

## 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.<sup>1</sup> 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'.<sup>2</sup>

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'.<sup>3</sup> 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.<sup>4</sup>

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

<sup>2</sup> COTA Australia, *Submission 86*, p. 4.

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

<sup>4</sup> 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.<sup>5</sup>

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.<sup>6</sup>

### ***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.<sup>7</sup> 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.<sup>8</sup>

5.7 The AIST also called for the application of a gender lens when assessing policy, in particular when assessing superannuation policy.<sup>9</sup> 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'.<sup>10</sup>

### *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.<sup>11</sup>

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.<sup>12</sup>

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.<sup>13</sup>

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.<sup>14</sup>

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.<sup>15</sup>

### *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'.<sup>16</sup>

### *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.<sup>17</sup>

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.<sup>18</sup>

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?<sup>19</sup>

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'.<sup>20</sup>

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.<sup>21</sup>

#### *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.<sup>22</sup> 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"'.<sup>23</sup>

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.<sup>24</sup>

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.<sup>25</sup>

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'.<sup>26</sup>

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'.<sup>27</sup>

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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.<sup>28</sup>

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.<sup>29</sup>

5.29 CAPP'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.<sup>30</sup>

### ***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.<sup>31</sup> 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*, CAPP 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'.<sup>32</sup> The AIST also recommended developing a governance mechanism to assess progress on superannuation and to provide greater certainty and consumer confidence.<sup>33</sup>

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.<sup>34</sup>

5.32 Since 1992, almost every Federal Budget has contained changes to either the taxation of superannuation or the rules regarding voluntary contributions.<sup>35</sup> 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.<sup>36</sup>

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.<sup>37</sup>

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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.<sup>38</sup> In New Zealand, the Retirement Commissioner is mandated under the *Superannuation and Retirement Income Act 2001*, to review retirement income policies every three years.<sup>39</sup> 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.<sup>40</sup>

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.<sup>41</sup>

### *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'.<sup>42</sup>

### **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.<sup>43</sup>

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.<sup>44</sup>

### ***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.

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

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.<sup>47</sup>

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.<sup>48</sup>

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.

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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.<sup>49</sup>

### *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.<sup>50</sup>

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.<sup>51</sup>

### *Superannuation Guarantee for carers allowance*

5.47 Many submissions recommended including superannuation payments in the Commonwealth Carer Payment.<sup>52</sup> 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.<sup>53</sup>

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.<sup>54</sup>

#### *Superannuation Guarantee for paid parental leave*

5.49 Many submissions and witnesses supported including superannuation payments in Commonwealth Paid Parental Leave (PPL).<sup>55</sup>

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'.<sup>56</sup>

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.<sup>57</sup>

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.<sup>58</sup>

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'.<sup>59</sup>

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'.<sup>60</sup>

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'.<sup>61</sup>

### ***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.**

