

Inquiry into economic security for women in retirement

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Industry
Super
Australia 

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ABOUT INDUSTRY SUPER AUSTRALIA

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EXECUTIVE SUMMARY

Industry Super Australia (ISA) is dedicated to ensuring that public policy supports the wellbeing of Industry SuperFund members in retirement. ISA welcomes the Committee's decision to focus on the important issue of improving economic security for women in retirement on behalf of the millions of women who are members of Industry SuperFunds.

This Inquiry has generated significant political, community and media interest in this important social and economic issue which we hope will translate into systemic reforms to improve economic security for women in retirement. Indeed, we welcome recent indications by the Prime Minister, Treasurer and Assistant Treasurer that the Government is already focused on reforms aimed at improving retirement outcomes for women. Our submission strenuously argues for systemic reforms of the system which will improve women's outcomes across the board, and importantly, will also drive better efficiency and sustainability of policy settings – particularly superannuation tax concessions.

Our submission documents that women experience an unacceptable level of economic insecurity in retirement in Australia, now and into the future, based on current policy settings.

Part 1 of our submission documents the significant disparity in retirement outcomes for men and women, and the key social and economic factors which contribute to these outcomes. The Age Pension is the first pillar of our retirement income system, but for most women, it is the main pillar. 70 per cent of single women receive the full Age Pension. 38.7 per cent of single women live in poverty in retirement – and declining rates of home ownership will make this situation deteriorate further. It is estimated more than half of women currently aged 25-29 years (retiring in 2055) will not achieve a comfortable level of retirement income. Women's economic insecurity in retirement stems from lower levels of lifetime earnings and fragmented workforce participation associated with the gender pay gap and unpaid caring responsibilities. While women's workforce participation is increasing, it is mostly increasing as part-time work. The timing of gaps in earnings, and extended periods of part-time work which typifies women's workforce participation means women miss out on the magic ingredient of superannuation - the steady accumulation and compounding of contributions and returns. Nor is the proposal from the 1950s a viable solution: that women can rely on their male partner for financial support in retirement. A third of women are not in relationships by retirement age, and 40 per cent of couples have insufficient savings to fill the gap in women's superannuation.

The current settings within the retirement income system magnify the problem of gender differences in lifetime earnings.

Part 2 of our submission describes the ways in which the current settings of superannuation are weighted against the average Australian woman. The gender pay gap of 17.9 per cent blows out to a gap in super savings of 44 per cent. Despite very significant Government outlays to support and incentivise retirement savings through provision of superannuation tax concessions (currently \$30 billion per annum), these concessions are not well targeted at improving retirement incomes. The bulk of concessions are paid to those who would have a comfortable level of retirement income even without that support.

The bulk of concessions flow to men - incongruously, men on average receive twice the level of support through superannuation tax concessions to save for retirement than women.

Adding to the unfairness of the current distribution of tax concessions, the abolition of the low income super contribution (LISC) from 2017 will mean that half of Australia's working women will receive virtually no benefit or be subject to a tax penalty on contributions and earnings. Compare this to single men in the top 1 per cent whose lifetime tax concessions supercharge their retirement savings and residual estate by nearly \$2.8 million. Tax concessions double the retirement income and residual wealth of this "self-funded

retiree” cohort. Other elements of the super system, including some recent ad hoc changes, have also failed to address retirement income needs of women - deferring the increase of employer contributions, changes to the asset test for the Age Pension, the Government co-contribution scheme, and no super payments on paid parental leave.

While the compulsory super system is on its way to delivering better retirement income adequacy for Australian men, it is yet to deliver the same universal benefits for women. Reforms which improve outcomes for women will improve the effectiveness and fiscal efficiency of the retirement income system more generally.

Part 3 of our submission sets out ISA’s favoured package of systemic reforms which will significantly lift women’s economic security in retirement. In particular, paring back the generosity of outlays on superannuation tax concessions provides an unparalleled opportunity to repair the key structural drivers of inequity and inefficiency in Australia’s superannuation and tax settings, and significantly improve outcomes for women. ISA also recommends that the current timetable of increases of SG contributions to 12 per cent be accelerated, but at a minimum not be further delayed, and that SG be extended to paid parental leave. We also propose *Super Seed*: an enhanced version of 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.

ISA also recommends that the Committee explicitly recognise the critical importance of the Age Pension, and urge that any further reforms which impact on eligibility or entitlement be assessed against their impact on women’s retirement outcomes. We urge a reconsideration of the recently changed Age Pension asset test taper rate - which fundamentally undermines the capacity for retirement income policy to improve outcomes for low to middle income earners. The new taper rate aggressively depletes any benefit derived from other beneficial measures - including the SG increase. We also recommend regular official reporting of progress in improving retirement income for women.

ISA also comments on other policy proposals which we are less convinced of in terms of their capacity to improve economic security for women in retirement. In particular, we would urge great caution in thinking that introducing lifetime or increased concessional contributions caps is a measure which will improve women’s retirement savings. We do not have a glass ceiling problem in superannuation - very few women experience a problem with contributions caps constraining their capacity to contribute extra into their super.

On a more personal note, a count around the ISA office has tallied that our staff have 19 daughters. Improvements in retirement income occur over generations - the full beneficiaries of reforms made in coming years will be those who have just, or are soon to, enter the paid workforce.

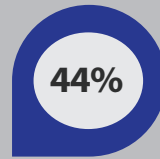
The super system must overcome rather than amplify the complex and intransigent social, demographic and economic factors that contribute to differences in lifetime earnings between men and women, and this necessitates the types of systemic reforms which we have recommended. In framing our submission and recommendations, ISA has kept our own daughters firmly in mind.

The Problem



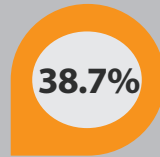
Gender pay gap

The gender pay gap for full time earnings sits at 17.9% (the earnings gap is at 33.7%)



Gender super gap blowout

Super system amplifies the disparity in lifetime earnings between men and women. The gap becomes 44% or an average of \$142,000.



Single women retiring in poverty

According to HILDA 38.7% of single women will retire in poverty. 56% of women will not achieve a comfortable retirement standard by 2055.



Broken work patterns

Women are more likely to have broken work patterns due to women's unpaid caring responsibilities



Age pension reliance

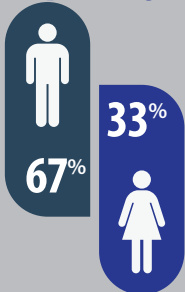
70% of single women retire on the full aged pension.



Women live longer with less

Women's average life expectancy is 84.3 years compared to 80.1 years for men. Women are also more likely to retire earlier at 62.9 years.

Super system weighted against the typical Australian woman



Tax concession recalibration

Women have half the super of men; yet twice the amount of tax concessions from the government flow to men.

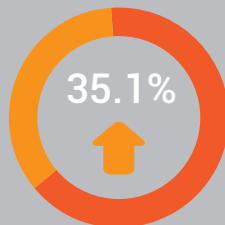
Making the retirement system work harder for women

On average men get twice the support for savings as women. The system is delivering for men; it needs to do the same for women.

ISA policy package

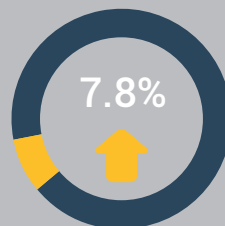
Impact on retirement savings

+\$75,310



Impact on retirement income PA

+\$2,343.33
Per annum



This includes rebalancing tax concessions, increasing super to 12%, introduction of super seed and SG on paid parental leave

ISA's proposed policies

1

Ensure women get a fairer share of tax concessions (or at least restore the LISC)

2

Increase super to 12%

3

Introduce the super seed government co-contribution

4

Pay SG on paid parental leave

5

Reforms to the age pension taper rate

Policies that won't increase women's economic security in retirement



Life time contribution caps

Introducing lifetime caps will not improve women's economic security, as most women are unable to make any additional voluntary contributions to their super let alone the significant additional contributions to close the super gap.



Rely on joint accounts

Allowing couples to create joint accounts does not add a single dollar to improve women's retirement outcomes. 1/3 of women are single by retirement and 40% of couples already don't have enough.

1. Women experience significant and widespread retirement income insecurity in Australia

This part of ISA's submission documents the disparity between male and female retirement incomes and identifies the driving factors of poor economic security for women in retirement.

Drawing upon a broad body of research into women's retirement incomes and outputs from the ISA-Rice Warner model¹, we show that many Australian women experience a lack of economic security in retirement.

To quantify the extent of the problem, it is necessary to consider:

- a. The disparity between the three key sources of retirement income for men and women; and
- b. The causes or factors which contribute to the very different outcomes for men and women.

The factors contributing to the lack of economic security women experience in retirement are numerous, complex, interrelated and unlikely to change without a more equal division between women and men of participation in paid work, household labour and caring responsibilities. This would require fundamental social change that is not likely to occur in the foreseeable future.

1.1 Disparity in retirement incomes for women in Australia

1.1.1 Australia's retirement system

Australia has a three pillar retirement system comprising of the Age Pension, Superannuation Guarantee (SG), and Voluntary Savings.

- The publicly funded and means tested Age Pension provides income support for eligible Australians who have reached retirement age
- The SG requires that a minimum level of employee income is accumulated for retirement savings
- Voluntary savings seek to provide a tax assisted means for private savings within superannuation.

The retirement income system is not yet mature: the legislative (and universal) underpinning of superannuation was put in place in 1992 and so the first generation of retirees who have had a working life of accumulation are not due to retire until around 2039. While the three pillar retirement system is evolving to deliver improved levels of retirement income to men, the super system is not delivering the same benefits for women.

However, prior to the introduction of the SG, less than 25 per cent of the female workforce had super in comparison to 40 per cent of men. While the current levels of retirement savings for women are disappointing, it must be recognised that the introduction of the compulsory super system was a radical improvement on what preceded it.

¹ See Appendix 2 for a detailed explanation of the model

1.1.2 Measuring economic security for women in retirement

In order to measure the disparity between women and men's financial security in retirement, it is necessary to take into account the income derived from the Age Pension, superannuation and wealth outside of superannuation. Measurements of outcomes for current and future generations of women show that most will fail to have a comfortable level of retirement income.

Age Pension

The Age Pension is aptly described as the first pillar of our retirement income system. For the foreseeable future, it will remain a very significant component of retirement income for all Australians, and particularly single women. While it is a worthy policy objective to ensure Age Pension outlays are targeted toward those whose private savings alone could not support a comfortable retirement, in reality that objective is met already – the Age Pension is already well targeted. Efforts to improve the fiscal efficiency of retirement incomes policy should be focused on reducing and retargeting the tax expenditures, rather than the direct outlays for the Age Pension. If anything, the Age Pension does too little to bring lower income women up to a comfortable living standard, and leaves those who do not own their home on the brink of poverty. Indeed the SG system was not created to replace the Age Pension, but to 'permit a higher standard of living in retirement than if we continued to rely on the Age Pension alone'². The rate of saving achieved by compulsory super, was designed 'to ensure that retirement incomes which are higher than that provided today with the Age Pension.'³

The Age Pension is subject to a means test, and is paid to people who meet age and residency requirements. Pension rates are indexed biannually to the MTAW⁴ to reflect changes in pensioners' costs of living and wage increases in the wider economy.

For Australians retiring in the near term (currently aged 55-59), the Age Pension will be the largest source of retirement income for around 60 per cent of couples and single men, and around 70 per cent of single women.

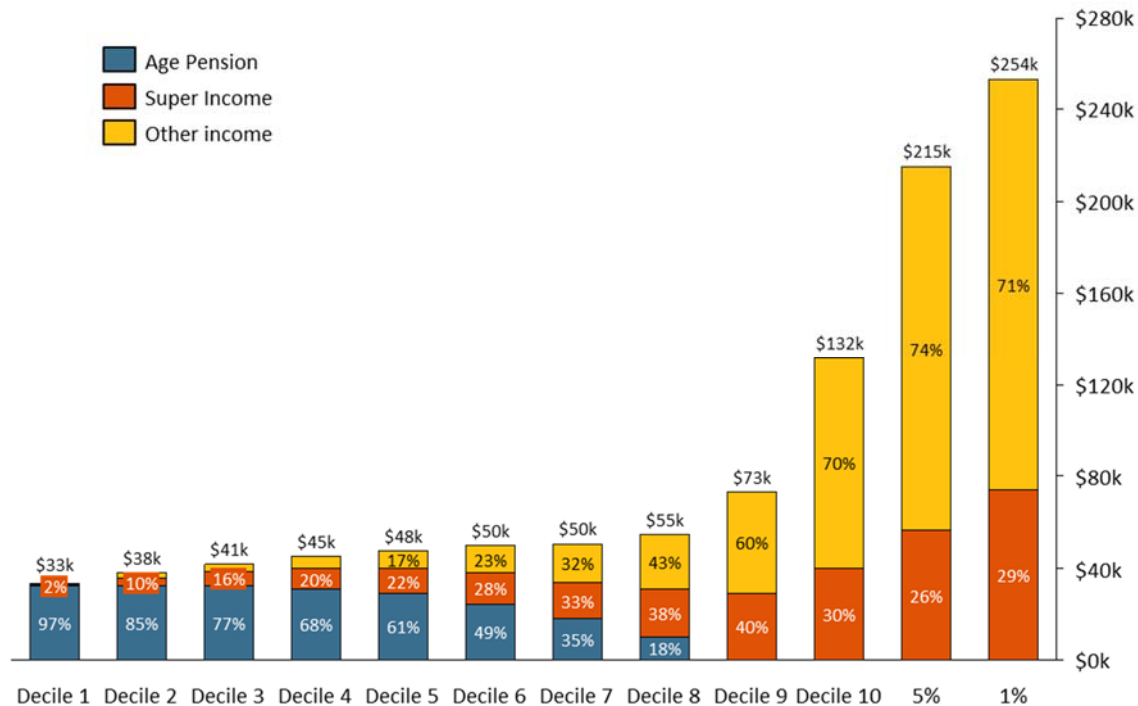
As shown in Figure 1 the Government Age Pension is absolutely critical for women's retirement security, providing the main source of retirement income for 70 per cent of women retiring in 2035. As a result, economic insecurity for women is exacerbated by any reforms which reduce eligibility or levels of Age Pension.

² Introduction to The *Superannuation Guarantee (Administration) Bill 1992* by the then Treasurer John Dawkins

³ The Hon John Hawkins MP Treasurer, Security in Retirement, Planning for tomorrow today, 30 June 1991 pp 1-2

⁴ MTAW – Male Total Average Weekly Earnings

Figure 1 – Annual retirement income (\$'000's) by source (%) and decile, single females retiring in 2035



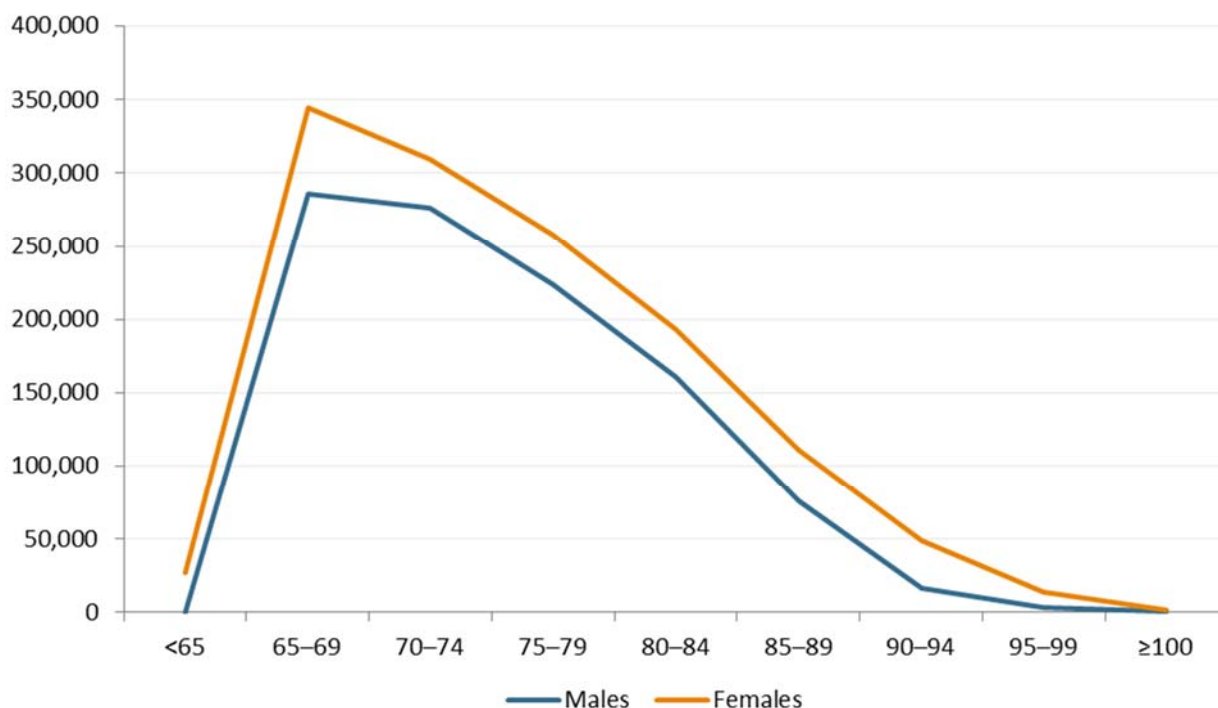
Source: ISA-Rice Warner modelling

In 2013, 55.6 per cent of Age Pension recipients were women, in comparison to 44.4 per cent of men. Of these recipients, 60.8 per cent of women were dependant on the full rate, in comparison to 57 per cent of men.⁵

Figure 2 shows that there are more female aged pensioners at all ages, with the gap opening up past 65 as a result of greater female longevity.

⁵ Department of Social Services: Statistical Paper No. 12, Income support customers: a statistical overview 2013 – Table 4 'Age Pension recipients, characteristics by sex, June 2013'

Figure 2 – Age distribution of pensioners 2013



Source: Department of Social Services: Statistical Paper No. 12, Income support customers: a statistical overview 2013

In the 2014-15 Federal Budget, it was proposed that the indexing for the Age Pension change from being based on MTAW to increasing in line with the lower CPI increases. Due to the dependence of women on the Age Pension as their main source of retirement income, this would have severely impacted women's retirement income in coming decades.

For a typical woman retiring in 2055, a CPI indexed Age Pension results in a 44.5 per cent drop in Age Pension received and a 31.6 per cent drop in annual average retirement income (wage deflated). The Age Pension needs to keep pace with community living standards, and the simplest reflection of this is the value of wages.

The Government subsequently decided against implementing this proposal.

Superannuation Income

Women are currently retiring with around half the amount of super than men with the retirement super gap sitting at 44 per cent. In dollar terms, this translates to \$142,000 less super. Table 1 shows that the super gap is smaller for not-married women aged 55-64, (who at aged 55-64 are more likely to be divorced or widowed than never-married), because they have more experience of paid work. However, as shown in Table 2, not-married women are significantly worse off when it comes to measuring the gap in total assets.

Table 1 - Gap in super assets – women employed aged 55-64

Social marital status	Super assets of person
Married women	46 %
Not married women	38 %
All women	44 %

Source: ISA analysis of the 2011-12 ABS Survey of Income and Housing

Total assets

Women are significantly worse off than men when it comes to wealth acquired by property (other than their own home) and all financial and business assets (including super). This is illustrated in the table below. The total asset gap between men and women at retirement is 42 per cent, with single women particularly worse off. Not-married employed women have a significantly bigger total asset gap to men than married women (a 57 per cent gap compared to a 35 per cent gap). This reflects greater saving with two incomes.

Table 2- Gap in total assets – women employed aged 55-64

Social marital status	Total business, rental property and financial assets
Married woman	35 %
Not married woman	57 %
All women	42 %

Source: ISA analysis of the 2011-12 ABS Survey of Income and Housing

A comfortable standard

Many Australian women will face life in retirement that is below a comfortable standard of living. In determining what is an objectively “comfortable retirement” standard, ISA uses the comfortable retirement income benchmark prepared by the Association of Superannuation Funds of Australia (ASFA).⁶ This is consistent with other research assessing the adequacy of retirement incomes in Australia.⁷ The ASFA standard defines a comfortable retirement standard as one which 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 electronic equipment, and domestic and occasionally international holiday travel.⁸

Modelling undertaken by ISA and RiceWarner has found that nearly half of all Australians will not have a comfortable retirement under the current settings.

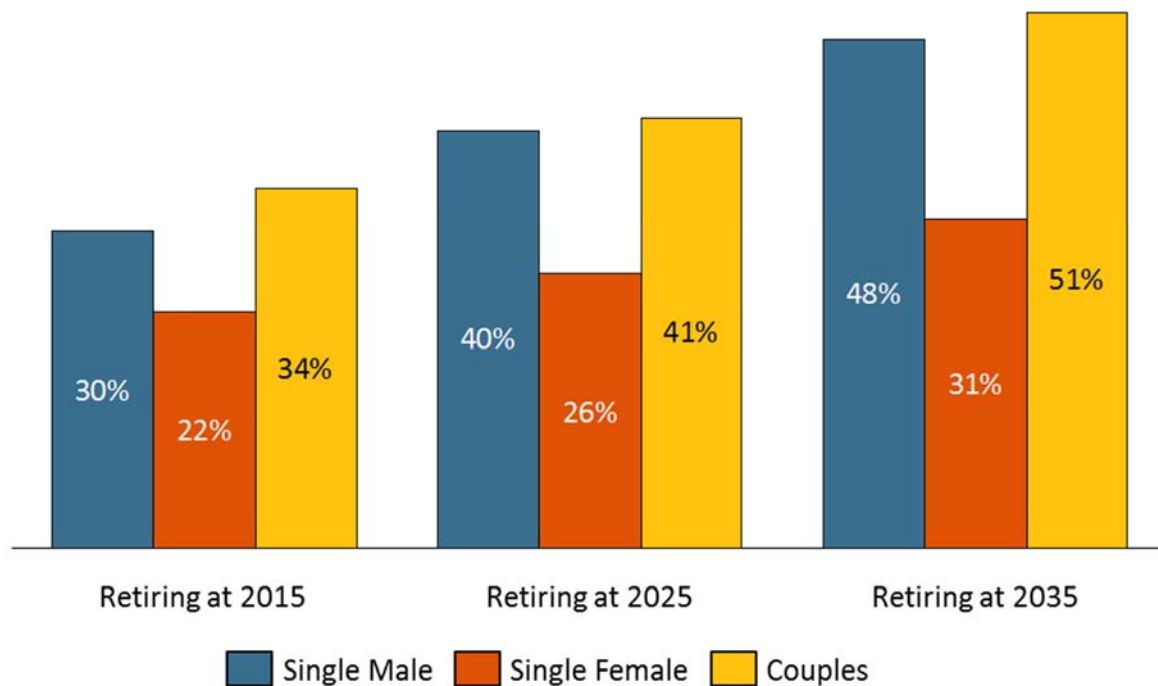
As shown in Figure 3, women are less likely to achieve a comfortable retirement standard with 63 per cent of all single women retiring in 2035 falling below the benchmark.

⁶ The standard assumes that the retiree owns their home. The current value of the ASFA comfortable standard is \$58,444 of combined annual income for a couple, and \$42,569 of annual income for singles. For projections, we have indexed this amount to wages growth, estimated to be 4 per cent nominal

⁷ See, e.g., Burnett et al., Measuring Adequacy of Retirement Savings, Melbourne Institute Working Paper Series, No. 5/14, 2014

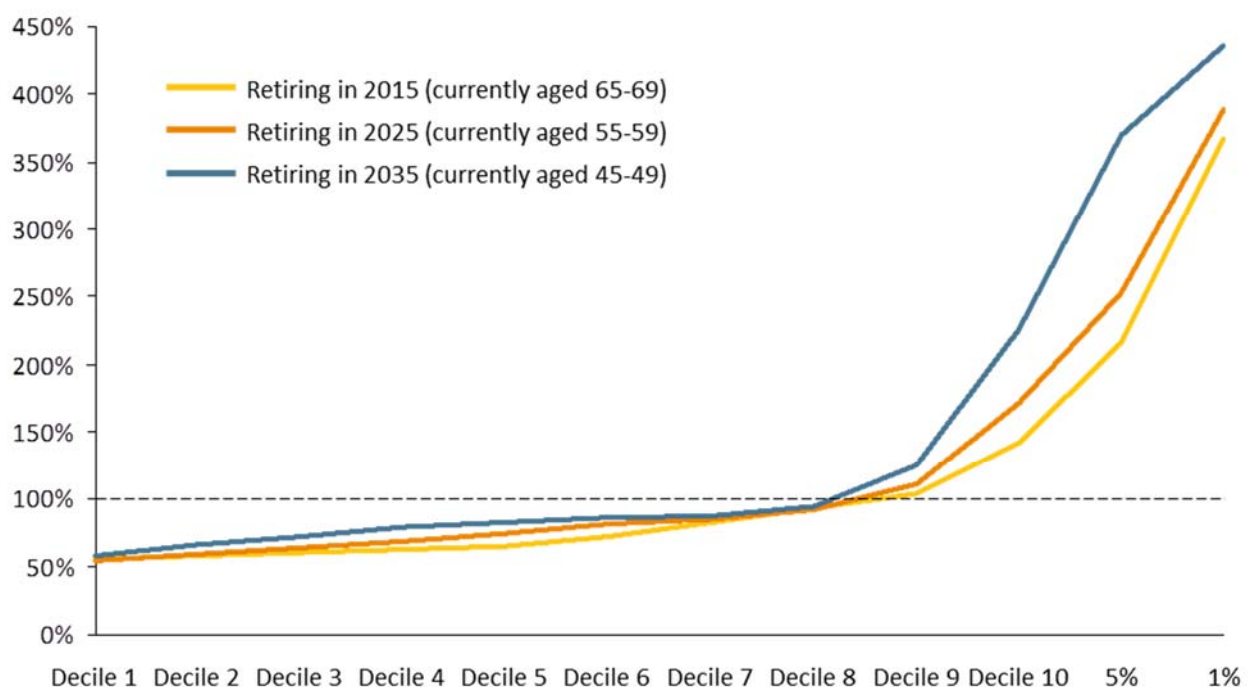
⁸ <http://www.superannuation.asn.au/resources/retirement-standard> accessed, September 29 2015

Figure 3 – % of retirees achieving the comfortable standard



Source: ISA-RiceWarner Modelling

Figure 4 – Retirement income as a % of comfortable standard single females



Source: ISA-RiceWarner Modelling

Poverty in retirement

The greatest consequence of lack of retirement security for women is the wellbeing of women in retirement. As shown in Table 3, 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.

Table 3- Poverty rates, per cent, by family type

	2001	2006	2012
Older Couple	20.7	24.7	25.6
Older single male	39.3	32.2	33.8
Older single female	44.8	37.9	38.7

Source: The Household, Income and Labour Dynamics in Australia (HILDA), Selected Findings from Waves 1 to 12, Melbourne Institute, 2015

Note: The OECD definition of poverty (50 per cent of median income) is used in HILDA

Changes made to the Age Pension rate in 2010, which increased the pension rate for singles, have reduced the numbers of both single males and single females living in poverty. Notwithstanding these improvements in the Age Pension single rate, levels of poverty among Australia's retirees remains unacceptably high.

As noted by the Australian Human Rights Commission, 'Financial insecurity and poverty, stemming from the gender gap in retirement savings, directly impacts on an individual's standard of living including their access to shelter, food and clothing, as well as their health status'⁹.

This creates a situation where instead of accumulating wealth through the retirement income system as intended, women are more likely to be accumulating poverty.¹⁰ Coupled with the fact that the rate of home ownership of retirees is on the decline,¹¹ there is a very real risk of financial distress and homelessness for many women in retirement.

Not only does this undermine international human rights obligations to ensure that the right to social security is enjoyed equally by women and men¹², but it raises a need for a greater understanding of the factors contributing to reduced levels of financial security for women in retirement.

1.2 Factors contributing to poor economic security for women in retirement

The current situation is caused by a range of interrelated cultural, economic and structural factors, most of which occur during the pre-retirement phase. We provide a summary of these key factors, but will limit our recommended policy solutions only to factors directly related to retirement income policy.

The most significant drivers of the retirement income gap are:

- The gender pay gap during the accumulation phase driven by entrenched gender stereotypes, workforce segregation and unequal pay;
- Fragmented workforce participation patterns due to women's greater commitment to unpaid caring responsibilities and over-representation in casual and part-time work; and

⁹ Broderick E. Accumulating poverty? Women's experiences of inequality over the lifecycle (2009)

<https://www.humanrights.gov.au/news/speeches/accumulating-poverty-women-s-experiences-inequality-over-lifecycle-2009>

¹⁰ <https://www.humanrights.gov.au/our-work/sex-discrimination/publications/accumulating-poverty-women-s-experiences-inequality-over#s5> Section 1

¹¹ <https://theconversation.com/home-equity-australias-growing-wealth-divide-17697> - citing ABS Data

¹² International Covenant on Economic, Social and Cultural Rights, opened for signature 16 December 1966, 993 UNTS 3 (entered into force 3 January 1976) art 3.

- A range of other factors including family status, longevity and homeownership.

The structure of the retirement income system magnifies these factors to leave women even worse off in retirement than they are during their working life.

1.3 The gap between men and women's earnings

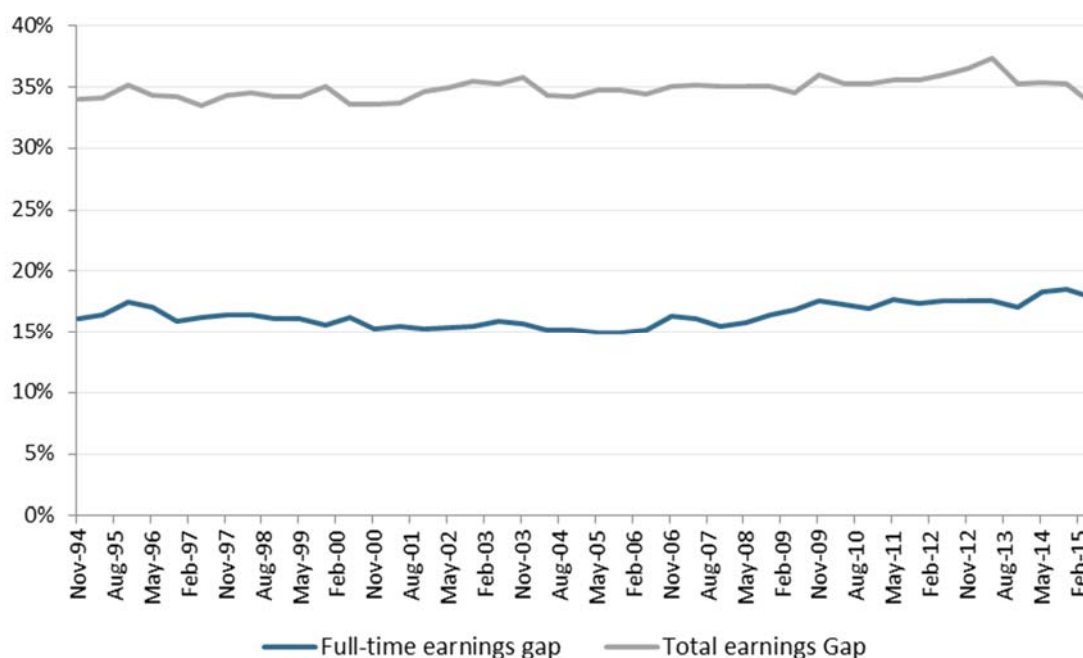
A key factor contributing to the significant socio economic disparity in retirement is the earnings gap between men and women. As shown in Figure 5, the gender pay gap, which measures the difference in average full time earnings of men and women, has stubbornly hovered just below 20 per cent for the past 2 decades. The total earnings gap, which measures average male and female earnings (including part-time income) is currently 33.7 per cent.

Factors contributing to the gap between men and women's earnings include:

- Gender bias – According to research conducted by the National Centre for Social and Economic Modelling in 2009, 'simply being a woman' – is the major contributing factor to the gender pay gap in Australia
- Women are under-represented in senior roles
- Industrial and occupational segregation – women are over-represented in lower-paid occupations or are in lower paid roles in higher-paid industries

Please refer to Appendix 1 for a comprehensive discussion of these factors.

Figure 5 – Comparison of full time earnings and total earnings



Source: ABS 6302.0 Average Weekly Earnings, Australia

The Gender pay gap

The Australian Government Workplace Gender Equality Agency (WGEA) defines the 'gender pay gap' as the difference between the ordinary time earnings of men and women who work full-time divided by the ordinary time earnings of men who work full-time. The national gender pay gap is currently 17.9 per cent, which means that women on a full-time average earning of \$1307.40 per week earn \$284.20 less than their male counterparts.¹³ In simple terms, a woman must work an extra 65 days per year to earn the same as her male counterpart.¹⁴ Over the last 20 years the national gender pay gap has hovered between 15 and 19 per cent.¹⁵ Despite an increase in workforce participation by women, the gap has not decreased over time.

In November 2014, the financial and insurance services industry had the highest gender pay gap (29.6 per cent), followed by health care and social assistance (29.1 per cent) and rental, hiring and real estate services (28.7 per cent). The lowest gender pay gaps were in the public administration and safety (7.2 per cent), other services (8.2 per cent), and accommodation and food services (9.0 per cent) industries.¹⁶

1.4 Different and disrupted workforce participation rates

Workforce participation is another key obstacle to economic security for women in retirement. However, continual full-time work is not a reality for many women for a range of reasons largely characterised by gender.

The typical pattern of workforce participation for women - including breaks from paid work and extended periods of part-time work, is fatal to their capacity to build adequate retirement incomes. The factors which are associated with women's typically disrupted working life include:

- The fact that women are more likely to be the primary carer - caring for children is the major reason why Australian women between 25 and 44 who work part-time do not work full-time¹⁷
- Factors relating to the accessibility and cost of childcare
- The way in which workplaces respond to pregnancy and return to work.

The cumulative effect of these factors is that during their working lives, women have a reduced earning capacity, which compounds into a significant socio-economic disparity for women in retirement.

Please refer to Appendix 1 for a comprehensive discussion of these factors

Workforce participation - Over-representation in part-time and casual work

The disparity between male and female earnings is partly explained by the fact that women are over-represented in part-time and casual work. The concentration of women in part-time roles reduces their ability to accumulate super through mandatory employer contributions.

¹³ Calculated by WGEA using ABS (2015), *Average Weekly Earnings, Australia, May 2015*, cat. no. 6302.0

¹⁴ $(365 \text{ days} \times 17.9) \div 100 = 65.3$. – equal pay day - 9 <http://www.equalpayday.com.au/>

¹⁵ https://www.wgea.gov.au/sites/default/files/Gender_Pay_Gap_Factsheet.pdf

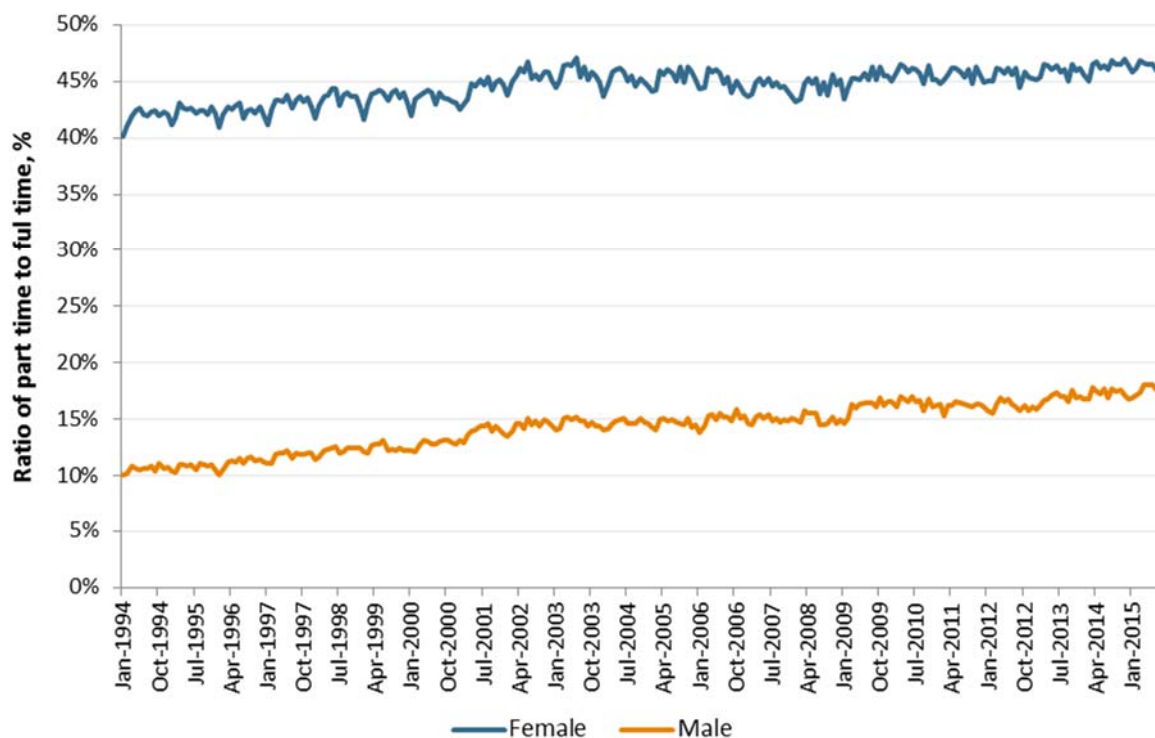
¹⁶ https://www.wgea.gov.au/sites/default/files/Gender_Pay_Gap_Factsheet.pdf (using ABS Stats)

¹⁷ John Daley, Grattan Institute, *Game Changers: Economic Priorities for Australia*, June 2012 p 43

Figure 6 shows that currently 46.8 per cent of employed women worked part-time, compared to 17.6 per cent of employed men. Figure 8 also shows that over the last 20 years, there has been an increase in the uptake of part-time work by women (reflecting increased workforce participation).

The fact that male workforce participation tends to be in continuous full-time work enables a steady accumulation of SG contributions, translating into higher super balances upon retirement. ISA calculates the full-time employment gap between men and women to be 35.4 per cent.

Figure 6 – Ratio of part-time to total employed by gender, 1994 to 2015



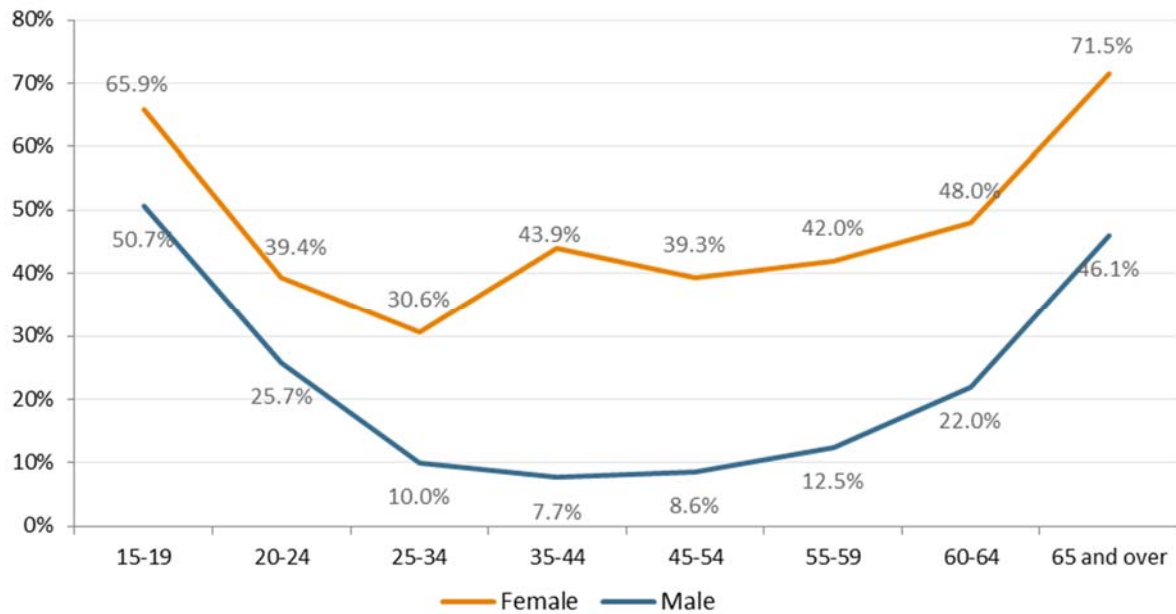
Source: ABS 6202.0 Labour Force, Australia

The extent to which women work part-time varies by age. Figure 7 shows that women who are under 20 or aged 35-44 (child-rearing years) are far more likely to work part-time.

The rise in part-time work between the ages of 35 and 44 clearly demonstrates the link between women's unpaid caring responsibilities and workforce participation. Most women have children during their late 20's and early 30s, and thereafter are less likely to be engaged in paid work, or likely to work for shorter hours over the rest of their working lives.

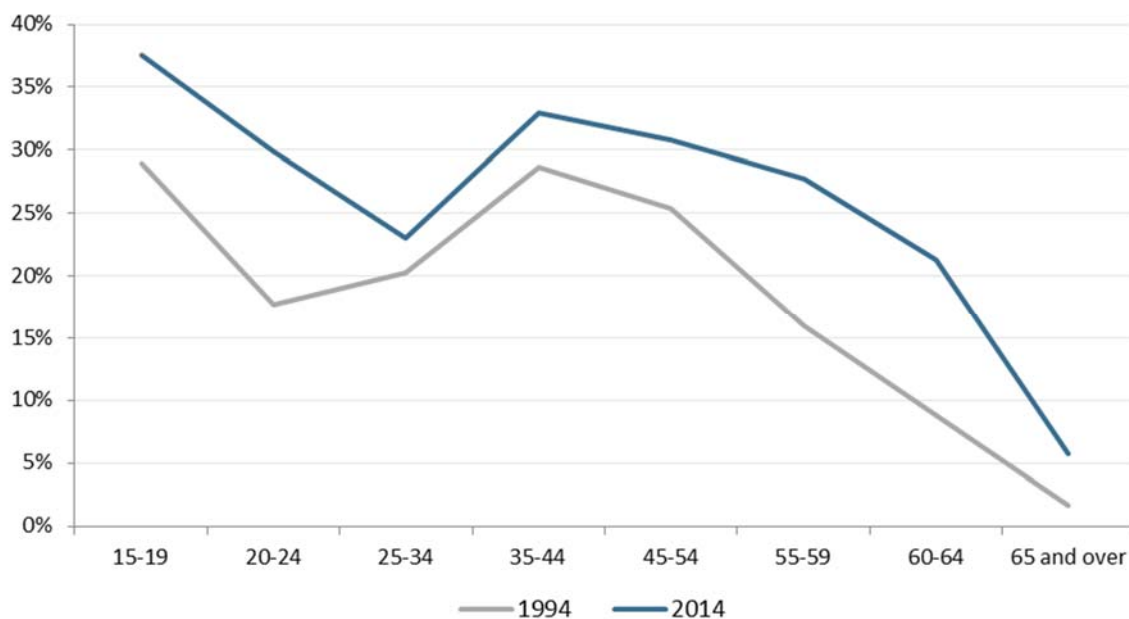
Figures 6, 7 and 8 show that to the extent that women's workforce participation is increasing, the increased participation is primarily in part-time work.

Figure 7 – Part-time as % of Labour Force, Feb 2014



Source: ISA analysis of ABS Labour Force Time Series Statistics 6291.0.55.001

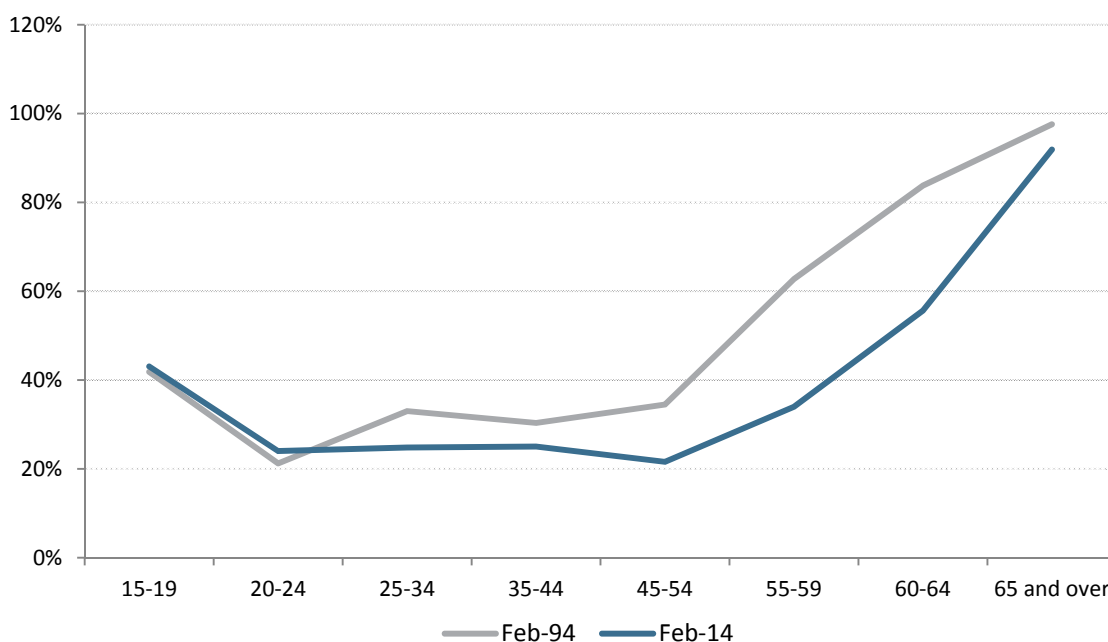
Figure 8 – Women working part-time by age



Source: ISA analysis of ABS Labour Force Time Series Statistics 6291.0.55.001

Figure 9 shows that women were far more likely to leave the workforce after age 25 in 1994 than they were in 2014. While women now are more likely to return to the labour force after they have children, it is typically in a part-time capacity. After age 55, women are more likely to not be in the labour force (and probably retired).

Figure 9 – % of women not in the labour force by age



Source: ISA analysis of ABS Labour Force Time Series Statistics 6291.0.55.001

A prolonged history of part-time work is often associated with lower pay (which in turn reduces employer contributions and the ability to make additional contributions). Long-term part-time employment is also associated with lower on-the-job training being offered and taken up.¹⁸

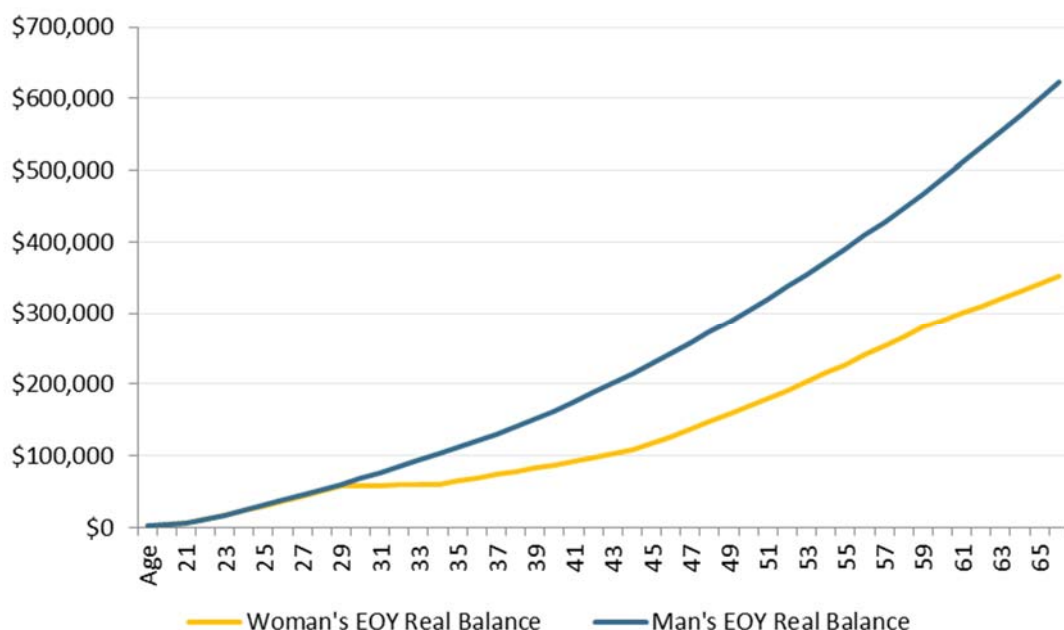
In addition, research has consistently shown that part-time roles often incur a 'part-time penalty' of reduced promotional opportunities and career plateaus, creating an association between part-time work and career limiting roles.¹⁹ This is particularly relevant in light of the fact that almost half of all employed Australian women work part-time.

The timing of breaks in women's workforce participation retards their capacity to steadily build superannuation contributions and compound earnings. Figure 10 shows the chasm in retirement savings coinciding with the typical age of having children.

¹⁸ The impact of a sustained gender wage gap on the Australian economy, p 9

¹⁹ https://www.wgea.gov.au/sites/default/files/PP_Different_genders_different_lives.pdf

Figure 10 – Comparison of growth in female and male real super balances



Source: ISA Cameo Modelling

Note: Super accumulation of a mother with an interrupted career and a man with a continuous career – both at median wages when working full-time.

1.5 Other factors contributing to the retirement income gap

In addition to workforce participation and the gender pay gap, there are a number of social factors contributing to poor economic security for women including:

- Women typically retire at a younger age than men but tend to live longer
- For many of these women retirement is not voluntary
- Women cannot rely on men for financial security
- Home ownership is on the decline

The following discussion provides an overview of these factors, but please refer to Appendix 1 for a more comprehensive discussion

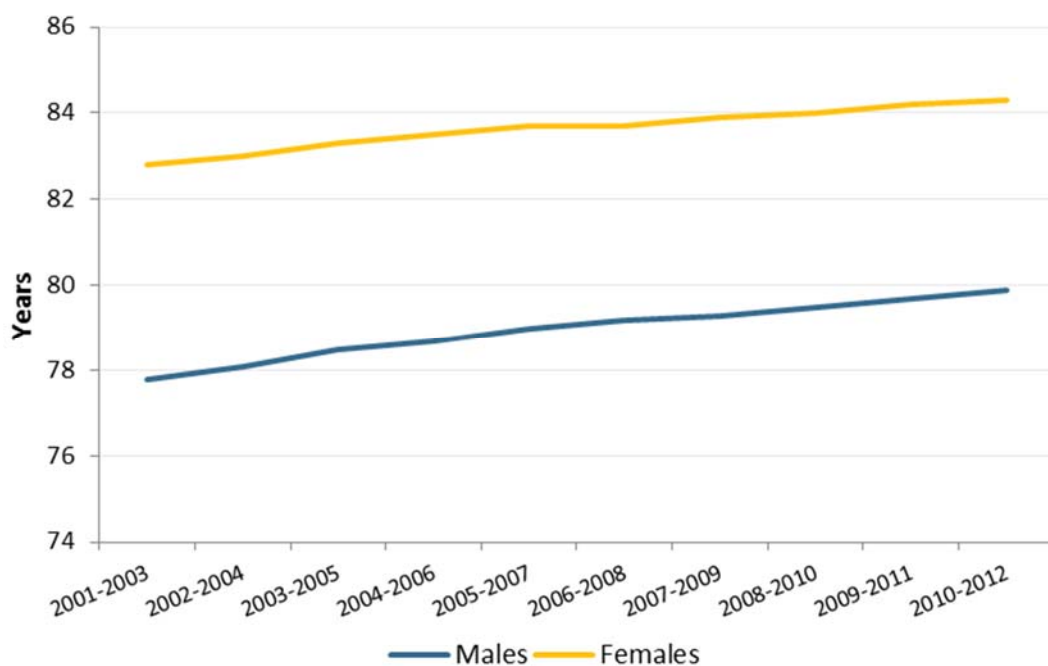
Retirement Age and Triggers

Another factor which contributes to women's poorer outcomes is the fact that they typically retire at a younger age but usually live longer. Many, complex social factors underpin these trends - including that for many women, retirement is not voluntary.

As shown in Figure 11, the latest data from ABS shows that women continue to have a longer life expectancy than men. Data from 2011-13 show that a woman's life expectancy is 84.3 years, while a man's is 80.1 years.²⁰

²⁰ ABS 4125.0 - Gender Indicators, Australia, Feb 2015

Figure 11– Life expectancy at birth



Source: ABS 4125.0 - Gender Indicators, Australia, Feb 2014

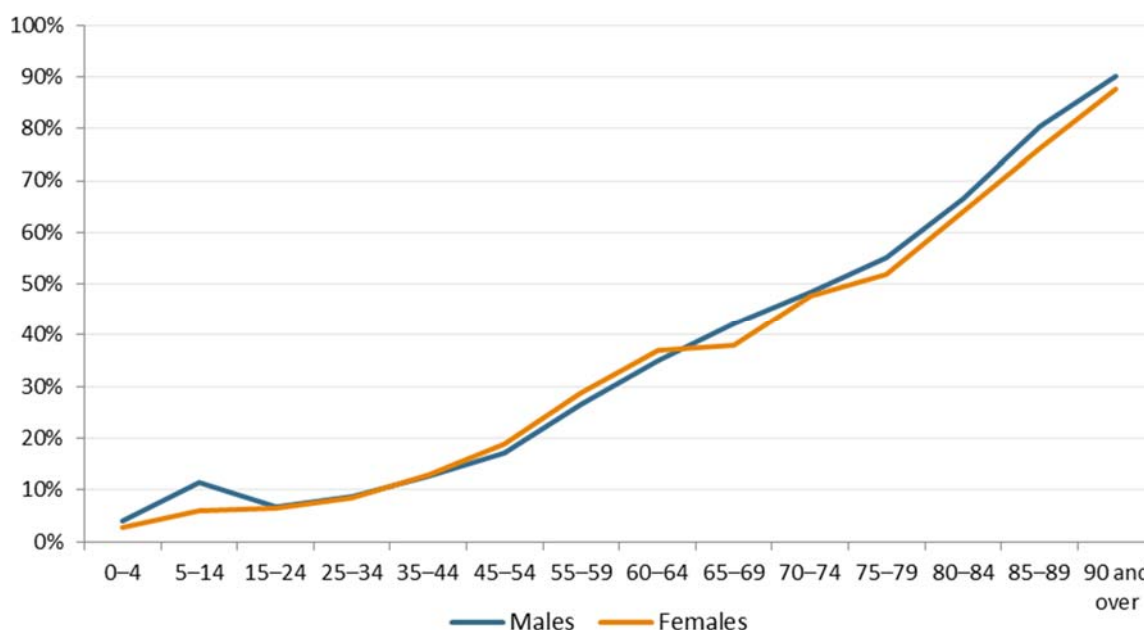
The 2006 Census²¹ indicated that less than 50 per cent of 63 year olds are working, dropping away further to less than 40 per cent of 64 year olds. Labour force participation continues to drop after the Age Pension eligibility age, with participation rates being around 30 per cent at age 65, 25 per cent at age 66, 20 per cent at age 67 and 15 per cent at age 68. There are very few full-time female workers beyond 70. This is unrelated to female life expectancy.

The 2015 Intergenerational Report²² reported that disability-free life expectancy for a female is age 64.5. This indicates that the drop in labour force participation by women aged in the early 60s is related to disability rates rather than mortality rates. Figure 12 presents the rise in male and female disability rates with age.

²¹ ABS 2006 Census data, <http://abs.gov.au/websitedbs/censushome.nsf/home/historicaldata2006>

²² 2015 Intergenerational Report, p8

Figure 12 – Disability rates by age and gender, 2009



Source: ABS Catalogue No. 4430.0 - Disability, Ageing and Carers, Australia 2009

Disability and social security

Disability is a major driver of social security take-up. According to the Productivity Commission, in 2013-14, almost 90 per cent of those who took up an Age Pension at 65 transitioned from another Government payment.²³ The rising Age Pension age for women has almost been fully offset by increased use of disability support pension (and some minor use of other payments) for the women affected.

The Productivity Commission estimates that 25 per cent of women retire because of poor health and caring responsibilities. A further 11 per cent of women have their employment terminated or cannot find work.

The rationale that further lifting the Age Pension will create incentives for women to work longer ignores the facts that the majority of retirements are involuntary and retirement due to an inability to work because of disability is common.

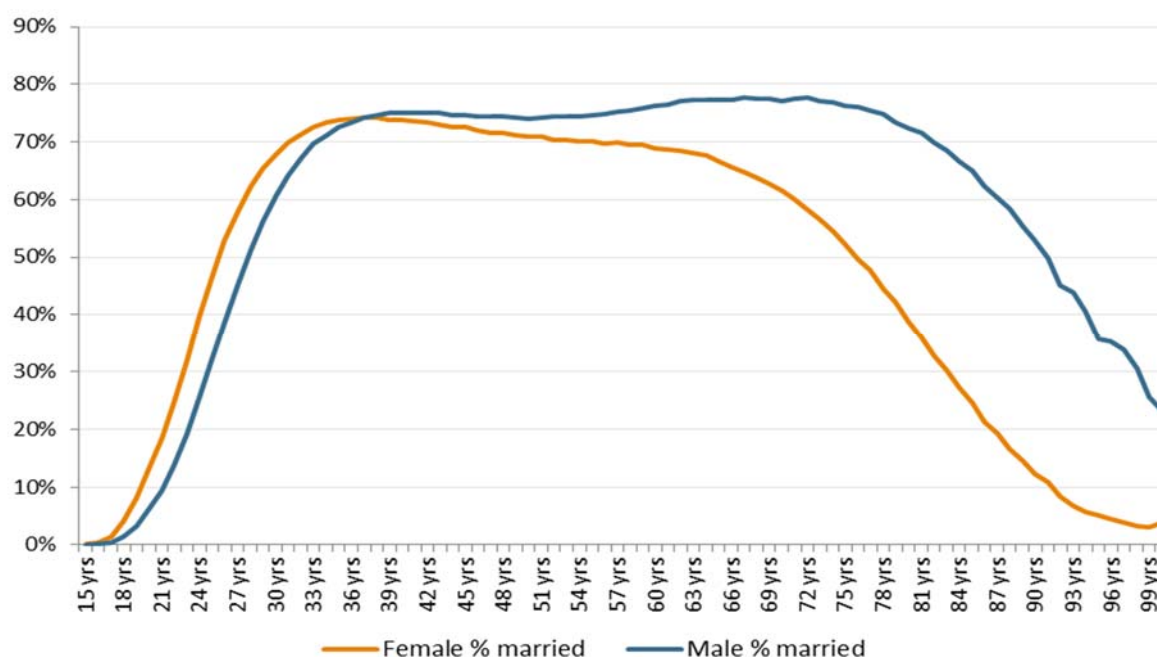
Women cannot rely on men for financial security

There is a common misconception that despite gaps in labour force participation, women will have greater access to retirement income due to the savings or income of a male partner.

Not only is it problematic to assume that a woman's right to financial security in retirement should depend on her relationship status but this is also a flawed assumption when the facts are considered - a third of women are not in a relationship by retirement and most women's male partners do not have a surplus of retirement savings to make up their gap. The superannuation system is on its way to delivering economic security for men in retirement. The system must be fixed to also deliver for women.

²³ 2015, Productivity Commission, Superannuation Policy for Post-Retirement: Productivity Commission Research Paper, Vol 1. p.33

Figure 13 – Marriage by age and gender, %



Source: ABS Census data

Women are less likely to be married than men after age 43, as shown in Figure 13, and at age 65, 32 per cent of women do not have a partner.

According to research undertaken by NATSEM, married women may not necessarily be better off in retirement than their single counterparts. The research found that:

- Among partnered women only a minority of those with superannuation balances can rely on their partner's retirement savings to provide them with an adequate lifestyle²⁴
- Women with low superannuation savings are much more likely to be partnered with a man with low superannuation than high superannuation²⁵, and
- Women who have adequate superannuation are more likely to be partnered with a person who also has adequate superannuation.²⁶

This is confirmed by ISA-Rice Warner modelling which confirms that 40 per cent of couples will not reach the comfortable living standard at retirement. The women in these relationships face economic insecurity in retirement, alongside their partners.

Home ownership

As noted the rate of home ownership of retirees is on the decline.²⁷ Women – particularly single women – are at greater risk of poverty in older age if they do not own their own home.²⁸ Research shows that non

²⁴ NATSEM – Retirement incomes by Gender in Australia p 17

²⁵ NATSEM – Retirement incomes by Gender in Australia p 17

²⁶ NATSEM – Retirement incomes by Gender in Australia p 17

²⁷ <https://theconversation.com/home-equity-australias-growing-wealth-divide-17697> - citing ABS Data

²⁸ D. Kingsford-Smith, (2001). Superannuating the Second Sex: Law, Privatisation and Retirement Income, *The Modern Law Review*, 64, 519-42; L.in https://www.wgea.gov.au/sites/default/files/2014-03-04_PP_economicsecurity_0.pdf

home owners tend to be financially much worse off both prior to and after retirement.²⁹ Women are almost twice as likely to be forced to sell their house in retirement due to financial necessity.³⁰

The retirement income system rests on three pillars. As detailed in section 1.1.2, the majority of women remain heavily dependent on the first pillar - the Age Pension – to provide most if not all of their retirement income. The compulsory super system is on its way to delivering more adequate level of retirement income security for men. The super system is yet to deliver the same benefits to the average Australian woman.

2. Current retirement income policy poorly targeted for women

The current settings of the superannuation system are weighted against the average Australian woman, having regard to their lower earnings, disrupted work patterns, longevity and household circumstances. SG contributions are a percentage of earnings and women's capacity to make additional voluntary contributions is constrained by lower earnings and wealth. Government support, in the form of super tax concessions, are especially regressive, with the average man receiving twice the level of support than that provided to the average woman. Recent ad hoc changes have tended to exacerbate the disparity in male and female outcomes.

This part of our submission will provide an overview of systemic problems in the superannuation system, and demonstrate how they magnify rather than moderate the retirement income gap, including:

- Superannuation tax concessions
- SG increases deferred and LISC abolished
- Age Pension means test changes
- Superannuation Co-contribution scheme

2.1 Superannuation tax concessions

Superannuation tax concessions are designed to support and encourage individuals to save for retirement by allowing a higher level of savings to be accrued and subsequently consumed than if equivalent assets were held directly.

The current tax rates for superannuation are as follows:

- On contributions – generally a tax rate of 15 per cent
- On investment earnings during accumulation – a tax rate of 15 per cent
- On investment earnings during retirement – nil after age 60
- On benefit payments – nil after preservation age has been reached.

Superannuation tax concessions are designed to provide an incentive to save for retirement and compensate for the fact that savings are generally inaccessible until retirement.

²⁹ Heady et al. (2008: 20) in The Impact of Australia's Retirement Incomes System on Women's Retirement Incomes, The University of Queensland Social Research Centre p 26

³⁰ https://www.humanrights.gov.au/our-work/sex-discrimination/publications/accumulating-poverty-women-s-experiences-inequality-over#s4_2

It is widely recognised that the existing system of superannuation tax concessions is inefficient, unsustainable and inequitable and requires fundamental reform. The FSI concluded that: ‘Tax concessions in the superannuation system are not well targeted at improving retirement incomes’.³¹

Superannuation tax concessions substantially increase the retirement incomes and residual wealth of high-income earners, focusing Government support on and increasing incentives for those who would retire on incomes well above those necessary to have a comfortable standard of living. Analysis by ISA and Rice Warner found that 35 per cent of concessions flow to the top 10 per cent of income earners, whereas only 29 per cent flow to the bottom 70 per cent. The bulk of concessions therefore flow to those who would not drawing the Government Age Pension.

Perversely, superannuation tax concessions provide much weaker benefits and incentives to save for low and middle income earners. Under current settings, for persons on low incomes (many of whom are women), the taxation of super contributions and earnings can be a tax impost on incomes below the tax-free threshold rather than a tax concession. This situation which was temporarily remedied by the LISC.

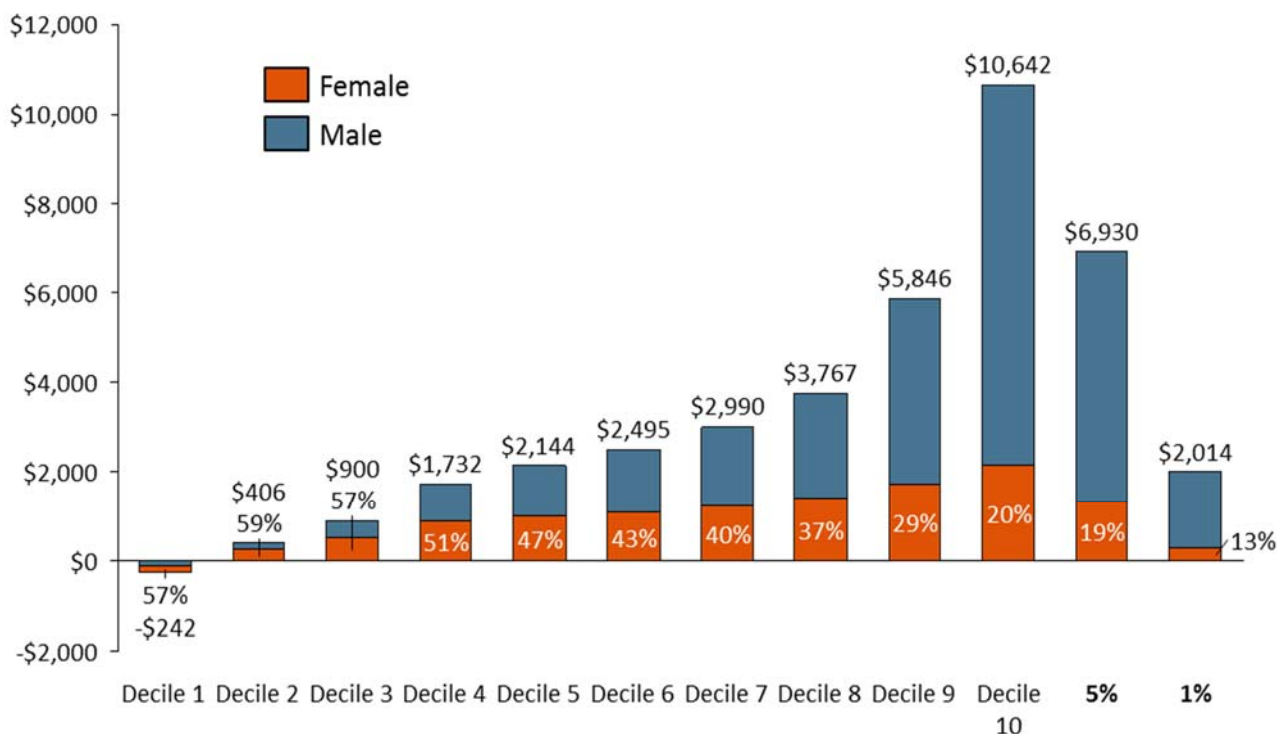
The Treasury Tax Expenditure Statement 2014 estimates tax revenue forgone in 2014-15 from employer and personal superannuation contributions at \$17.05 billion and from earnings and capital gains at \$13.63 billion. In other words, total concessions are currently worth over \$30 billion.

ISA estimates that 33 per cent of super tax concessions go to women and 67 per cent go to men. As a share of total concessions men obtain twice the support for retirement savings as women.

Figure 14 shows the taxable income decile breakdown of the tax concessions, and also the splits for the top 5 per cent and the top 1 per cent. Although women incur 57 per cent of the tax penalties in decile 1, they are estimated to have only 20 per cent of the concessions in the top decile of taxable income, and only 13 per cent of the tax concessions to the top one per cent.

³¹ FSI Final Report at 90

Figure 14 – Distribution of superannuation tax concessions, \$ million, 2014-15



Source: Treasury TES 2014, with ISA estimates of quantile and gender splits from the ABS Survey of Income 2011-12, the ATO percentile distribution of taxpayers and the Treasury distribution of contributions for the April 2102 Roundtable adjusted by ISA for Division 293 Tax.

The regressive nature of super tax concessions fail many women – an estimated³² 13 per cent of income earners, mainly women, are penalised by super tax concessions and a further 24 per cent of earners obtain only a marginal benefit. Incoherently, the lowest paid women pay more tax on their superannuation savings than on their ordinary income, via contributions and earnings taxes. In other words, the tax settings reduce their retirement savings. The LISC at least ensured that women in this situation would not have incurred a tax penalty on contributions.

High income earners (mostly men)

There is widespread consensus from numerous stakeholders that the existing superannuation tax concessions are poorly structured and require significant reform.

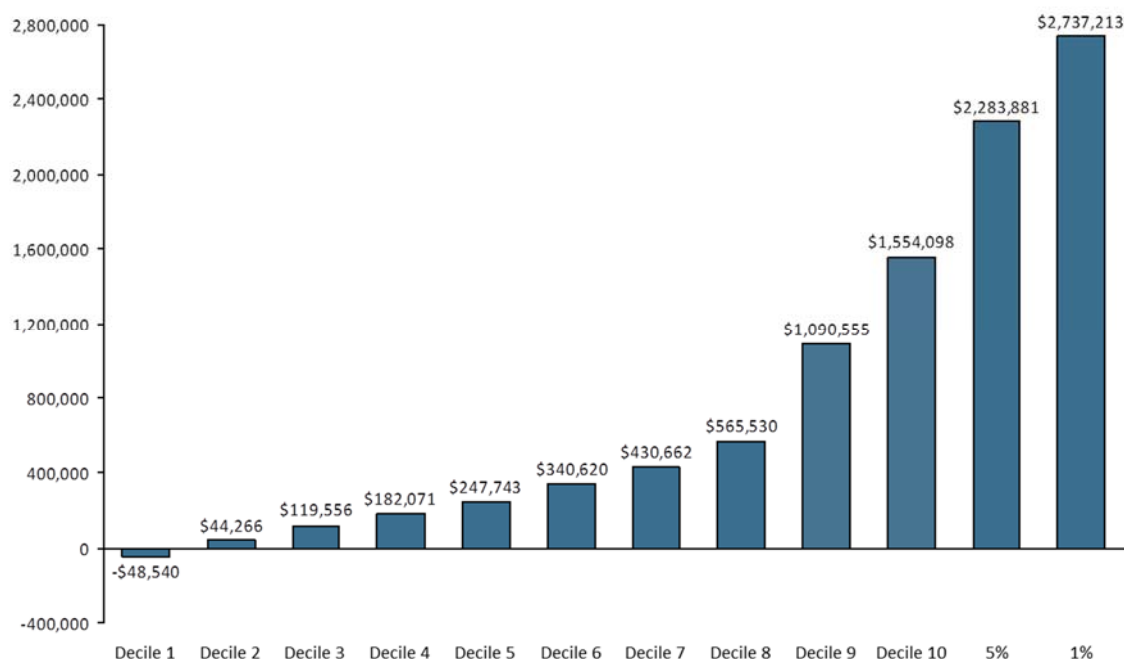
The concessions disproportionately benefit and lift incentives to save for high income earners, who have retirement incomes well above a comfortable standard. The existing concessions also disproportionately benefit men rather than women.

For example, single males in the top one per cent will receive total lifetime tax concessions of nearly \$2.8 million per person. Tax concessions double the retirement income and residual estate of this “self funded retiree” cohort.

Figure 15 shows the lifetime value of superannuation tax concessions for men retiring in 2055 (currently aged 25-29) by income decile. Those in the top decile, particularly the top 5 per cent and 1 per cent, receive extraordinary levels of Government support for retirement incomes.

³² ISA calculations from ATO Taxation Statistics 2012-13, Table 16 and ABS 63060 Employee Earnings and Hours May 2014

Figure 15 – Lifetime superannuation tax concessions, single males retiring in 2055



Source: ISA-Rice Warner modelling

Note: Tax concessions valued as the difference between the total retirement income from, and residual capital balance in, superannuation at life expectancy to the total retirement income and residual capital balance that would be derived if an identical portfolio of assets were held directly by the taxpayer, utilising effective tax rates within and outside of superannuation, assuming the use of all available tax benefits and offsets in either circumstance including dividend imputation, capital gains tax discounts, and personal tax offsets including the Seniors and Pensioner's Tax Offset in the drawdown phase.

Low income earners (including most women)

Incoherently, although high income earners benefit significantly from tax concessions, many low income earners are detrimentally affected by the current settings. Individuals in the bottom income decile pay more tax on their superannuation savings than they do on ordinary income. Instead of a tax break, they suffer a tax impost.

Superannuation contributions and earnings are generally taxed at a flat 15 per cent in the accumulation phase³³ (with earnings being tax free in retirement). The 15 per cent tax on contributions and accumulation earnings is higher than the marginal rate of income tax paid by those in the bottom decile (i.e., 0 per cent because of the tax free threshold and Low Income Tax Offset).

³³ Except that contributions subject to Division 293 pay an additional 15 per cent tax

Table 4 – Taxable income and tax on super

Taxable income range	Marginal Tax Rate	Contribution concession	Earnings concession
\$0 - \$20,542	0	-15%	-15%
\$20,543 - \$37,000	21%	6%	6%
\$37,001 - \$66,667	36%	21%	21%
\$66,667 - \$80,000	34.5%	19.5%	19.5%
\$80,001 - \$180,000	39%	24%	24%
\$180,001 - \$300,000	47%	32%	32%
\$300,001 - and over	47%	17%	32%

Source: Australian Tax Office

Note: Inclusive of LITO, Medicare levy and Division 293 surcharge but excludes deficit repair levy.

Taxation, in conjunction with the transfer system, can also be used to distribute the product of the economy more fairly, and increase equality and opportunity within society. In this sense, the “tax-transfer system is the principal means of expressing societal choices about equity. The tax-transfer system is a reflection of the kind of society we aspire to be.”³⁴

Part 3 of this submission sets out ISA’s recommendations for reforms to superannuation tax concessions to improve economic security for women in retirement, building on the rebalancing of tax concessions recommended by the Henry Tax Review.

2.2 Deferral of SG increases and abolition of the LISC

Super Guarantee

Australian superannuation law requires all employers to make pre-tax super contributions at a minimum of 9.5 per cent of the employee's ordinary earnings when an employee is paid \$450 or more before tax in a month, and is over 18. This is known as the Super Guarantee (SG). The SG was due to increase from 9 per cent of employee earnings to 12 per cent by 2019, however the Government legislated a new deferred timetable for increases to the SG (Table 5).

³⁴ Henry, How much inequity should we allow?, 3 April 2009

<http://taxreview.treasury.gov.au/content/Content.aspx?doc=html/speeches/05.htm>

Table 5 – Scheduled increases to Superannuation Guarantee

Year (commencing 1 July)	Previous SG Schedule	New SG Schedule
2013	9.25%	9.25%
2014	9.50%	9.50%
2015	10.00%	9.50%
2016	10.50%	9.50%
2017	11.00%	9.50%
2018	11.50%	9.50%
2019	12.00%	9.50%
2020	12.00%	9.50%
2021	12.00%	10.00%
2022	12.00%	10.50%
2023	12.00%	11.00%
2024	12.00%	11.50%
2025	12.00%	12.00%

SG Freeze

Source: ISA Briefing Note - Working life impact SG and LISC, April 2014

Low Income Super Contribution (LISC)

Introduced in July 2012, the LISC rebates up to \$500 into the super accounts of working Australians whose marginal rate of tax is 15 per cent or less. The LISC is currently paid to 3.6 million people, including one in two working women.

The LISC was initiated following a recommendation of the independent Australian Future Tax System report (the Henry Review) in 2010 to correct the fact that low income earners pay more tax on their superannuation contributions than their ordinary earnings.

The Government has recently legislated to abolish the LISC from 2017.

According to Australian Bureau of Statistics data, 60 per cent of those affected by the abolition of the LISC are part-time earners in family households, and another 27 per cent are full time earners in family householders. Overall, 87 per cent of those who receive the LISC and stand to lose it are from family households.

Impact of changes

Taken together, the freezing of the SG and the abolition of the LISC reduce the super incomes of women by 10 per cent. This will have a long-term fiscal impost of almost \$2 billion a year by 2055 as a result of both increased Age Pension expenditure, and decreased revenue from superannuation earnings tax. Over 3 million workers – two million of whom are women - will lose up to \$500 per annum as a result of the repeal of the LISC.

2.3 Age Pension means test

The Age Pension is designed to provide income support to Australians in retirement who are not able to support themselves by their own means. As noted in *Part 1*, it remains a key pillar of Australia's retirement income system.

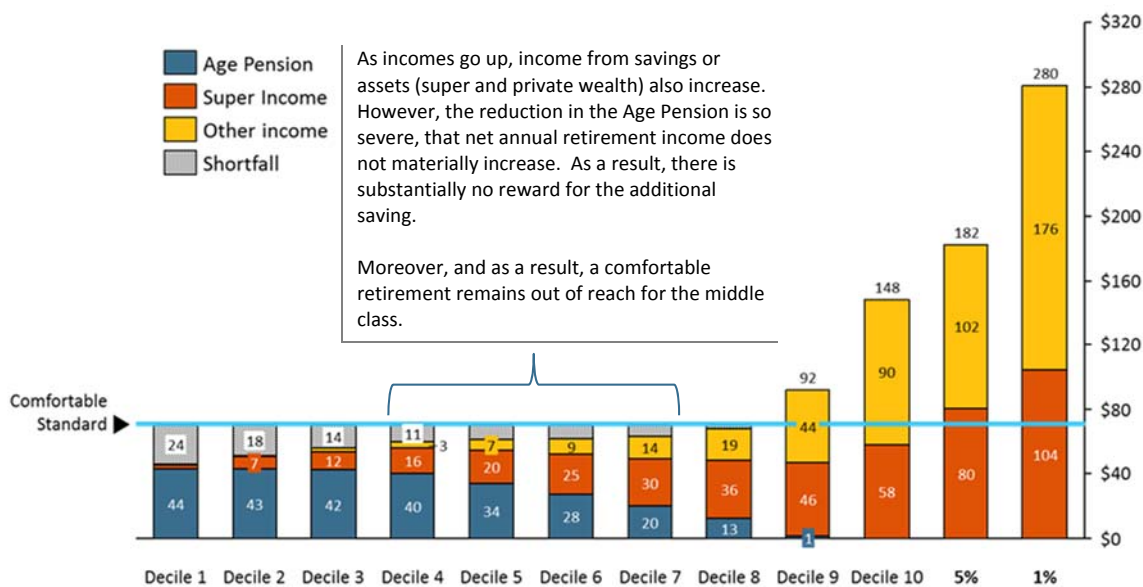
The Age Pension means test changes legislated earlier this year will prevent many women from achieving retirement income security.

The asset taper rate, which governs how much of the fortnightly Age Pension payment is lost for each additional \$1,000 of assets above the lower threshold, is currently set at \$1.50. That is, \$1.50 of a fortnightly Age Pension payment is lost for each additional \$1,000 of assets above the lower threshold. The Government has legislated aggressive changes to the taper rate. Under these changes, from January 2017, the taper rate will increase to \$3.00.

Figure 16 shows retirement income for single females from all sources, including from the Age Pension, superannuation and income from wealth outside superannuation, under the new asset test.

This modelling shows that the Government's changes to the taper rate undermine the incentive for women to increase their super contributions. This is because any increase in retirement income from this source will largely be clawed back through a reduction in Age Pension payments. This is particularly the case for women in income deciles 4 through 8. A similar pattern is evident for couples.

Figure 16 – Average annual retirement income by source, single females, retiring in 2055



Source: ISA-Rice Warner modelling

The excessively steep taper rate of the Age Pension, and how it undermines the incentive to save for retirement, is perhaps best demonstrated by a comparison. As shown in Table 6, an additional \$100,000 of savings translates into only about \$36,000 of additional lifetime retirement income and residual super at life expectancy. In other words, the new Age Pension means test imposes a 75 per cent marginal tax rate on savings.

Table 6 – Comparison of super balances of \$400,000 and \$500,000 (2015 dollars)

Starting Pension Balance	\$400,000	\$500,000	+\$100,000
Present value of total superannuation pension income to life expectancy	\$571,616	\$714,517	+\$142,901
Present value of total Age Pension to life expectancy	\$974,254	\$845,256	-\$128,998
Total Retirement Income to life expectancy	\$1,545,869	\$1,559,772	\$13,903
Residual superannuation balance at life expectancy	\$89,456	\$111,814	\$22,358
TOTAL Retirement Income (Age Pension and superannuation) and Residual Balance	\$1,635,325	\$1,671,587	
Difference			\$36,262

Source: ISA-Rice Warner modelling

Note: For a single person retiring in 2055

The new Age Pension means test also effectively nullifies the beneficial effects of other recent public policy changes.

The superannuation guarantee (SG) is scheduled to increase to 12 per cent by 2025. This increase will increase annual retirement incomes for all income deciles but is particularly beneficial for women. However, the new Age Pension asset test substantially reduces the beneficial impact of this policy change for female middle income earners.

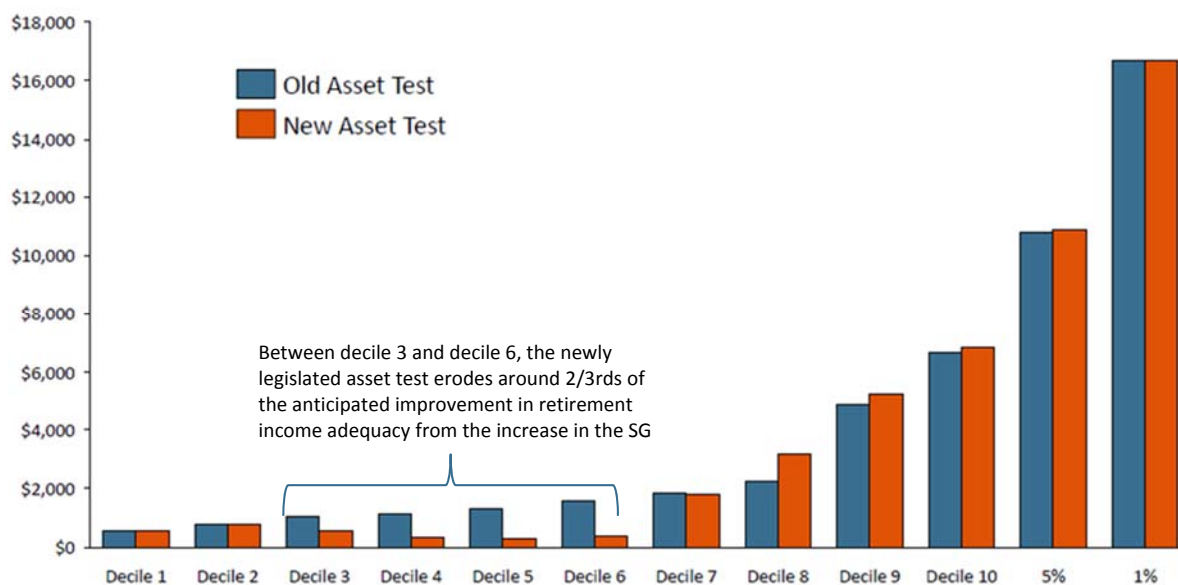
Figure 17 shows the impact on the annual retirement incomes of single women of the increase in the SG under both the old and new assets test. The significant adverse effect of the new Age Pension asset test on women in income deciles three through six of this group significantly undermines the policy objectives of the SG increase. A similar pattern is evident in couples from the second to the sixth deciles.

Importantly, these effects are not confined to the legislated increase in the SG. They would also apply to any other policy measure or discretionary decision to increase savings inside or outside super (except the family home). This is particularly relevant when considering steps to improve retirement income adequacy of women. Voluntary savings efforts and ad hoc employer initiatives, risk not actually improving overall retirement incomes much at all.

The loss of the retirement income purchasing power of additional savings may only be avoided by rapidly spending savings – contrary to the policy objective to smooth income over retirement and encourage an orderly drawdown of assets.

These interactions between steps to lift superannuation benefits and Age Pension means test changes underscore the importance of considering superannuation and the Age Pension as integrated pillars of retirement security policy, the need to consider all potential changes to the retirement income system from a holistic standpoint and to formally assess all proposed changes against an agreed, legislated objective.

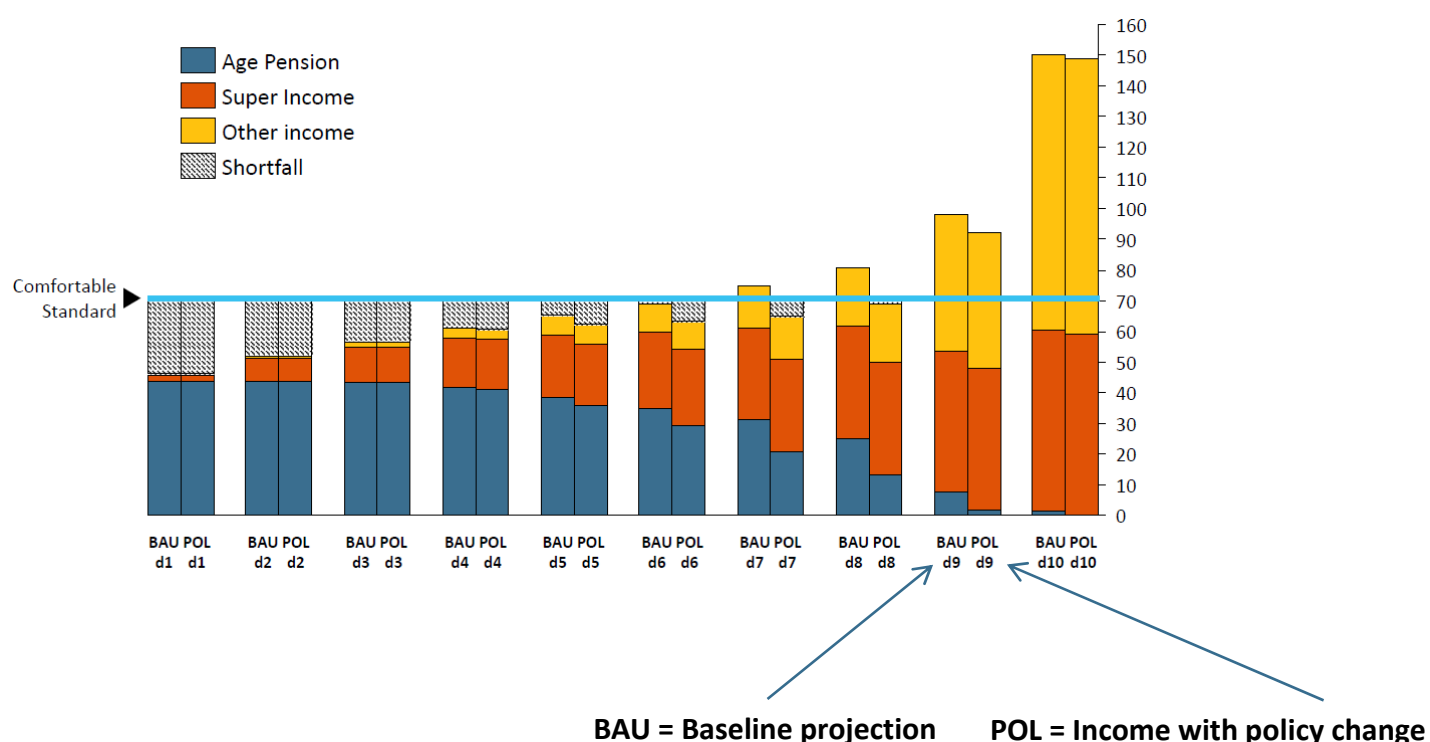
Figure 17 – Impact of the SG increase under the old and new Age Pension means test on annual retirement incomes, single females retiring in 2025



Source: ISA-Rice Warner modelling

Single women are particularly disadvantaged by the changes. For example, ISA estimates (using the ISA-RiceWarner model) 30 per cent of single women aged 25-29 today who would have reached a comfortable living standard in retirement before the change to the means test will no longer do so and for around seven in ten a comfortable retirement won't be possible.

Figure 18 – Effect on retirement income of proposed Age Pension asset test change, single females retiring in 2055, by income decile, 5 % and 1 %, \$000's



Source: ISA-RiceWarner Modelling

Figure 18 illustrates how the more aggressive taper rate undermines the incentive for people to increase their super contributions since any increase in retirement income from this source will be largely clawed back through lower pensions. This is particularly the case for females in income deciles four through eight.

As incomes go up, income from savings or assets (super and private wealth) also increase. However, the reduction in the Age Pension is so severe, that net annual retirement income does not materially increase. As a result, there is substantially no reward for the additional saving. As a result, a comfortable retirement remains out of reach for the middle class.

Part 3 of this submission sets out ISA's recommendations for reforms to the Age Pension means test to improve economic security for women in retirement.

2.4 The Superannuation Co-contribution Scheme

The Superannuation Co-contribution Scheme was designed to assist people on lower incomes save for retirement. Under the scheme, the Government will pay up to 50 cents for every dollar that is contributed by an individual from their after-tax income. For the Financial Year 2014/2015, for those earning less than \$49,488 per year, the Government will co-contribute up to \$500 into their super account.

The Co-contribution scheme relies on people making a voluntary contribution to superannuation, which is matched by Government. The system has very limited impact:

- Only 14 per cent of people who are eligible to use the scheme do so.³⁵

³⁵ ATO, Annual report Superannuation Co-contribution Scheme and Taxation Statistics, 2012-13

- The proportion of those who use the scheme peaks at age 50 – 54.³⁶ This is too late to maximise the benefits of compound earnings.
- In the main, the scheme is accessed by those at the upper end of eligible income.

The latter fact is not surprising. The capacity to make voluntary additional superannuation contributions is sensitive to income.

The Australian National Audit's Office (ANAO) 2010 performance audit of the scheme reported that there was 'scope for greater participation by members and the Tax Office should not be complacent about participation levels.'³⁷ The ANAO found that participation rates rise with income and that a 'relatively small proportion of lower income levels access the co-contribution'. For example, in 2006–07, the co-contribution participation rate rose from only 2.6 per cent of individuals with total income of less than \$6000 to 25.7 per cent of taxpayers with total income of \$50 000 to \$55 000.³⁸

In the period since its introduction in 2003-04 until the end of the 2011-12, the Co-contribution has cost the Government \$8.3 billion.³⁹ In 2014-15 it cost the Government \$169 million and was accessed by just over 500,000 taxpayers.⁴⁰ In comparison, the LISC which does not require further action by taxpayers, supported the superannuation savings of 3.6 million lower income individuals with estimated cost (i.e. forgone income taxation) of \$791.2 million.⁴¹

Given the limited impact of this scheme, consideration should be given to replacing it with something more effective. *Part 3* of this submission sets out ISA's recommendations for the introduction of a positive, mandatory additional superannuation contribution scheme for low income earners which could replace the Co-contribution scheme.

2.5 Paid parental leave

Subject to meeting certain requirements, all employees in Australia are entitled to Paid Parental Leave (PPL). Unlike all other forms of paid leave, Super Guarantee is not payable on PPL. Providing superannuation on PPL comes at a relative small cost and can make a difference to the economic security of women in retirement.

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 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.

As part of the Federal Budget the Government has announced that it intends to remove so called 'double dipping' from Parental Leave Pay from July 2016. Subject to the passage of legislation, access to PPL will be limited to individuals whose employer does not provide parental leave entitlements.

³⁶ Rothman, G. and Tellis, D. – Projecting the Distributions of Superannuation Flows and Assets, 16th Colloquium of Superannuation Researchers, University of New South Wales, 3 & 4 July 2008, Conference Paper 08/1

³⁷ ANAO Audit Report No.35 2009–10 Administration of the Superannuation Co-contribution Scheme, 6.52

³⁸ ANAO Audit Report No.35 2009–10 Administration of the Superannuation Co-contribution Scheme, 6.51.

³⁹ Australian Taxation Office, *Annual report 2011-12*, October 2012, Table 2.22 Administered expenses p. 60

⁴⁰ Australian Taxation Office, *Annual report 2014-2015*, October 2015, Table 2.26 Administered expenses

⁴¹ Australian Taxation Office, *Annual report 2014-2015*, October 2015, Table 2.26 Administered expenses

2.6 \$450 threshold

Under the current legislation, an SG Liability does not incur for those who earn less than \$450 per month. That is, only once an employee earns \$450 in any given month, is an SG liability incurred by the employer. As a result of the \$450 threshold, a substantial number of workers miss out on the benefit of compulsory superannuation. This threshold is particularly detrimental to those who engage in part-time or casual work – the majority of whom are women. Estimates show that around 250,000 individuals miss out on superannuation contributions due to not meeting the \$450 monthly earnings threshold.⁴²

Since its introduction there has been considerable debate as to whether the threshold should be scrapped or increased.⁴³ The administrative burden to employers has been cited as the major reason for retaining the threshold. However, significant advancements in technology and automated processing of payroll and employer contributions, combined with an increasing incidence of casual and tenuous employment are stronger rationales for dropping the threshold.

2.7 Childcare

The childcare benefit helps with costs for approved and registered care such as long, family or occasional day care, outside school hour care, vacation care, pre-school and kindergarten.

The childcare benefit is income tested. The childcare rebate covers 50 per cent of out of pocket child care expenses for approved child care, up to a maximum amount per child per year, in addition to any other child care assistance (for example, assistance obtained under the childcare benefit).

The maximum amount of child care rebate payable is capped at \$7,500 per child per year. While the rebate is not income tested, recipients and their partners must meet the work, training, study test for child care rebate.

In order for the proposed settings for paid parental leave and childcare to be effective there is a need to address barriers that impede labour force participation for new mothers. The Productivity Commission's final report into Child Care and Early Childhood Learning identified the need for flexible caring hours, availability of childcare and the cost as driving factors for mothers returning to the workforce.

In addition to the recommendations arising from the Productivity Commission's report, there may be merit in considering international models of childcare and parental leave, which take a more holistic approach towards directing policies that encourage a more equal division between genders of labour force participation, household labour and caring responsibilities.

2.8 Legislative framework – gender equality reporting

Workforce gender equality legislation was first introduced in 1986 and revised in 1999 and 2012. It applies to all private sector employers and higher education institutions that employ 100 or more people.

The Act requires non-public sector employers with 100 or more staff to submit a report to the Workplace Gender Equality Agency between 1 April and 31 May each year for the preceding 12 month period (1 April – 31 March reporting period).

The reporting framework relies on a proactive response from employers and seeks to establish a long term data set to provide evidence-based insight at both the workplace and industry level.

⁴² Ross Clare, *Equity and superannuation – the real issues* (September 2012), Association of Superannuation Funds of Australia

⁴³ See Super Guarantee – Its Track Record 1995, p 73

While organisations must report on the existence of many policies and strategies, they will not necessarily be penalised if they do not have them.

Part 3 of this submission sets out ISA's recommendations for extending this to include regular measurement and reporting of progress towards achieving economic security for women in retirement.

3. Recommendations

Part 1 of this submission described retirement outcomes for women and what causes this. *Part 2* analysed the existing policy responses and why these have not delivered retirement income security for women. The final section of ISA's submission identifies a set of guiding principles for improving retirement outcomes for women, examines a broad range of additional potential policy responses, assesses their impact and recommends an indicative package of policy solutions that will improve economic security for women in retirement.

The package of reforms developed by ISA can be funded by rebalancing Government support in other areas of the superannuation system, particularly by rebalancing tax concessions paid to high income earners. For example, as noted in *Part 2*, according to the Treasury Tax Expenditure Statement 2014, estimated tax revenue foregone from superannuation tax concessions amounted to over \$30 billion. 35 per cent of this, or approximately \$10 billion, benefitted the top 10 per cent of income earners. ISA will produce further evidence of the fiscal impact of this package during the course of the Inquiry.

ISA has constructed cameo modelling to illustrate the impact of our reform package on a woman who experiences a typical pathway of disrupted workforce participation. This is supplemented by analysis produced by the ISA-RiceWarner Model, which demonstrates the impact of our recommendations on particular cohorts, for example, different income deciles, and at the population level.

3.1 Guiding principles

Reforms to the retirement income system to achieve retirement income security for women must be guided by three key principles:

1. **A long term perspective** – achieving sustainable improvements in retirement income security for women requires a long-term perspective, and substantial narrowing of the gap in retirement income is unlikely to be achieved for women over 45.
2. **A holistic approach** - all policy levers which impact on retirement income are considered including Age Pension and social security, compulsory superannuation and tax settings.
3. **Structural change** is required:
 - (a) Superannuation accumulation currently presumes uninterrupted full time earnings to generate adequate levels of retirement income. Significant improvements in retirement income security for women will not occur unless the super system can overcome the impact of lower earnings and fragmented labour force participation through better targeted Government support to achieve more efficient, sustainable and equitable outcomes.
 - (b) Measures that rely on individual women and employers acting proactively are valuable, but will not deliver retirement income security for women and should be a secondary focus.

3.2 Policy responses

Existing policy responses designed to achieve retirement income security for women have not been effective. A comprehensive solution is required and, to be effective, it must be implemented as a package of reforms. This next section of this submission examines a range of potential policy responses, models their impact and recommends a package of reforms to the retirement income system.

Australia's compulsory super system is on its way to delivering improved average retirement outcomes for men. However, the same cannot be said for the average Australian woman. The drivers of women's lack of economic security in retirement – the gender pay gap and fragmented workforce participation – are well understood but complex and difficult to address. Current settings in super, a key focus of this Inquiry, do nothing to moderate these factors – in fact, they make the disparity far bigger. Structural change to retirement income policy, which will improve women's outcomes across the board, is therefore required. Measures which exploit the magic ingredient of superannuation – compound interest – will deliver greater efficiency to our system.

The package of reforms we recommend builds on ISA's second submission to the Tax Review.

Measurement of impact

In order to assess the efficacy of the package of reforms, we have modelled the impact on a 14-year old girl in 2015 who is on the cusp of entering the workforce.

The cameo presented is indicative of a typical woman's life cycle and average earnings, with career breaks and reduced workforce participation corresponding to caring responsibilities and the childbearing years. Importantly results are illustrative and different outcomes may result at lower or career earnings. ISA will seek to provide further analysis of the options using full distributional modelling. Projected retirement outcomes in the cameos are shown in current wage deflated dollars.

The parameters are outlined in Table 7 below:

Table 7 – Cameo, Female broken 70 % AWOTE baseline (\$55,660 per annum)

Age of cameo	Labour Participation (<i>hours per week</i>)
19-21	19 hours pw
22-29	38 hours pw
30-34	0 hours pw
34-44	19 hours pw
45-59	38 hours pw
60-66	19 hours pw
67+	Retire to Age Pension
Real superannuation accumulated at Age 67	
	\$352,330.46

Source: ISA Cameo Modelling

3.3 Structural Reforms

3.3.1 Rebalance superannuation tax concessions to ensure they are distributed more equitably

As detailed above, currently tax concessions are poorly targeted. The bulk of tax concessions support the retirement incomes and residual estates of those who are not receiving the Age Pension and who would have a comfortable level of retirement income anyway.

On average men receive twice as much support as women through super tax concessions.

Rebalancing tax concessions in favour of low to middle income earners will not only ensure that tax concessions are better targeted to improve economic security for women, but will also improve the efficiency of the system, reducing future fiscal outlays on the Age Pension.

Consideration of paring back the generosity of outlays on superannuation tax concessions provides an unparalleled opportunity to repair the key structural drivers of inequity and inefficiency in Australia's superannuation settings.

Rebalancing tax concessions to improve outcomes for women is both an economic and political imperative.

ISA has developed a package of indicative reforms to rebalance superannuation tax concessions, to ensure they are more effective, efficient, sustainable and equitable.

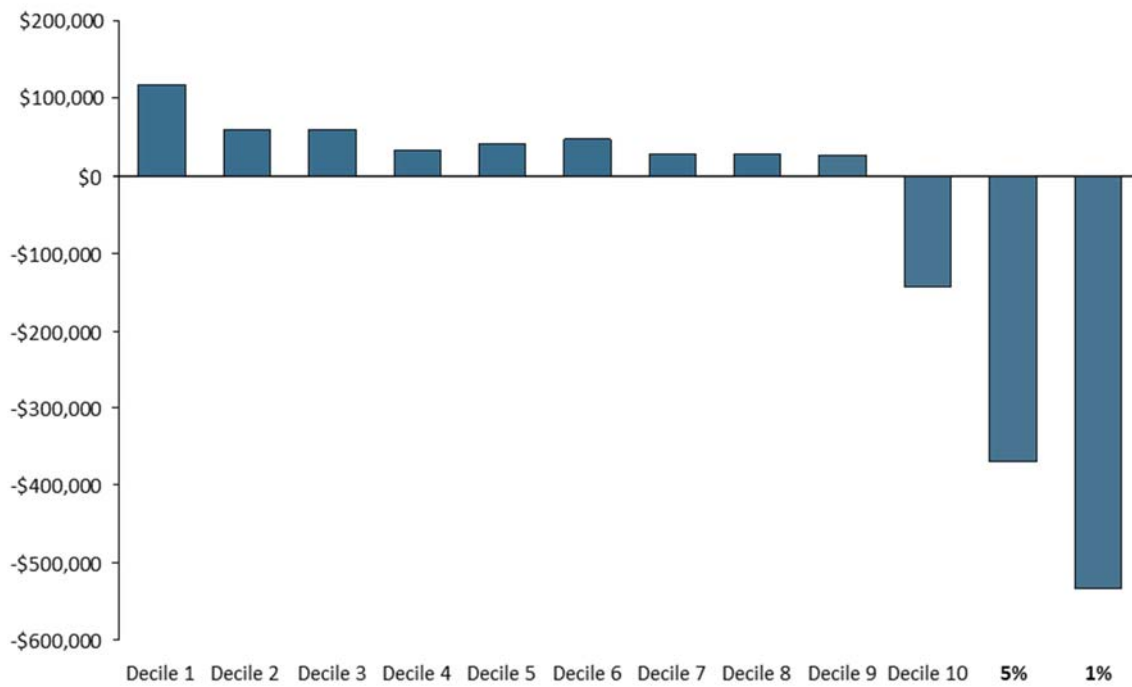
Table 8 – Proposed reforms to tax concessions

No	Area of reform	Description
1	Superannuation contributions tax reform	All superannuation contributions are taxed at marginal rates and eligible for a 25 per cent offset on the gross contribution, which is capped at \$7,500 p.a. and paid to the fund.
2	Contributions cap	Contributions capped at \$50,000 p.a., with additional “catch up” contributions in limited circumstances.
3	Superannuation earnings tax reform	Accumulation and retirement earnings taxed at 15 per cent per year. All tax rebated for earnings below \$50,000 p.a. in the retirement phase.

While superannuation tax concessions should be recalibrated, it remains the case that all mandatory super savings should receive a tax concession benefit to compensate for the compulsory shift away from current consumption.

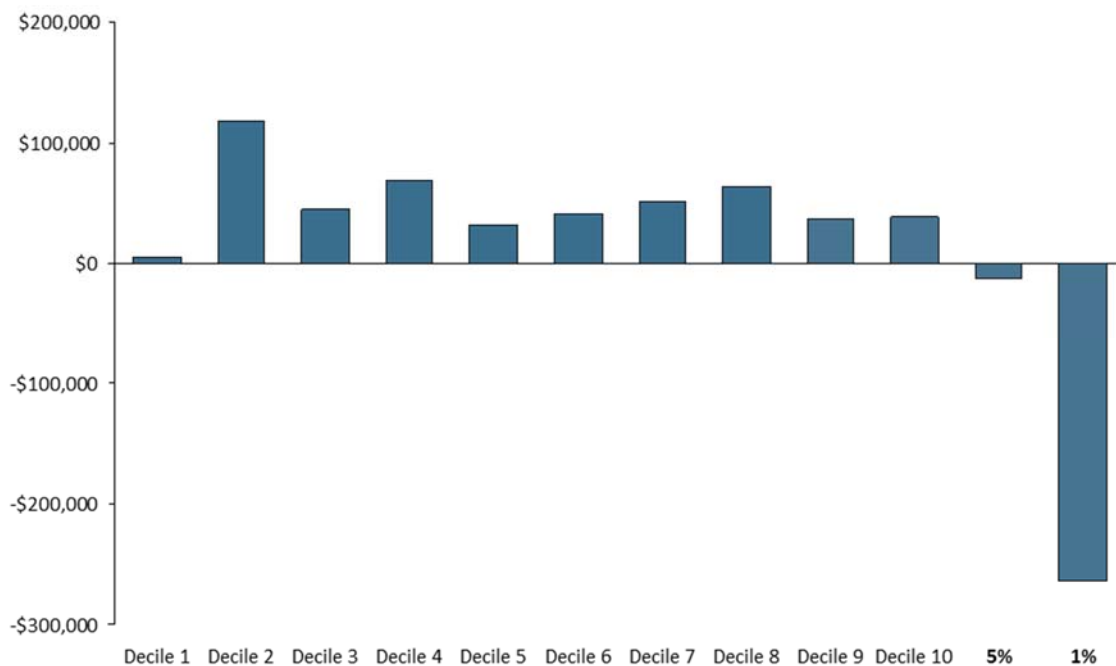
Figure 19 shows the change to the level and distribution of super tax concessions after implementation of the indicative package. The tax concessions are reduced primarily due to the reduction in the amount that can be contributed into superannuation, and the addition of a tax on earnings above \$50,000 per annum in the retirement phases, and not from a reduction in the concession on contributions. Indeed, the indicative proposal provides a 25 per cent tax offset on contributions, which is larger than the 15 per cent net concession on contributions by individuals above the \$300,000 threshold under Division 293. The 15 per cent tax on earnings above \$50,000 extended into the retirement phase also has a modest effect.

Figure 19 – Change in life time tax concessions, single males, retiring in 2055



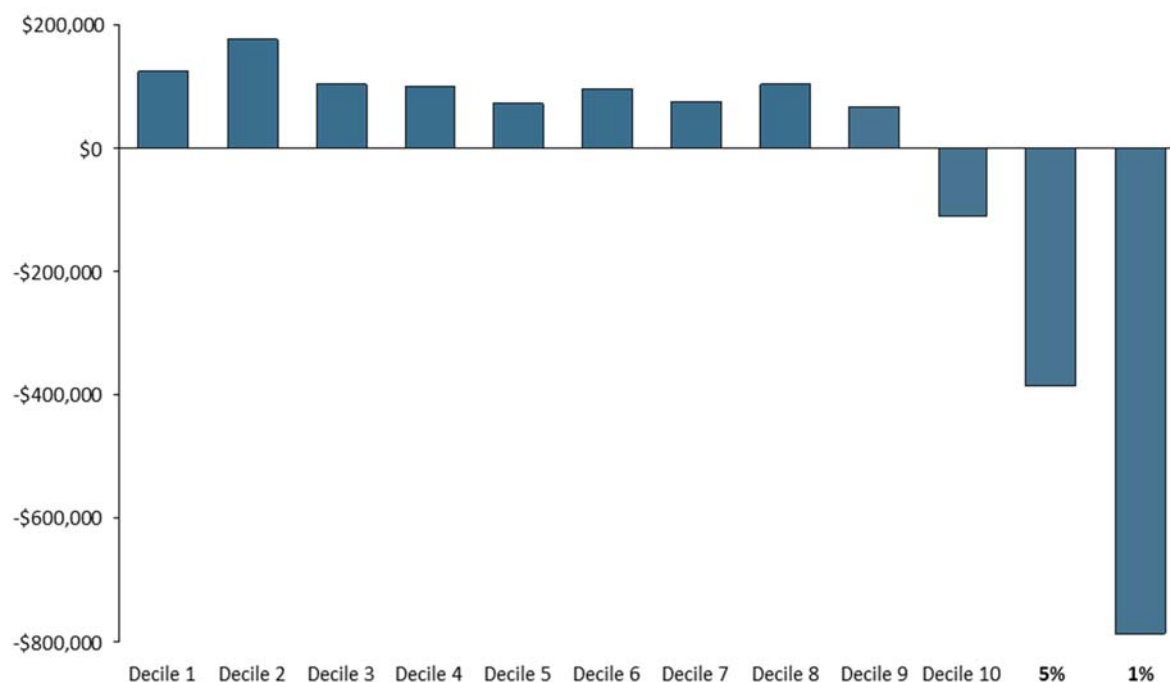
Source: ISA-Rice Warner modelling

Figure 20 – Change in life time tax concessions, single females, retiring 2055



Source: ISA-Rice Warner modelling

Figure 21 – Change in life time tax concessions, couples, retiring in 2055



Source: ISA-Rice Warner modelling

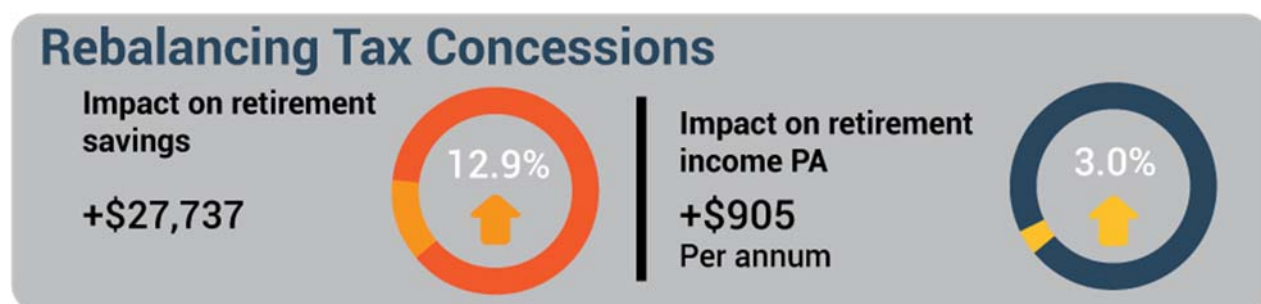
Recommendation 1: Superannuation tax concessions

ISA recommends that superannuation tax concessions be rebalanced to deliver a fair concession to low income earners, and to ensure that concessions are more efficiently directed to improving retirement income up to a comfortable level of income.

All superannuation contributions are taxed at marginal rates and will receive a 25 per cent offset on the gross contribution, which is capped at \$7,500 per annum and paid to the fund. Accumulation and decumulation earnings should be taxed at 15 per cent per year, with all tax rebated for earnings below \$50,000 in the retirement phase.

Example: For a taxpayer over the \$80,000 threshold, their effective marginal tax rate is currently 39 per cent (37 per cent from the scales and 2 per cent medicare levy). So their employer contributions are taxed at 39 per cent whereas they were previously taxed at 15 per cent - a difference of 24 per cent. But they get a 25 per cent concession – so they are 1 per cent better off in terms of net contributions.

Figure 22 – Rebalancing Tax Concessions



Source: ISA Cameo Modelling

3.3.2 Restore LISC and ensure legislated increases to SG are honoured

The Government abolished the LISC, effective 2017. ISA and many other stakeholders expressed dismay at this decision. The LISC significantly improves retirement income security for many women, and remedied the acute unfairness that the lowest paid incur a superannuation tax penalty instead of a superannuation tax concession. While ISA places a higher preference and priority on a holistic rebalancing of tax concessions as recommended in sections 3.3.1 above, we remain supportive of the reinstatement of the LISC as an alternative (albeit less effective) measure.

For a woman who earns average female earnings and follows a typical disrupted pattern of participation in paid work, ISA's cameo modelling indicates that the restoration of the LISC will increase retirement savings by 6 per cent, and will boost overall retirement income (including Age Pension) by 1.4 per cent.

Recommendation 2a: Restore the LISC

The LISC should be restored, in the absence of broader rebalancing of tax concessions.

Figure 23 – Impact of restoring the LISC on typical woman's retirement income



Source: ISA Cameo Modelling

Note: Based on a woman receiving the LISC in the years that she works part-time – Ages 19-21, 35-44 and 60-66.

The SG was on track to increase from 9 per cent of employee earnings to 12 per cent by 2019. In 2014, the Government froze the SG at 9.5 per cent for seven years. Under the new laws, the SG rate will remain at 9.5 per cent until 2021, when it will increase by 0.5 per cent per annum until it reaches 12 per cent in July 2025.

As noted in section 2.2, women are more reliant on and thus were more impacted by the decision to defer SG increases. ISA strongly recommends that the current timetable of SG increases be accelerated but at a minimum must be honoured and not further deferred or abandoned.

For a woman who earns average female earnings and follows a typical disrupted pattern of participation in paid work, ISA's cameo modelling indicates that increasing the SG contributions to 12 per cent will increase retirement savings by a very significant 22.8 per cent, and will boost overall retirement income (including Age Pension) by 6.1 per cent.

Recommendation 2b: SG Increases

The SG should be increased to 12 per cent as soon as possible – there should be no further deferral or abandonment of SG increases.

Figure 24 – Impact of increasing the SG to 12% on typical woman's retirement income



Source: ISA Cameo Modelling

Note: Impact on retirement income measures and retirement savings measured by wage deflated impact.

3.3.3 Super Seed: an enhanced Government contribution

Many women at different points in their working life do not have sufficient earnings to receive SG, receive low levels of superannuation, or cannot maintain continuity of superannuation contributions during spells away from paid work. These women are not served well by current settings, and receive insufficient benefit from the compounding effect of earnings to achieve retirement income security.

Women are at a substantial disadvantage in terms of their capacity to save for their retirement and will never approach adequate levels of retirement savings without more targeted support from the Government, in the form of a Government Co-contribution.

ISA has developed an innovative proposal to address these issues. The aim of this proposal – which we refer to as “Super Seed” – is to lift the retirement outcomes of Australians in lower income deciles by providing a direct payment into their superannuation accounts at a relatively young age and take advantage of the impact of compounding. Both men and women would be eligible but this will particularly benefit women - boosting their retirement incomes in an efficient and cost effective manner. The payment would be made early in the life of recipients and paid to low income earners only, to maximise the benefits of compound earnings for maximum efficiency. Further refinement regarding timing, quantity and qualifying outcomes is required to ensure that the contribution targets those who need it most. The cost of this policy measure must be contextualised within current generous but poorly targeted levels of Government support for retirement savings.

Super Seed could replace the existing Co-contribution scheme, which has 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.

Super Seed has significant benefits over the current system:

- **Coverage** - Super Seed would have greater coverage, since it would be paid automatically rather than depending on individual contributions
- **Timing** - As it would be paid early in a persons' working life, Super Seed would deliver significant compounding benefits.
- **Targetting** - Since the Super Seed payment would be directed to those in the lower income deciles, it means their retirement incomes are boosted primarily through an increase in superannuation incomes, with little offsetting fall in Age Pension payments.
- **Efficiency** – Super Seed is a significantly more efficient way to deliver retirement income security for the majority of women than existing policy responses.

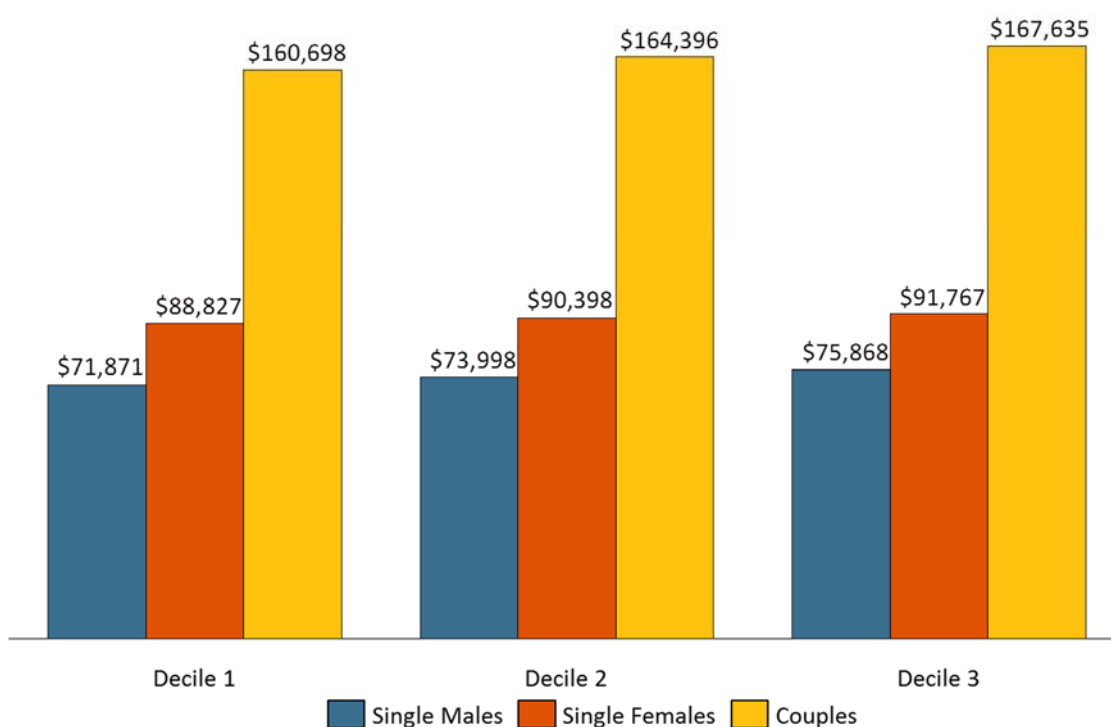
To implement this concept and provide modelled projections of its effects, we provided an indicative \$5,000 annual Government contribution into the active superannuation account of persons in the three lowest income deciles whilst they are aged 27 to 36 inclusive. The measure would provide no benefit to those in the income deciles four through ten.

The indicative reform proposal focuses on workers aged 27 through 36 to balance the need to ensure the payments are well targeted (including capturing periods of reduced earning capacity for women whilst caring for children) with the need to enable as long as a compounding effect as possible. In addition, the targeting of this cohort has been premised on research regarding income mobility within income cohorts, to minimise leakage.

Super Seed would decouple retirement incomes from superannuation, on the one hand, and wage and salary income, on the other hand. This represents a significant structural shift. Under the current system, most contributions come from wages and salary income and cease during periods out of the paid workforce, at significant cost to retirement outcomes for women. It is typically those in the lower income deciles (two-thirds of whom are women) that have irregular periods of paid employment or earnings below the \$450 per month threshold such that they miss out on regular inflows into their superannuation accounts.

Thanks to power of compounding Super Seed has a significant impact on the superannuation balances of women in the bottom three income deciles. For example, for single women now aged 25-29 and retiring in 2055 their superannuation balances are expected to be around \$90,000 higher at retirement. For couples, the figure is between \$160,000 and \$167,000.

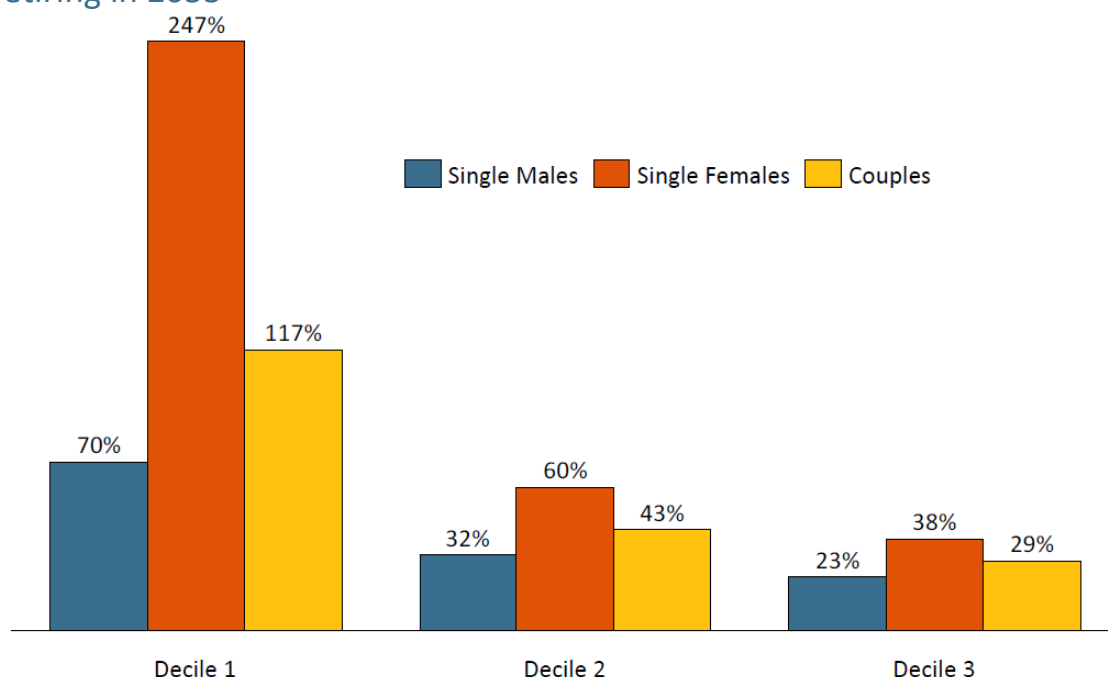
Figure 25 – Increase in super balances at retirement due to Super Seed, retiring in 2055.



Source: ISA-Rice Warner modelling

At retirement, the higher account balances translate into higher retirement incomes. As shown in Figure 26, the proportional increase in superannuation retirement incomes across the three deciles is significant, especially for the lowest decile, reflecting in part their otherwise small superannuation balances under existing policy settings in the baseline case.

Figure 26 – Per cent increase in super balances at retirement due to Super Seed, retiring in 2055



Source: ISA-Rice Warner modelling

These accounts would be subject to the existing protections against early release.

Efficiency

One potential issue with the Super Seed proposal is the need to ensure the payments are well-targeted to benefit those who would otherwise not have a comfortable retirement. That is, Super Seed would not achieve its objective efficiently if payments under the program went to individuals who, at retirement, had crossed many income deciles to emerge in the top income decile. However, the indicative proposal has sought to minimise this risk in the simplest way, based on analysis of Australian income mobility research. Such research suggests the “leakage” is likely to be relatively small to moderate.

Research into Australia’s income mobility across income quintiles found that over the observed period the best predictor of final income quintile was an individual’s starting quintile.⁴⁴ Very few people in the lowest quintiles would finish in the highest. There is, however, significant movement between adjacent quintiles meaning that most of the “leakage” of the Super Seed would come from those in the lower half of quintile 2 (or income deciles 2 and 3).

The research suggests that around 10 per cent to 15 per cent of those receiving the Super Seed could retire in the income deciles above 3.

ISA’s cameo model is based on the assumption that the typical woman will be entitled to 7 years of Super Seed payments, due to the fact that her wage exceeds the \$37,000 (wage indexed threshold) from ages 27 to 29. For the subsequent 7 years, a break from work to have children and a subsequent return to part-time work results in her falling below the threshold, making her eligible for the payment.

⁴⁴ Rohde, Tang and Rao, *Income Inequality, Mobility, and Economic Insecurity in Australia 2010*

In terms of current wages the typical woman will receive \$29,435 in Super Seed contributions, which will compound with fund earnings into an increase of \$43,311 to her retirement balance. The Super Seed contributions increase her entire accumulation balance by 20.2 per cent.

Recommendation 3: Super Seed

ISA recommends the introduction of Super Seed, which we have indicatively modelled for those earning less than \$37,000 while they are aged 27 to 36 inclusive.

Figure 27 – Impact of Super Seed on typical woman’s retirement income



Source: ISA Cameo Modelling

Note: Impact on retirement income measures and retirement savings measured by wage deflated impact

3.3.4 SG on paid parental leave

At present, SG is not paid as part of paid parental leave. This is in contrast to sick leave, annual leave and long service leave which all attract SG. There is no justification for treating paid parental leave differently to all other leave entitlements. Paying SG while on paid parental leave improve retirement income security for women, will overcome the discriminatory treatment of parental leave and importantly, prompt those on parental leave (who are in the main, women) to continue to engage with their super at the point at which they have left full-time paid work.

Recommendation 4: SG on parental leave

ISA recommends that SG be paid on paid parental leave.

For a woman who earns average female earnings and follows a typical disrupted pattern of participation in paid work, ISA’s cameo modelling indicates that paying SG on paid parental leave will increase retirement savings by 1.7 per cent, and will boost overall retirement income (including Age Pension) by 0.4 per cent.

Figure 28 – Impact of SG on PPL on typical woman's retirement income



Source: ISA Cameo Modelling

3.4 Recognise the importance of the Government Age Pension for women's retirement income security

3.4.1 Recognise the importance of the Age Pension for women

As noted in *Part 1*, the Age Pension is the first pillar of our retirement income system. For the foreseeable future, it will remain a very significant component of retirement income for all Australians, but particularly single women. The Government Age Pension saves most women from abject poverty in retirement. Almost 60 per cent of those on the full Age Pension are women. Retirement income for almost all women consists of a combination of the Age Pension and some superannuation.

As a result, economic insecurity for women is exacerbated by any reforms which reduce eligibility or levels of Age Pension.

The Committee should recognise the critical importance of the Age Pension as a key pillar of retirement income policy and recommend that any future proposals to change any eligibility or entitlement of the Age Pension be explicitly assessed against their impact on women's retirement income security.

Eligibility to receive the Age Pension is set to increase from age 65 to age 67 between 2017 and 2024. The former Treasurer proposed raising the Age Pension age further, to age 70.

The case for a lift in Age Pension age is usually based on arguments about increasing life expectancy, and introducing incentives for people to work longer. However, in reality, most of the workforce has retired before the Age Pension age due to a number of causes, including disability and other involuntary factors.

Because most retirements are involuntary, and because of the high incidence of disability at retirement, any proposals to further raise the eligibility age for the Age Pension need to be considered in light of the practical obstacles to people remaining in the paid workforce and the interaction between raising the eligibility age for the Age Pension and other forms of social security, including the disability pension.

Recommendation 5: Age Pension eligibility and entitlement

Recognise the importance of the Age Pension for women's economic security in retirement and ensure that proposed changes be explicitly assessed to ensure they do not have a negative impact on women's retirement income security.

3.4.2 Adjust the Age Pension means test taper rate

The recent changes to the Age Pension means test taper rate will detrimentally impact many women (particularly those in low to middle income deciles) from achieving retirement income security.

The taper rate, which governs how much of the fortnightly Age Pension payment is lost for each additional \$1,000 of assets above the lower threshold, is currently set at \$1.50. That is, \$1.50 of a fortnightly Age Pension payment is lost for each additional \$1,000 of assets above the lower threshold. The Government has legislated aggressive changes to the taper rate. Under these changes, from the start of 2017, the taper rate will increase to \$3.00. The impacts of these changes on women's retirement outcomes were documented in section 2.8. Notably, any efforts to improve retirement income security for low to middle income earning women will be undermined by the new test.

ISA recommends that the taper test be adjusted so that only \$2.00 of fortnightly Age Pension is lost for each additional \$1000 of assessable assets above the lower threshold.

Recommendation 6: Age Pension

ISA recommends the Age Pension taper rate should be reduced from \$3.00 to \$2.00 per \$1000 of assessable assets above the asset free area.

3.5 Review of the retirement income system and agreement on its objectives

ISA, along with numerous other stakeholders, including, most recently, the Financial Systems Inquiry,⁴⁵ has previously recommended that a comprehensive, cross-partisan review of the retirement income system, which examines social security, tax and superannuation policy issues, is required.

Measures to improve economic security for women in retirement should be a discrete area of focus for such a review.

Recommendation 7: Review of retirement income system

There is 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. Measures to improve economic security for women should be considered as part of this review to ensure they improve rather than reduce women's outcomes. The objective of the superannuation system should be to provide income in retirement to substitute or supplement the Age Pension ensuring that all Australians achieve a comfortable level of retirement income.

3.6 What gets measured gets done

The Inquiry's focus on women's lack of economic security in retirement is welcome. It is important to maintain this focus. To do that, it is critical that the impact of measures designed to improve retirement income security for women be measured and that this information is reported regularly and publicly.

⁴⁵ FSI Report Recommendation 9

The Committee should recommend that an annual report be prepared measuring retirement income security for women and reporting on progress towards achieving a comfortable living standard. This could be implemented by WGEA.

The Annual Report should do five things:

- **Measure** the gap in retirement outcomes between men and women.
- **Compare** womens' retirement outcomes against the comfortable retirement standard developed by ASFA, and analyse what proportion of women achieve a comfortable retirement.
- **Segment** findings by single women, couples, age and income decile to provide granular information about which cohorts are most vulnerable and where policy settings should respond.
- **Set clear targets** for reducing the gap in retirement outcomes between men and women and increasing the proportion of women who reach a comfortable retirement standard.
- **Track** progress towards reaching targets.

Recommendation 8: Tracking progress

ISA recommends the production of an annual report measuring retirement income security for women and reporting on progress towards achieving a comfortable living standard

3.7 Remove the \$450 threshold

Employers are only required to pay SG on behalf of employees who earn \$450 a month. There is no sound policy reason for this threshold. In addition, a number of workers, many of whom are women, work in multiple jobs, but do not earn \$450 per month in an individual job, and therefore also miss out on SG payments.

Estimates show that around 250,000 individuals miss out on superannuation contributions due to not satisfying the \$450 monthly earnings threshold.

ISA supports the removal of the \$450 threshold.

However, the payment of SG on very low incomes of under \$450 a month will not overcome the retirement insecurity faced by these women unless it is combined with other measures, such as those recommended by ISA in this submission.

3.8 ISA comment on other policy proposals

The Inquiry has generated considerable discussion and a number of proposals on how to improve retirement outcomes for women. A number of these rely on voluntary additional contributions by employers or women or otherwise fail to address the issue at a structural level. For these reasons ISA is less supportive of these proposals.

3.8.1 Carers' superannuation credits

Section 1.4 of this submission notes that women undertake the largest share of unpaid caring work. This has a significant impact on womens' retirement incomes.

The Australian Human Rights Commission has recommended that the Productivity Commission or another independent body should conduct an inquiry into mechanisms for valuing unpaid caring work, including introducing a system of carer superannuation credits. Under the Commission's recommendation, this could be either in the form of direct credits to the superannuation accounts of individuals with parental care

responsibilities and other carer responsibilities (either out of the work force or working part-time) that would be paid annually at the end of the tax year by the Government into the individual's superannuation account through adult life, or by extending the SG to individuals with parental care responsibilities and carer responsibilities.

The Commission also recommended modelling the cost/benefit of a care bonus, as an additional supplement to the Age Pension, for unpaid carers who have made substantial contributions to care over their life.⁴⁶

Depending on the way it was designed, the introduction of carers' credits could have a beneficial impact on the retirement outcomes of women undertaking unpaid caring work.

However, there are a number of issues with this proposal.

First, rather than paying carers credits annually or by extending SG to carers, it would be more efficient to pay some or all of this amount to some cohorts of women as a one-off payment early in their life. This would enable recipients to reap the benefit of compounding.

Secondly, the Commission's proposal is not (and was not designed to be) a comprehensive response to the lack of retirement income security experienced by the majority of women. This is because introducing a system of carers' credits would not improve retirement outcomes for women who are not carers.

ISA's Super Seed proposal overcomes both of these issues. By making payments early in the lives of recipients, it harnesses the power of compounding and maximises efficiency. And by extending the payment to all women who meet eligibility criteria in relation to age and income, Super Seed will improve retirement outcomes for women who are carers and women who are not (as well as men).

For these reasons, ISA supports the introduction of Super Seed rather than the introduction of carers' credits.

3.8.2 Additional voluntary employer contributions

A small number of employers make additional superannuation contributions on behalf of female staff on a voluntary basis. For example, ANZ pays an additional \$500 superannuation per year to all of its female staff while Rice Warner pays its female staff an additional 2 per cent superannuation.

These initiatives are commendable. However, they depend on the willingness of individual employers to make extra contributions on behalf of female staff. As such, these measures are essentially an ad hoc response to the lack of economic security women face in retirement.

Relying on voluntary additional employer superannuation contributions to address the lack of economic security in retirement experienced by women will only improve outcomes for women while they are participating in paid work. It will not improve outcomes for women who are undertaking unpaid caring responsibilities for children or others, or for women who are unemployed.

ISA would be strongly supportive of removing of obstacles in discrimination law which prevented such a beneficial employer from making additional superannuation payments to female employees.

⁴⁶ Australian Human Rights Commission, Investing in Care: Recognising and valuing those who care (2013)

3.8.3 Joint superannuation accounts

A number of stakeholders have proposed allowing superannuation funds to provide a joint superannuation account for couples. It is argued that this would improve retirement income security for women in relationships as couples would plan their retirement finances together.⁴⁷

While banks and other retail choice product manufacturers may want to offer joint accounts for commercial reasons, ISA submits that this would not do anything to improve retirement outcomes for women. There are a number of reasons for this.

First and most importantly, introducing joint superannuation accounts would not increase the amount of superannuation women receive over the course of their working lives.

Secondly, one third of women are not part of a couple at retirement and this figure is increasing over time.

Thirdly, 40 per cent of couples do not achieve a comfortable standard of living at retirement. In fact, women with low superannuation savings are much more likely to be partnered with a man with low superannuation than high superannuation. Allowing these couples to combine their superannuation into a joint account will not do anything to improve the adequacy or equity of women's retirement outcomes. Indeed, improving adequacy for women (particularly lower paid women) whether single or married, will go a long way to fixing the issue of inadequacy in the system overall. At law, women are entitled to half their partner's super on separation. Introducing joint superannuation accounts will not add to this entitlement in any way. In some circumstances, for example for women seeking to leave family violence situations, the existence of a joint superannuation account may actually operate as a barrier to women accessing their superannuation entitlements and actually exacerbate retirement insecurity.

Joint superannuation accounts may lead to a modest fee saving for couples but this is hypothetical.

There is no reason to assume that the fact that two people are in a relationship means that they share the same preservation age or investment profile. Many women will in fact have a different preservation age, a different investment risk profile and different investment preferences to their partner. It is not clear how this would be accommodated within a joint superannuation account. Achieving this would inevitably come at a cost which could easily eliminate any small saving in fees.

As superannuation is primarily based on individual income through accumulation, this proposal does not offer any systemic improvement in women's outcomes.

3.8.4 Life time contributions caps

Various stakeholders have recommended introducing lifetime concessional tax limits to superannuation contributions as opposed to annual limits, arguing that this would correct the unfair treatment of women who take career breaks by allowing them to make catch up contributions once they return to paid work.

Life time caps can be more administratively difficult to administer and police. They also introduce greater optionality and discretion in the timing of contributions, which typically benefit those with the means to exercise this discretion; in this instance, 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.

There is little official data published on levels of superannuation contributions made. Obviously, the Australian Tax Office would hold data about levels of contributions made, against the gender, age and

⁴⁷ Rice Warner, RW Newsletter, Joint superannuation Accounts (April 2014)

income of those making contributions and type of contribution (pre-tax concession contributions or after tax contributions).

ISA suspects that this data would be likely to reveal that we do not have a glass ceiling problem in superannuation. Very few women encounter a problem with contribution caps constraining their capacity to build their super. The far greater problem is that women don't have surplus income to put into their superannuation.

Table 9 models the typical levels of annual contributions made by women aged 25-29 years, who will be due to retire in 2055, across their working life. The modelling suggests that only the top 1 per cent of women come close to hitting the annual concessional contributions cap of \$25,000. To the extent that this is the case, the increased cap of \$30,000 per year for those over 50 years is likely to accommodate most women wishing to make top up contributions.

Table 9 - Summary of concessional contributions per year, Single Female, Currently age 25-29, retiring around 2055

	Decile 1	Decile 2	Decile 3	Decile 4	Decile 5	Decile 6	Decile 7	Decile 8	Decile 9	Decile 10	5per cent	1per cent
Current	297	1,002	1,667	2,327	2,999	3,721	4,525	5,500	7,395	9,221	12,041	15,118
Lifetime Ave Annual	669	1,962	3,180	4,389	5,622	6,945	8,417	10,205	13,677	17,025	22,193	27,832
Pre-59 Ave Annual	666	1,897	3,057	4,207	5,381	6,640	8,042	9,744	13,049	16,235	21,155	26,523

Source: ISA-Rice Warner modelling

This model does not include modelled effect of breaks from work - which would further lower the level of contributions made. ABS SEARS 2007 data also provides a breakdown of contributions levels; however, some of the results must be treated with caution and are likely to reflect poor understanding of some respondents regarding types of contributions made. In 2007-8 the concessional contributions caps were higher than they are now. In 2007, only 0.5 per cent of women made concessional contributions of over \$30,000 despite no constraints from the caps. About 1.9 per cent men made concessional contributions of over \$30,000.

ISA does not oppose the introduction of lifetime concessional tax limits subject to competing fiscal constraints. However, we urge great caution with this policy suggestion being offered as a mechanism to improve retirement income security for Australian women.

We would also add that policy changes around life time contributions caps raise a further issue with timing, because if there were not also annual caps on contributions, the introduction of lifetime caps would establish an incentive for wealthy people to place substantial assets in a tax preferred environment early on and obtain substantial concessional compound earnings.

For example, a \$1 million contribution at age 20 today would grow to approximately \$6 million by retirement (in 2015 dollars).

Like other measures to improve retirement income security for women that rely on women making additional contributions on a voluntary basis, this will not on its own deliver economic security to women in retirement.

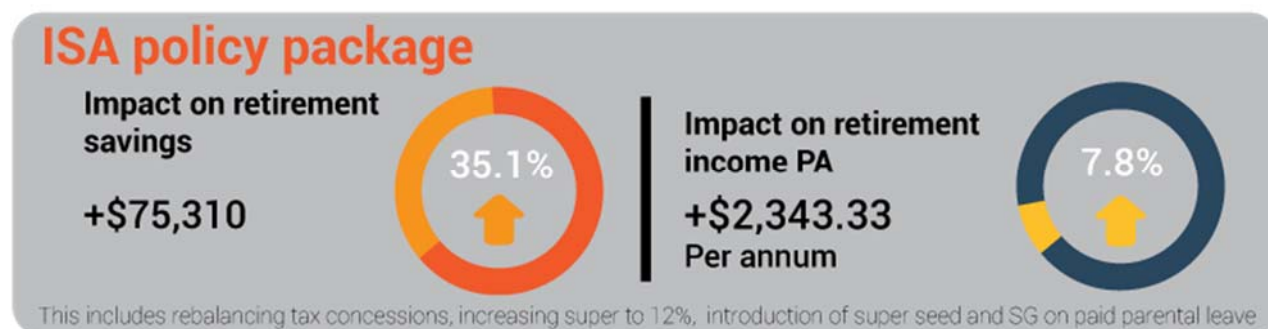
3.9 Combined impact on the typical woman cameo

Each policy recommendation described above is important but, as the cameos which accompany the discussion of each proposal demonstrates, no single measure will eliminate the lack of retirement income security experienced by women today or facing women in the future.

This is why it is critical that ISA's preferred policy recommendations, including the rebalancing of tax concessions, increasing of SG to 12%, payment of SG on paid parental leave and super seed contribution, be implemented as a package.

The cumulative impact of the package as a whole is substantial: An increase of 35.1 per cent in retirement savings, or over \$75,000.

Figure 29 – ISA Policy package



Source: ISA Cameo Modelling

4. Conclusion

Women experience significant and widespread economic insecurity in retirement in Australia today and this will continue into the future, unless current policy settings change.

Part 1 of our submission documents the significant disparity in retirement outcomes for men and women. The Age Pension is the first pillar of our retirement income system, but for most women, it is the main pillar. 38.7 per cent of single women live in poverty in retirement today. More than half of women retiring in 2055 will not have a comfortable level of retirement income.

Part 2 of this submission analyses current policy responses to this situation and concludes that they are ineffective. There are very significant Government outlays to support and incentivise retirement savings through the provision of superannuation tax concessions (currently \$30 billion per annum), but they are poorly targeted. Most concessions are paid to those who would have a comfortable level of retirement income without support. Men, on average, receive twice the level of support through super tax concessions to save for retirement than women. The abolition of the LISC from 2017 will mean that half of Australia's working women will have their retirement savings penalised by super tax concessions. Compare this to single men in the top 1 per cent whose lifetime tax concessions supercharge their retirement savings and residual estate by nearly \$2.8 million. Deferring scheduled increases to SG contributions and changes to the asset test for the Age Pension also exacerbate the situation.

The Inquiry has generated significant community, media and political scrutiny on the failure of the retirement income system to deliver for women, and welcome momentum to address this.

Part 3 of our submission sets out ISA's recommended package of reforms which will significantly lift women's economic security in retirement. Recalibrating superannuation tax concessions will significantly improve outcomes for women. ISA also recommends that the current timetable of increases of SG contributions to 12 per cent be honoured and not further delayed, and that SG be extended to paid parental leave. We also propose Super Seed: an enhanced version of Government Co-contribution which is targeted to provide an early propagation of superannuation savings, of most benefit to part-time women.

ISA also recommends that the Committee explicitly recognise the critical importance of the Age Pension, and urge that any further reforms which impact on eligibility or entitlement be assessed against the impact on women's retirement outcomes. We also urge a reconsideration of the recently changed Age Pension

asset test taper rate – as it fundamentally undermines the capacity for retirement income policy to improve outcomes for low to middle income earners. Finally, we also recommend regular official reporting of progress in improving retirement income outcomes for women.

APPENDIX 1

This appendix provides further details on some of the key factors contributing to women's retirement incomes.

Reduced workforce participation - availability and affordability of childcare

While this Inquiry is focused on retirement income policy, the issue of availability and affordability of childcare has a significant impact on women's capacity to return to paid work, and thus to their capacity to generate retirement savings. As such, we have included a summary of this issue in our submission.

Caring for children is the major reason why Australian women between 25 and 44 who work part-time do not work full-time.⁴⁸ According to the 2015 Women in Work Index, Australian ranks in 15th place out of a sample of 27 OECD countries in terms of full-time female workplace participation, dropping six places since 2012.⁴⁹ Nordic countries top the list for a number of reasons including shared childcare and household work.

Childcare assistance is described by The World Economic Forum as a driving factor in 'allowing women to reconcile professional and family obligations'⁵⁰ and 'a vital long-term investment that supports women in employment.'⁵¹

Availability and the cost of childcare are the key reasons that mothers who may have chosen to go back to work don't, or do so in a part-time or casual capacity. A woman's earning capacity and ability to accrue superannuation contributions may be enhanced by readily available and financially affordable care.

The Productivity Commission's final report to the Child Care and Early Childhood Learning Childcare documented widespread concern about the flexibility, availability and cost of childcare in Australia today. The Productivity Commission estimated that there may be up to roughly 165 000 parents (on a full-time equivalent basis) who would like to work, or work more hours, but are not able to do so because they are experiencing difficulties with the cost of, or access to, suitable childcare.⁵²

The Report found that workforce participation by mothers increased as children age, with 46 per cent of mothers of children under 4 not in paid work, in comparison to 21 per cent of mothers with children between the ages of 10 to 14.

The Report recommended a number of regulatory reforms to improve flexibility and accessibility of the Early Childhood Education and Care (ECEC) framework. Following the release of the Report, the former Minister for Social Services, the Hon. Scott Morrison responded that the Government would take the

⁴⁸ John Daley, Grattan Institute, *Game Changers: Economic Priorities for Australia*, June 2012 p 43

⁴⁹ International Women's Day, PWC Women in Work Index, March 2015, p 2 <http://www.pwc.com.au/people-business/assets/publications/International-Womens-Day-Mar15.pdf>

⁵⁰ World Economic Forum, *Insight report. The global gender gap report 2012*, Appendix e, p 58

⁵¹ World Economic Forum, *Insight report. The global gender gap report 2012*, Appendix e, p 58

⁵² Productivity Commission, *Childcare and Early Childhood Learning, Productivity Commission Inquiry Report, Overview and Recommendations*, No 73, 31 October 2014, p 11

opportunity to listen to the community's response to the Commission's proposals as they framed the Government's response.⁵³

Reduced workforce participation - discrimination impacting future participation

The positive correlation between workplace discrimination and the impact on future participation has been well documented. Workplace discrimination resulting in reduced participation may therefore impact a woman's capacity to accumulate super through mandatory employer contributions.

The Australian Human Rights Commission's 2013 report *Supporting Working Parents: Pregnancy and Return to Work National Review* provides a national benchmark data and analysis on the prevalence, nature and consequences of discrimination at work related to pregnancy, parental leave, or on return to work after parental leave. The report found that one in two (49 per cent) mothers surveyed experienced discrimination in the workplace during pregnancy, parental leave or on return to work.⁵⁴

The National Prevalence Survey also commissioned by the Australian Human Rights Commission revealed that experiences of discrimination in the workplace during pregnancy was a driving factor for women in deciding whether to return to work following the birth of their child.

The survey found that 32 per cent of all mothers who were discriminated against at some point went to look for another job or resigned and almost one in five (18 per cent) mothers indicated that they were made redundant or that their jobs were restructured, that they were dismissed or that their contract was not renewed during their pregnancy, when they requested or took parental leave, or when they returned to work.⁵⁵

The Australia Institute has identified that the main difficulties faced by pregnant women in the workforce are "missing out on training or development opportunities" and "receiving inappropriate and negative comments," as well as "missing out on opportunities for promotion".⁵⁶

Upon the return to work, women have reported a general lack of family friendly workplace policies and difficulty in accessing appropriate and affordable childcare.

While government policy has sought to address these issues through childcare subsidies and paid maternity leave (notwithstanding that there are key gaps in these policies), there appears to remain an inherent bias against women who have children and work.

Reduced workforce participation - Women are more likely to be the primary carer

Reduced workforce participation is partially impacted by the fact that Australian women account for:

- 92 per cent of primary carers for children with disabilities
- 70 per cent of primary carers for parents
- 52 per cent of primary carers for partners⁵⁷

⁵³ Press Release, Scott Morrison, 20 February 2015

⁵⁴ Australian Human Rights Commission, *Supporting Working Parents: Pregnancy and Return to Work National Review – Report*, 2014 p 1

⁵⁵ Australian Human Rights Commission, *Supporting Working Parents: Pregnancy and Return to Work National Review – Report*, 2014 p 8

⁵⁶ Prue Cameron, The Australia Institute, *What's choice got to do with it?*, Policy Brief No.55, 2014 p 6

⁵⁷ ABS - Australian Bureau of Statistics, 4153.0-How Australians Use Their Time, 2006 cited in Face the Facts, Australian Human Rights Commission

In their submission to the Tax White Paper, Carers Australia, the national peak body advocating for Australia's 2.7 million carers, argued that the current retirement system disadvantages carers and that reforms need to consider 'those with broken careers and those who face involuntary retirement'⁵⁸.

The cultural norm is that in many families women are the primary caregiver or spend more than twice as many hours each week looking after children in comparison to fathers.

According to the ABS, in 2012, 56.1 per cent of all carers were female. In the case of primary carers (who provide the most substantial amount of care to another individual) the gender gap is even wider, with 70 per cent of all primary carers being female.⁵⁹

Many carers may trade salary for flexible working environment⁶⁰ which in turn has a detrimental impact on their retirement income and lifetime earnings.

Research undertaken by the Australian Institute of Family Studies shows that in non-single parent families with children under five, mothers spent an average of 5.1 hours on childcare and 3.8 hours on household work per day while fathers spent 2.2 hours on childcare and 1.3 hours on household work.

In addition, women are more likely than men to take unpaid leave to fulfil care requirements.

According to one study, unpaid leave is the second most frequent working arrangement adopted by women when they are required to care for their family, with more than a fifth of employed women taking unpaid leave to care for someone⁶¹.

As the majority of carers are women, they are increasingly vulnerable to disrupted workforce participation and involuntary retirement due to their caring responsibilities.

The impact on carers' earning capacity is highlighted by the fact that:

- 29.4 per cent of all primary carers aged 35-54 years have had their income decrease as a result of caring.⁶²
- 54.9 per cent of all primary carers have a government pension or allowance as their main source of personal income, compared to 20.4 per cent of non-carers.⁶³
- 17.5 per cent of primary carers report having extra expenses and difficulty meeting everyday living costs.⁶⁴

Drivers of the gap between earnings - Industrial and occupational segregation

Industrial segregation, which occurs when one gender is overrepresented in a particular industry over the other provides a partial explanation for the gender pay gap. Industry of employment is a key determinant of pay levels and the overrepresentation of women in some industries contributes to the disparity in earnings.

Australia has a gender-segregated workforce where there is still a notion of 'male' and 'female' work. Historically men have been associated with higher paying professional and trade qualified fields, whereas

⁵⁸[http://www.carersaustralia.com.au/storage/Carers%20Australia%20Submission%20to%20the%20Interim%20Report%20of%20the%20Welfare%20Review%20\(2\).pdf](http://www.carersaustralia.com.au/storage/Carers%20Australia%20Submission%20to%20the%20Interim%20Report%20of%20the%20Welfare%20Review%20(2).pdf) p 1

⁵⁹ Australian Bureau of Statistics, 2012 Survey of Disability, Ageing and Carers

⁶⁰ This can mean taking on roles which don't fully match their skills and experience - Human Rights Commission 2009, p.16

⁶¹ A Cassells R, Vidyattama Y, Miranti R and McNamara J (2009) p. 14.

⁶² ABS, 2012

⁶³ ABS, 2012

⁶⁴ ABS, 2012

work associated with female labour has 'been seen as natural and innate and, hence, have not been highly valued in the labour market'⁶⁵.

Female dominated industries include health and aged care, education and social services. Interestingly, 'not only is the pay in these occupations lower than male-dominated industries and occupations, but notably, the gender pay gap within a number of 'pink-collar' industries is significantly higher than the average 17.6 per cent.'⁶⁶ Industrial segregation may be partially explained by the greater availability of flexible and part-time working arrangements in some industries and the choice of qualification.

To show the impact of industrial segregation on the gender pay gap, Workplace Gender Equality Agency (WGEA) compared the gender gap between the highest and lowest paying industries, mining and retail. Only 14.5 per cent of workers in the mining industry (the highest paying industry) are women. By comparison, in retail (one of the lowest paid industries), 57 per cent of workers are women.⁶⁷

Occupations in which where women are overrepresented include clerical and administrative workers (75 per cent are women), community and personal service workers (68 per cent), sales workers (63 per cent), and professionals (52 per cent).⁶⁸ Studies have produced mixed results in relation to whether occupational segregation results into pay discrimination, although it appears that occupations dominated by women are at the lower end of the pay spectrum.

Drivers of the gap between earnings – factors related to being a woman

According to research conducted by the National Centre for Social and Economic Modelling in 2009, 'simply being a woman' – defined as direct discrimination or other factors related to being a woman – is the major contributing factor to the gender pay gap in Australia.

Gender inequity is demonstrated by evidence that female graduates receive starting salary that is \$5000 less than males in identical roles.⁶⁹ Despite bringing the same qualifications to the table, men remain ahead of women, setting the trend for the disparity in lifetime earnings and superannuation.

Gender stereotyping starts in childhood and continues throughout the course of an individual's career. Research has repeatedly shown that men who strive for success will be liked more, whereas women who strive for the same success will often be liked less.

As noted by author Sheryl Sandberg, 'Our stereotype of women holds that they are caregivers, sensitive, and communal..... Acting in stereotypically feminine ways makes it difficult to reach for the same opportunities as men, but defying expectations and reaching for those opportunities leads to being judged as undeserving and selfish.'⁷⁰

Despite the fact that in the 18-24 age group, more women than men are studying for a Bachelor Degree or above (34 per cent compared to 25 per cent), and that 42 per cent of females between 25 and 29 years of

⁶⁵ http://www.justice.qld.gov.au/__data/assets/pdf_file/0004/60646/Why-is-there-a-gender-pay-gap.pdf

⁶⁶ *What's Choice got to do with it?* Women's The Australia Institute

⁶⁷ http://www.eowa.gov.au/Information_Centres/Resource_Centre/Statistics/Statistics_Archive/women_in_the_workforce_per_cent20_occupation_July_2012.pdf

⁶⁸ http://www.eowa.gov.au/Information_Centres/Resource_Centre/Statistics/Statistics_Archive/women_in_the_workforce_per_cent20_occupation_July_2012.pdf citing ABS, Cat. No 6291.0.55.003, Labour Force, Australia, Detailed, Quarterly, May 2012, EOWA: Women in the Workforce by Industry, June 2012

⁶⁹ Graduate Careers Australia, (2012) *Grad-Stats: Employment and Salary Outcomes of Recent Higher Degree Graduates*

⁷⁰ landberg, S (2013) *Lean in: women, work and the will to lead*

age had attained a Bachelor Degree or above in comparison to 31 per cent of males,⁷¹ women continue to be linked with educational pathways linked to lower income.

In NATSEM's 2012 report for AMP, *Smart Australians: Education and Innovation in Australia*, the lifetime earnings gap between men and women with a Bachelor degree was \$1.26 million, with men earning \$3.66 million compared to women earning \$2.4 million.⁷² Although girls generally outperform boys at school, they are less likely overall to transition from school to full engagement in work, education or a combination of the two.⁷³

The same report found that a woman aged 25 years with postgraduate qualifications can expect to earn two-thirds of her male counterpart's lifetime earnings and have lower lifetime earnings than a man with Year 12 qualifications on average.

Women are also underrepresented in leadership roles. According to the Equal Opportunity for Women in the Workplace Agencies *2012 Australian Census of Women in Leadership*, the number of women in senior executive positions has not undergone the same increase as the appointment of women on boards. In 2006 women made up 12.0 per cent of senior executives, however this has since reduced to the 2012 level of 10.1 per cent.⁷⁴

A 2015 report by the International Labor Organization (ILO)⁷⁵ into the role of women in business and management from a global perspective found that while women 'have advanced in business and management, they continue to be shut out of higher level economic decision making despite the last decade of activism to smash the "glass ceiling".⁷⁶

Despite the strong business case for diversity in senior positions, the ILO suggests that more needs to be done to overcome the mind-set that women cannot be managers or business leaders because their main role is seen as a reproductive one, is one of the principal challenges.⁷⁷ Despite the fact that women are having fewer children and therefore taking less time out of their careers during the formative years, there is still a perception that women cannot offer the same commitment to their careers as men.

While the scientific case for gender equality in the workforce has been won, as noted by researchers, the social case is less clear - perceptions and expectations are far stronger indicators than objectively measured differences between men and women.⁷⁸

As illustrated already, there have been many studies into these biases. Many highlight negative perceptions of a woman's ability to lead, be assertive and the dominant narrative of men being more suited to senior and serious roles.

A recent survey of executives undertaken by the University of Canberra provides a disturbing picture of the cultural barriers faced by senior women in the public service.

⁷¹ ABS 4125.0

⁷² Cassells R, Duncan A, Abello A, D'Souza G and Nepal B (2012) *Smart Australians: Education and Innovation in Australia*

⁷³ COAG Reform Council, Tracking equity: Comparing outcomes for women and girls across Australia, October 2013

⁷⁴ <http://www.catalyst.org/system/files/2012EOWAAustralianCensus.pdf>

⁷⁵ http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_334882.pdf

⁷⁶ http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_334882.pdf p 3

⁷⁷ http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_334882.pdf p 29

⁷⁸ [https://www.wgea.gov.au/sites/default/files/not_per_cent20yet_per_cent2050_per_centEF_per_cent80_per_centA250_per_cent20report-Final_per_cent20Version_per_cent20for_per_cent20print\(1\)_per_cent5B1_per_cent5D.pdf](https://www.wgea.gov.au/sites/default/files/not_per_cent20yet_per_cent2050_per_centEF_per_cent80_per_centA250_per_cent20report-Final_per_cent20Version_per_cent20for_per_cent20print(1)_per_cent5B1_per_cent5D.pdf) p 9

The 2012 report looked at the perceptions of senior men and women about the cultural and systemic barriers affecting the recruitment, retention and promotion of senior women in six Australian Commonwealth departments in the Australian Public Service (APS).

The following comments illustrate the negative preconceptions about women in leadership roles.

Not yet 50/50 - Responses by senior men and women

- 'There are preconceptions that women don't have the ability to take on the tough roles but it varies amongst groups..... Those groups that are more female friendly aren't seen as doing serious work. Serious work is done by the men folk'
- 'We have on paper all that stuff about flexibility.... But there is little evidence that we support it.... I promoted someone as an EL2 when she was pregnant and they thought she shouldn't apply and to put her in a job that's below her skills'
- 'Authority has a masculine voice. So when we tell a narrative, we talk about feelings.... Men talk in dot points... The senior women I know talk in dot points. So personal style remains a barrier' (SES woman).

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Despite work undertaken by WGEA, The Equal Pay Alliance, community groups and individual employers to address gender inequity in the workforce, the status quo is compounded by the fact that while many workplaces recognise the importance of gender equality, there appears to be a failure to develop clear strategy.

Comprehensive gender data collated by WGEA⁸⁰ found:

- Less than one in four employers has done a gender remuneration gap analysis to check for potential pay equity issues.
- Half of employers have policies on the known enablers of gender equality but few are developing strategies in these areas. Nearly half (47.7 per cent) of employers have policies on flexible working but only 13.6 per cent have a strategy for flexible working. Similarly, 45.2 per cent have a policy for supporting employees with family and caring responsibilities but only 13.2 per cent have a strategy for this important focus area.
- Full-time working women earn a base salary that is 19.9 per cent less than full-time working men while their total remuneration including discretionary pay such as bonus payments, allowances and overtime is 24.7 per cent less than men.
- Less than one in 10 (8.8 per cent) organisations have set a target to lift the number of women around the boardroom table despite only 23.7 per cent of directorships being held by women, and just 12.0 per cent of chairs being women.

⁷⁹ Not yet 50/50, the University of Canberra, Not Yet 50/50: Barriers to the Progress of Senior Women in the Australian Public Service, 2013

⁸⁰ WGEA, Australia's gender equality scorecard, 2013-14 reporting data. Non-public sector employers with 100 or more employees report to the Agency under six gender equality indicators (GEIs), generating a standardised performance assessment that enables comparisons across industries and organisation sizes (3.9 million employees) p 3

Drivers of the gap between earnings – method by which pay is determined

Research undertaken by WGEA demonstrates the correlation between the pay gap and the method by which pay is set.⁸¹ The method by which pay is determined ranges from an award wage, collective agreement or an individual agreement. The research found that:

Pay method - Workplace and Gender Equality Agency

- the average weekly total cash earnings for those who had their pay set by individual agreement were substantially higher for men than women, resulting in a gender pay gap of 21.7 per cent
- the average weekly total cash earnings for those who had their pay set by collective agreement were also higher for men than women
- the difference in full-time earnings was smaller for those whose pay was set by award only, where men earned slightly more than women

This suggests that external gender biases may play more of a dominant role in setting pay by individual and collective agreement, in comparison to when pay is set by federal or state industrial authorities. It also emphasises that women are more dependent on minimum entitlements, including legislated SG contribution levels, and so are more disadvantaged by the recent decision to defer SG increases.

Other factors contributing to the retirement income gap: retirement age

Despite a shortfall in retirement savings, women typically retire earlier than men. According to ABS data, the average intended retirement age for men is 63.5 and for women is 62.82. Self-evidently, early retirement leads to reduced capacity to achieve retirement security through super.

Research shows that many female retirement are not voluntary. Most people experience a considerable drop in income when they retire. Table 1 uses HILDA data from 2003 and 2007 to show that around 33 per cent of female retirements appear voluntary, and even fewer are driven by financial circumstances.

Table 10 – Reasons for female retirement

Reason provided	2003	2007
Became eligible for the Age Pension	3.3	0.8
Offered reasonable financial terms to retire early or accept a voluntary redundancy	0.0	1.1
Superannuation rules made it financially advantageous to retire at that time	0.0	1.5
Could afford to retire / Had enough income	4.4	6.1
Spouses / Partners income enabled me to retire	3.7	1.9
Made redundant / Dismissed / Had no choice	7.0	6.8
Reached compulsory retirement age	0.7	0.0
Could not find another job	2.2	2.7
Fed up with working / Work stresses, demands	13.0	11.8
Pressure from employer or others at work	0.7	1.9
Own ill health	22.6	19.4

⁸¹ The most recent data providing this information was the ABS Employee Earnings and Hours survey, released January 2015.

⁸² <http://www.actuaries.asn.au/Library/Miscellaneous/2015/ForRicherForPoorerRetirementIncomes2.pdf>, p 41 citing ABS 6238.0 - Retirement and Retirement Intentions, Australia, July 2012 to June 2013

Reason provided	2003	2007
Ill health of spouse / partner	5.2	7.2
Ill health of other family member	2.2	3.0
Partner had just retired or was about to retire	4.4	2.7
Spouse / partner wanted me to retire	3.0	2.7
To spend more time with spouse / partner	2.6	3.0
To spend more time with other family members	9.7	8.8
To have more personal / leisure time	7.8	8.4
To have children / start family / to care for children	4.8	3.0
NEI to classify	2.2	2.7
Other	3.3	4.6
All	100.0	100.0
Voluntary Retirees	33.0	33.5

Source: HILDA

Disability and negative health outcomes are linked to wealth and income. A recent study of over 200,000 Australians over ages 45 to 106 found significantly lower levels and decreased prevalence of chronic health conditions as incomes increased.⁸³

The Productivity Commission estimate that 25 per cent of women retire because of poor health and caring responsibilities. A further 11 per cent of women have their employment terminated or cannot find work.

The Age Pension age for women has been lifted as shown in the Table below.

Table 11 - Age requirements for Age Pension eligibility

Date of birth	Qualifying age at
1 July 1952 to 31 December 1953	65 years and 6 months
1 January 1954 to 30 June 1955	66 years
1 July 1955 to 31 December 1956	66 years and 6 months
From 1 January 1957	67 years

Source: Department of Human Services

The argument that further lifting the Age Pension age is justifiable because of increased life expectancy completely ignores both actual labour force participation patterns, disability rates and capacity to engage in the workforce and the fact that life expectancy varies significantly depending on income and wealth.

The rationale that further lifting the Age Pension will create incentives for women to work longer ignores the facts that the majority of retirements, even at the current Age Pension age, are involuntary and retirement due to an inability to work because of disability is common.

⁸³ Korda et al. BMC Public Health 2014, 14 :74

Impact of divorce

In addition, the number of older Australians who have experienced divorce at some point in their lives will increase dramatically in coming decades,⁸⁴ further decreasing the capacity for collective marital assets to improve economic security in retirement.

The negative impact of divorce on financial wellbeing in retirement has been well documented. Divorce has a detrimental impact on asset accumulation, due to higher living costs for families post-separation, legal fees in negotiating property settlements and the fact that recently divorced mothers are less likely to have a strong labour market position to assist in financial recovery.⁸⁵

⁸⁴ <https://aifs.gov.au/publications/consequences-divorce-financial-living-standards-i/1-introduction>

⁸⁵ <https://aifs.gov.au/publications/consequences-divorce-financial-living-standards-i/1-introduction>

APPENDIX 2

ISA-RICE WARNER MODEL AND METHODOLOGY

A group-based population retirement income model was used to examine the impacts of a number of the policy changes outlined in this submission.

The population is constructed using *ABS Confidentialised Unit Record File* (CURF) microdata supplemented or benchmarked to:

- Rice Warner's Market Projections report and APRA superannuation statistics;
- Rice Warner's Super Insights data utilising de-identified member record data from 9.1 million superannuation fund members spanning all APRA regulated sectors;
- Australian Taxation Office taxation statistics, and SMSF statistics;
- ABS population projections and life expectancy tables, with adjustments for new entrants and deaths;
- Treasury Tax Expenditures Statement and long term projections of age pension expenditure in the 2015 Intergenerational Report.

The model constructs quinquennial age and sex specific cohorts of singles and couples that are then divided into equal deciles ranked by income with further representative groups created to capture quantiles that cover the top five per cent and one per cent. For each group, an average balance sheet of assets and liabilities including a stock of superannuation and non-superannuation financial assets is ascribed. Owner-occupied and investment housing equity are tracked over time.

The model utilises variable longevity by decile consistent with Clarke and Leigh.⁸⁶ The method used increases mortality for the first income decile by 30 per cent, and lowers the mortality for the 10th decile by 30 per cent and linearly interpolate between. This gives a ratio of mortality between Decile 1 and Decile 10 of 1.86 and leaves overall population mortality unchanged.

All existing legislated policy settings for personal income tax, superannuation and Age Pension are used in the base case or business as usual (BAU) scenario.

All relevant thresholds are indexed as required by legislation. One exception to this relates to personal income tax thresholds. Over the projection period personal income tax thresholds are assumed to maintain relative parity to wages – this is broadly consistent with historical ad-hoc adjustments by Governments to ensure average tax rates on personal income don't increase significantly over time.

Wages are assumed to grow 4 per cent per annum and inflation 3 per cent. Younger cohorts experience promotional wages growth up to age 40. Age Pension is indexed to male total average weekly earnings (MTAWE) which is slightly higher than average wages growth.

During working life, extra concessional and non-concessional contributions follow existing observed patterns by sex, age, and income. High income earners whose SG contribution would breach the

⁸⁶ Clarke & Leigh, Death, Dollars and Degrees: Socio-economic Status and Longevity in Australia, ECONOMIC PAPERS, VOL. 30, NO. 3, SEPTEMBER, 2011

concessional contribution cap are assumed to make the balance of their SG amount non-concessional. Discretionary income is assumed in the first instance to pay off owner occupied housing debt then to accumulate private savings.

Nominal before tax investment returns of 7.2 per cent per annum reflect existing long term industry averages during accumulation and drawdown.

At retirement age (the average of which is 65 in the model) individuals draw down an account based pension at the greater of minimum drawdown rates or a fraction of super assets equal to $(1 / \text{years to life expectancy})$. This approach was adopted because it better reflects existing behaviour and allows a small amount of capital for longevity risk or funeral or other expenses at death. In higher income groups, the amount allows a moderate reversionary benefit to a surviving spouse or bequest.

Under this approach, the residual balance at life expectancy is less than the minimum drawdown rules currently permit⁸⁷ but not zero. This approach differs to our understanding of existing modelling practice by Treasury, which typically assume superannuation assets are drawn down to zero by life expectancy. Using the ISA-RiceWarner model, we find that assuming superannuation assets are drawn down to zero by life expectancy increases Age Pension outlays by approximately 0.5 per cent of GDP by 2055 because this assumption reduces assets in superannuation that would otherwise weigh against the Age Pension means test.

All outcomes are deflated to 2014-2015 dollars using the assumed CPI deflator.

⁸⁷ For example the approach adopted in the ISA-RiceWarner model results in residual capital amounts to between 10-20 per cent of overall superannuation retirement income being left at life expectancy (depending on income) compared to approximately 40 per cent under current minimum drawdown rules.