of how such a policy might be structured and targeted to benefit women with broken workforce participation patterns:

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2 BT Financial Group, *Submission 60*, p. 4.

3 Association of Financial Advisors, *Submission 77*, p. 7.

4 Commonwealth Bank of Australia, *Submission 64*, p. 8.

5 PwC Australia, *Submission 23*, p. 2.

6 Association of Superannuation Funds of Australia (ASFA), *Submission 84*, p. 4.

7 Association of Superannuation Funds of Australia (ASFA), *Submission 84*, p. 4.

> For example, if you took it up to $45,000 for those over 50 with an account balance of less than $250,000, we think this would have a significant benefit, particularly for women, and the budget impact would not be significant.[8]

7.11 Ms Vamos from ASFA conceded that higher concessional caps would not benefit low-income earners. However, Ms Vamos maintained that a more flexible system would help redress the fact that the superannuation system was not in place throughout the working lives of many women who are now approaching retirement. She referred to her own experience to illustrate the point:

> There are many women today circa my age, because the system has only been in place for 20-odd years, who were excluded from the superannuation system. In the last few years—the last 10 years—I have been able to earn a decent salary. When I started work I was excluded from joining my superannuation fund and I have not earned enough to put a lot of money into my super—now I can catch up, and I cannot. There is a strong limit. So it is about allowing those women, or men, who have been excluded from the system, who have not been able to participate and who are in their 40s and 50s—maybe their kids are off their hands and the mortgage is nearly off their hands—to be able to contribute more. That is why you need to measure the impact on each one. In particular, what that will do is allow people in their late 40s and 50s to put in that extra amount. The ability of any government then to pull the levers on access to free aged care and access to free health care can really start to be pulled by encouraging those people, who can afford it, to put more money in while having that cap on.[9]

7.12 The National Foundation for Australian Women argued for a system of rolling contribution caps, which would allow workers to roll over into the future years the unused part of their cap from periods out of the workforce:

> The system of annual caps is not suitable for people who are in and out of the workforce, as many women are. The proposal we put in our own paper was a system of rolling caps—I think we said three to five years, which is about the time a lot of women are out of the workforce between children. I know there are also proposals for annual caps. I think we would be happy to see moves along those lines as well. But the point is that annual caps just are not suitable for women. They are also, I would say, far too generous, in the context of what I have said previously about misdirected concessions. Most women who are earning the average wage would not be putting anywhere near $35,000 into superannuation through salary sacrifice—let us be realistic about this.[10]

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8 Ms Pauline Vamos, Chief Executive Officer, Association of Superannuation Funds of Australia, *Committee Hansard*, 6 October 2015, p. 28.

9 Ms Pauline Vamos, Chief Executive Officer, Association of Superannuation Funds of Australia, *Committee Hansard*, 6 October 2015, p. 35.

10 Dr Helen Hodgson, Member, Social Policy Committee, National Foundation for Australian Women, *Committee Hansard*, 19 November 2015, pp. 36–37.

7.13 The committee also received evidence from the SMSF Association and Mercer advocating variations on the concept of rolling contribution caps.[11] Mercer explained that the problem with current contribution caps is that they treat superannuation as though it were an annual event, as opposed to a system for lifetime savings:

> I think the concept of this rolling cap makes sense. It starts to build up the concept that super is a lifetime investment—it is not this year-on-year decision. I think it is financially feasible. It is a fairer system, because it is giving everyone the same opportunity irrespective of their careers.[12]

7.14 It is noteworthy that in October 2015, the Treasurer, the Hon Scott Morrison MP, flagged the possibility of lifting the taxation cap on superannuation contributions for people who have breaks from their working lives to be full-time carers. Mr Morrison raised this idea with particular reference to helping build the superannuation balances of women taking time out of the workforce to care for children.[13]

7.15 Witnesses broadly agreed that more flexible concessional contribution caps would for the most part only benefit higher income earners or higher wealth individuals with the capacity to make contributions in excess of current caps. On this basis, some witnesses indicated that while they were not opposed to changes to the caps, they did not consider such reforms a high priority. For example, AustralianSuper explained that while it agreed some women might benefit from a shift to lifetime contribution caps, it placed a higher priority on reforms 'that affect the interests of low-income earners first, and women are disproportionately represented in that sector'.[14]

7.16 Mrs Louise Arnfield, National President of the Finance Sector Union of Australia (FSU), and herself a part-time finance sector employee on a modest income and with a relatively small superannuation balance for a 56-year-old, told the committee that solutions that relied on women putting extra money into their superannuation accounts would not help women on lower-incomes:

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11 Mrs Andrea Slattery, Managing Director/Chief Executive Officer, SMSF Association, *Committee Hansard*, 12 February 2016, p. 7; Mr Jordan George, Head of Policy, SMSF Association *Committee Hansard*, 12 February 2016, pp. 10–11.

12 Dr David Knox, Senior Partner and Senior Actuary, Mercer Australia, *Committee Hansard*, 18 February 2016, p. 29.

13 Simon Benson, 'Superannuation special, Treasurer Scott Morrison moves to plug savings gender gap', *Daily Telegraph*, 26 October 2015, http://www.dailytelegraph.com.au/news/nsw/superannuation-special-treasurer-scott-morrison-moves-to-plug-savings-gender-gap/news-story/c5dc0f2d5a3b2eedbd129e2dc7ae0ae8?= (accessed 9 February 2016).

14 Ms Louise du Pre-Alba, Head of Policy, AustralianSuper, *Committee Hansard*, 6 October 2015, p. 42.

> Women who are higher earners can definitely do that, but for those at the other end of the spectrum there just isn't the money to put there. It is not a solution at all because we are going from payday to payday. I have daughters in their 20s who are casual workers trying to get through university. I am supporting that. That is not an unusual situation in these times. There are a lot more demands on mature aged women these days. Caring responsibilities, and the financial impacts of raising your children, go a lot long longer these days. So there is simply no money left over to put towards super.[15]

7.17 Asked about the merits of replacing annual concessional contribution caps with lifetime caps, HESTA emphasised that few women would ever get anywhere near the current contribution caps:

> We do not think it is a bad thing but we really do not think it is relevant to our members. I think just under 20 per cent do actually make additional contributions, which is higher than I think most people would expect, but they are contributing very low amounts. Our members feel comfortable making contributions of $20 a week extra—that is the research and what they have told us. It is nowhere near the limit.[16]

7.18 Similarly, the view put to the committee by the SDA, CPSU and Australian Services Union was essentially that while reforms in this area were worthy of further consideration, they would only have a modest impact, and not on those women most in need of assistance.[17]

7.19 ISA warned that a shift to a lifetime concessional contribution cap should be considered with great caution. In addition to the fact that a lifetime cap would be difficult to administer and police, it would likely only benefit 'individuals with substantial wealth and income':

> Moreover, lifetime caps will not improve women's economic security, as most women are unable to make *any* additional voluntary contributions to their superannuation, let alone the significant additional contributions required to make up the gap in retirement savings.[18]

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15 Mrs Louise Arnfield, National President, Finance Sector Union of Australia, *Committee Hansard*, 19 November 2015, pp. 14–15. A similar point was made by Women in Super. Mrs Sandra Buckley, Executive Officer, Women in Super, *Committee Hansard*, 6 October 2015, p. 24. Also see Professor Miranda Stewart, *Submission 78*, p. 5.

16 Ms Lisa Samuels, Executive, Marketing Strategy, HESTA, *Committee Hansard*, 18 February 2016, p. 14.

17 Ms Katie Biddlestone, National Women's Officer, Shop, Distributive and Allied Employees Association, *Committee Hansard*, 19 November 2015, pp. 34–35; Dr Kristin Van Barneveld, Director of Research, Community and Public Sector Union, *Committee Hansard*, 12 February 2016, p. 14; Ms Linda White, Assistant National Secretary, Australian Services Union *Committee Hansard*, 18 February 2016, p. 38.

18 Industry Super Australia, *Submission 74*, pp. 47–48.

7.20 ACOSS took a firm view in opposition to proposals to change contribution caps to allow for 'catch up' contributions:

> We believe that into the future, as has been demonstrated in the past, this would disproportionately, again, benefit higher income male workers, even though the stated purpose might be to benefit women. Superannuation should be seen as a system which is designed to deliver the greatest benefits for long-term savings, not for last-minute catch-up in a system.[19]

7.21 The Grattan Institute was similarly critical of the concept of any policy changes that increased concessional contribution caps, either through higher caps or the introduction of rolling or lifetime caps. The Grattan Institute pointed to analysis it had undertaken showing that less than 5 per cent of median income earners make concessional contributions of more than $10,000 per year. The current generous concessional caps, it submitted, were 'predominantly used by older, high-income men to reduce their tax bills'.[20] The Grattan Institute concluded that:

> …providing greater flexibility in accessing generous superannuation tax breaks is a very expensive way to reduce the gender gap in retirement incomes because these tax breaks are poorly targeted and could in fact widen the gender gap in superannuation savings.[21]

7.22 Referring to its proposal to limit concessional contributions to $11,000 per year, the Grattan Institute wrote:

> For a small proportion of women with higher incomes later in life, the changes would reduce their catch-up contributions. Yet the changes would reduce the tax breaks far more for a lot of high-income earners, particularly men. Low-income earners, and especially women, would need to pay less in other taxes if super tax breaks for the wealthy were wound back.[22]

7.23 The committee was not able to determine with any certainty the number of women who are making voluntary concessional contributions, as distinct from simply receiving SG contributions. The ATO advised the committee that it was difficult to distinguish between voluntary concessional contributions and SG concessional contributions.[23] As such, the ATO was also unable to provide data that provided insight into how many women might in fact be pushing up against the concessional caps, and who might therefore benefit from higher or more flexible caps.

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19 Dr Cassandra Goldie, Chief Executive Officer, Australian Council of Social Service, *Committee Hansard*, 12 February 2016, p. 33.

20 Financial Services Council, *Submission 57*, p. 3.

21 Grattan Institute, *Submission 87*, p. 3.

22 Grattan Institute, *Submission 87*, p. 6.

23 Mr James O'Halloran, Deputy Commissioner Superannuation, Australian Taxation Office, *Committee Hansard*, 19 February 2016, p. 45.

Committee view

7.24 As noted above, 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.

7.25 Nonetheless, the committee considers that there is a case to be made for providing women who have had interrupted work patterns—and subsequently wish make additional contributions—with the capacity 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 (as discussed in the previous chapter).

Super co-contribution scheme

7.26 The superannuation co-contribution scheme is intended to help eligible low or middle-income earners boost their retirement savings. Under this scheme, persons who are eligible can make personal after-tax super contributions and receive a co-contribution from the government of up to $500 per financial year.[24] The scheme has evolved over time to become less generous than was originally the case, as AustralianSuper explained in its summary of how the scheme works:

> The government currently contributes up to $500 to anyone who is under the age of 71 and earning less than $50,454 per year but makes a voluntary contribution from after-tax dollars. The co-contribution scheme has been in place since 1 July 2003, but has been significantly diminished over time. It was initially set at a rate of $1.50 for every one dollar contributed, up to $1,500. Since that time it has been significantly ramped up and then reined in almost to the point of irrelevance. It is currently a co-contribution maximum entitlement of $500 for a personal contribution of $1,000.[25]

7.27 AustralianSuper, which advocated retaining and developing the scheme, observed that the number of people accessing the scheme had declined significantly as the level of contribution from the government had become less generous. AustralianSuper expressed concern regarding this trend, noting that the Committee for Economic Development of Australia (CEDA) had provided:

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24 Australian Taxation Office, 'Super co-contribution', 26 November 2015, https://www.ato.gov.au/individuals/super/in-detail/growing/super-co-contribution/ (accessed 9 February 2016).

25 Ms Jane Hume, Senior Policy Adviser, AustralianSuper, *Committee Hansard*, 6 October 2015, p. 39.

> …some evidence that the superannuation co-contribution scheme has delivered benefits to low income employees and particularly women. CEDA data showed that 55 per cent of beneficiaries had incomes of less than $30,000, 39 per cent were single, 63 per cent were female and 47 per cent were baby boomers, the group with the lowest level of superannuation savings relative to retirement needs. An increased, enhanced, age-specific, gender-specific or balance-tested co-contribution scheme for low income earners would directly address low balances of women in retirement.[26]

7.28 Mrs Pauline Taylor argued that the value of the co-contribution scheme had been undermined by the reduction in the maximum value of the government contribution from $1500 to $500:

> Before the latest change, the co-contribution was a strong incentive to young women to build their super. At one of my seminars, a young woman of only 19 years proudly announced that she had contributed $1,000 of her savings to her super and had received the same amount from the Government. This encouraged her to take an active interest in her superannuation and see it grow further. Sadly the current $500 co-contribution—requiring a $1,000 voluntary contribution—does little to motivate young women, who face other demands on their savings, including rising costs of housing and education.[27]

7.29 The AIFS suggested that co-contributions schemes, including the current scheme, may go some way toward bridging the superannuation savings gap for low income earners who have taken time out of the workforce. However, AIFS also noted that participation in the scheme remained low. This suggested 'either ignorance of the scheme, or a lack of discretionary income available to make additional superannuation contributions'.[28]

7.30 While supportive of retaining the LISC (as discussed in the previous chapter), the Grattan Institute expressed a general scepticism regarding the value of other measures aimed at topping up the superannuation balances of low income earners, including the co-contribution scheme. It argued that:

> …measures to boost the retirement incomes of low income earners delivered through the tax and superannuation systems are inherently less well targeted than an increase in income support payments as they are directed at individuals, not households. For example, it is likely that a large number of people making voluntary post-tax super contributions to obtain

26 Ms Jane Hume, Senior Policy Adviser, AustralianSuper, *Committee Hansard*, 6 October 2015, pp. 39.

27 Mrs Pauline Taylor, *Submission 37*, p. [2]. The Tasmanian Women's Council also recommended increasing the maximum government contribution back to $1500. Tasmanian Women's Council, *Submission 28,* pp. 5–6.

28 Australian Institute of Family Studies, *Submission 18*, p. 17.

> the government co-contribution are in fact the spouses of high-income earners.[29]

7.31 The Grattan Institute supported its argument in this regard by pointing to an analysis it had undertaken suggesting that over 60 per cent of post-tax contributions made by people with incomes less than $37,000 are in fact made by individuals with superannuation account balances in excess of $500,000.[30]

'Super Seed' and other proposals

7.32 ISA suggested the super co-contribution scheme had two significant limitations:

> First, it is a voluntary scheme with a very low take-up. Only 14 per cent of income earners eligible for the benefit utilise it. Secondly, since the proportion of those making non-concessional contributions peaks at age 50–54, the benefits of compounding are very limited.[31]

7.33 To overcome these limitations, ISA recommended that the current co-contribution scheme be replaced with a scheme it called 'Super Seed'. It described its Super Seed proposal as an 'enhanced version of the government co-contribution which is targeted to provide an early propagation of superannuation savings, of most benefit to part-time women, especially those taking time out to have children.'[32] The Super Seed proposal would involve an automatic government contribution annually to the active superannuation account of persons in the three lowest income deciles whilst they are aged 27 to 36 inclusive. Noting the need to further refine its proposed scheme to ensure government contributions were targeted to those who needed it most, ISA presented modelling on its scheme based on an indicative figure of an annual $5000 government contribution to eligible account holders.[33]

Committee view

7.34 The committee considers that the costs and benefits of proposals for the government directly boosting the superannuation accounts of younger people, including the ISA'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

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29 Grattan Institute, *Submission 87*, p. 4.

30 Grattan Institute, *Submission 87*, p. 4n14.

31 Industry Super Australia, *Submission 74*, p. 39.

32 Industry Super Australia, *Submission 74*, p. 5.

33 Industry Super Australia, *Submission 74*, p. 39. This proposal was supported by ACTU, *Submission 69*, p. 10; National Education Union, *Submission 26*, p. 14; and Unions NSW, *Submission 67*, pp. 11–12.

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

7.35 The Workplace Gender Equality Agency noted that a number of organisations are introducing initiatives to reduce the gender retirement savings gap, and remove barriers for women returning to work.[34] For example, ANZ and Rice Warner have both introduced packages to reduce gender pay inequality and increase women's retirement savings. The measures ANZ and Rice Warner have introduced include superannuation contributions on parental leave for all employees, additional superannuation contributions to female employees and access to targeted financial advice.[35] This part of the chapter considers employer schemes in relation to additional superannuation payments for female employees. The possibility of a *mandatory* higher SG rate for all female employees, as distinct from voluntary schemes implemented by individual employers, was considered in the previous chapter.

7.36 ANZ explained to the committee that, as part of a broader suite of measures, it had decided to pay female staff an extra $500 per year in superannuation contributions.[36] Asked how it had arrived at this figure, ANZ explained:

> This is a benchmark of about one per cent on up to $50,000 of earnings for all female staff. We modelled out that this would mean approximately $30,000 in additional retirement savings over the lifetime of a 30-year-old woman. That is a start. It is not a perfect answer to close the gap but it is material and that is how we settled on that number.[37]

7.37 Rice Warner reported that it paid its female staff an extra two per cent superannuation on top of their SG payments, up to a cap of two times the Adult Average Weekly Ordinary Time Earnings (AWOTE) (about $155,000). Like ANZ, Rice Warner indicated that it did not believe its measure would by itself close the superannuation gap, but it would at least be a step in the right direction.

> We did a lot of modelling on the two per cent additional payment. Longevity is one challenge that women face, in that they live about three years longer than men, on average. To remove that longevity risk—it is about 1.5 per cent—and to place men and women, assuming all else is equal, on a level playing field, we selected two per cent. We wanted to, I guess, help our female employees. It was a business decision. There is no

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34 Workplace Gender Equality Agency, *Submission 79*, pp. 15–16.

35 ANZ Wealth, *Submission 89*, p. 3; Rice Warner, *Submission 82*, p. 41.

36 Ms Joyce Phillips, Chief Executive Officer, ANZ Global Wealth, *Committee Hansard*, 6 October 2015, p. 2.

37 Ms Joyce Phillips, Chief Executive Officer, ANZ Global Wealth, *Committee Hansard*, 6 October 2015, p. 4.

> sort of, 'Two per cent is going to fix this', and it certainly will not close the gap completely. They are going to have to do things on their own as well.[38]

7.38 Rice Warner informed the committee that the response to the policy from within the company had been very positive.[39] Anticipating arguments about the fairness of making higher superannuation payments to female employees, Mr Rice noted that Rice Warner pays insurance for all of its staff, and while male insurance was more expensive, 'nobody ever complains about that'.[40] Rice Warner also indicated that it was not proposing that extra superannuation payments for women should be compulsory for all employers.[41]

7.39 Rice Warner suggested that as much as directly helping build the superannuation balances of its female employees, its policy was directed toward improving the engagement of staff in relation to their superannuation. Mr Rice said:

> I actually think the engagement with our staff is more valuable, because many of them are now contributing voluntarily. Even well-off people often do not save well. So if you can get them into the right habits they would be far better off later in life.[42]

7.40 The response from other participants in the inquiry to the voluntary steps taken by ANZ and Rice Warner was overwhelmingly positive. At the same time, a number of participants noted that voluntary schemes such as this would ultimately not deliver the structural change needed to close the retirement savings gap. For example, ISA observed:

> On the issue of additional employer contributions, we would certainly laud any employer who takes the proactive step of making additional contributions and we would encourage the removal of any obstacle to them being able to do that. We do not see it as a structural remedy to the issue, though, because there are a number of female dominated industries. We do not see the responsibility for remedying this important issue as one that should fall to employers.[43]

7.41 As discussed in the previous chapter, some inquiry participants suggested that while voluntary initiatives should be applauded, such initiatives should not deflect from proposals that offer systemic improvements to improve the retirement outcomes for women.

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38 Ms Melissa Fuller, Deputy CEO, Rice Warner, *Committee Hansard*, 19 November 2015, p. 45.

39 Ms Melissa Fuller, Deputy CEO, Rice Warner, *Committee Hansard*, 19 November 2015, pp. 43–44.

40 Mr Michael John Rice, CEO, Rice Warner, *Committee Hansard*, 19 November 2015, p. 47.

41 Ms Melissa Fuller, Deputy CEO, Rice Warner, *Committee Hansard*, 19 November 2015, p. 44

42 Mr Michael John Rice, CEO, Rice Warner, *Committee Hansard*, 19 November 2015, p. 46.

43 Ms Robbie Campo, Deputy Chief Executive, Industry Super Australia, *Committee Hansard*, 6 October 2015, p. 11.

Amending anti-discrimination legislation

7.42 To implement its abovementioned policy, Rice Warner had to apply to the Australian Human Rights Commission (AHRC) for an exemption from the *Sex Discrimination Act 1984*.[44] The process of securing the exemption was lengthy and complex, as Rice Warner recounted:

> We first wrote to the Human Rights Commission in January 2012 seeking a temporary exemption from the Sex Discrimination Act, and this led to an 18-month period of correspondence and negotiations. We were required to provide substantial evidence to demonstrate the disadvantages that women face, including complex modelling.
>
> The final outcome was that, rather than the commission granting a temporary exemption—which has a time limit of five years and cannot be challenged in court—it deemed the initiative to be a special measure. Importantly, a special measure can be challenged in court should a case ever arise. As a business, Rice Warner decided that the risk was low and that the benefits of introducing the policy outweighed the risk.

7.43 Rice Warner noted that the AHRC was supportive throughout this process. However, it submitted that the complexity and duration of the process might discourage other employers from pursuing similar initiatives. The lack of clarity in the process, Rice Warner observed, was illustrated by the fact that other organisations who had sought similar exemptions had actually pursued quite different processes.

> Whilst the commission was very supportive throughout the process, it is our belief that this could act as a barrier for many employers for the following reasons: the current process is unclear, and it appears that Rice Warner and the other two organisations I mentioned earlier [Unions NSW and ANZ] all followed different processes; the drawn out process may act as a deterrent for other employers; some might believe that the risk around the lack of certainty for special measures being challenged in court to be too high; and many would lack the capability to support their application. It is for these reasons that one of our recommendations in our submission will be to amend the sex discrimination legislation to ensure that employers who voluntarily choose to pay their female employees more super are not in breach of the legislation.[45]

7.44 Ms Loane from the (Financial Services Council) FSC also noted that Rice Warner and ANZ had taken different approaches to ensure their additional superannuation payments to female employees did not breach sex discrimination laws. Rice Warner had secured approval of a special measures package under section 7D(1)

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44 Rice Warner, *Submission 82*, p. 36.

45 Ms Melissa Fuller, Deputy CEO, Rice Warner, *Committee Hansard*, 19 November 2015, p. 44. Also see Rice Warner, *Submission 82*, pp. 36–37.

of the Sex Discrimination Act, whereas ANZ secured an exemption under NSW law.[46] Mr Briggs told the committee

> An important point to make there, and the reason we pulled this one out in particular, is around the commission that helped them put together these packages and get approval. There is no criticism of the commission; they wanted to help these packages succeed. However, the fact that the two organisations had to do it in different ways under the same governing legislation, and passed it differently—the inconsistency—makes it more complex and acts as a deterrent for organisations who have less to do with the superannuation sector of getting them over the line. So I think what we are recommending is either amendments that help streamline the process—so you look at the legislation and say that this is exactly the path that you have to go down to get this package approved—or greater consistency in how the legislation deals with these packages. It removes one of those soft barriers that sit in legislation that prevent companies from doing the right thing.[47]

7.45 The FSU also suggested that amending anti-discrimination laws to allow for schemes like ANZ's and Rice Warner's was particularly important for smaller companies who might lack the resources to ensure their schemes were permissible under current laws. Ms Black noted that while ANZ had been able to negotiate the implementation of its scheme so that it was compliant. However, she observed that many smaller organisations may not be in a position to achieve a similar outcome:

> I think that comparing large banks with other organisations is not always helpful because they do have access to high-level legal support when they need it to be able to work out what they need to do to navigate their way through. So I think some clarity around that to enable smaller organisations that may not have that same access to legal support would probably be useful.[48]

7.46 A number of other inquiry participants also recommended that the Sex Discrimination Act be amended to remove potential barriers for employers who wish to pay extra superannuation contributions to female employees.[49]

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46 Ms Sally Loane, Chief Executive Officer, Financial Services Council, *Committee Hansard*, 19 February 2016, p. 24.

47 Mr Blake Briggs, Senior Policy Manager, Superannuation, Financial Services Council, *Committee Hansard*, 19 February 2016, p. 24. Also see Financial Services Council, *Submission 57*, pp. 4–5.

48 Ms Veronica Black, National Coordinator, Organising and Development, Finance Sector Union of Australia, *Committee Hansard*, 19 November 2015, p. 15.

49 See for example, The McKell Institute, *Submission 53*, p. 8; Association of Superannuation Funds of Australia, *Submission 84*, pp. 8–9; Ms Katie Biddlestone, National Women's Officer, Shop, Distributive and Allied Employees Association, *Committee Hansard*, 19 November 2015, p. 35.

Committee view

7.47 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.

7.48 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.

Recommendation 16

7.49 The committee recommends that the Australian Government amend the *Sex Discrimination Act 1984* to ensure companies are able to make higher superannuation payments for their female employees when they wish to do so. As part of this process the Australian Human Rights Commission should explore options and advise the Australian Government on appropriate legislative changes.

7.50 Following any amendments to the legislation, the Australian Human Rights Commission should develop guidelines and advice for any organisation contemplating providing additional superannuation payments for women.

Chapter 8

The Age Pension

8.1 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).[1] Evidence received during this inquiry highlighted the importance of the Age Pension in providing economic security for women in retirement. In particular, witnesses noted that unlike the current superannuation system, the Age Pension could provide for a decent standard of living in retirement irrespective of a person's income throughout their life. Moreover, the Age Pension is also better able to recognise and reward unpaid work for their families and communities, which women are more likely to undertake than men.

8.2 This chapter summarises and assesses evidence received during the inquiry on the importance of the Age Pension, and makes recommendations aimed at protecting its value and integrity.

The importance of the Age Pension, now and into the future

8.3 The Age Pension is an important contributor to the financial security of a majority of Australian men and women of retirement age, with about 70 per cent of people of pension age receiving the Age Pension.[2] As noted in chapter 2, compared to men, women are more likely to receive and rely upon the Age Pension. COTA advised that 56.6 per cent of full Age Pension recipients are women, and 67.9 per cent of single, full Age Pension recipients are women.[3] COTA also noted that a 2012 Rice Warner study found that 49 per cent of females relied solely on the Age Pension to fund their retirement, compared to 40 per cent of males.[4] The incidence of women relying solely on the Age Pension is compounded by longevity risk. As ANZ explained, women 'at every decade of life are forecast to significantly outlive their super savings, with female baby boomers potentially outliving their savings by 16 years, which means they are relying on the age pension alone'.[5]

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1 Treasury, *2015 Intergenerational Report: Australia in 2055*, March 2015, p. 65. Housing is sometimes considered the 'fourth pillar' in the system. Se, for example, Ms Catherine Nance, Partner, PricewaterhouseCoopers Australia, *Committee Hansard*, 18 February 2016, p. 18.

2 Treasury, *2015 Intergenerational Report: Australia in 2055*, March 2015, p. 65.

3 COTA Australia, *Submission 86*, p. 11.

4 Ms Susan McGrath, National Policy Manager, COTA Australia, *Committee Hansard*, 19 February 2016, p. 1

5 Ms Joyce Phillips, Chief Executive Officer, ANZ Global Wealth, *Committee Hansard*, 6 October 2015, p. 1.

8.4 Even as the superannuation system matures, the Age Pension will remain a critical component of Australia's retirement income system. The continued importance of the Age Pension for the foreseeable future was made clear in the 2015 Intergenerational Report. Noting that about 70 per cent of people of Age Pension age were receiving the Age Pension, the Intergenerational Report suggested that this number was only projected to decline to 67 per cent by 2054–55.[6]

8.5 The Age Pension is particularly important for the current cohort of women approaching retirement age, who have faced gendered structural disadvantages throughout their working lives that have limited their ability to build their superannuation balances. The Australian Education Union (AEU) pointed to some of the common types of disadvantage faced by its female members, especially those members who are now approaching retirement:

> For example, in some states, upon marriage, women were excluded from teachers' superannuation funds and only allowed access to 'married women' schemes with inferior conditions. In most states, superannuation was only available to 'permanent employees' and being a permanent employee meant being full time and available for any position across the state, thus excluding many women who were part time or were unable to move due to family responsibilities. Before unpaid maternity leave was secured in the mid 1970s, many women had to resign in order to have children. Upon returning, many found themselves unable to regain their permanent status and therefore unable to regain access to their previous superannuation scheme. Others found that they had lost recognition of prior service for superannuation purposes. Married women were given options to opt out of the married women's schemes, sending the message that superannuation for women wasn't important. Many of these women took on primary care of children with the understanding that their husband's superannuation would provide the family's retirement income, but then lost access to this money due to marital breakdown.[7]

8.6 No amount of 'tinkering' to the current rules around superannuation, the AEU concluded, would address the compounding financial disadvantage faced by many women nearing or in retirement. The AEU therefore concluded that 'the primary strategy for ensuring that [these women] maintain some economic security in retirement is to build on the existing Age Pension'.[8]

8.7 Similarly, Unions NSW emphasised that while it was important to promote fairness and equity in the superannuation system, the system needed to be underpinned by a strong Age Pension system. This was particularly true, it argued, for women currently approaching retirement:

6 Treasury, *2015 Intergenerational Report: Australia in 2055*, March 2015, pp. 66–67.

7 Australian Education Union, *Submission 26*, p. 7.

8 Australian Education Union, *Submission 26*, p. 7.

> Reforming super, closing income gaps and remunerating the care work that women perform are crucial in promoting economic security in retirement. But, even if we were able to make all these reforms, it would take several decades for these benefits to be seen in women's retirement incomes and their lives in retirement. For some women, it will be too late for reforms to superannuation and the accumulation of retirement incomes to benefit them; therefore, it is crucial that, for these women and for women going forward, we continue to have a strong safety net in the age pension.[9]

8.8 The AIFS also explained that changes to the superannuation system and other changes to address underlying structural biases would provide little benefit for women who are currently in retirement:

> Changes to superannuation policy to address the issue of the gender gap in superannuation savings, along with policies that encourage the increased labour force participation of women, may assist retirees in decades to come. However, these changes will have no effect on the standard of living of the current cohort of retirees. For those already in retirement, policy reform targeting assistance to those in genuine financial hardship is the only type of reform that will bring real improvements to their living standards.[10]

8.9 Anglicare Australia noted that looking at the incomes of women already retired was 'a bit like time travel', in the sense that these incomes reflected the social norms and social policy of up to 40 years ago:

> The positive side of that observation is that the solutions to this can be fairly small if started early enough in someone's life. However, the other side is that there is a need for larger interventions required for those already in or approaching this age group as they have got little time to catch up.[11]

8.10 Other witnesses also expressed concern that the attention of policymakers, and the public discourse on retirement incomes more broadly, tended to focus on the superannuation system at the expense of the Age Pension system. Professor Siobhan Austen, talking to the submission made by the Women in Social Economic Research (WiSER) Cluster at Curtin University, explained that the main theme of the submission was that the Age Pension has:

> …a central role in ensuring the economic security of women in retirement and also in ensuring that an efficient retirement income system is achieved. We expressed our concern about a clear policy direction to diminish the importance of what we call the pension pillar of Australia's retirement system. We see that as being negative for gender equity, negative for the

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9 Ms Kate Minter, Research Officer, Unions NSW, *Committee Hansard*, 19 February 2016, p. 32.

10 Dr Diana Warren, Research Fellow, Australian Institute of Family Studies, *Committee Hansard*, 18 February 2016, p. 2.

11 Ms Kasy Chambers, Executive Director, Anglicare Australia, *Committee Hansard*, 19 November 2015, p. 24.

> economic security of older women. We know that it is coming at a very large cost. That cost has been very well documented. It is associated with the large tax expenditures on superannuation. But also generally the shift towards what we also call the superannuation pillar of the retirement income system is reducing the levels of control because of the handing of responsibility of retirement income provision onto individuals and households and that can leave women in very vulnerable circumstances, especially towards the end of their lives when their vulnerability is highest.[12]

8.11 Professor Austen further expressed concern that the shift in emphasis from the Age Pension pillar of the retirement income system to the superannuation pillar would generally exacerbate gendered financial inequality within households:

> In most households, there is going to be an increase in concentration of the household resources in the hands of the male partner. Some people come back at us and say that is okay for their wives—their wives will be able to benefit from those large superannuation accounts. I am sure that will happen in many households, but there are no guarantees and there are no real safeguards in our system. You can end up in a situation where you are married to someone, he owns all the money, and you have got to essentially negotiate around how that money is used. Sometimes this is really significant for women because, if we are talking about the type of annuity that is purchased to generate income to support the retirement needs of the individuals in a household, if the annuity is based on his longevity then potentially the woman ends up with a shortfall of resources right towards the end of her life because she lives longer than him, on average. Additionally, women are usually younger than their spouses by a number of years, so both longevity and age differences contribute to this potential risk for women. You do not get these problems if you have got an age pension. The money can go into your account; you get as much as your husband. So there is a much more equal distribution of bargaining power.[13]

8.12 WiSER's submission made the point that in contrast to superannuation, 'the age pension pillar of Australia's retirement system does not reinforce patterns in the distribution of income and wealth associated with the performance of paid and unpaid work'.[14] Asked if this meant the Age Pension was a better mechanism than the superannuation system for addressing women's retirement needs, Professor Austen responded:

> Yes, very clearly, both because it does not penalise women because of the larger unpaid work roles that they take on and also because it is more efficient, for a number of reasons. If we are focusing on this discussion of paid and nonpaid work, it does not create incentives for particular types of

12 Associate Professor Siobhan Austen, private capacity, *Committee Hansard*, 19 February 2016, p. 27.

13 *Committee Hansard*, 19 February 2016, p. 29.

14 WiSER - Curtin University, *Submission 6*, p. 17.

> work. It does not alter the incentive to participate in paid or unpaid work, if you know what I mean. It does not favour one over the other. But there are other really important aspects to it. The pension is more suitable to women's longevity. It provides much greater insurance against longevity risk.[15]

8.13 Similarly, the Australia Institute submitted that unlike the Age Pension, the superannuation system 'effectively takes the gendered income inequalities that exist during people's working lives and magnifies them in retirement'. It argued for increasing the Age Pension, and suggested the cost of doing so was 'trivial compared to the enormous, and rapidly growing, cost of the existing tax concessions provided for superannuation'.[16]

Access to the Age Pension

Recent changes to asset testing for the Age Pension and the 'taper rate'

8.14 On 7 May 2015, the government announced changes to the Age Pension assets test and 'taper rate', which is the rate at which the pension declines when asset thresholds are exceeded. The changes, which are due to come into effect in January 2017, increase the value of assets below which the full Age Pension is paid (the 'assets free area'), while at the same time increasing the rate at which pension payments taper off when those thresholds are exceeded. Moreover, the maximum value of assets people can hold (excluding the family home) and still be eligible for the part pension has been reduced. According to the former Minister for Social Services, the Hon Scott Morrison MP, the changes will leave 170,000 pensioners with modest assets better off by an average of more than $30 per fortnight, including an additional 50,000 pensioners who will now qualify for the full Age Pension. However, approximately 91,000 current part pensioners will no longer qualify for the pension, and a further 235,000 will have their part pension reduced.[17]

8.15 Some witnesses were critical of the effect these changes would have on the interplay between the superannuation system and the Age Pension. ISA suggested that for a large number of people on middle incomes, and in particular women on middle incomes, the changes would reduce the efficacy of additional savings in superannuation, because these savings would simply be offset by reductions in the Age Pension. Ms Campo told the committee:

> One of my colleagues has a colourful way of describing it: that without fixing this interplay between the age pension and the super system, we will just be firing blanks in terms of any improvements in retirement income

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15 Associate Professor Siobhan Austen, private capacity, *Committee Hansard*, 18 February 2016, p. 28.

16 The Australia Institute, *Submission 8*, p. 8.

17 The Hon Scott Morrison MP, media release, 'Fairer access to a more sustainable pension', 7 May 2015, http://www.formerministers.dss.gov.au/15866/fairer-access-to-a-more-sustainable-pension/.

> savings. For additional super savings, it is almost one for one in what you lose in age pension. The brunt of that is borne by women—women in the middle-income distribution earning under $75,000 per annum.'[18]

8.16 Referring to modelling presented by ISA, Ms Campo concluded that policymakers 'need to ensure that the interplay of the two systems does not disturb incentives for people to save, in particular for groups who are below a comfortable retirement level'.[19]

8.17 Women in Super also stressed the importance of understanding the interplay between the Age Pension and superannuation when making policy aimed at improving women's economic security in retirement:

> Most women in retirement or who are facing retirement in the coming five to 10 years will receive a combination of super and age pension payments. It is vitally important for single women, and the proposed changes to the age pension could further disadvantage them.[20]

8.18 Stressing the point that the Age Pension is 'essentially a safety net' and it is 'a bottom line in longevity insurance but it should not be the aspirational goal of our retirement system', Women in Super emphasised the need for a holistic approach that takes account of the interplay between the pillars of the retirement income system.[21]

Differential Age Pension asset testing

8.19 Some witnesses raised the possibility of reforming the Age Pension assets test in ways that might help bolster women's incomes in retirement. Notably, Mercer raised the prospect of the means test of the Age Pension being more generous for single women, 'as they are expected to live longer and therefore their superannuation needs to be extended for a larger number of years'.[22]

Age Pension access age

8.20 The current qualifying age for the Age Pension is 65 years of age or older. Under changes introduced by the Labor government in 2009, from 1 July 2017 the qualifying age will increase to 65 years and 6 months. Thereafter, the qualifying age

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18 Ms Robbie Campo, Deputy Chief Executive, Industry Super Australia, *Committee Hansard*, 6 October 2015, p. 15. The ACTU made a similar point. Mr Brian Daley, Capital Stewardship Officer, Australian Council of Trade Unions, *Committee Hansard*, 19 November 2015, p. 18.

19 Ms Robbie Campo, Deputy Chief Executive, Industry Super Australia, *Committee Hansard*, 6 October 2015, p. 17.

20 Mrs Sandra Buckley, Executive Officer, Women in Super, *Committee Hansard*, 6 October 2015, pp. 19–20.

21 Mrs Sandra Buckley, Executive Officer, Women in Super, *Committee Hansard*, 6 October 2015, pp. 19–20.

22 Dr David Knox, Senior Partner and Senior Actuary, Mercer Australia, *Committee Hansard*, 18 February 2016, pp. 27, 33.

will increase by 6 months every 2 years, until reaching 67 years by 1 July 2023. In May 2014, the then Treasurer, the Hon Joe Hockey MP, announced that the pension age would continue to increase gradually to 70 years of age by 2035. At this stage, the changes announced in 2014 remain unlegislated.[23]

8.21 The increase in the qualifying age for the Age Pension, and the prospect of further increases to come, was cause for concern for a number of witnesses. Referring to comments by women participating in its study on women's retirement incomes, Dr Parkinson from Women's Health in the North, noted that many women were concerned about the rising access age for the aged pension. Dr Parkinson observed that the women in the study used words like 'painful' and 'terrifying' when they thought about the future.[24]

8.22 Ms Kearney from the ACTU agreed with the proposition that while public discussion often pointed to uncertainty regarding superannuation policy, there was also growing uncertainty about the Age Pension. This uncertainty often centred on changes to the access age:

> We talk a lot about an ageing population and how this is going to cost a great deal, and I think people do worry about the pension and whether it will be there when they are older. There is a lot of talk about people having to increase retirement age and feeling that they will never ever get to a point where they can access the pension. Particularly for my old industry, nursing, the concept of having to work until you are 70, for example, is just a complete anathema. I do not think people feel that they would physically be able to do that, so they worry that they will be retiring without a pension and that it is something that may well be getting beyond their grasp.[25]

8.23 Other witnesses noted that with the pension age rising, increasing numbers of women were being forced to rely on the grossly inadequate Newstart Allowance. The Newstart Allowance is currently $527.60 a fortnight for singles,[26] much less than the single Age Pension which is $794.80 per fortnight.[27] Anglicare Australia reported that

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23 Department of Human Services, 'Age Pension', Department of Human Services, webpage, 'Increase the Age Pension qualifying age to 70 years', https://www.humanservices.gov.au/corporate/budget/budget-2014-15/budget-measures/older-australians/increase-age-pension-qualifying-age-70-years, accessed 12 April 2016.

24 Dr Debra Frances Parkinson, Manager, Research, Advocacy and Policy, Women's Health in the North, *Committee Hansard*, 18 February 2016, p. 44.

25 Ms Gerardine Kearney, President, Australian Council of Trade Unions, *Committee Hansard*, 19 November 2015, pp. 18–19.

26 Department of Human Services, 'Newstart Allowance', last updated 18 March 2016, https://www.humanservices.gov.au/customer/services/centrelink/newstart-allowance (accessed 20 April 2016).

27 Department of Human Services, ' Payment rates for Age Pension', last updated 20 March 2016, https://www.humanservices.gov.au/customer/enablers/payment-rates-age-pension (accessed 20 April 2016).

many workers, and many women, were in effect being involuntarily retired before pension age because of their inability to perform certain duties. This problem, it noted, would become particularly acute if the pension age moved to 70. Being forced to survive on Newstart, Anglicare suggested, 'is certainly no way to approach your retirement age'.[28]

8.24 COTA also reported that many women in the years before pension age face 'significant barriers to retaining their job and to re-entering employment if they become unemployed', and therefore have no option other to move to the Newstart Allowance. COTA cited statistics showing that matured aged women were overrepresented in the number of long-term Newstart Allowance recipients, with women in the 50–59 age range the single largest age and gender cohort of long-term Newstart recipients. COTA added:

> For the grouping of people who subsist on Newstart later in working life, often for extended periods in the decade preceding retirement, the loss of income and savings can be catastrophic for longer term economic security. Many eat into and exhaust savings and other resources to manage through the time on the Allowance, and indeed the conditions for receipt of Newstart require the draw-down of financial resources other than superannuation. Clearly this will have an impact on their ability to fund retirement.[29]

8.25 Compounding the problem, COTA suggested that the government's current but as yet unlegislated policy to continue extending the pension eligibility age to 70 years old 'creates a significant worry that many older people, unemployed due to age and sex discrimination and lack of jobs, will stay on Newstart Allowance for years longer'. In addition to recommending that the government increase the level of Newstart paid and index the payment to average full-time wage levels, COTA recommended that the Age Pension eligibility age should not be further increased until the government implemented an agreed package of measures to remove discrimination and other barriers to mature age employment.[30]

8.26 The ACTU expressed its opposition to raising the Age Pension eligibility age to 70 years of age, stating that:

> …workers should not be forced to arbitrarily continue to work at ages when it is generally recognised that significant numbers of workers, particularly in manual occupations, will simply be unable to meet the demands of the roles they are being required to perform.[31]

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28 Ms Kasy Chambers, Executive Director, Anglicare Australia, *Committee Hansard*, 19 November 2015, p. 25.

29 COTA Australia, *Submission 86*, p. 13.

30 COTA Australia, *Submission 86*, pp. 13–14.

31 Australian Council of Trade Unions, *Submission 69*, p. 12.

The adequacy of the Age Pension

8.27 Some witnesses questioned the general adequacy of the Age Pension for retirees who depend on it as their sole source of retirement income. For example, Rice Warner noted that the OECD defines poverty as being below 50 per cent of median income. Rice Warner stated that with the median income in Australia being $53,457, the single Age Pension would need to be $26,728, or 19 per cent higher than it currently is, to meet this benchmark. Funding for pension increases, it suggested, might be secured by including the family home in the pension assets test (at least above a certain threshold).[32]

8.28 Some witnesses, such as the Grattan Institute, submitted that additional assistance to Age Pensioners should be targeted to those who do not own their own home, either through targeted increases to the Age Pension or increases to the rate of Commonwealth Rent Assistance.[33] These proposals are discussed in chapter 9.

Indexation and benchmark arrangements

8.29 The current method of indexation for the Age Pension is explained on the Department of Social Services' website:

> Base pensions are indexed twice a year, in March and September, to reflect changes in pensioners' cost of living and wages. The pension is increased to reflect growth in the Consumer Price Index and the Pensioner and Beneficiary Living Cost Index, whichever is higher. When wages grow more quickly than prices, the pension is increased to the wages benchmark. The wages benchmark sets the combined couple rate of pension at 41.76 per cent of Male Total Average Weekly Earnings. The single rate of pension is two thirds of the couple rate.[34]

8.30 In the 2014–15 Budget, the government announced that starting from 2017, pensions and pension-equivalent payments would be indexed according to movements in the Consumer Price Index (CPI) only, rather than the existing indexation method. On 7 May 2015, the government announced that the changes would not proceed.[35]

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32 Rice Warner, *Submission 82*, p. 12; Mr Michael John Rice, CEO, Rice Warner, *Committee Hansard*, 19 November 2015, p. 43.

33 Grattan Institute, *Submission 87*, p. 5. Also see, for example, Rice Warner, Submission 82, p. 30.

34 Department of Social Security, 'Pension Rates', https://www.dss.gov.au/our-responsibilities/seniors/benefits-payments/pension-rates, accessed 7 April 2016.

35 The Hon Scott Morrison MP, media release, 'Fairer access to a more sustainable pension', 7 May 2015, http://www.formerministers.dss.gov.au/15866/fairer-access-to-a-more-sustainable-pension/.

8.31 The AEU endorsed the position of the ACTU that the value of the Age Pension 'must be consistently linked to earnings so that a decent pension is always available to those who still need such a level of support'.[36]

8.32 ACOSS told the committee that it was 'very pleased' that the indexation changes had not proceeded, and reiterated its view that 'adequate indexation for pensions tied to wages is crucial for their sustainability into the future'.[37]

8.33 The Australian Services Union also stressed that an adequate and appropriately indexed Age Pension was 'absolutely imperative for women', and would remain so into the future.[38]

8.34 National Seniors recommended retaining the 'current method of annual increases to the Age Pension to ensure it keeps pace with living expenses and is adequate as a safety net for women in retirement'. It noted that, as of 2009–10, only 10.3 per cent of women in retirement derive their main source of income from superannuation or annuity, compared to 17.4 per cent of men. Given the high proportion of women dependent on the Age Pension, 'it is important that this safety net is adequate to meet their day-to-day living costs'.[39]

8.35 For its part, the ACTU advocated a new benchmark of 35 per cent of Full Time Adult Average Weekly Ordinary Time Earnings (AWOTE) and a single–couple equivalence of 70 per cent. The ACTU suggested this could be achieved by 2025.[40]

Committee view

8.36 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.

8.37 The committee notes and shares the concerns expressed by various experts and organisations in 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

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36 Australian Education Union, *Submission 26*, p. 7.

37 Dr Cassandra Goldie, Chief Executive Officer, Australian Council of Social Service, *Committee Hansard*, 12 February 2016, p. 32.

38 Ms Linda White, Assistant National Secretary, Australian Services Union *Committee Hansard*, 18 February 2016, p. 38.

39 National Seniors Australia, *Submission 62*, p. 15.

40 Australian Council of Trade Unions, *Submission 69*, p. 12.

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.

Recommendation 17

8.38 The committee recommends that, in order to provide certainty and security for the majority of Australians who will receive the Age Pension in retirement, the government:

- **(a) abandon its proposal to increase the Age Pension retirement eligibility age to 70; and**
- **(b) commit to maintaining the current method of indexation and benchmarking for the Age Pension.**

Chapter 9

Housing and economic security in retirement

9.1 Home ownership is a significant component of the third retirement pillar—voluntary private savings. Some consider home ownership so important that it should be considered the fourth pillar of the retirement income system.[1] As noted in chapter 5, adequacy of retirement income and economic security in retirement are highly dependent on home ownership and access to affordable housing. People who retire without owning a home, particularly single women, are at greater risk of living in poverty and experiencing housing stress.

9.2 This chapter discusses the increase in the number of Australians, particularly women, who are relying on private rental accommodation in retirement. It also examines proposals to assist retirees who own their own homes, but find themselves cash poor in retirement.

Women in retirement and housing stress: a troubling trend

9.3 A number of participants in the inquiry highlighted the interrelationship between housing and economic security in retirement. In particular, submitters noted that older people living in rental accommodation faced much higher risks of poverty than older people who owned their own home. Because older women—and in particular older single women—are more likely to be renters than single men or couples, some inquiry participants argued that assisting older renters was an important aspect of improving women's economic security in retirement.

9.4 The AIFS explained that although the majority of retirees own their own home outright, in 2013 single women were more likely than single men or couples to be renting or still paying off their mortgage in retirement. As such, single women of retirement age are disproportionately more likely to experience housing stress. Together with the fact that single older women are more likely to rely entirely on the Age Pension (as discussed in the previous chapter), they are therefore more exposed to poverty in retirement:

> After taking housing expenses into consideration, over 60% of single retired women were not able to afford a modest lifestyle, relying almost entirely on the age pension as their source of income. Single men fared slightly better, with fewer than half of single male retirees aged 65 to 69, and around 60% of those aged 70 or older not able to afford a modest standard of living. These results highlight the relatively poor standard of living among current retirees, who have not had the benefit of compulsory superannuation for most of their working lives and have little in the way of retirement savings.[2]

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1 Sarah-Jane Derby, 'CEDA overview', in Committee for Economic Development of Australia, *The Super Challenge of retirement income policy*, September 2015, p. 20.

2 Australian Institute of Family Studies, *Submission 18*, p. 23.

9.5 The AIFS also pointed to a worsening trend in housing security for Australian retirees, with estimates suggesting that by 2036 one in four retirees will be renters rather than homeowners. Given the trend toward deteriorating housing security, the AIFS submitted that 'retirement policy needs to ensure that assistance to meet housing costs keeps pace with the increasing costs of housing'.[3]

9.6 Similarly, ACOSS noted that while only 11 per cent of Age Pension recipients currently rent privately, this number is projected to increase in future years.[4] In this connection, it noted the Australian Housing and Urban Research Institute's (AHURI) warning about projected trends in home ownership among older people over the next decade:

> The number of renters aged 65 or over living in low income households is projected to increase by 115 per cent from 195,000 in 2001 to 419,000 in 2026. The greatest projected change is in the 85-and-over age range, where the number of low income renters is estimated to increase from 17,300 to 51,000, creating a continuing demand for affordable housing suited to older households.[5]

9.7 The NFAW also observed that the changing circumstances and demographics of Australian women suggest there will be growing demand for housing support in the future. In this respect, it referred to a report by AHURI, *Too Big to Ignore Report—Future Issues for Australian Women's Housing 2006-2025*, which stated:

> 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 [culturally and linguistically diverse] 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.[6]

9.8 Underlining the difficulties faced by non-homeowners in retirement, the NFAW submitted that the 'main group still suffering persistent poverty' in Australia were people reliant on the pension and living in private rental accommodation. This cohort, the NFAW noted, was 'overwhelmingly women, especially single women'.[7]

9.9 The committee's 2015 report on housing affordability in Australia noted that to meet their changing housing needs older people may require modifications to their

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3 Australian Institute of Family Studies, *Submission 18*, p. 23.

4 A recent Productivity Commission report suggested that about 15 per cent of older Australians are renters rather than homeowners. Productivity Commission, *Housing Decisions of Older Australians: Research Paper*, December 2015, pp. 8–9.

5 Australian Council of Social Service, *Submission 61—attachment 1*, p. 13.

6 Quoted in National Foundation for Australian Women, *Submission 14*, pp. 9–10.

7 National Foundation for Australian Women, *Submission 14*, p. 3.

dwellings to improve access, to make the surroundings safe and secure, to ensure that certain appliances (heaters, taps, showers) are maintained and simpler to use, and to cater for limited mobility and other health conditions. In other words, the dwellings of older people need to be made free from hazards and obstacles, comfortable, and take account of reduced mobility, and be liveable.[8]

9.10 Anglicare Australia explained that because older renters suffer from higher levels of housing insecurity, they are less able to 'age in place' than older homeowners. This not only leads to poorer outcomes for renters, but also places a heavier demand on the aged care system. Anglicare explained that:

> …older people living in private rental are very afraid to ask for changes to be made to that accommodation so they can live in it for longer. They feel afraid that if they ask for a rail in the shower or a rail up the steps at the front of the house this will call the landlord's attention to them and the landlord will put the rent up or they will become known as problematic tenants and be asked to leave. We know that most people want to age in their own homes. It means that people in private rental do not stay in their own homes as long as those who have access to privately owned housing. That in itself brings people into the aged care system earlier, which we know costs more.[9]

9.11 UnitingCare Australia observed that retirees often depend on their home to fund aged care and other retirement expenses. It noted that with declining home ownership rates for retirees, alternative means should be identified to help people save for their retirement:

> While we recommend that more work is done to unlock the potential of the home to self-fund retirement we also know that home ownership in Australia is in decline and that for many low-income and disadvantaged people it is unachievable and that the risk of poverty is often greater for non-home owners than for home owners. Therefore we believe we need to increase the options that are available to help people save for retirement and aged care costs which are not dependent on home ownership.[10]

9.12 With declining home ownership rates, older women also face growing risks of homelessness. Research commissioned in 2014 by the Mercy Foundation identified a growing group of older women experiencing homelessness. It found that:

> These are women who have never before experienced homelessness or a housing crisis in their lives. This group of women had raised children, volunteered in their communities and/or cared for older relatives. Due to the unpaid (yet valuable) nature of their contribution throughout their lives,

8 Senate Economics References Committee, *Out of Reach?: The Australian housing affordability challenge*, May 2015, p. 274.

9 Ms Kasy Chambers, Executive Director, Anglicare Australia, *Committee Hansard*, 19 November 2015, p. 25.

10 UnitingCare, *Submission 9*, p. 10.

> many are arriving in retirement single and poor. As a direct consequence of this they are experiencing homelessness or housing crises.[11]

9.13 Mr Ian Yates, COTA Australia, rightly observed that 'it is heartbreaking and shameful that a new cohort of Australians—vulnerable older women—are joining the ranks of the homeless, rather than homelessness being reduced across the board'.[12]

9.14 COTA Australia outlined the range of factors that threaten to increase housing stress and homelessness among the most vulnerable older Australians, which includes a large proportion of women, in coming years. They include:

- a consistent trend to reduced outright home ownership for people going into retirement in the future;
- a public pension system in older age that largely presumes outright home ownership or appropriate housing security is already in place for recipients;
- reduced access to affordable public and social housing in all age cohorts;
- the lack of appropriate, affordable, private rental housing across all ages; and
- the inadequacy of public rental assistance in the face of a housing affordability crisis.[13]

Proposed measures to assist renters

9.15 Anglicare Australia informed the committee that its most recent annual research on costs of renting revealed a striking lack of affordable rental accommodation available in the current housing market:

> In 2015 we surveyed 65½ thousand properties and tested them for affordability if you were on an age pension. We found that out of 65,614 rental properties, only 0.9 per cent would have been affordable for a single person living on an age pension.[14]

9.16 A number of submissions recommended proposals aimed at improving the supply of affordable rental properties available for pensioners, or supplementing the Age Pension to ensure pensioners in rental accommodation were better able to meet their housing costs. Recommendations made in this regard focused on two policy mechanisms in particular: the National Rental Affordability Scheme (NRAS), and Commonwealth Rental Assistance (CRA).[15] The committee notes that both NRAS

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11 Mercy Foundation, *Submission 24*, p. 3.

12 Mr Ian Yates, Chief Executive Officer, COTA Australia, *Committee Hansard*, 19 February 2016, p. 2.

13 COTA Australia, *Submission 86*, p. 14.

14 Ms Kasy Chambers, Executive Director, Anglicare Australia, *Committee Hansard*, 19 November 2015, p. 25.

15 Other recommendations included a recommendation from Women's Health Goulburn North East and Women's Health in the North that the government research and subsidise cooperative living arrangements. Women's Health Goulburn North East and Women's Health in the North, *Submission 5*, p. xii.

and CRA were addressed in greater detail in the committee's 2015 report, *Out of Reach?: The Australian housing affordability challenge*.

National Rental Affordability Scheme (NRAS)

9.17 The committee has noted in the *Out of Reach* report that affordable and secure housing brings health and wellbeing advantages for renters, especially as they grow older. In that inquiry, COTA noted that the supply of social housing was an essential part of the housing stock, which provided low income people and homeless people or people at risk of homelessness with a pathway to secure long term accommodation. Social housing is particularly important as public housing is no longer guaranteed—being old or over 65 is no longer a criterion for entering into public housing.[16]

9.18 Social housing is better able to meet the needs of disadvantaged groups as it offers lower rents, more secure and stable tenure and appropriately modified housing. However, there is fierce competition and long waiting lists for social housing as supply is limited.[17]

9.19 Some submissions supported the continuation of NRAS. NRAS is a partnership between the Australian Government and the states and territories to invest in affordable housing. It was 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.[18]

9.20 COTA Australia supported the development of government initiatives to encourage private sector development of affordable housing options, and expressed its support for NRAS in this connection. It argued that NRAS:

> …made a very useful contribution to increasing the supply of affordable housing, particularly in locations that are close to services and [we] are deeply disappointed that the Government has withdrawn funds for Round 5 of the Scheme and there are no plans for further investment.[19]

9.21 COTA Australia acknowledged that there were problems with the administration of NRAS, but maintained these could have been addressed.[20]

9.22 According to Dr Hodgson, NFAW, the type of housing that is available is often unsuitable and unaffordable for older women. She noted:

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16 Senate Economics References Committee, *Out of Reach?: The Australian housing affordability challenge, May 2015*, pp. 275–277.

17 Senate Economics References Committee, *Out of Reach?: The Australian housing affordability challenge, May 2015*, p. 291.

18 Senate Economics References Committee, *Out of Reach?: The Australian housing affordability challenge*, May 2015, p. 7.

19 COTA Australia, *Submission 86*, p. 16.

20 COTA Australia, *Submission 86*, p. 16.

> NRAS was one of the few instruments that was introduced to look at the supply of housing as opposed to the tax system, which is mostly a demand focused instrument. What it was doing was giving an incentive to people to rent properties at less than market rate, which would have been suitable for some older women who do not want to go into share housing or who do not want to live in a hostel. So we think that, with the axing of NRAS, a whole spectrum of people who are low income and disadvantaged are missing out.[21]

9.23 The committee's aforementioned 2015 report, *Out of Reach?: The Australian housing affordability challenge*, contained a number of recommendations relating to NRAS. These included a recommendation that:

> …in the absence of any credible alternative scheme designed to increase the supply of new affordable housing and considering steps have already been taken to improve the administration and implementation of NRAS, that the Australian Government continue with NRAS round 5.[22]

Committee view

9.24 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 NRAS.

Commonwealth Rental Assistance (CRA)

9.25 A number of submissions recommended that CRA be reviewed to ensure it adequately meets rising housing costs in Australia.[23]

9.26 ACOSS noted that for the one in eight older people who rent privately, the maximum CRA is well below typical private rents at a maximum of $64 a week.[24]

9.27 In its report on affordable housing in Australia, the committee noted that older people who rent are one of the most disadvantaged groups in Australian society and that their numbers were increasing. Older people living in private rental properties report that they experience high levels of anxiety due to 'unstable tenure, high and frequent rent rises and the need to move relatively frequently'. Approximately one in four recipients of the CRA payment aged over 65 was still in rental stress after receiving the payment. The committee noted that single women with low

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21 Dr Helen Hodgson, Member, Social Policy Committee, National Foundation for Australian Women, *Committee Hansard*, 19 November 2015, p. 40.

22 Senate Economics References Committee, *Out of Reach?: The Australian housing affordability challenge*, May 2015, p. 375.

23 Mercy Foundation, *Submission 24*, p. 4; Women and Work Research Group, *Submission 76*, Australian Council of Social Service, *Submission 61*; NSW Council of Social Service, *Submission 68*; COTA Australia, *Submission 86*, p. 12; Grattan Institute, *Submission 87*.

24 ACOSS, *Submission 61–Attachment 1*, p. 5.

superannuation balances and those facing relationship breakdowns in their later years were 'very vulnerable to housing stress'.[25]

9.28 COTA Australia argued that the Commonwealth government, in addition to prioritising measures to address a sufficient supply of affordable and appropriate housing, should significantly increase the maximum CRA payment for Age Pensioners. It noted that as home ownership rates are trending downwards and future retirees will increasingly be renters, the inadequacy of the Age Pension for retirees who rely solely on the pension and do not own their home needs to be urgently addressed.[26]

9.29 The Grattan Institute argued that a boost to CRA would help those already experiencing poverty in old age, as well future low-income retirees. Increasing CRA could provide targeted support to retirees who do not own their own home, in particular older women. The Grattan Institute argued that increasing the CRA would be more beneficial than proposals to boost retirement savings.[27]

9.30 The need to address the adequacy of the CRA was also examined in detail during the committee's inquiry into housing affordability in Australia, which reported in 2015. The report recommended that the Australian Government:

- review the eligibility criteria for CRA to ensure that it is targeted at those most in need;
- review the method of indexing CRA with a view to retaining its adequacy; and
- review the adequacy of CRA.[28]

Committee view

9.31 Australians are becoming less likely to own their own home in retirement, with increasing numbers of older people 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 *Out of Reach?: The Australian housing affordability challenge* report that the adequacy of the CRA to meet housing costs for renters needs to be addressed. The committee considers that increasing CRA is one of the most significant measures that could immediately assist those retirees under the greatest financial stress.

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25 For further information see chapter 16, Senate Economics References Committee, *Out of Reach?: The Australian housing affordability challenge*, May 2015.

26 COTA Australia, *Submission 86*, p. 12.

27 Grattan Institute, *Submission 87*, p.7.

28 Senate Economics References Committee, *Out of Reach?: The Australian housing affordability challenge*, May 2015, p. 394.

Recommendation 18

9.32 **In light of the growing number of older people, particularly women, who are relying on private rental accommodation in retirement, the committee recommends that the Australian Government urgently review the adequacy of Commonwealth Rent Assistance.**

Recommendation 19

9.33 **The committee reiterates recommendation 26 of its 2015 report, *Out of Reach?: The Australian housing affordability challenge*:**

> **In light of the anticipated rise in the number of older Australians in the private rental market, and the insecure tenancy confronting many older renters, the committee recommends that the Australian Government look closely at its aged care policy so that it takes account of the particular difficulties confronting older Australians in the rental market. The aim would be to determine how policies designed to assist older Australians to remain in their home could take better account of, and accommodate, the added difficulties for older people accessing safe and secure housing and in conducting modifications to rental dwellings, and more broadly in renting in the private rental market.**

Accessing equity in the home

9.34 Women in Super observed that the family home is the largest asset for many retirees, yet many older people 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 and there may also be ongoing maintenance costs. [29]

9.35 Women in Super noted that many retirees are reluctant to sell their homes to improve their retirement incomes. One explanation is concern that they may need the asset to cover the cost of aged care. [30]

9.36 Research by the Productivity Commission found that around 40 per cent of Age Pension recipients who owned their own home did not meet a 'modest retirement standard'.[31] Of those people, the majority could use their home equity to reach and maintain this income level over the rest of their lives.[32] The research also found that

29 Women in Super, *Submission 50*, p. 16.

30 Women in Super, *Submission 50*, p. 16.

31 Productivity Commission, *Housing Decisions of Older Australians: Research Paper, December 2015*, p. 24. The Association of Superannuation Funds of Australia publishes the income levels necessary to meet particular living standards in retirement, available at http://www.superannuation.asn.au/resources/retirement-standard

32 Productivity Commission, *Housing Decisions of Older Australians: Research Paper*, December 2015, p. 24.

'there is currently little interest among older Australians in making use of financial equity release products'.[33]

9.37 In light of the Productivity Commission's finding that many older Australians are asset rich and income poor, UnitingCare Australia supported 'further consideration of unlocking the value of the principal residence to help people self-fund their retirement and aged care needs whilst maintaining a decent standard of living'.[34]

9.38 Women in Super considered that more work needs to be done to help retirees remain in their own home while relieving the burden of maintenance and need for additional retirement income to live comfortably. It suggested further developing home equity release schemes. [35]

9.39 The Bankwest Curtin Economics Centre cautioned that careful consideration needed be given to any proposals to encourage reliance on personal housing assets in old age, as women are more reliant on primary home assets than men. As such women are more vulnerable to the risks and costs associated with realising housing equity.[36]

9.40 Similarly, Professor Miranda Stewart was mindful that for women who do own their own home, it is a critical element of their economic security in retirement as it is often the only substantial asset that many women acquire during their lifetime. As such, she argued that any proposals to include home ownership in the age pension asset test or to change tax concessions relating to home ownership should be carefully scrutinised as they would likely have a differential and negative effect on women.[37]

9.41 Professor Alan Duncan, Bankwest Curtin Economics Centre, argued that the desire for flexibility in accessing home equity in the retirement phase is likely to increase as the baby boomer generation enters retirement. He observed:

> I think individuals now more than ever before have different lifestyle aspirations around the retirement age and beyond. We are seeing a substantial hump of retirees from the baby boomer generation; they will be hitting the retirement phase over the next five to 10 years. Arguably, the aspirations and the lifestyle choices of the baby boomer generation are different to previous cohorts of the builders. As a consequence, I think flexibility in the way that one can manage finances and lifestyle opportunities over the retirement phase is different now from before, and, hence flexibility in product to allow that to happen is important. But there are risks, and I think an awareness of those risks—in some sense the accumulation of financial literacy, amongst others, moving into

33 Productivity Commission, *Housing Decisions of Older Australians: Research Paper*, December 2015, p. 170.

34 UnitingCare Australia, *Submission 9*, p. 6.

35 Productivity Commission, *Housing Decisions of Older Australians: Research Paper*, December 2015, p. 170.

36 Bankwest Curtin Economics Centre, *Submission 80*, p. 29.

37 Professor Miranda Stewart, Tax and Transfer Policy Institute, Australian National University, *Submission 78*, p. 4.

> retirement—would be helpful to provide more security and to offset some of the risks that might otherwise be in place.[38]

9.42 The Australia Institute proposed expanding the Pension Loans Scheme, a government run reverse mortgage scheme which allows eligible users to borrow against their home to increase their retirement income. The scheme is not well known and in its current form has very strict eligibility criteria. The Australia Institute argued that an expanded Pension Loans Scheme should be used to increase retirement incomes for those who rely on the age pension.[39] The Pension Loans Scheme was originally designed to accompany a proposal, which was never implemented, to include the principal residence in the assets test for the Age Pension.[40]

Committee view

9.43 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 with a move to include the principal residence in the assets test for the Age Pension.

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38 Professor Alan Duncan, Director, Bankwest Curtin Economics Centre, *Committee Hansard*, 12 February 2016, p. 24.

39 The Australia Institute, *Submission 8*, p. 10.

40 Productivity Commission, *Housing Decisions of Older Australians: Research Paper*, December 2015, p. 168.

Chapter 10
Financial literacy

10.1 Many submissions argued that improving financial literacy more broadly and targeting programs to address the particular circumstances women experience throughout their lifetime, could improve outcomes for women in retirement. This chapter summarises the various proposals put to the committee, including: targeted financial literacy campaigns for young people, especially women; specific financial literacy and education campaigns for women; and access to financial advice and financial counselling. 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.

Current levels of financial literacy

10.2 Women in Super and the Australian Institute of Superannuation Trustees (AIST) organised a Women's Super Summit in February 2014. Women in Super noted that many of the Summit's participants emphasised the need for more financial literacy programs, employer initiatives and product innovation to help individual women lift their savings rates. At the same time, most of the participants acknowledged that:

> …such developments have limited scope to significantly improve outcomes for low-to-middle income earners who typically do not have the capacity to make extra contributions into their superannuation or negotiate with their employer.[1]

10.3 Mrs Buckley, Women in Super, dismissed arguments that women do not have sufficient financial literacy, but nonetheless suggested there would be value in providing women with more information to prepare financially for retirement. She noted that Women in Super had done studies and found:

> A lot of the current female working population will actually say—and we have done some studies into this—'We know about super. We might not know on a day-to-day basis what our balance is. We don't track it like that but we do know what we have. We are worried about how much we have, and the implications for that. We know we don't have enough.' So it is not that they do not know about it, or they do not understand it; they do. Women will always say, 'We could know more.'[2]

10.4 In its submission, Women in Super observed:

> The majority of working women are responsible for managing family finances and are acutely aware of the problems they face in trying to accumulate more superannuation. Financial literacy has its place and there will always be a need for increasing education of what is a complex topic

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1 Women in Super, *Submission 50*, p. 6.

2 Mrs Sandra Buckley, Executive Officer, Women in Super, *Committee Hansard*, 6 October 2015, p. 24.

> especially given the interplay with the Age Pension, taxation and superannuation.[3]

10.5 The Victorian Women's Trust conducted research in 2014 to determine the functional superannuation literacy of 115 young women in their 20s and 30s. It found:

> Overall, Super Young Women found that young women generally identified themselves as being accountable for their own retirement income but in the absence of targeted information, they did not possess the functional literacy to be able to make informed decisions about their own super or improve their superannuation.[4]

10.6 The AIST noted that Australian women have comparatively good levels of financial literacy compared with other countries, but that work was still needed to increase understanding and engagement with superannuation.[5]

Target financial literacy programs

10.7 Submissions proposed a number of areas where targeted financial literacy programs may be beneficial.

Literacy programs for young people

10.8 The Victorian Women's Trust pointed out that its research was consistent with larger studies into young Australian adult's knowledge, behaviour and attitudes towards superannuation.[6]

10.9 Many submissions supported high school education programs for both girls and boys.[7] For example, Women in Super supported an increased focus on financial literacy programs at school age and early in young people's working lives to raise awareness of the importance of contributing to superannuation early, before taking time out for caring responsibilities. It noted, however, that:

> …like all young people, young women face competing claims on their salaries—socialising, travelling, renting, saving to buy a home, superannuation etc.[8]

10.10 Mr Marco Feltrin, PwC Australia, supported introducing financial literacy education in schools from a young age as there is a great deal of disengagement with superannuation across the whole community, and young people in particular.[9]

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3 Women in Super, *Submission 50*, p. 19.

4 Victorian Women's Trust, *Submission 33*, p. 6.

5 Australian Institute of Superannuation Trustees, *Submission 45*, pp. 24–25.

6 Victorian Women's Trust, *Submission 33*, p. 7.

7 See for example, Premier's Council for Women, Government of South Australia, Submission 10, p. 2; Mercer, *Submission 22,* p. 6; Women in Super, *Submission 50*, p. 18.

8 Women in Super, *Submission 50*, p. 8.

9 Mr Marco Feltrin, Partner, PwC Australia, *Committee Hansard*, 18 February 2016, pp. 16–17.

10.11 The Hon Susan Ryan AO, Age and Disability Discrimination Commissioner, observed that disengagement in superannuation continues:

> You can talk to the 30-year-olds that you know and say, 'Are you making additional voluntary contributions to your super? Are you thinking about your super?' and they will say, 'No, we're not, and please don't bore us with this talk.' And I have bored many young people, including my own children, with this talk. Young people simply do not think, 'When I'm 65'—or it will probably be 70 for our young people now—'I'll need a certain amount. Can I make some savings through super now?' It is very hard to get them to do that.[10]

10.12 The Tasmanian Government informed the committee that it has also developed financial literacy programs around subject choices in order to address the occupational segregation that contributes to the gender pay gap. The Tasmanian Government partnered with the University of Tasmania to produce a series of fact sheets with an emphasis on the gender wage gap, to be distributed to female students to highlight the importance of subject choice and empower them to negotiate for better pay as they enter the workforce.[11]

Targeted campaigns and information for women

10.13 The McKell Institute recommended that greater emphasis be placed on campaigns to encourage the consolidation of superannuation accounts and inform the public of the risks of losing superannuation through accumulating multiple accounts throughout a working life. It noted:

> Many employers require (or strongly suggest) employees use the superannuation fund recommended by the employer. Research has shown up to 70 per cent of Australian employees let their employer choose their superannuation fund. Considering the frequency of women changing occupations and careers, there is a tendency for many new superannuation accounts to be accumulated over a working career. Employers should be encouraged to stress the importance to all new employees of consolidating their superannuation accounts from previous periods of employment.[12]

10.14 Women in Super observed that there is already a great deal of targeted information available for women, but observed that there has not yet been a government led campaign targeted at the wider female population about the benefits of superannuation.[13]

10.15 The Australian Taxation Office (ATO) conducted a campaign in 2014 focussed on women and superannuation. The ATO's strategy was targeted at women aged 25–49 years using social media, proactive media and paid advertising

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10 The Hon Susan Ryan AO, Age and Disability Discrimination Commissioner, Australian Human Rights Commission, *Committee Hansard*, 12 February 2016, pp. 6.

11 Tasmanian Government, *Submission 3*, p. 3.

12 McKell Institute, *Submission 53*, p. 19.

13 Women in Super, *Submission 50*, p. 19.

encouraging women to do the '5-step super check'.[14] The ATO's 5-step check webpage outlines five simple things people can do to increase their superannuation savings: 'check your super statements', 'making sure your fund has your TFN [tax file number]', 'keep track of your super using myGov', 'consider government contributions', 'put extra money into your super'.[15]

10.16 The Australian Securities and Investment Commission's (ASIC) MoneySmart website also includes information on superannuation which is targeted at women.[16]

10.17 The Association of Superannuation Funds of Australia runs a campaign every year as part of International Women's Day to encourage employers to 'give their female employees 60 minutes to sort their super during work hours, not over lunchtime' to allow employees time to:

> …ring call centres and, as a minimum, consolidate accounts; find any lost super and get it transferred; go on to our consumer website, Super Guru, and look at some of the calculators which are aimed a lot at women to help them understand how much they need in retirement and how much they can actually save in retirement.[17]

10.18 Women in Super noted that many superannuation funds have developed financial literacy campaigns that are specifically aimed at women. It provided two examples:

> UniSuper's Super Women initiative which includes a website covering topics as broad as career breaks and super, gender equality, a financial health checklist and the benefits of putting extra super aside. Since 2004 they have run presentations to members which are routinely the most popular and subscribed and have reached over 12,000 women. Campaigns are also run on International Women's Day reaching 100,000 members with a focus on educating, empowering and explaining the benefits of super.
>
> VicSuper's Super Woman Money Program which runs twice yearly, is free of charge and 4,500 have accessed it since its launch in 2012. The program includes detailed wide range of financial topics—like goal setting, emotional spending, super, money and relationships, investing and taxation tips. It also includes seminars and has a dedicated website where women can post questions to financial planners.[18]

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14 Australian Taxation Office, 'Women and Super', https://www.ato.gov.au/About-ATO/Access,-accountability-and-reporting/Informing-the-community/Our-effectiveness/Fostering-willing-participation/Women-and-super/ (accessed 15 April 2016)

15 Australian Taxation Office, 'The 5-step check', https://www.ato.gov.au/individuals/super/in-detail/keeping-track/your-5-step-super-check/?anchor=Step_check#Step_check (accessed 15 April 2016)

16 ASIC, 'Superannuation & Women', https://www.moneysmart.gov.au/life-events-and-you/women/superannuation-and-women, (accessed 15 April 2016).

17 Ms Pauline Vamos, Chief Executive Officer, Association of Superannuation Funds of Australia, *Committee Hansard*, 6 October 2015, p. 32.

18 Women in Super, *Submission 50*, p. 18.

Targeted literacy programs based on life stage event triggers

10.19 The Association of Financial Advisors recommended specific superannuation-focussed financial literacy programs and education addressing various life-stage triggers with government funded or subsidised advice being made available upon marriage, divorce, retirement or the death of a spouse.[19]

Financial advice

10.20 The Workplace Gender Equality Agency noted that women, who may have had career interruptions for various reasons, including family and caring responsibilities, may need particular financial advice on matters such as superannuation.[20]

10.21 The National Australia Bank and the Commonwealth Bank of Australia recommended simplifying the rules for tax deductions to make financial advice more accessible.[21] Rice Warner noted that any such proposals should be targeted properly. It suggested:

> One way of structuring it would be to ensure the advice is delivered through [a person's] superannuation fund. Potentially, a tax rebate for the advice could be paid into their superannuation account.[22]

10.22 The ASU was mindful that the nature of advice being provided is important. It reasoned that 'the original intent of the Future of Financial Advice (FOFA) reforms that would protect women from poor financial advice must be maintained and not watered down'. It emphasised that financial advisers and superannuation funds must always be required to act in the best interests of their clients and members as a condition of their licensing terms.[23]

Financial Counselling

10.23 The Australian Bankers' Association recognised the importance of government funded financial counselling services that assist clients to deal with addressing multiple debts as well as managing often complex financial and social problems. It considered that financial counselling services are 'vitally important to help individuals and families take control of their financial and personal situations by helping women become more financially resilient and putting them in a stronger financial position to save for their retirement'.[24]

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19 Association of Financial Advisors, *Submission 77*, p. 13.

20 Workplace Gender Equality Agency, *Submission 79*, p. 13.

21 National Australia Bank, *Submission 63*, p. 10; Commonwealth Bank of Australia, *Submission 64*, p. 11.

22 Rice Warner, *Submission 82*, p. 31.

23 Australian Service Union, *Submission 81*, p. 7.

24 Australian Bankers' Association, *Submission 70*, p. 3.

Committee view

10.24 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.

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.

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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 works 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

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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.

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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.

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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:

- 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

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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

Senator Jenny McAllister
Subcommittee Chair

Senate Economics References Committee Inquiry: Economic security for women in retirement

Coalition Senators' additional comments:

Inquiry findings

1.1 Coalition members welcome the committee's interest in investigating the gender retirement income gap and its focus on improving the economic security of women in retirement.

1.2 The committee has heard that women have lower superannuation balances as a result of lower lifetime earnings. Reasons for this include but are not limited to:

- the gender pay gap
- women having more breaks in their career for family and other reasons
- women representing a higher proportion of the part-time workforce than men

1.3 This translates into lower contributions and less capacity to make voluntary contributions. As a result, women are more likely to rely on the Age Pension. This is particularly problematic because women live longer than men.

1.4 Improving gender equality and female participation in the workforce is essential to boosting Australia's productivity and our economic growth. It is also essential to closing the retirement savings gap between men and women.

1.5 The committee has heard that closing the gender gap in lifetime earnings would do the most to improve the retirement savings of women.

1.6 Coalition members note the legal framework of superannuation is gender-blind; with the same rules applying to women as to men.

1.7 The committee has heard a range of suggestions on how we can bridge the gap. The challenge is how we can target changes to where they will make the most difference to savings behaviour and retirement incomes.

1.8 The Government has engaged in a considered and thorough process on how we can make our tax system better, including taking a comprehensive look at superannuation. Coalition members note the 2016-17 Budget will be released within days of releasing this report.

Recommendations:

1.9 Coalition members express concerns regarding recommendation 1. The independent Productivity Commission recently conducted a review of the workplace framework and received submissions which dealt with the equal remuneration provisions of the Fair Work Act.

1.10 Coalition members note that the issue of the gender pay gap is complex and not caused by any one factor. Central to the solution is to boost female workforce participation, and measures to promote female participation should be the primary consideration rather than another review.

1.11 Coalition members express concerns regarding recommendation 13 and note that increases in the superannuation guarantee are largely funded from reductions in take-home wages. The current phasing puts more money in employees' pockets while, boosting near-term economic activity.

Senator Sean Edwards
Deputy Chair

Senator Dean Smith
Liberal Party Senator Western Australia

Economic security for women in retirement

Additional Comments—Australian Greens

28 April 2016

1.1 The Australian Greens believe that all Australians deserve a secure retirement. The persistence of a gap in retirement incomes between women and men in 2016 is an indictment of the current retirement incomes system.

1.2 We were pleased to co-sponsor this inquiry, and we are pleased to support all of the Committee's recommendations. Indeed, many of the recommendations are long-standing Greens policy which we have been advocating in the Parliament for many years.

1.3 The Greens would like to thank each organisation or individual who made a submission to the inquiry, or appeared at a public hearing, and the Secretariat.

Progressive super tax reform

1.4 In relation to superannuation tax reform (recommendations 8 and 12), the Greens' plan for progressive tax rates on super would close tax loopholes for the very wealthy and would tax low income earners less, increasing their balances. Women make up the bulk of part time workers and lower income earners, meaning that they are disproportionately affected by our current unfair super tax system. Our proposal for progressive superannuation taxation was released in March 2015, well before this issue moved to the centre of national debate. Our proposal would remove the current flat tax rate of 15 per cent for everyone, and replace it with a progressive system based closely on the individual employee's marginal tax rate.

1.5 Two illustrative case studies are:

- A worker earning $30,000 per year who currently pays 15% tax on her super contributions would pay only 4% tax under our proposal, equating to a $40,000 boost over a typical lifetime, retiring with savings of $330,000.
- By contrast, a worker on $200,000 who currently pays 30% tax on contributions would pay a tax at a rate of 32%, or $110,000 more over a typical lifetime, retiring with savings of $1.6 million.

1.6 In relation to paid parental leave (recommendations 6 and 9), the Greens have long advocated for a policy of 26 weeks (or six months) paid leave for primary carers, including superannuation to ensure that women are not left behind while they are caring for young children. As noted by the Productivity Commission, a well-crafted paid parental leave scheme delivers long run productivity benefits and increases women's lifetime workforce participation and earnings. Australia should be moving towards a paid parental leave scheme that matches the best in the world.

Gender-lens budgeting

1.7 The Greens also particularly support the restoration of a Women's Budget Impact Statement, which was abandoned in 2014 for the first time in 30 years. Crucially, the statement must come with a commitment to a gender-lens budgeting, so that spending and revenue decisions are taken with their impacts on women in mind. Adoption of a Women's Budget Impact Statement and gender lens budgeting would complement and build on recommendation 15.

Flexible working arrangements

1.8 We strongly support access to flexible working arrangements such as part-time work, and flexible working hours. Expanding access to flexible working arrangements and helping to change the gendered expectations and culture of work are key to achieving workplace equality, including more equal retirement incomes. The Greens' Fair Work Amendment (Better Work/Life Balance) Bill 2012 extended the right to request flexible work arrangements to all employees with 12 months service, long term casuals and employees with caring responsibilities. It also allowed Fair Work Australia to arbitrate and issue orders in disputes with employers. Labor and the Coalition voted together against the bill.

1.9 Those proposed changes would have substantially implemented the content of recommendation 4, but they were defeated in the Parliament by Labor and the Coalition, so we welcome the Committee's position as a somewhat overdue development.

Super top-ups for women

1.10 In relation to recommendation 16, the Greens welcome the Committee's position in support of the reforms proposed in the Greens' Sex Discrimination Amendment (Boosting Superannuation for Women) Bill 2014 which would ensure employers are able to contribute more super for women employees than male employees without being considered to have breached anti-discrimination legislation.

Housing affordability

1.11 The Greens support the Committee's recommendation 19 reiterating an earlier recommendation designed to address the increasing number of older Australians, including a large number of older women, experiencing difficulties or housing stress.

1.12 The Greens have already announced a Homelessness Services Action Plan as part of our National Housing Affordability Plan which would double the current funding for specialist homelessness services in Australia for at least the next ten years under the National Partnership Agreement on Homelessness and National Partnership Agreement on Affordable Housing.

1.13 Our plan to phase out unfair negative gearing and capital gains tax discounts would cool the overheated housing market, raise much-needed revenue and fund construction of affordable housing. The proceeds from phasing out negative gearing would directly fund construction of 7000 new homes for the homeless by 2020 and 7500 new social housing dwellings over the forward estimates. This would be enough to house every person currently sleeping rough or without adequate shelter, and take more than 15,000 people off the social housing waiting list in just the next four years.

Gender pay gap - pay transparency

1.14 Many workers, especially those who receive a salary and those in the private sector, are not allowed to talk about their pay with colleagues. Many employment contracts include a "gag clause", which means that workers can be disciplined or even sacked for discussing their pay.

1.15 Pay secrecy can help hide discrimination, unconscious bias and bad decision making, such as where two people are paid differently for doing the same job. Pay transparency makes sure employers have to justify pay decisions.

1.16 Data collected by the Workplace Gender Equality Agency (WGEA) shows that where pay is set in secret, the gender pay gap is worse. For instance, the gender pay gap is much smaller in the public sector (12.3%) where workers are allowed to talk about their pay compared to the private sector (22.4%) where discussion is often prohibited.

1.17 The Greens' Fair Work Amendment (Gender Pay Gap) Bill 2015 would amend the Fair Work Act 2009 to ban pay "gag clauses" which restrict women from comparing their pay with others. The proposed new law would not force anyone to discuss their pay, but it would make sure that bosses could not pressure their employees to stay quiet. The Education and Employment Legislation Committee is currently conducting an inquiry into the Fair Work Amendment (Gender Pay Gap) Bill 2015.

1.18 We welcome the Committee's conclusion in Chapter 3 that "The committee does not see any compelling reason for employers to impose these restrictions on employees."

1.19 The Greens will continue to work for full equality for women in retirement incomes and at every other stage of life.

Senator Larissa Waters
Australian Greens Senator for Queensland

Appendix 1

Submissions received

Submission Number	Submitter
1	Professor Michael Drew
2	Mr Campbell Simpson
3	Tasmanian Government
4	Ms Annabel Warner
5	Women's Health Goulburn North East and Women's Health in the North
6	Women in Social and Economic Research (WiSER) - Curtin University
7	Name Withheld
8	The Australia Institute
9	UnitingCare Australia
10	Premier's Council for Women
11	Catholic Women's League of Australia
12	Voice, Interests and Education of Women (VIEW) Clubs of Australia
13	Ms Penny Leemhuis
14	National Foundation for Australian Women
15	Dr Clare Rudkin PhD
16	Mr Colin Delane
17	St Vincent de Paul
18	Australian Institute of Family Studies
19	Darebin City Council
20	National Tertiary Education Union
21	South Australian Labor Women's Network
22	Mercer
23	PricewaterhouseCoopers Australia
24	Mercy Foundation
25	Alison and Valerie Mayer
26	Australian Education Union
27	Australian Super
28	Tasmanian Women's Council
29	Finance Sector Union
30	Shop, Distributive and Allied Employees Association (SDA National)
31	Women Lawyers' Association SA
32	National Council of Single Mothers and their Children
33	Victorian Women's Trust
34	Business and Professional Women Coffs Harbour
35	Homelessness NSW
36	Australian Human Rights Commission
37	Mrs Pauline Taylor
38	Inkling Women
39	Carers Australia
40	REST Industry Super
41	Police Association of NSW
42	Queensland Nurses' Union

43	Honner
44	Deloitte
45	Australian Institute of Superannuation Trustees
46	Anglicare Australia
47	Australian Industry Group (AI Group)
48	WIRE Women's Information and Referral Exchange
49	Financial Planning Association of Australia
50	Women In Super
51	Dr Paul Gerrans
52	Police Federation of Australia
53	The McKell Institute
54	Equality Rights Australia & Homelessness Australia
55	Community and Public Sector Union (CPSU)
56	Good Shepherd
57	Financial Services Council
58	Australian Manufacturing Workers' Union
59	HESTA
60	BT Financial Group
61	Australian Council of Social Service
62	National Seniors Australia
63	National Australia Bank
64	Commonwealth Bank of Australia
65	The Northern Territory Office of Women’s Policy
66	United Voice
67	Unions NSW
68	NSW Council of Social Service (NCOSS)
69	Australian Council of Trade Unions (ACTU)
70	Australian Bankers' Association (ABA)
71	UniSuper
72	Women’s Community Health Network WA
73	Australian Nursing & Midwifery Federation (ANMF)
74	Industry Super Australia
75	VicSuper
76	Women and Work Research Group (WWRG)
77	Association of Financial Advisors (AFA)
78	Professor Miranda Stewart, Tax and Transfer Policy Institute, Australian National University
79	Workplace Gender Equality Agency
80	Bankwest Curtin Economics Centre
81	Australian Services Union
82	Rice Warner
83	Self Managed Super Fund Association
84	Association of Superannuation Funds of Australia (ASFA)
85	Queensland Government
86	COTA Australia
87	Grattan Institute
88	Mr Bruce Sonogan
89	ANZ Wealth
90	Mr Phillip Sweeney
91	Ms Helen Mackley
92	Mr Michael Mckenna

Appendix 2
Public hearings and witnesses

ADELAIDE, 6 OCTOBER 2015

BUCKLEY, Mrs Sandra, Executive Officer, Women in Super

CAMPO, Ms Robbie, Deputy Chief Executive, Industry Super Australia

du PRE-ALBA, Ms Louise, Head of Policy, AustralianSuper

GALBRAITH, Ms Fiona, Director of Policy, Association of Superannuation Funds of Australia

GOODWIN, Ms Ailsa, Senior Manager, Regulatory Policy, Industry Super Australia

HUME, Ms Jane, Senior Policy Adviser, AustralianSuper

PHILLIPS, Ms Joyce, Chief Executive Officer, ANZ Global Wealth

VAMOS, Ms Pauline, Chief Executive Officer, Association of Superannuation Funds of Australia

VOLPATO, Ms Karen, Senior Policy Advisor, Australian Institute of Superannuation Trustees

SYDNEY, 19 NOVEMBER 2015

ARNFIELD, Mrs Louise, National President, Finance Sector Union of Australia

BIDDLESTONE, Ms Katie, National Women's Officer, Shop, Distributive and Allied Employees Association

BLACK, Ms Veronica, National Coordinator, Organising and Development, Finance Sector Union of Australia

BLAKE, Mr Nick, Senior Federal Industrial Officer, Australian Nursing and Midwifery Federation

BUTLER, Ms Annie, Assistant Federal Secretary, Australian Nursing and Midwifery Federation

CASSELL, Ms Cheryl, President NSW Branch, Shop, Distributive and Allied Employees Association

CHAMBERS, Ms Kasy, Executive Director, Anglicare Australia

COLEMAN, Ms Marie, Chair, Social Policy Committee, National Foundation for Australian Women

DALEY, Mr Brian, Capital Stewardship Officer, Australian Council of Trade Unions

DWYER, Mr Gerald, National Secretary-Treasurer, Shop, Distributive and Allied Employees Association

FULLER, Ms Melissa, Deputy CEO, Rice Warner

GRUNDY, Ms Jane, Member, United Voice

HODGSON, Dr Helen, Member, Social Policy Committee, National Foundation for Australian Women

HUTCHINSON, Ms Pamela, Member, United Voice

KEARNEY, Ms Gerardine, President, Australian Council of Trade Unions

RICE, Mr Michael John, CEO, Rice Warner

SYDNEY, 12 FEBRUARY 2016

APPS, Professor Patricia, Private capacity

ATLEY, Ms Mary, General Manager, Brand, Marketing and Communications, REST Industry Super

CASSELLS, Associate Professor Rebecca, Bankwest Curtin Economics Centre

DAVIDSON, Mr Peter, Senior Adviser, Australian Council of Social Service

DONNELLY, Ms Melissa, Deputy Secretary, Community and Public Sector Union

DUNCAN, Professor Alan, Director, Bankwest Curtin Economics Centre

GEORGE, Mr Jordan, Head of Policy, Self Managed Super Fund Association

GOLDIE, Dr Cassandra, Chief Executive Officer, Australian Council of Social Service

HILL, Mr Damian, Chief Executive Officer, REST Industry Super

RYAN, the Hon. Susan, AO, Age and Disability Discrimination Commissioner, Australian Human Rights Commission

SLATTERY, Mrs Andrea, Managing Director/Chief Executive Officer, Self Managed Super Fund Association

VAN BARNEVELD, Dr Kristin, Director of Research, Community and Public Sector Union

MELBOURNE, 18 FEBRUARY 2016

ALEXANDRA, Ms Sophia, Research Participant, 'Living Longer On Less', Women's Health In the North

BEATTIE, Ms Yolanda, Principal and Practice Leader, Diversity and Inclusion, Mercer Australia Pty Ltd

DELAHUNTY, Ms Mary, General Manager, Business Development, HESTA

EDWARDS, Dr Ben, Executive Manager Longitudinal Studies, Australian Institute of Family Studies

FELTRIN, Mr Marco, Partner, PricewaterhouseCoopers Australia

KNIGHT, Ms Joanne, National Industrial Officer, Australian Services Union

KNOX, Dr David, Senior Partner and Senior Actuary, Mercer Australia Pty Ltd

MUNRO, Dr Gemma, Chief Executive Officer, Inkling Women

NANCE, Ms Catherine, Partner, PricewaterhouseCoopers Australia

PARKINSON, Dr Debra Frances, Manager, Research, Advocacy and Policy, Women's Health In the North

RISEBOROUGH, Ms Helen, Chief Executive Officer, Women's Health In the North

SAMUELS, Ms Lisa, Executive, Marketing Strategy, HESTA

WARREN, Dr Diana, Research Fellow, Australian Institute of Family Studies
WHITE, Ms Linda, Assistant National Secretary, Australian Services Union

CANBERRA, 19 FEBRUARY 2016

AUSTEN, Associate Professor Siobhan, Private capacity

BRIGGS, Mr Blake, Senior Policy Manager, Superannuation, Financial Services Council

DYKSTRA, Ms Nicole, Assistant Commissioner Superannuation, Australian Taxation Office

ELDERTON, Ms Sue, National Policy Manager, Carers Australia

HARRIS, Dr Carla, Executive Manager, Research and Analytics, Workplace Gender Equality Agency

LOANE, Ms Sally, Chief Executive Officer, Financial Services Council

LYONS, Ms Libby, Director, Workplace Gender Equality Agency

McGRATH, Ms Susan, National Policy Manager, COTA Australia

MINTER, Ms Kate, Research Officer, Unions NSW

MORISON, Ms Anna, Senior Policy Officer, Carers Australia

O'HALLORAN, Mr James, Deputy Commissioner Superannuation, Australian Taxation Office

RADFORD, Dr Brendon, Senior Policy Advisor, National Seniors

RICHARDSON, Mr David Robert, Senior Research Fellow, The Australia Institute

SAUNDERS, Ms Sarah, Deputy Chief Executive, National Seniors

SQUIRES, Ms Kathryn, Carer

YATES, Mr Ian, Chief Executive, COTA Australia