

PART 2

TINY SUMS, BIG PROBLEM:

THE SMALL AMOUNTS PROBLEM

A major impact of the SG scheme has been the creation of a huge number of small balance accounts. This phenomenon, which has accompanied an increase in superannuation coverage, has become known as 'the small amounts problem'.

This part of the report examines the issue of the small amounts problem and the impact of SG on women, part-time and casual workers. It looks at where small amounts come from and what it is that keeps them small. The Committee recommends a package of measures that **together** will alleviate the diminution of small balance accounts.

All superannuation accounts start at a low level. For those with a regular, average wage, the balance increases over time. Some accounts, however, do not increase and, in fact, decrease over time. Part-time and casual workers, predominantly women, receive relatively low wages and therefore receive low SG contributions. It is this group of superannuation account holders that causes the Committee concern.

The Committee was consistently told, by employees and employers, that member accounts with small balances are eroded by administrative fees and charges. These fees are generally in excess of investment income earned. And once contributions cease to be made, the account can eventually dwindle away to a zero balance. The Committee also received evidence on the effect on retirement income of multiple accounts; the SG \$450 per month threshold; preservation rules, in particular, access to amounts less than \$500; and contributions tax. The potential for any retirement benefit can be minimal or non-existent where these factors act singularly or in concert to erode the account.

The Treasurer has acknowledged this problem and stated 'the Government is determined to achieve a comprehensive solution which will offer full protection for all members with small amounts'.¹ The solutions outlined by the Treasurer include the establishment of an ATO collection mechanism and a number of other measures which are scrutinised in this Part.

A large number of submissions dealing with the impact of SG on casual and part-time workers focused specifically on women. However, the Committee is aware of an increasing trend for male members of the population to take up casual and part-time work. The Office of the Status of Women provided figures indicating that between 1966 and 1992, part-time employment almost quadrupled for both women and men. From the early 1970s to 1990, part-time employment for women and men rose at nearly the same rate, but after 1990 increased more rapidly for men than for women.²

The Committee will be conducting a further and broader inquiry into the adequacy of current retirement incomes policy in meeting the needs of those with intermittent work patterns. The terms of reference for that inquiry appear at Appendix C.

The Committee anticipates that the present report will provide a starting point for contributors to its future inquiry and stimulate debate on the mechanisms that could be implemented to enhance the effectiveness of retirement incomes policy for those whose work participation falls outside the traditional 30 to 40 year working pattern.

1 The Hon Ralph Willis, MP, Treasurer, *Statement on Superannuation Policy*, 28 June 1994

2 SGCREV Sub No 68

CHAPTER 4:

THE ORIGIN OF SMALL AMOUNTS

Small amounts: where do they come from?

4.1 The introduction of the compulsory superannuation scheme has increased the superannuation coverage of the **working** population.

4.2 Figures provided by the Office of the Status of Women indicate that part-time employees with superannuation coverage has increased from 19% in 1988 to 54% in 1992. Female employees with superannuation coverage is estimated to have increased from 37% to 76% over the same period.¹

4.3 Despite this increased coverage which has been attributed to the SG scheme, the adequacy of the superannuation support these workers now receive has been subject to some debate. Ms Eva Cox, of Women's Economic Think Tank, describes SG as 'a scheme somebody should have brought in about 1910 when people had lifetime jobs, because that is really what the scheme works best for'.²

4.4 The key to coverage is occupation and the Australian Federation of Consumer Organisations (AFCO) described this current policy arrangement as 'income derived'. The more a person earns, the more contributions are paid to a fund, and ultimately a larger benefit in retirement. For these reasons AFCO sees SG as benefiting middle to high income earners with stable employment histories and salary increases.³

4.5 The Association of Superannuation Funds of Australia (ASFA) submission also pinned the reason for the small amounts down to the fact that SG contributions are proportional to wages. Part-time and casual workers' wages are small because of:

1 SGCREV Sub No 68

2 Evidence, p 73

3 SGCREV Sub No 20

- the short duration of employment;
- the small number of hours worked in a given period; or
- a combination of both.⁴

4.6 Casual and part-time workers on low or intermittent incomes receive small and irregular contributions, often across a number of funds which results in small capital accumulation and relative low returns. Erosion of the benefit by fees and charges exacerbates the problem.