Closing the Gender Gap in Superannuation

Submission to the Senate Economics Committee inquiry into the Economic Security of Women in Retirement.

November 2, 2015.
About the McKell Institute

The McKell Institute is an independent, not-for-profit, public policy institute dedicated to developing practical policy ideas and contributing to public debate. The McKell Institute takes its name from New South Wales’ wartime Premier and Governor-Generalt of Australia, William McKell.

William McKell made a powerful contribution to both New South Wales and Australian society through significant social, economic and environmental reforms.

For more information phone (02) 9113 0944 or visit www.mckellinstitute.org.au
Contents

Introduction..........................................................................................................................4
Immediate Reform Recommendations..................................................................................6
Further Long-Term Reform Options....................................................................................8
The Superannuation Gender Gap.........................................................................................9
Urgent Areas Requiring Reform..........................................................................................12
  Reform 1 - Applying Superannuation to Maternity Leave Payments......................12
  Reform 2 - Ensure the Superannuation Tax Concession System is Equitable for all
             Australians over the Long-Term .................................................................15
  Reform 3 - Enhancing the process of Consolidating Superannuation Accounts
             Online via the MyGov platform.................................................................18
  Reform 4 - Enabling Joint Superannuation Accounts for Married and De Facto
             Couples...........................................................................................................21
  Reform 5 - Maintain and Extend the Low Income Superannuation Contribution...23
  Reform 6 - Amend the Sex Discrimination Act to Enable Higher Super
             Contributions for Female Employees...............................................................25
  Reform 7 - Amend the Superannuation Guarantee to Require it to Cover All
             Income ...........................................................................................................27
Further Areas for Discussion and Future Options for Reform .............................................30
  Option 1 - Explore methods of compensating or contributing to unpaid carers
             superannuation accounts.................................................................................30
  Option 2 – Explore Reinstating the ‘Baby Bonus’ as a Lump Sum Payment into
             Women’s Superannuation Accounts ................................................................33
  Option 3 – Tax concessions for Mothers Recently Returned to the Workforce and
             Contributing More to their Superannuation Accounts .......................................36
  Option 4 – Consolidating Lost and Unclaimed Superannuation Accounts into the
             Commonwealth of Australia Consolidated Revenue Fund, and utilising a portion
             of the Fund as a Managed Investment Fund to finance closing the superannuation
             gap .......................................................................................................................38
Introduction

Retirement adequacy is a central component of Australia’s social contract. The superannuation policy as implemented by the Keating government in 1992 was aimed at both ensuring the long term adequacy of Australians’ retirement, and minimising the long term strain of government expenditure on the aged pension.

Both of these core objectives, however, are not being met. This is particularly evident when considering the gender gap in superannuation. Australian women, on average, retire with slightly over half the amount of superannuation savings as men. While the gap in superannuation savings is significant throughout the lives of men and women, it becomes most apparent when women are nearing or entering retirement age.

Women aged 50-64 have on average $76,300 in superannuation, compared to men with $139,900. By retirement age, this gap continues to widen, with women aged 65 and over averaging $129,100 compared to men with $192,200. The median total balances between all men and women are $62,900 and $35,200 respectively. Alarmingly, 1 in 3 women have no superannuation savings at all. Not only is such a superannuation gap fundamentally inequitable, it will also result in additional long term strain on the aged pension as women with inadequate superannuation savings are forced to draw upon the aged pension in later retirement.

Australia’s population is ageing, and those in retirement - particularly women - are living longer. This reality is something to be celebrated - governments should welcome increasing longevity as it represents a vibrant and healthy society overall. However, as retirees live longer, it is important that superannuation meets the retirement needs of both men and women, and ensures a minimised long-term strain on the aged pension.

Whilst acknowledging the range of socio-economic factors that contribute to the superannuation gender gap, this submission aims to propose sensible, realistic reforms to address the root causes of the gender gap in superannuation.

1 Superguru, 2015. ‘Help close the $92,000 superannuation gender gap’.
This submission offers **nine core recommendations** over seven different reform areas for immediate reforms that would substantially benefit women’s superannuation holdings in Australia over the longer term.

Of these core reform options, recommendations 1, 3 and 4 require further government expenditure that could be funded through the additional revenue raised by recommendation 2 - reforming superannuation tax concessions.

Recommendations 5, 6, 7 and 8 are legislative adjustments that require minimal additional revenue beyond government enforcement.

This submission argues that these eight core recommendations should be considered by the Australian Government prior to the 2016-17 federal budget which is due in May 2016.

Additionally, this submission suggests four options for further consideration by the Senate Committee and the Government. While these secondary reforms require further community and industry consultation, this submission recommends additional detailed research into these four options for long-term reform be considered by the Committee.

It is important to note that eliminating the long-term gender gap in superannuation requires a wide package of reforms. No single policy adjustment will be sufficient in addressing this national crisis. The broad suite of recommendations for policy reform in this submission seeks to provide the Committee with multiple options that, if legislated, would assist in closing the growing gender gap in superannuation.
Immediate Reform Recommendations

1. **Apply the Superannuation Guarantee to all government paid maternity leave payments.** Paid parental leave should include superannuation as defined by the existing and any future Superannuation Guarantee (currently at 9.5%, and increasing to 12% by 2025).

2. **Reform Superannuation Tax Concessions:** explore both the reduction of the High Income Superannuation Charge Threshold, reducing tax concessions on earnings over $1.5 million, or adopt a progressive tax policy that applies the marginal tax rates, minus 15 per cent, to all superannuation contributions.

3. A greater emphasis must be placed upon educating the general public of the risks of losing superannuation through the accumulation and loss of multiple accounts throughout a working life. Legislation that looks into disseminating this information throughout workplaces, and grants new employees access to information, or reminders to consolidate their super when beginning a new position should be explored.

4. **Require all superannuation accounts to move away from requiring customers to complete compulsory physical paperwork when consolidating superannuation accounts.** All superannuation funds must be able to comply with the MyGov Superannuation transfer system to ensure that the platform is accessible by each member of the workforce.

5. **Provide a rebate for financial advice, or make financial advice more accessible, if it relates to the consolidation or location of lost superannuation accounts for women.**

6. **Remove barriers that prohibit recognised couples from creating joint superannuation accounts.**
7. Reinstate the Low Income Super Contribution to its previous level, and ensure it is maintained for low income workers in future generations. The revenue to continue funding the LISC could be hypothecated from a more equitable taxation system in superannuation.

8. Amend the Sex Discrimination Act 1984 with a view to removing potential barriers for employers who wish to contribute higher levels of Superannuation to female employees.

9. Removal of the $450 threshold that applies to the Superannuation Guarantee Scheme so that superannuation contributions are required against all income earned.
Further Long-Term Reform Options

**Option 1** - Explore methods of compensating or contributing to unpaid carers’ superannuation accounts.

**Option 2** - Explore the instatement of a means tested ‘baby bonus’ lump sum payment into women’s superannuation accounts.

**Option 3** - Explore tax concessions for new mothers who wish to place more money into their superannuation accounts upon return to the workforce. Whilst worth examining, this submission notes that this reform option has the potential to exacerbate inequality within the system if inadequately implemented.

**Option 4** - Reform and repurpose the Commonwealth of Australia Consolidated Revenue Fund, treating the sizable $16.8 billion of pooled resources as an ongoing sovereign investment portfolio aimed primarily at funding reforms to close the gender gap in superannuation, whilst maintaining assurances that individuals can be reimbursed from the Fund when they are so entitled.
The Superannuation Gender Gap

The scale of the superannuation gender gap is alarming, and the gap is widening. The figures in this submission illustrate the scale of this inequity.

Women aged 50-64 have on average $76,300 in superannuation - men, in comparison, hold $139,900. The gap continues to be evident with women aged 65 and over who $129,100 in total superannuation compared to men with $192,200. The median total balances between men and women are $62,900 and $35,200, and perhaps most concerning, 30 per cent of women have no superannuation savings at all.

![Superanuaction balance: men vs women](chart1.png)

*Chart 1 - Source:* Roy Morgan Research Single Source; July 2004-June 2005 (n=34,906); July 2014-June 2015 (n=34,429)

The highly gendered superannuation savings gap widens over time. Chart 1 shows that the cumulative effect of lower labour market incomes and participation, the existing regressive tax concessions on superannuation contributions and the power of compound interest sets up a powerful inequality process in superannuation savings.
Furthermore, even these statistics do not show full the extent of the unequal and gendered savings gap. The Human Rights Commission reported research which showed that:

“For example, in 2004, despite the average woman having $35,000 in superannuation, 30% of women had no superannuation, 50% had $8,000 or less and 70% had $25,000 or less.” (2009, 6)

Research by Industry Superannuation Australia also found that the gender pay gap during a working life gets magnified at retirement by the effects of the unequal contributions and the power of compound interest:

“The current 19% pay gap between women and men’s wages in Australia is translating into a yawning superannuation gap of 47%.” (ISA 2014)

One consequence of the retirement savings gap is that women in retirement will typically have less income and wealth than their male counterparts, or have to work longer to build an equivalent savings pool. Industry Superannuation Australia research found that “Women are currently retiring with $90,000 less than men, and 29% of women over 65 are living below the poverty line.” (ISA 2014) The Human Rights Commission reported on research that found that “… between 2000 and 2005, single elderly female households had not only
experienced the highest incidence of poverty compared to other household types, but also have been at the greatest risk of persistent poverty” (2015, 3).

A recent Westpac study estimated that the average 60-year-old Australian woman would need to work an extra 25 years in order to retire with the same superannuation account balance as her male counterpart (Westpac Women & Retirement Readiness Report 2013).

The scale of this challenge requires urgent reforms aimed at combating the structural gender inequalities in the superannuation system.
Urgent Areas Requiring Reform

Reform 1 - Applying Superannuation to Maternity Leave Payments

A central causal factor for the lower levels of superannuation held by women entering retirement is the lack of access to superannuation payments during early motherhood. Although there has been a gradual increase in the access to paid and unpaid maternity leave in recent years, new mothers receive no access to ongoing superannuation payments during their maternity leave.


The report found that, in 2011, there were over 500,000 mothers in Australia with a child or children aged less than two. 98% of these women who were already employed at the time of conception continued to work throughout their pregnancy. Three quarters of new mothers aged 30-39 were employed before the birth of their child. While this was less for younger mothers (aged 15-24, at 49%), the figures demonstrate that the vast majority of new mothers were employed before the birth of their child, and therefore accessed superannuation contributions up until the period of (paid or unpaid) maternity leave.

Time away from Work

New mothers take an average of 32 weeks leave for the birth of their child and subsequent care. The paid-maternity leave reforms introduced by the Australian Government in 2011 created eligibility for new mothers to access 18 weeks of paid leave, pegged to the National Minimum Wage.

---

While Paid Parental Leave (PPL) is intended to - and is effective in - minimising the financial burdens and loss of income of having a child, it does not include any superannuation contributions\(^3\). PPL is still considered as taxable income, and is significantly above the $450 per month Superannuation Guarantee threshold for superannuation payments. However, it is strictly ineligible for superannuation contributions.

In effect, new mothers are subject to, on average, 32 weeks - or 8 months - of no superannuation contributions. For mothers with more than one child, the accumulative impact of 8 months of no superannuation contributions per child can be significant, and results in substantial loss of retirement income over the course of an entire working life.

The ABS data suggests that the vast majority of new mothers were active participants in the workforce prior to their pregnancy and birth of their child. However, their decision to have a child results in an 8 month gap in superannuation contributions for the average mother. This is fundamentally inequitable and is anathema to the rationale behind PPL, which is routed in

\(^3\)http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/BriefingBook44p/PaidParentalLeave
the notion that motherhood is a legitimate occupation in the national interest that requires adequate compensation.

**Estimated Cost of Applying the Superannuation Guarantee to Paid Maternity Leave - 2015-16**

The current paid parental leave scheme is expected to cost government $2.1 billion over 2015-16\(^4\). This is excluding any superannuation payments as part of the PPL scheme. However, if government paid maternity leave was inclusive of the 9.5% Superannuation Guarantee, the cost to government would increase by approximately $199.5 million in 2015-16, bringing the total forecast expenditure to approximately $2.3 billion over 2015-16. Such a contribution would go a long way to ensuring the 8 month gap with no super contributions by many new mothers is partially offset.

PPL income should be considered no differently from income generated through paid-employment, and therefore, the Superannuation Guarantee should apply.

**Recommendation 1**

This submission recommends that government paid maternity leave payments should include superannuation as defined by the existing and any future Superannuation Guarantee (currently at 9.5%, and increasing to 12% by 2025).

Similarly, this should apply to government PPL payments conducted in concert with employers, who currently ‘top up’ the government paid leave entitlements with additional employer paid remuneration. Any government contribution should include superannuation, including those conducted in sync with employer paid parental leave.

Reform 2 - Ensure the Superannuation Tax Concession System is Equitable for all Australians over the Long-Term

Superannuation tax concessions are a central area of debate when discussing Australia’s long-term economic security and reform of the superannuation system. Currently, the taxation of superannuation contributions is heavily geared in favour of a wealthy minority in Australia. The Government spends around $32 billion per year on super tax concessions: a third of which is transferred to the top 10% of income earners.\(^5\) This is because Australians earning incomes within higher taxation brackets are entitled to transfer earnings into superannuation accounts, and in doing so reduce their overall tax burden.

The tax concessions are generous, and are intended to encourage individuals to put more money in superannuation throughout their working lives. This policy was designed to minimise the burden on the age pension over the long-term. Unfortunately, the current model benefits the wealthiest Australians overwhelmingly - many of whom are unlikely to draw down on the aged pension in retirement. In this respect, the current tax concessions on superannuation contributions are not achieving their desired outcome: to minimise the long-term strain on the aged pension, and ensure suitable retirement adequacy for all Australians.

Although there is debate as to which model of superannuation tax reform should be adopted, each of the main reform ideas would significantly contribute to funding the broader suite of reforms proposed in this submission.

This submission notes that, currently, there are two primary reform options in this space that have been circulated and discussed in the media and policy communities. While both reform options have merit, this submission suggests the adoption of one of the following options:

**Option 1:** $2 billion additional annual revenue / $14.3 billion by 2026-27

Reduce the tax exemption for earnings on superannuation balances that exceed $1.5 million, and reducing the Higher Income Superannuation Charge (HISC) threshold from $300,000 to $250,000\(^6\)

---


\(^6\) http://www.alp.org.au/fairer_super_plan
This option has been put forward by the Federal Opposition and aims to improve government revenues from the reduction of universal tax concessions on superannuation. The policy aims to reduce the inequity in the tax concession system through two specific reforms:

Firstly, this option will address the inequity in superannuation earnings. It aims to ensure that individuals with superannuation incomes are no worse off if those incomes total $75,000 or less per year. Superannuants receiving incomes of $75,000 or less will continue to enjoy a 0 per cent tax rate on their income.

Currently, all income derived from superannuation for superannuants aged 60 or over is exempt from taxation, regardless of net wealth or total earnings of the individual.

Under the Opposition’s proposal, incomes derived from superannuation above $75,000 per annum will be subject to a concessional tax rate of 15 per cent. This is estimated by the Federal Opposition to increase government revenue by $1.5 billion over the coming financial year, or $9.2 billion by 2026-27.

Secondly, this reform option would reduce the Higher Income Superannuation Charge (HISC) threshold from $300,000 to $250,000. The HISC is a 30 per cent tax on high earners superannuation contributions. Reducing this threshold to $250,000 would, according to the Federal Opposition, increase government revenue by $500 million over the coming financial year, or $5.1 billion by 2026-27.

Accumulatively, this reform option would increase government revenue by approximately $14.3 billion by 2026-27.

**Option 2:** $6 billion additional revenue per annum

**Introduce a progressive tax system on all superannuation contributions.**

Deloitte Access Economics have recently proposed applying Australia's current marginal tax rates to superannuation contributions, but with a 15 per cent reduction in each rate. For example, the top income tax rate is 45 per cent: under Deloitte’s proposal, income earners within that tax bracket would pay 30 per cent tax on super contributions - 15 per cent less
than their income tax rate. The same methodology applies at all brackets of income taxation.

This proposal was first put forward in 2009 by the Henry Tax Review, but is only now being seriously considered as a reform option. Although this option does not leave middle-income earners entirely immune from taxation on additional super contributions, it provides enhanced super saving incentives for the lowest earners.

The proposed model would allow a 15 per cent tax reduction on all income tax rates, including those who earn less than the tax-free threshold of $18,200 annually. In this case, the lowest earners could receive additional government co-contributions of up to 15 cents in the dollar for each super contribution\(^7\).

This model aims to replicate the progressive income tax brackets within the context of superannuation contributions. One of this reform’s primary advantages is its broad political appeal. It aims to address the broader inequities within superannuation tax concessions without specifically targeting any single income bracket.

Deloitte estimates this reform option will add an additional $6 billion in annual revenue to the federal budget. This submission recommends that such additional revenue be invested back into addressing the gender gap in superannuation, by being hypothecated towards funding for the broader suite of reforms proposed in this submission.

**Recommendation 2**
Reform superannuation tax concessions to make the system more equitable. Consider both superannuation tax reform Option 1 and 2 proposed in this submission, and hypothecate the revenue raised back towards addressing the gender gap in superannuation.

Reform 3 - Enhancing the process of Consolidating Superannuation Accounts Online via the MyGov platform

Overview
Successive governments have made it increasingly simple to consolidate existing super funds accumulated by members of the public through previous employment experiences. The MyGov platform has been a successful reform that enables easier access to a range of government services, including the location and consolidation of superannuation accounts from past employment, and the Australian government should be congratulated for this initiative.

This report notes that most superannuation accounts can be consolidated via the MyGov platform in as few as 10 steps when on a computer. Accessibility to such services is further enhanced by mobile applications for phones, tablets and other devices. In this regard, digital integration of this government service has been a technological success, and has created an easy platform for members of the community to consolidate their superannuation savings.

However, although the MyGov superannuation consolidation is an effective tool, it still requires the compliance of superannuation funds, and the initiative of informed individuals who are aware of their lost or unclaimed super accounts.

The Accumulation of Superannuation Accounts
The Australian labour market is increasingly mobile and fluid. The Labour Mobility survey, released by the Australian Bureau of Statistics in 2013, identified that less than half of Australian workers had been in their current position for more than five years. Up to 20 per cent of Australians surveyed had been in their current job for less than 12 months.

This represents a shift in workplace behaviour by employees, who now regularly change occupations and careers throughout their working life. The average Australian now works a total of 14 jobs throughout their career. Anecdotal evidence suggests that women are disproportionately affected by workforce mobility, and it stands to reason that women face significant disruptions throughout their career due to the birth of children.

Lost and Unclaimed Superannuation Accounts
There are thought to be at least 3.4 million ‘lost’ superannuation accounts, worth a total of $16.8 billion, and 2.8 million ‘unclaimed’ superannuation accounts, worth $887 million currently in Australia. The fluidity of the labour market, and the tendency for employees to open new superannuation accounts when transferring to another occupation enhances the number of superannuation accounts in existence.

Many employers require (or strongly suggest) employees use the superannuation fund recommended by the employer. Research has shown up to 70 per cent of Australian employees let their employer choose their superannuation fund. Considering the frequency of women changing occupations and careers, there is a tendency for many new superannuation accounts to be accumulated over a working career. Employers should be encouraged to stress the importance to all new employees of consolidating their superannuation accounts from previous periods of employment.

**Recommendation 3**

This submission recommends a greater emphasis be placed upon informing the general public of the risks of losing superannuation through accumulating multiple accounts throughout a working life. Legislation that disseminates such information throughout workplaces, and grants new employees access to information or reminders to consolidate their superannuation accounts when beginning a new position should be explored.

**How to Digitally Consolidate Super Accounts**

The MyGov system is effective in consolidating superannuation accounts. This report notes that, from the point of opening a computer internet browser, an individual (with an established MyGov account) can locate and consolidate their superannuation accounts within 10 steps, with one important caveat:

*Not all superannuation funds enable digital consolidation of their funds.* In a case study examined as research for this submission, one superannuation fund restricted the transfer of funds through the MyGov system, requesting physical paperwork be submitted prior to any transfer of funds. A warning stating: *‘This fund accepts paper forms only. You will need to*

---


print the form we generate for you and post it to the fund to complete the transfer request’ prohibits progressing through the system and consolidating these accounts online.

This is representative of an outdated way in which consumers interact with services such as superannuation funds, and should be examined by the Committee. As younger generations become increasingly reliant on technology to access government services and are increasingly mobile in both the workplace and their residential addresses, relying on physical paperwork to be posted and returned is too inflexible for the average younger worker. Such a restriction is a road-block in enabling younger women to consolidate their superannuation as they move between occupations.

Recommendation 4
Require all superannuation accounts to move away from requiring customers to complete compulsory physical paperwork when consolidating superannuation accounts.

All superannuation funds must be able to comply with the MyGov Superannuation transfer system to ensure that the platform is accessible by each member of the workforce. Similarly, superannuation funds should make it simpler for customers to locate information relating to transferring and consolidating funds.

Recommendation 5
Provide a rebate for financial advice relating to the consolidation or location of lost superannuation accounts to women.
Reform 4 - Enabling Joint Superannuation Accounts for Married and De Facto Couples

Australian superannuation regulations currently prohibit joint super accounts between married couples, couples in a civil union, or long-term de facto partners. Incidentally, superannuation accounts are one of the few financial services that two individuals cannot mutually commit to. Australian law permits joint bank accounts, joint mortgages, and other joint financial services or contractual agreements. However, superannuation regulations still prohibit two individuals from combining superannuation accounts to pool resources and minimise ongoing fees.

The inability for couples to join their superannuation accounts has a negative impact on retirement savings in the long term, as each superannuation account draws its own fees for management and other services. Couples, therefore, are forced to bear the ongoing costs associated with the fees of managing (at least) two individual superannuation accounts throughout their working lives, adversely affecting overall savings in retirement.

Certain research has identified that Australian workers potentially pay towards the higher end in superannuation fees compared with workers in other OECD countries. Additionally, fees are rising across all superannuation fund types.

Research by Chant West demonstrates that retail funds charged on average 1.67 per cent in management costs, industry funds, at 0.83 per cent, and public sector funds, at 0.62 per cent.

Considering the notable costs of superannuation fees, consumers should have the option of joining accounts with their recognised partner to minimise the impact of ongoing fees.

**Benefits to Retirement Savings**

In her stated testimony to the inquiry on October 6 2015, ANZ’s Joyce Phillips suggested that for the average couple on a ‘low to middle income, combining their managed super funds today would give them around an extra $6000 at retirement’\(^\text{10}\).

\(^{10}\) Sally Rose, ‘Joint super accounts could save $6000 in fees and improve retirement planning,’ *The Sydney Morning Herald*, 7 October 2015.
Although a modest figure, this estimation is still a notable sum for the average retiree. Considering addressing the gender gap in superannuation requires a wide suite of reforms - not a single sweeping reform solution - a $6000 addition to the overall retirement savings of an average couple is an important component of a broader reform package.

Although it is unlikely that such a reform would halve fees, due to the fact that two contributors would still need to be managed, the overall administrative fees would likely be significantly reduced.

Cost Benefits of Pooling Resources
There is a cost benefit for couples in pooling their resources into larger total superannuation accounts. Chant West research has identified that superannuation accounts with higher total assets enjoy a lower percentage of fees than accounts with lower total assets. In essence, larger accounts are rewarded with a lower percentage of management fees.

Recommendation 6
Remove barriers that prohibit recognised couples from joining superannuation accounts. Doing so will minimise the fees that couples have to pay to manage their super accounts. Larger superannuation accounts similarly incur a lower percentage of fees: allowing couples to pool their resources will reduce the overall percentage of management fees that couples pay, increasing overall retirement incomes.
Reform 5 - Maintain and Extend the Low Income Superannuation Contribution

The Low Income Superannuation Contribution (LISC) is a ‘government superannuation payment of up to $500 to help low-income earners save for retirement’. The LISC is only available to workers who earn less than $37,000 per annum.

The current Australian government introduced legislation in 2014 that will see the LISC end in its entirety by 1 July 2019. This submission strongly recommends the Australian Government reconsider the abolition of the LISC. Not only will the abolition contribute to broadening the gender gap in superannuation, the policy is also effectively shifting government expenditure to a future date, where those who are ineligible for the LISC after 2019 will inevitably end up drawing more significantly on the aged pension in the future.

Not only should the LISC be maintained, it should be strengthened. It is a fundamental investment in the future retirement of the Australian workforce, and is essential in reducing the strain on government faced by an ageing population. It is in the government's interests to lessen the strain on the aged pension over the long-term, and the LISC is an essential measure in achieving this aim.

Costs of the LISC

In the financial year 2013/14, the total cost of the LISC was estimated at A$975 million. Although a sizeable figure, this is an investment that could be maintained if appropriate funding was sourced through a variety of reforms of superannuation overall. Recommendation 2 addresses additional revenue that could be raised in order to finance the LISC.

There is an opportunity to hypothecate proposed revenue generated from a more comprehensive superannuation taxation system towards funding the LISC, as well as funding other initiatives proposed in this submission.

---


Recommendation 7
Reinstate the Low Income Super Contribution to its previous level, and ensure it is maintained for low income workers in future generations. The revenue to continue funding the LISC could be hypothecated from a more equitable taxation system in superannuation.
Reform 6 - Amend the Sex Discrimination Act to Enable Higher Super Contributions for Female Employees

Women on average live five years longer than men in Australia. As such, upon retirement, women should preferably have larger superannuation savings to account for their longevity. However, the average superannuation balance for men aged 65 and over is $192,200, while for women of the same age the average figure is only $129,100.

Single females are the most likely of any family group to be living in poverty in Australia. 35.8 per cent of single females over the age of 60 are living under the poverty line, and were most likely to have been doing so for the past six years or more, according to the 2014 HILDA (Household, Income and Labour Dynamics in Australia) survey.

Women are subject to a number of inequalities and disadvantages throughout their working lifetime that affect their superannuation balance in retirement. This includes inequalities arising from unequal pay and disadvantages associated with reduced participation in the workforce due to parenting and caring duties. As such, the gender pay gap in Australia is currently still 17 per cent.

Given this, there should be scope for employers who wish to contribute more superannuation payments with respect to female employees and be free to do so without breaching anti-discrimination legislation. It is currently considered a breach of Anti-Discrimination legislation to contribute unequal amounts of super to males and females.

Currently, if employers wish to contribute more to the superannuation of female employees, they must apply to the Sex Discrimination Commission for an exemption. The Commission assesses these applications on a case by case basis. The removal of this barrier should be considered as a means of encouraging employers to aid in reducing the gender gap in superannuation balances and encouraging greater female workforce participation.

Despite this barrier, some companies have successfully applied for the exemption. A notable example is Rice Warner, the superannuation and financial services industry consultancy.

---

14 Penny Prior, ‘Women can slip the super trap,’ The Sydney Morning Herald, 5 March 2014.
who have implemented a policy aimed at female workforce participation and boosting female retirement savings. It includes:

- Paid parental leave for 18 weeks
- Superannuation payable on parental leave for up to one year
- An additional 2% superannuation payment throughout the employment period
- Long service leave accrual throughout parental leave
- Flexible working conditions.\textsuperscript{15}

More recently ANZ Bank and Unions NSW have following Rice Warner’s model by allocating extra super contributions to their female staff.\textsuperscript{16}

Such superannuation payments and employment schemes are useful in reducing the superannuation savings gap and it is recommended that greater ease is provided to businesses who wish to further contribute to reducing the gap.

\textbf{Recommendation 8}

\textbf{Review the Sex Discrimination Act 1984 with an aim to remove potential barriers for employers who wish to contribute higher levels of superannuation to female employees.}


\textsuperscript{16} Andrew Main, ‘ANZ Bank launches a super deal for female employees,’ \textit{The Australian}, 29 July 2015.
Reform 7 - Amend the Superannuation Guarantee to Require it to Cover All Income

Under the current superannuation system, employers are required to pay the equivalent of 9.5% of an employee's salary into a nominated super fund. This legal requirement is called the Superannuation Guarantee and provides Australians with a form of forced savings for their retirement.

*Casual*

![Employees by Age and Unemployment Rate](source: Parliament of Australia, 2015.)
However, this guarantee only applies to employees earning more than $450 per month. Part-time and casual workers, often working multiple jobs, are impacted most heavily by this, the majority of whom are women. Of the 61.6% of women who were employed in 2014-15, 43.8% were employed part-time and 9.7% were underemployed\(^{17}\). This threshold also negatively impacts people working more than one job: 29% of all multiple job holders are women in the age bracket of 35-54,\(^{18}\) an age bracket when many Australian women reduce their participation in the workforce in order to assume or continue the primary carer role for their children.

### SINGLE AND MULTIPLE JOB HOLDERS BY AGE AND SEX - 2007

![Graph showing single and multiple job holders by age and sex in 2007.](image)

Source: ABS 2007 Survey of Employment Arrangements, Retirement and Superannuation

According to ABS statistics, in 2009 women working multiple jobs received $843 per week from all of their jobs combined (i.e. including wage/salary income from third and fourth jobs), earning on average $535 from their primary mode of employment. Working in multiple jobs spreads income and super contributions across a number of employers. If secondary and tertiary forms of employment do not amount to $450 per month, there is no obligation for employers to make contributions to a super fund, resulting in many of these employees missing out on vital savings.

\(^{17}\) Australian Bureau of Statistics, ‘Working population,’ 4125.0 Gender Indicators, Australia, August 2015, 25 August 2015.

Currently, around 250,000 Australians, many of whom are women, miss out on approximately $75 million in super due to the $450 threshold.\(^{19}\) The low income threshold for compulsory superannuation contributions also disproportionately affects young people. It has been shown that additional contributions to superannuation at a young age can have exponential benefits on retirement savings income due to the compounding effect of investment savings - the Australian Securities and Investments Commission recommends for young people to make additional contributions to their own superannuation accounts on its MoneySmart website. In this vein, it seems inconsistent to apply a threshold for compulsory superannuation contributions for the lowest paid workers.

**Recommendation 9**

This submission recommends the removal of the $450 monthly threshold that applies to the Superannuation Guarantee Scheme so that super contributions are required against all income earned. This would ensure that young people and people working multiple jobs, the majority of whom are women aged 35-54, are eligible for employer super contributions regardless of income levels.

\(^{19}\) The Association of Superannuation Funds Australia, ‘Three steps to fixing the $92,000 superannuation gender gap: New ASFA policy framework,’ Media Release: 13 November 2014.
Further Areas for Discussion and Future Options for Reform

Option 1 - Explore methods of compensating or contributing to unpaid carers superannuation accounts

The unpaid caring for others is regarded as both worthy and beneficial for society as a whole. In 2015, Deloitte Access Economics estimated that Australians will provide approximately 1.9 billion hours of care to one another, resulting in an average of 13 hours per week of caregiving per carer.\textsuperscript{20} However, caring for others in an unpaid capacity both restricts carers from entering the workforce as well as reducing the accumulation of retirement income savings.

The vast majority (72.5 per cent) of caregivers in Australia are female, aged between 25-64 years.\textsuperscript{21} In 2009, 4.1 million workers were carers of children or other loved ones,\textsuperscript{22} which is nearly two in every five employees. The tendency for the majority of carers to be women contributes significantly to the gender gap in superannuation in Australia.

\textsuperscript{22} Australian Bureau of Statistics, \textit{Survey of Disability, Ageing and Carers, Australia 2009}
Recognising and valuing unpaid care is vital to reducing the gender gap in superannuation.

A scheme currently in place in Germany provides carer credits to those people engaged in either full time or part time caring responsibilities. These credits act to top up the employer’s pension contribution to the value of what they would be if the individual was working full time. Similar schemes are in place in developed nations throughout western Europe.\(^{23}\)

If a similar scheme were introduced in Australia, employers and the Government could share in the costs in providing the additional superannuation contributions, up to a fixed cap.

In the case where employees leave the workforce for an extended period to care for children or a sick or disabled loved one, the Government would be responsible for covering the costs of superannuation contributions.

The obvious consideration in this recommendation is to do with funding for such a scheme. One such option to consider is the profits from investment of the Commonwealth of Australia

---

Consolidated Revenue Fund - the pool of funds is which unclaimed bank account deposits are directed. This option is discussed in more detail in Option 4 below.

**Recommendation 10:** Explore the option to introduce carer credits for those leaving the workforce on a temporary, permanent or part time basis in order to become the primary carer for a child, sick or disabled loved one.
Option 2 – Explore Reinstating the ‘Baby Bonus’ as a Lump Sum Payment into Women’s Superannuation Accounts

Women can expect to earn just 62 per cent of the earnings of their male counterparts over their lifetimes; with the greatest pay gap occurring during a woman’s childbearing years. Women who decide to leave the workforce for what is, on average, an 8 month period\(^\text{24}\) to give birth to and care for children rarely catch up to their male colleagues in terms of income or superannuation savings. It has been estimated that the ‘super baby debt’ accumulated from taking time off work to have and care for children can result in a $50,000 super gap by retirement age.\(^\text{25}\)

One possible solution to resolving the gender pay gap in terms of superannuation accounts is to credit new mothers’ superannuation accounts with a ‘baby bonus’ upon the beginning of her maternity leave.\(^\text{26}\) Part of the issue surrounding super account inequity is to do with small differences in the beginning of workers’ careers compounding into much larger differences later in life. A ‘baby bonus’ cash injection will help to alleviate the problem of compounding differences in the earlier stages of a woman’s working career. This submission notes that such a reform could be considered as an alternative option to Recommendation 1 - including superannuation in maternity leave payments - as mentioned above.

Although the Australian Government no longer pays a ‘baby bonus’ for new parents, this submission advocates for the exploration of the reinstatement of this initiative for all new mothers, with the amount to be paid into superannuation accounts instead of as a cash lump sum. An option for funding this initiative could be through investment returns from the $16.8 billion worth of lost superannuation Australians currently have. While the ATO has recently undertaken new measures to help Australians to consolidate their super accounts, there are millions of accounts that have been inactive for years and are slowly being eroded by fees. This submission recommends exploring the option for governments to claim the funds contained within inactive super accounts after a period of 15 years, similar to the law regarding unclaimed monies in bank accounts (which gives the government to right to transfer funds to ASIC after 3 years of inactivity). Like the inactive bank accounts legislation,

unclaimed money deposited from inactive super accounts into the Commonwealth of Australia Consolidated Revenue Fund will always be available for reclaiming by the rightful owner, with no time limit on the claims. \(^{27}\)

**The costs to government of the superannuation ‘baby bonus’ initiative**

In 2012 there were 307,474 births recorded, of these births, 130,522 were first born children to new mothers. \(^{28}\) While a number of payment options are open for further exploration, this submission tables two:

*The first option* would be for the government to contribute superannuation payments of 9.5% of paid parental leave payments, currently 18 weeks of pay at the national minimum wage rate of $657 per week. This equates approximately to a $1,125 contribution to superannuation funds over the period of eligibility for parental leave payments. Applied to new mothers only and assuming full eligibility for all payments, the estimated cost of this initiative would be approximately $146.8 million annually based on recent annual birth figures.

*A second option* could be a means tested superannuation contribution scheme, based upon the average Australian wage of $1,541.50. New mothers would be eligible for this payment for as long as they are out of the workforce caring for their dependent child. Assuming all new mothers adhere to the average of 8 months, or 32 weeks as identified by the ABS, they would be eligible to receive super payments of approximately $4,688 for the full course of their leave. This amounts to a total cost to government of $611.8 million, a fraction of the amount of total unclaimed and unrecovered superannuation in Australia presently.

These two options represent the upper and lower limits of the costs of government superannuation contributions for new mothers who take time out of work to care for their child. These payments would be subject to a range of means and income testing that would ensure that a fair distribution of payments is maintained and that the scheme would be sustainable.


Recommendation 11: Explore the option for government to reinstate the formerly named ‘baby bonus’ in the form of a direct deposit into women's superannuation accounts, rather than as a cash payout to new parents.
Option 3 – Tax concessions for Mothers Recently Returned to the Workforce and Contributing More to their Superannuation Accounts

Federal Treasurer Scott Morrison has recently suggested the government will consider lifting the tax cap on superannuation contributions for women returning to the workforce after spending time caring for children or loved ones. Women accumulate far less super than men; with time taken off for caring responsibilities being identified as significant factor. Currently, workers aged under 50 can contribute up to $30,000 to their super accounts at the discount tax rate of 15 per cent before additional contributions are taxed at their normal marginal tax rate. The Government has announced that they will consider raising the amount in which the normal tax rate kicks in for people returning to the workforce after a period of time spent caring for others.

This policy will enable women to top up their super after returning to work after extended periods of time without any additional financial burdens.

Whilst this reform will assist some women in equalising their super contributions, there are concerns that this reform will only benefit women with higher incomes. The submission acknowledges that this measure will disproportionately benefit higher income-earners who are more likely to have extra income to spare to contribute towards their own superannuation payments. Although some middle income-earners may take the government up on this measure, this measure will have the smallest impact on addressing inequities in women’s superannuation.

While this policy will only benefit the few women who can afford to increase their super contribution after returning from caring responsibilities, it could be beneficially included in conjunction with other tax concessions that benefit a wider variety of women.

Robbie Campo, Deputy CEO of Industry Super has identified reinstating the low income superannuation contribution (LISC) and the re-calibration of tax concessions as measures that would dramatically improve the gender equality gap in super contributions, and improve the retirement prospects for women on low incomes. Currently the lowest paid workers,

29 AAP, ‘Morrison aims to close women’s super gap,’ SBS News, 26 October 2015.
which have been identified as mainly women, receive no tax break while suffering from a 14 per cent reduction in their superannuation income.

Recommendation 12: Lifting the tax cap on additional super contributions for women re-entering the workforce would have a limited effect on addressing inequities in women’s superannuation. The government should explore this option only in conjunction with a suite of reforms that will cumulatively address the problem of inequity for women's superannuation savings.
Option 4 – Consolidating Lost and Unclaimed Superannuation Accounts into the Commonwealth of Australia Consolidated Revenue Fund, and utilising a portion of the Fund as a Managed Investment Fund to finance closing the superannuation gap.

This submission has outlined a number of schemes and initiatives that aim to reduce the gender gap within superannuation. While not all recommendations will require extra funding beyond government enforcement, some of the recommendations in this report will require significant funds in order to be enacted. One option for the funding of these recommendations exists within the lost and unclaimed superannuation accounts in Australia.

Currently there exists an estimated $16.8 billion in lost and unclaimed superannuation savings in Australia, which are slowly being eroded by management fees. Currently, lost and unclaimed super accounts are held by a combination of superannuation funds and the Australian Tax Office.\(^{31}\)

<table>
<thead>
<tr>
<th>Account values (Sm)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Category</strong></td>
</tr>
<tr>
<td>---------------------</td>
</tr>
<tr>
<td>Lost uncontactable</td>
</tr>
<tr>
<td>Lost inactive</td>
</tr>
<tr>
<td>Unclaimed (general, small and insoluble)</td>
</tr>
<tr>
<td>Unclaimed (temp resident)</td>
</tr>
<tr>
<td>Superannuation holding accounts (SHA) active</td>
</tr>
<tr>
<td>SHA inactive (consolidated revenue)</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
</tr>
</tbody>
</table>

Total sum of superannuation savings held by the Australian Taxation Office. Source: Australian Taxation Office, 2015.

\(^{31}\) Australian Taxation Office, 'Number of super accounts held by each Australian,' Super accounts data overview, 3 August 2015.
This report recommends the introduction of new government legislation that operates in a similar fashion to the unclaimed bank accounts scheme, whereby after a period of inactivity, superannuation accounts can be ‘claimed’ by the government and redistributed to the Commonwealth of Australia Consolidated Revenue Fund (CRF).

It is suggested that a portion of the CRF is utilized to fund redistributive efforts aimed at improving superannuation savings for women, such as those proposed in this submission. It is also suggested that the CRF could be managed as a fund, in order to improve the overall funding pool. These funds could be managed separately from the existing Australian Government Future Fund, or they could be integrated into the investment portfolio of the Future Fund.

Citizens who have lost super within the CRF would still be eligible to reclaim it, as is the case with inactive bank accounts that have been claimed by the CRF. However, this report recognises that there is a significant potential for unclaimed super savings to be placed to better use in the betterment of Australian society.

Between 2008 and 2014 the portfolio of the Australian Government Future Fund grew from $59.62 billion\(^{32}\) to $119.47 billion.\(^{33}\) This represents an approximate doubling of the portfolio over a 6 year period. If this type of investment return could be achieved through managed investment of the CRF it would provide a long term, sustainable method of funding for a range of initiatives. These need not be limited to reducing the superannuation pay gap, although this should be the primary purpose of reform.

**Recommendation 13: Explore options for reform of the Commonwealth of Australia Consolidated Revenue Fund to include lost and unclaimed superannuation savings; to turn the fund into a managed investment fund, either separate from or consolidated with the Australian Government Future Fund; and explore options for using the CRF to fund initiatives devoted to reducing the superannuation savings gap.**

---


Concluding Remarks

This submission has outlined the scale of the gender gap in superannuation, and proposed nine reform options for immediate government consideration aimed at closing this gap. This submission recommends these nine core reform options be considered by the Australian Government in the lead up to the 2016-17 federal budget which is due in May 2016.

Additionally, four further reform options have been tabled - each demonstrating significant potential in closing the gender gap in superannuation. This submission notes the four additional options suggested, however, all require further community, industry and government consultation and more detailed long-term economic analysis to determine their ongoing viability.

Fundamentally, this submission aims to reiterate the complicated nature of superannuation reform, and rejects the notion that any single policy idea will be suitable in closing the long term superannuation gender gap. Rather, a broad range of policies are required to solve this pressing national issue.

Similarly, an urgency in these reforms is stressed in this submission. Investments by government in closing the superannuation gap need to be made today to ensure the strains on the aged pension are minimised in the future, and that Australians entering retirement in several decades’ time have their needs met through established superannuation savings.

Reforming superannuation is a national priority, and the options suggested in this submission provide solutions to the growing inequality within the existing system, as well as possible sources of funding the suite of reforms tabled.