THE McKELL INSTITUTE

Guaranteeing Women's Super

HOW TO CLOSE THE GENDER GAP IN SUPERANNUATION

OCTOBER 2017

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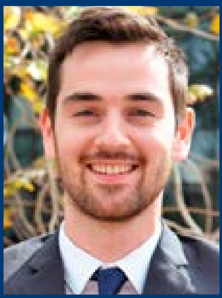
EDWARD CAVANOUGH



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BACKGROUND

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CONTENTS

FOREWORD

It is 25 years since compulsory superannuation, a cornerstone of Australia's economy and society, was introduced. Since 1992, the policy has led to Australia achieving one of the highest retirement savings pool out of any nation. The bold policy initiative's mandate was twofold: first, it aimed to ensure retirement adequacy for all Australians, and second, it was intended to reduce the financial strains placed upon the Commonwealth as a result of forecast growth in the age pension.

However, for many Australians the promise of attaining sufficient superannuation holdings to fund a comfortable retirement is not guaranteed. This is particularly acute for women, who typically hold around half the superannuation compared to men in Australia. In short, the superannuation system as it stands today is not able to provide retirement adequacy for a plurality of women in this country, not fulfilling its aim to ensure retirement adequacy for all.

This report explores targeted approaches that will help to overcome the gender gap in superannuation. It first articulates the seriousness of the issue: despite Australia's superannuation pool being expected to grow to $9.5 trillion by 2035, a majority of these funds will be held by Australian men. This means not only that women will have a less secure retirement, but that the Commonwealth will increasingly be burdened by growing aged pension costs. Improving women's superannuation holdings is vital to improve the health of Australia's federal budget over the longer term, and this report explores the financial benefit to the Commonwealth in investing in women's superannuation during key life-phases which typically see women's superannuation accumulation stalled.

While women overall tend to earn lower incomes than men, a major determinant of the superannuation gender gap is the lack of superannuation contributions received during early motherhood and caring. In order to shrink the accumulations gap, this report argues that measures should be in place during such pivotal life phases to ensure women's superannuation accounts aren't left permanently diminished by their decision to have children or act as carers – two pursuits that are central to Australia's national wellbeing.

This report then also explores other options to reform superannuation that will improve the system overall. Reforming superannuation to make it fairer and to lower the burden on the Commonwealth's budget in the long term is essential, and women are disproportionately disadvantaged when it comes to achieving retirement adequacy, the system overall needs to see its inequities removed to ensure superannuation fulfills its promise.

It is important to remember that, compared to other social and economic policies, compulsory superannuation is still in its infancy. The first 25 years of superannuation have seen enormous benefits for Australia's current and future retirees. But to ensure superannuation achieves its objectives over the next 25 years and beyond, the inequities in the system must be addressed today.

The Hon John Watkins
CHAIR,
MCKELL INSTITUTE

Sam Crosby
EXECUTIVE DIRECTOR,
MCKELL INSTITUTE

EXECUTIVE SUMMARY

At the heart of Australia's fair and equitable economic framework is the concept of retirement adequacy. Once reliant almost solely on the age pension, in 1992 the Commonwealth Government introduced a compulsory retirement savings system – superannuation – that required Australian employers to contribute to the retirement savings of their workers.

Since the introduction of compulsory superannuation, Australia's retirement savings pool has grown to be the fourth largest in the world, and is by most measures one of the most successful retirement funding polices globally. Today, the total pool of superannuation funds in Australia is over $2 trillion, with some estimates forecasting that this will grow to around $9.5 trillion by 2035.[1]

However, although total superannuation assets are growing, and while the policy has delivered enormous benefits for many Australians, its core purpose – to 'substitute and supplement the aged pension' – is still far from reality. Major inequities still remain in the system that prohibit many in Australia from adequately benefiting from a policy that is intended to enable comfortable retirement for all.

The focal point of Australia's superannuation policy is the 'Superannuation Guarantee' (SG) – a law the stipulates that all Australians are entitled to superannuation contributions beyond their regular pay. But for some workers in the Australian economy, the Superannuation Guarantee is not guaranteed at all. As the nature of the economy and employment has shifted towards contracting and short term work, many workers are not receiving the Superannuation Guarantee. But although numerous inequities exist in the system, the most significant is undoubtedly the enormous discrepancy between the superannuation holdings of men and women in Australia. It is this inequity that this report aims to address.

It has long been established that women in Australia hold and receive far less superannuation than men. The main reasons for this are lower lifetime earnings for women, and the impositions placed on a career, and therefore superannuation contributions, by parenthood and, often, caring responsibilities. Rearing children, and caring for those less fortunate, are clearly vitally important occupations that contribute substantially to Australia's social and economic well being, and they are occupations that should be viewed with the same legitimacy as formal paid employment. By withholding the Superannuation Guarantee on payments that compensate maternity leave and carers allowance recipients, a signal is sent that these occupations are less valued than occupations in the formal labour market.

While noting that the Gender Pay Gap is a determinant of the gender gap in superannuation, this report tables policies aimed at diminishing the impact parenting and caring

duties have on women's lifetime superannuation holdings. By implementing superannuation payments for women on Commonwealth Paid Parental Leave, Commonwealth Parenting Payments, and Commonwealth Carer Allowances, a noted improvement in superannuation holdings is established, and long-term Government savings on age pension costs are identified. With such measures in place, the imposition of the gender pay gap on women's superannuation remains, but is somewhat diminished.

Part 1 of this report analyses the continuing challenge of the gap between male and female superannuation holdings in Australia. It analyses the broader purpose of superannuation in Australia, and demonstrates why it is vital for all Australians, irrespective of gender, occupation, or any other variable. It also explores recent adjustments to superannuation policy by the Federal Government. In 2015, the Senate held an inquiry into the Economic Security of Women in Retirement, soliciting input from a diverse range of public, private sector and civil society stakeholders, including the McKell Institute. While the inquiry was a strong first step, this report finds the changes to superannuation policy that resulted from it only marginally addressed the core issue of the inequity in superannuation holdings between the genders. It recommends that greater steps be taken, including the adoption of more of the ideas put forward during the Senate Inquiry process. Part 1 also identifies the various determinants of the gender gap in superannuation, and describes the issue in detail. A wealth of research has emerged in the last few decades exploring the determinants of lower life time earnings for women in Australia, with it becoming clear that superannuation policy as originally legislated did not sufficiently factor in these determinants, leading to the superannuation accumulation gender gap we see today.

Part 2 of this report outlines specific costed proposals (Recommendations 1-4) aimed at overcoming key determinants of the gender gap in superannuation. Through a quantitative analysis, the real impact of a more equitable superannuation system is demonstrated, proving the suite of recommendations in this report are essential to improving gender equity in superannuation in Australia, as well as improving the economy over the longer term. This report finds that Government investment in women's superannuation accounts during periods of parental leave and caring will generate long-term Government savings. The proposals in this report that aim to improve the superannuation balances of a working mother, for example, are estimated to cost the Government around $13,500 per recipient. However, over the longer term, this could increase the recipient's superannuation balance by over $40,000, saving the Government $21,154 in age pension costs, for a $7,577 net Government saving over the life of the recipient. While there is of course an upfront cost to investing in women's superannuation, these costs are negated by long-term Government savings.

Part 3 of this report then tables further recommendations (5-8) aimed at improving gender equity in superannuation. These include allowing for joint-superannuation for couples (while noting that such a change would only improve the circumstances for certain individuals), continuing to make it easier to consolidate lost superannuation accounts, introducing a Superannuation Gender Parity Target, and granting Government authorities more power to identify employers in violation of superannuation law. These additional recommendations are intended to improve the superannuation system more broadly, helping improve the superannuation system for all Australians.

2017 marks 25 years since the introduction of compulsory superannuation. To ensure the ideals and economic rationale behind its introduction are realised, active steps by the Government must be taken today to ensure the inequities in the system are addressed. Doing so will improve the livelihoods of the next generations of retirees, and reduce the growing impact on the Government budget of an ever-aging Australian population.

RECOMMENDATIONS

RECOMMENDATION 1

Commonwealth Paid Parental Leave Payments should be subject to the Superannuation Guarantee. While all new mothers are entitled to 18 weeks Commonwealth Paid Parental Leave, the majority take significantly more time out of the workforce. Accordingly, a superannuation payment up to an equivalent of 12 per cent of the annual minimum wage should be extended to mothers at the conclusion of their CPPL.

RECOMMENDATION 2

Pay superannuation contributions at the scheduled rate of 12 per cent on Commonwealth Parenting Payments.

RECOMMENDATION 3

Commonwealth Carer Allowance recipients should receive a 12 per cent Superannuation Guarantee on their carers allowance.

RECOMMENDATION 4

Remove the $450 monthly earnings threshold before employers must pay the Superannuation Guarantee.

RECOMMENDATION 5

Allow for joint-superannuation accounts for couples.

RECOMMENDATION 6

Mandate that all Superannuation Funds allow automated account consolidation through the MyGov system.

RECOMMENDATION 7

The Commonwealth should introduce a Superannuation Gender Parity Target, and resource Government bodies such as the Australian Bureau of Statistics and Australian Taxation Office to adequately monitor progress.

RECOMMENDATION 8

The Commonwealth Government must be more proactive in overseeing and enforcing the Superannuation Guarantee, with stronger penalties for repeat violators.

PART 1:
THE SUPER GENDER GAP

Superannuation is a cornerstone of Australia's economy and retirement framework. The concept of retirement adequacy – the notion that Australians should have enough income in retirement to sustain a comfortable and productive life after work – is central to Australia's sense of economic fairness.

Compulsory superannuation was introduced in 1992 by the Keating Labour Government as a way to diminish the long term public reliance on the Commonwealth age pension as a means of reaching retirement adequacy. The Superannuation Guarantee Charge, legislated in 1992, ensured that all employers contributed to their employee's retirement holdings. Initially levied as 3 per cent of income, the Superannuation Guarantee (SG) has gradually risen to its current level of 9.5 per cent, with the intention for it to gradually increase to 12 per cent by 2025.

Recent changes to superannuation have focused on tax reform, not contribution reform

In November 2016, parliament passed a number of changes to the superannuation system as part of the Government's *Fair and Sustainable Superannuation* package, most of which will take effect later this year. These changes include:

- Introducing a balance transfer cap to restrict tax-free superannuation accounts in retirement to $1.6 million. This will effectively introduce a 15 per cent tax on excess earnings, which will only affect people with extremely high levels of retirement savings.
- Reducing the annual cap on concessional contributions to $25,000 and the annual cap on non-concessional contributions to $100,000. In addition, unused concessional caps can be carried forward for up to five years and non-concessional caps can be aggregated and used up to three years in advance. These changes will only affect people who can afford to make substantial to enormous additional contributions into their superannuation.
- Extending the additional 15 per cent contributions tax (Division 293 tax) that applies to high income earners to those earning between $250,000 and $300,000.
- Enabling more self-employed people to make deductible contributions.
- Extending the tax offset for spouse contributions to where the low-earning spouse earns between $13,800 and $40,000. The offset is given to the contributing spouse, not the low-earning spouse. This will only affect people whose spouse can afford to make additional contributions in their name (presumably once they have exhausted their own more valuable contributions caps).
- Maintaining a contributions tax rebate for low income earners, now in the form of the Low Income Superannuation Tax Offset (LISTO).

While these changes have been welcomed by many as a step in the right direction, they will do little to address the Super Gender Gap specifically. The new balance transfer cap and lower concessional and non-concessional annual contribution caps will only limit the ability of extremely high income or high wealth individuals to reduce their tax burden through generous superannuation tax concessions. Introducing flexibility into concessional caps to enable catch-up contributions will similarly only benefit very high income or high wealth individuals, despite claims it is designed to assist women to catch up on lost contributions after reduced workforce participation. The Low Income Superannuation Tax Offset (LISTO) simply retains a safeguard to prevent low income earners from losing money by making superannuation contributions. In our view, the most progressive measure is lowering the threshold for Division 293 tax on concessional contributions from $300,000 to $250,000 - although we note that these people are already earning higher than the maximum contribution base so their contributions that attract the additional tax will be voluntary.

The Senate Estimates Review Committee (SERC) inquiry into economic security for women in retirement tabled its report in April 2016. It made a number of recommendations in relation to superannuation, including:

- Paying the Superannuation Guarantee on payments made under the Commonwealth Paid Parental Leave scheme.
- Retargeting tax concessions to be more equitably distributed.
- Retaining the Low Income Superannuation Contribution (LISC).
- Accelerating the scheduled rise in the SG to 12 per cent.
- Removing the exemption for paying the SG to employees who earn less than $450 in a month.

Disappointingly, the Government's *Fair and Sustainable Superannuation* package ignored most of the SERC recommendations. While it did tinker with some high-end tax concessions, the changes will affect only those with the highest incomes or significant wealth. Introducing the LISTO to replace the LISC will ensure low income earners aren't punished for making super contributions – the minimum anyone could ask of a mandatory retirement savings system. However, the system still regressively distributes the benefits of super tax concessions to those on higher incomes. With the *Fair and Sustainable Superannuation* package making no concerted or explicit attempt to tackle the Super Gender Gap, the important task for the Government highlighted by the SERC inquiry is left untouched. As the SERC report stated:

The size and persistence of the superannuation savings gap is entirely inconsistent with basic Australian principles of equity and fairness, and closing the gap is fundamental to ensuring women have dignity and security in retirement. (at paragraph 11.2)

In order to begin addressing the Super Gender Gap, the Government must explicitly take on this task.

The gender gap superannuation accumulations is long-standing

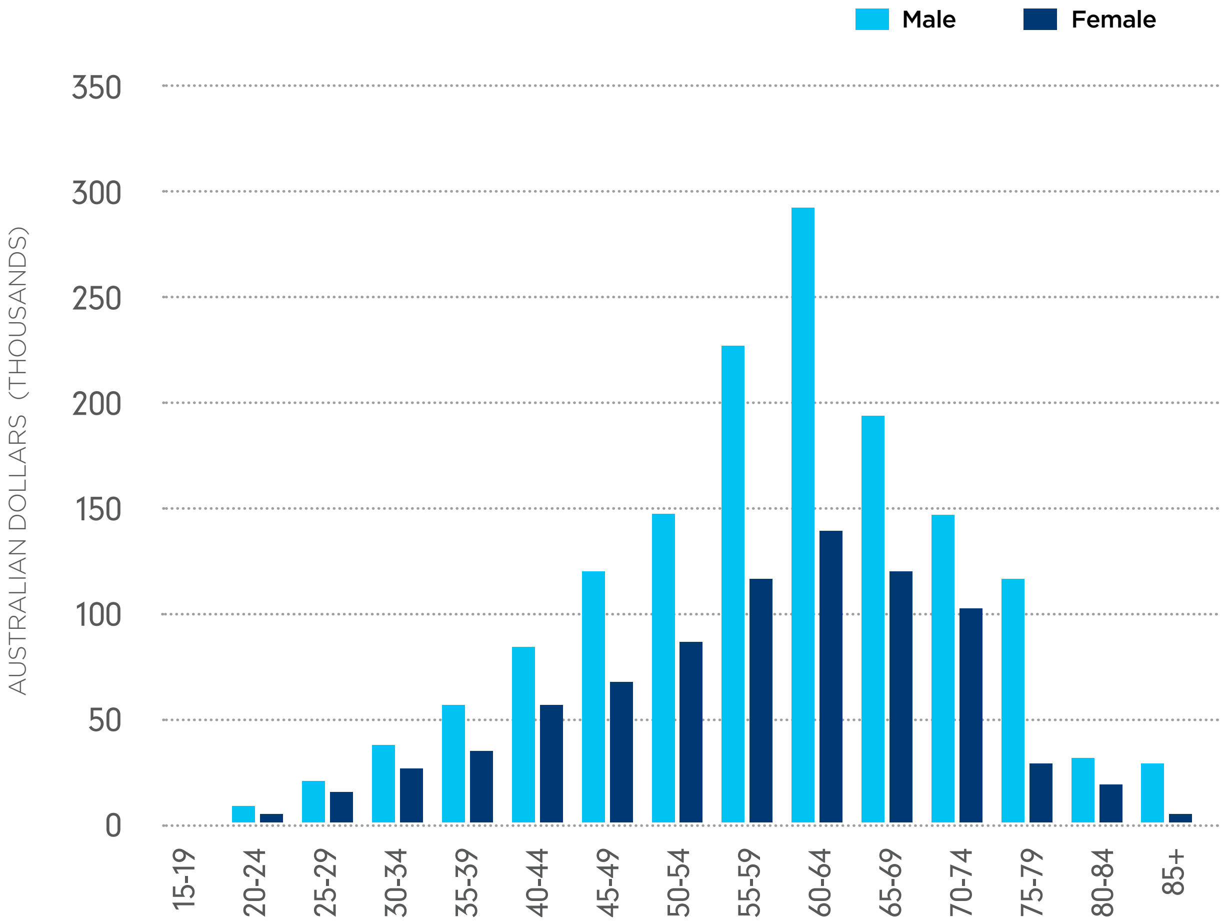
Superannuation holdings between the genders – both on average across all age groups, and among those entering retirement – remain significantly different. The Association of Superannuation Funds in Australia's (ASFA) most recent report into the superannuation gender gap found that men entering retirement in Australia have $292,500 on average, with women entering retirement holding, on average, only $138,150, or 47.23 per cent of the holdings of their male counterparts. When it comes to total average holdings amongst all Australians older than 15 years of age, men hold $98,535 and women holding 55.73 per cent that amount, at $54,916.

Alarmingly, these averages haven't improved significantly since previous research published by the ASFA over a decade ago. While total holdings, on average, have risen markedly across both genders, the gap in percentage terms between male and females remains significant. In 2006-07, women entering retirement on average held 34.7 per cent of the superannuation holdings of men. By 2013-14, this had improved to 47.23 per cent. However, while this improvement is welcome, the issue has by no means gone away. Women entering retirement continue to hold less than half the total superannuation as their male counterparts entering retirement, forcing many women to rely on the age pension for a significant portion, or a majority, of their retirement income.

Additionally, while the *average* total superannuation holdings paint a dire picture about the state of the gender gap in superannuation, data highlighting median holdings across numerous age groups is even more alarming. For those aged 60-64 nearing retirement age, for example, the most commonly held total superannuation figure is approximately $100,000 for men, and only $28,000 for women. In other words, women entering retirement most commonly hold only approximately 28 per cent of the superannuation that men do. It should be noted that the gap in median holdings is pronounced across all age groups, demonstrating that there is a significant issue across the life span of Australian workers, and that this issue is not isolated to any one age bracket.

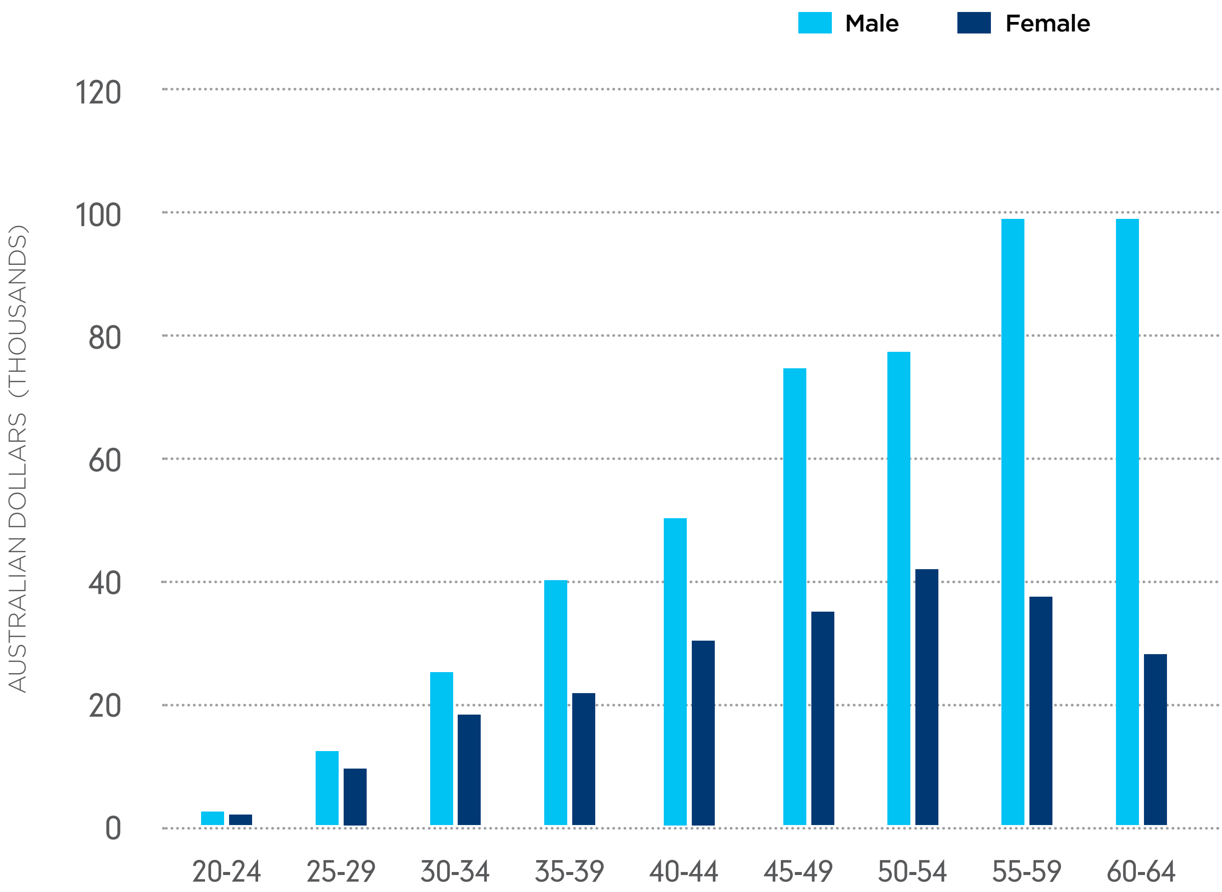
FIGURE 1.1

Mean superannuation balances – all age brackets 2013-14



Source: Association of Super Funds Australia.

FIGURE 1.2
Median superannuation holdings – ages 20-64, 2013-14



Existing policy settings entrench the median superannuation accumulation gender gap

Forecasts demonstrate that, under current arrangements, median superannuation holdings will continue to be dramatically different between the genders. Basu & Drew[2] (2009) conducted a study into the level of contributions that would be required over the long term to close the median superannuation accumulation gap. Basu & Drew's research forecast the accumulations of women under three hypothetical scenarios: firstly, women with no career breaks; secondly, women with a career break between the ages of 25 and 30; and thirdly, women with career breaks after the age of 30. Against each scenario, these case studies are compared with the average forecast male superannuation accumulation figures.

The data demonstrates that 'gender-blind' superannuation policies in all scenarios lead to women accumulating less superannuation over their lives, and that the only way to close this gap is to ensure that women effectively receive a higher contribution rate than their male counterparts. Under current policies, forecast mean life accumulation women with no career breaks will be $184,048 less than men, with median accumulation for women in this category $156,170 below men. For women with a career break between the ages of 25 and 30, the mean accumulation gap $288,485 and the median $237,355. And for women who take a career break after the age of 30, the mean accumulation gap is $263,982, with the median totaling $224,161.

While the gaps illustrated in the data are dramatic, so too is the increase in contributions to women's superannuation that is required to close these gaps. For women who take no career breaks, they would need an effective superannuation contribution of 12.75 per cent to meet the lifetime accumulation of male workers. For women who do take a career break, between the ages of 25 and 30, this effective rate would need to raise to 16 per cent. And for women who take a career break after 30, an effective contribution of 15 per cent would be required to ensure that they meet the total accumulated holdings of men in the workforce.

While legislating gender-specific superannuation contribution rates is unlikely, however, Basu & Drew's study highlights the stark reality of the current inequality in superannuation policy, and demands pragmatic legislative amendments to ensure that the scale of these findings is minimised for future generations.

FIGURE 1.3
Accumulated superannuation holdings under different contribution rates.

Panel A	Mean	Median
Male 9 per cent	$660,322	$551,392
Female 9 per cent	$476,274	$395,222
Gap	**$184,048**	**$156,170**
Male 9 per cent	$656,535	$552,043
Female 12 per cent	$622,897	$520,463
Gap	**$33,638**	**$31,580**
Male 9 per cent	$656,127	$554,317
Female 12.5 per cent	$647,603	$544,548
Gap	**$8,524**	**$9,769**
Male 9 per cent	$659,953	$546,966
Female 12.75 per cent	$663,940	$547,558
Gap	**$(3,987)**	**$(592)**

Source: Basu & Drew, 2009.

FIGURE 1.4
Accumulated superannuation holdings between genders under different contribution rates, with the female case study taking a career break between ages 25 and 30.

Panel B	Mean	Median
Male 9 per cent	$654,039	$544,186
Female 9 per cent	$365,554	$306,831
Gap	**$288,485**	**$237,355**
Male 9 per cent	$662,048	$559,897
Female 12 per cent	$492,761	$420,946
Gap	**$169,287**	**$138,951**
Male 9 per cent	$660,129	$554,277
Female 15 per cent	$614,193	$520,776
Gap	**$45,936**	**$33,501**
Male 9 per cent	$669,069	$561,338
Female 16 per cent	$663,421	$564,586
Gap	**$5,648**	**$(3,248)**

Source: Basu & Drew, 2009.

FIGURE 1.5 Accumulated superannuation holdings between genders under different contribution rates, with the female case study taking a career break after the age of 30.

Panel C	Mean	Median
Male 9 per cent	$660,051	$555,442
Female 9 per cent	$396,069	$331,281
Gap	**$263,982**	**$224,161**
Male 9 per cent	$666,186	$555,535
Female 12 per cent	$533,711	$442,640
Gap	**$132,475**	**$112,895**
Male 9 per cent	$655,380	$545,769
Female 15 per cent	$655,179	$542,623
Gap	**$201**	**$3,146**

Source: Basu & Drew, 2009.

Gender inequity has long been evident in superannuation policy

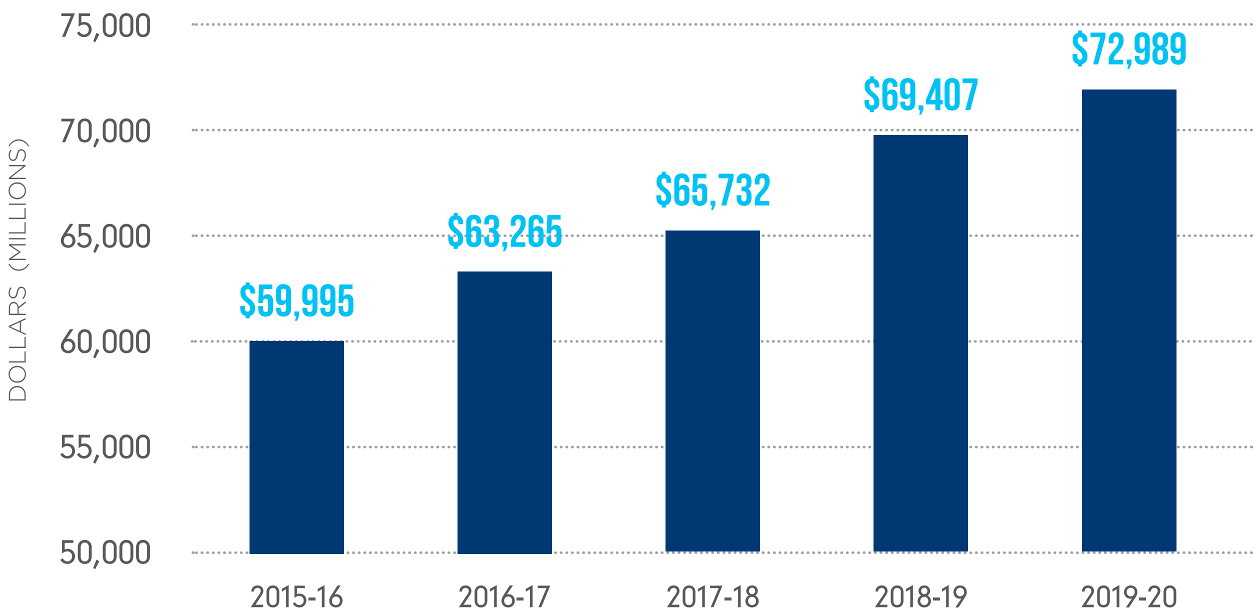
While the superannuation accumulations gap continues to be prevalent, it is important to remember that this is not simply a 'legacy issue': it is not simply because of a tendency for the baby-boomer generation to experience a significant participation gap between the genders. Although this reality has impacted the accumulative holdings of the current generation of retirees, that future forecasts predict that the super gender gap will remain suggests that the root cause is not the workplace participation gap that defined the baby boomer generation. While there remains a workforce participation gap between male and female workers in Australia, this gap is likely to minimise over the long term.

Superannuation is intended to alleviate pressure on the aged pension – but can't under current policy

The primary purposes of superannuation are two-fold: it aims to improve the economic livelihood of future generations of Australians in retirement, and diminish long-term expenditure on the Commonwealth aged pension – which is forecast to continue to grow significantly in the short and long term future. Currently, the aged pension is the largest expenditure by the Commonwealth Government. In the 2015-16 budget, $59,995,000,000 was allocated to the aged pension, with growth forecast to $72,989,000,000 by the 2019-2020 budget (Figure 1.5). Long term growth forecasts are more significant, with Australia's population set to aged considerably in all forward projections.

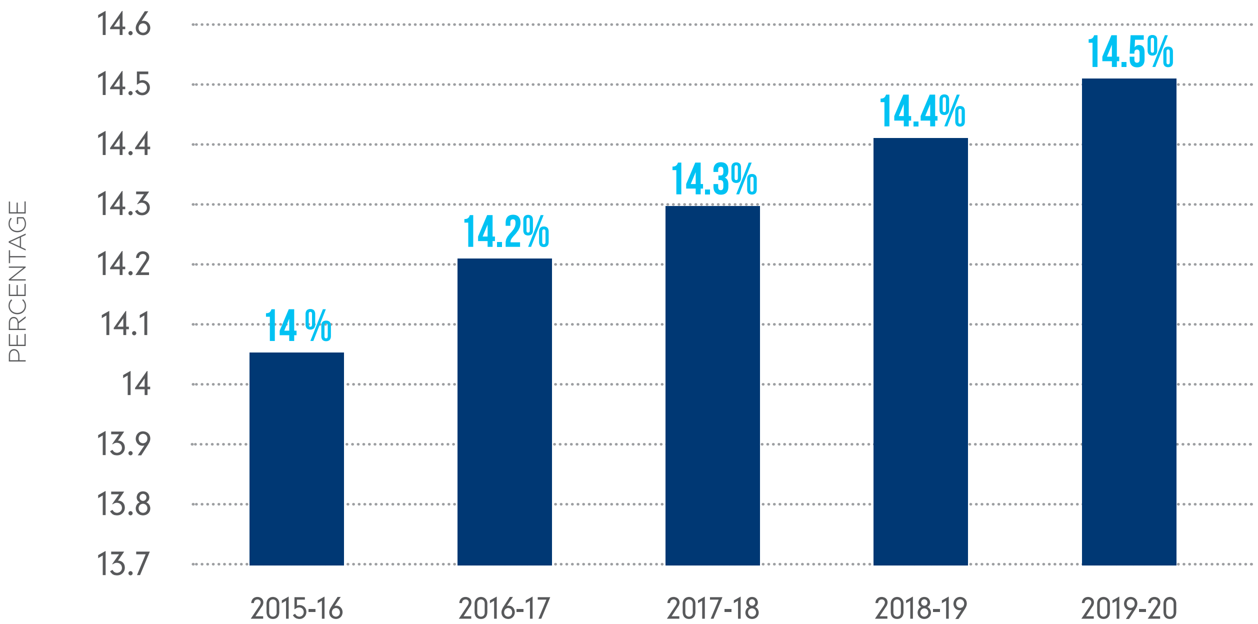
Notably, the Commonwealth age pension is not only growing in real terms, but also as a percentage of total Government expenditure. Figure 1.6 demonstrates that, in the 2015-16 financial year, the age pension accounted for 14.01 per cent of total annual Government expenditure, but is forecast to rise to 14.52 per cent of total Government expenditure by 2019-20. Clearly, the rise of forecast expenditure in the aged pension is a challenge that must be mitigated by shifting much of the economic burden from the Commonwealth Government towards the superannuation system. But in order to achieve an increase in the percentage of Australians retiring with sufficient superannuation holdings in the future, the prevailing inequities within the current framework must be ironed out today.

FIGURE 1.6 ANNUAL AGE PENSION EXPENDITURE 2015-2020
Commonwealth expenditure on the aged pension. This is predicted to grow from approximately $60 billion in the 2015-16 budget to almost $73 billion by 2019-2020



Source: Commonwealth Government.

FIGURE 1.7 FORECAST AGE PENSION EXPENDITURE AS A PERCENTAGE OF THE TOTAL FEDERAL BUDGET, FORWARD ESTIMATES TO 2020
Commonwealth age pension expenditure is forecast to rise from 14.01 per cent of the total federal budget in 2015-16 to 14.52 per cent in 2019-20



Source: Commonwealth Government.

Australia's population is getting older

The central challenge to Australian policymakers is how the best mitigate the challenges associated with an ageing population. As Australians, on average, get older, enormous strain continues to be placed on vital Government services such as the provision of healthcare and well as the age pension. Over the next 50 years, Australians elderly population – those aged 65 years or over – will increase significantly in both real numbers, and as a percentage of Australia's total population. This challenge is coupled by the fact that Australia's are also, on average, forecast to live much longer than is currently the case. In 2016, a newborn Australia is expected to live until the age of 80.83 if it were a male, or 85.06 if it were a female. By 2060-61, the Australian Bureau of Statistics forecast that this will rise to 92.08 for males, and 93.61 for females. Simply, Australians will be living substantially longer than they are now, with women, on averaging, sustaining much longer retirements than men as they both live longer, and have a tendency to retire slightly earlier, than men.

FIGURE 1.8
Forecast life expectancy of Australian population to 2061

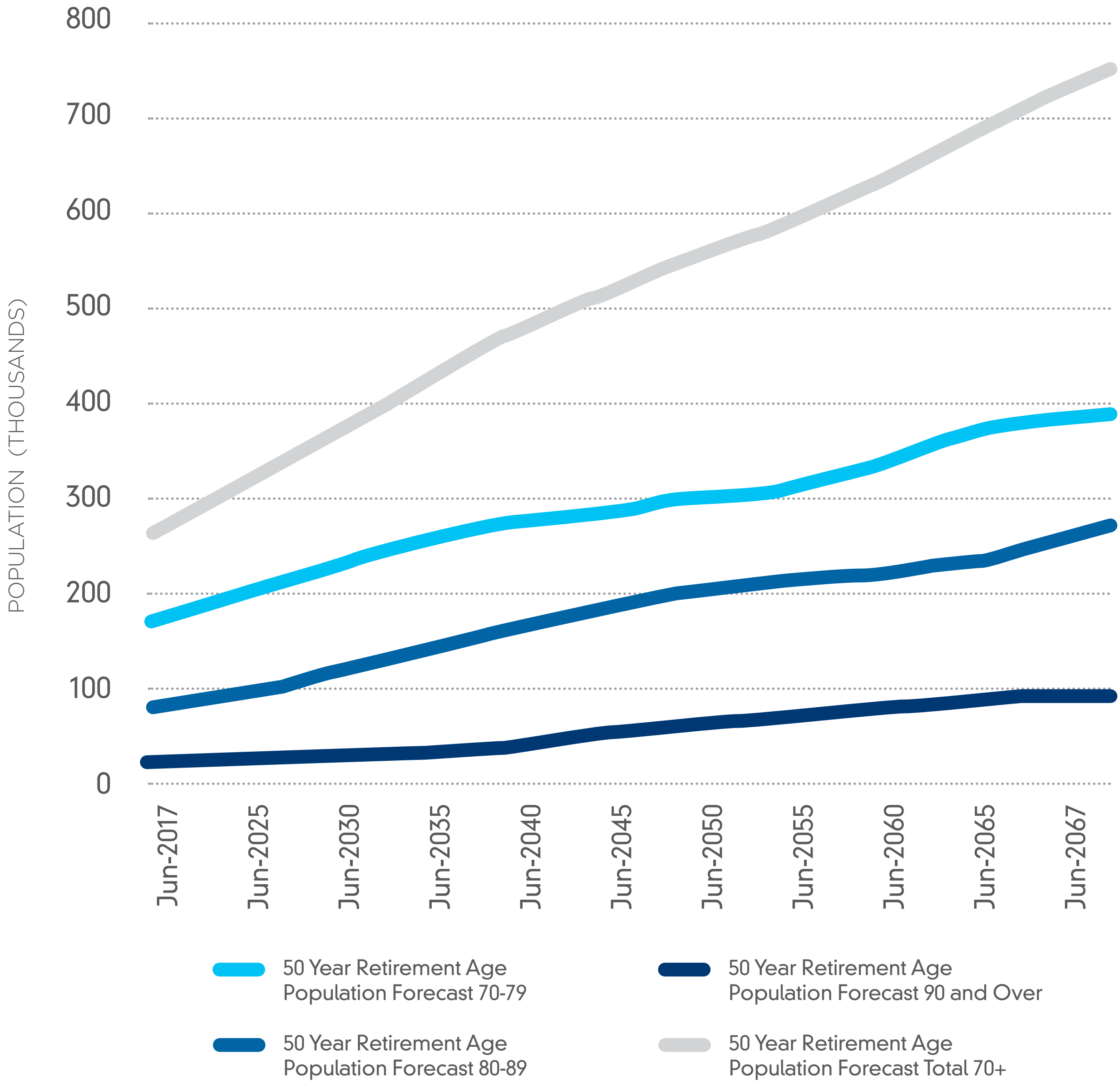
	Male years of age	Female years of age
2015-16	80.83	85.06
2020-21	82.08	86.01
2025-26	83.33	86.96
2030-31	84.58	87.91
2060-61	92.08	93.61

Source: Australian Bureau of Statistics.

Additionally, the numbers of individuals in the higher age brackets – those between 80-89 and those over 90 years of age – is also forecast to grow significantly over the coming half-century. Today, there are 187,998 Australians aged 90 or over, but by 2065, this number will be five times higher, at 922,326. In the 80-89 years of age bracket, the population will rise from 782,759 in 2015-16 to 2,660,840 by 2065. In total. By 2065, there is forecast to be almost 7.5 million Australians aged 70 or over, with the formal age of retirement by that year being 70 years of age. The growth rate is significant, and considering the already rapid growth of expenditure on the provision of the age pension, it is essential that superannuation picks up more of the burden of catering for the retirement adequacy of this booming ageing Australian population.

FIGURE 1.9

Growth in specific aged population groups, forecast to 2065



Source: Australian Bureau of Statistics

Making superannuation fairer is central to overcoming the challenges of an ageing population

To mitigate the long term economic consequences of catering for an ageing population, the superannuation system must be amended to ensure that more Australians are reaching retirement age with sufficient holdings. Considering the percentage of the Australian population that will be over retirement age in the next 50 years, it is vital that all Australians working today receive adequate contributions throughout their working life.

International data highlights broader gender inequity in Australia

The gap in superannuation accumulations between men and women in Australia is symptomatic of enduring inequities faced by women in the Australian economy. There remains a consistent earnings and participation gap between the genders. Many commentators are dismissive of the 'gender pay gap', and argue that because of Australia's long-held equal pay laws, any gap in earnings between genders is a result of individual choices and not structural inequities.

However, while Australia's equal pay laws are world leading, economic and societal forces have resulted in an economy that undervalues certain occupations that tend to be heavily populated by female workers, and has discouraged as many women from participating in the labour market as men. The observable statistical reality demonstrates the challenges, and debunks those who wish not to believe in modern day gender inequities in Australia's economy and society.

The World Economic Forum's 2016 *Global Gender Gap Index*[3] highlights the improvement still needed in making the economy a more equitable place for women in Australia. The index grades all the nations of the world over four categories focused specifically on the ability of women to engage in a society and economy. The four categories are economic participation and opportunity; education attainment; health and survival; and political empowerment. The aggregate score is then realised, and countries are ranked accordingly.

Most Australian's would be alarmed to learn where Australia ranks on the index. At number 46 (out of 144 countries measured), Australia falls behind comparable peers, such as the United States (45), Canada (35), United Kingdom (20), and New Zealand (9). But on some measures, Australia falls behind countries like Rwanda (5), Philippines (7), and Nicaragua (10). While these aggregate rankings do not entirely take into account the poorer overall living standards in some of these countries, it demonstrates that on key indicators, such as 'economic participation and opportunity', Australia is falling behind.

Looking at 'economic opportunity and empowerment' alone, Australia ranks 42nd, behind countries such as Ukraine (40), Canada (36), Vietnam (33), and New Zealand (24). Of course, these ratings factor in the broader context within each of these countries. Overall, the living standards of men and women in Australia are higher than those in some of the jurisdictions that score higher than Australia on these measurements. However, it is clear that by looking at objective, internationally collated data, Australia still has enormous improvements to make. Additionally, Australia does lead the world in one measurement: education attainment. The deliberate, manufactured success of Australia's education system demonstrates that, through active pubic policy decision making, enormous improvements in gender equality can be achieved.

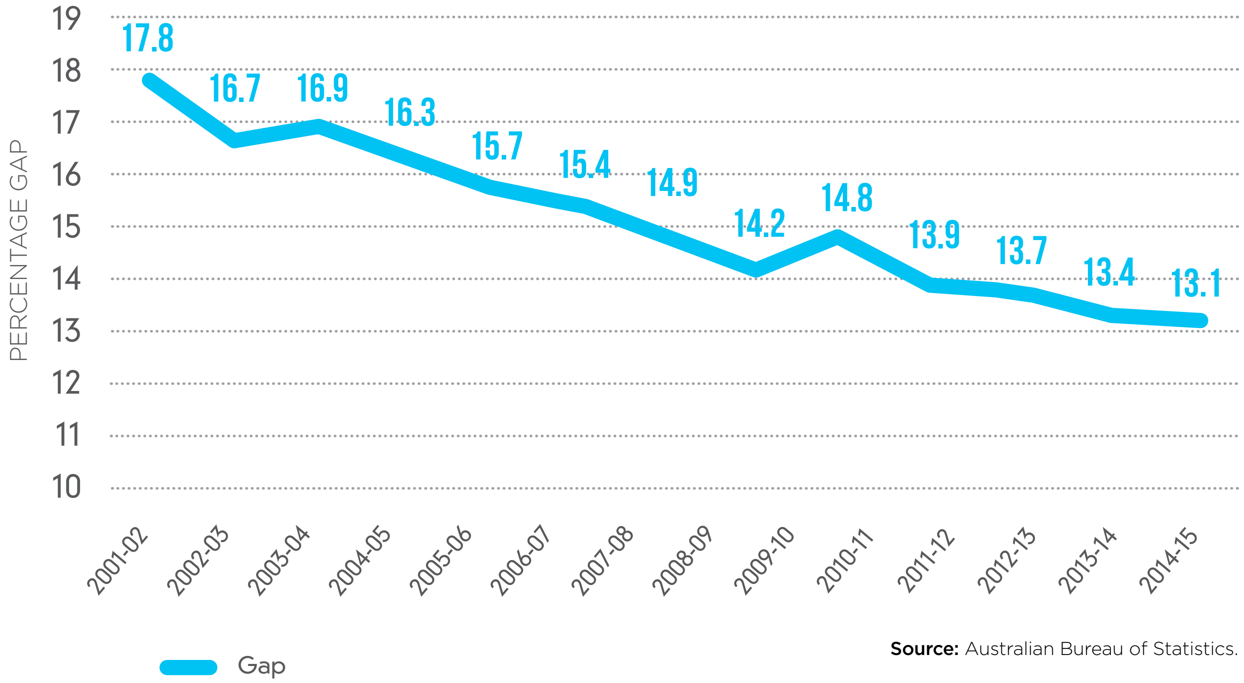
pay gap, we must understand the participation gap

In understanding the gender pay gap – and subsequently, the gender super gap – it is important to first understand the participation gap between genders in Australia. The most recently published Australian Bureau of Statistics data finds that of all working aged people (aged 20 to 74 years) was 65.1 per cent for women, and 78.3 per cent for men.[4] The participation rate for women has improved since the turn of the century, when the participation rate, but has, alarmingly, plateaued around 65 per cent since 2009. In this period, however, it is encouraging that the overall participation gap has fallen from 17.8 percent in 2001-02 to 13.2 per cent in 2014-15.

Addressing the participation gap is essential in addressing the lifetime earnings gap between men and women in Australia. This, in turn, is vital in improving the superannuation accumulations gap. Considering the large number of women who are not participating in the formal labour market, and the fact the the female participation rate has plateaued, it is essential that superannuation policy reflects the needs of the 35 per cent of working aged women in Australia, and provides a basis for that sizeable portion of the Australian population to continue to save towards their retirement, and help alleviate the long-term financial pressure associated with a growing age pension budget.

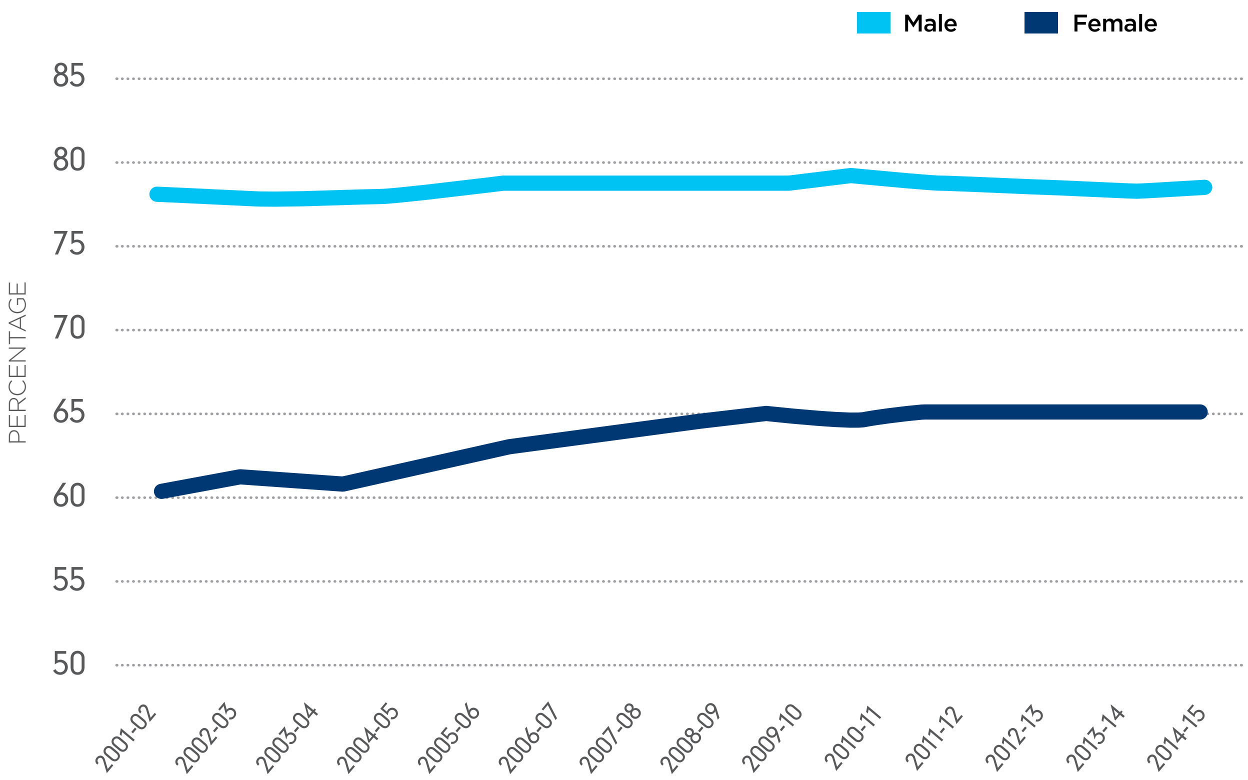
Policymakers must acknowledge that many women not in the formal work force are engaged in maternal care or other forms of care. These occupations are as legitimate as occupations within the formal labour market, and are essential to the future prosperity of Australia. The language around 'career breaks' must be changed to ensure that women working as the carers of new born children are not perceived to be engaging in time off, but are instead actively contributing to society. The Superannuation Guarantee was created to ensure that all Australian workers can adequately save for retirement. Accordingly, it should apply to all forms of labour, including maternal and other forms of remunerated care.

FIGURE 1.10
Workforce participation gap



Source: Australian Bureau of Statistics.

FIGURE 1.11
Workforce participation male vs female



Source: Australian Bureau of Statistics.

Superannuation is still in its infancy

Superannuation has quickly become a central component of the Australian economy and social contract. Since its introduction in 1992, it has become largely ubiquitous, with the modern retirement system inconceivable without it. However, it is also important to emphasise that, in the context of the lifetime of a nation, superannuation policy remains in its infancy. While superannuation has now been legislated for a quarter of a century, it is yet to realise its full potential as an alternative source of retirement income to the age pension not yet materializing. The age pension, in contrast, was first legislated in 1909, and continues to be subject to regular reviews and changes aimed at ensuring it meets its mandate for perpetuity. Similarly, the debate around perfecting superannuation policy in Australia must be kept live, and must extend beyond the regular debates surrounding superannuation tax concessions and extending the working lives of Australians.

Many of the issues that are found in superannuation today stem from a lack of foresight into the changing nature of the economy. At the time that superannuation was introduced, Australia was also on the precipice of entering a new era of economic liberalization that began during the 1980s. Today's Labour market is far more fluid than that of the early 1990's, with contracting, short-term work, and part time work more prevalent than they were previously. This changing dynamic means that superannuation policy needs to be reformed to accommodate such changes to the labour market. Simply, the 'heroic design feature' of superannuation – the "assumption that members have long and continuous periods of employment over which contributions are made"[5] – is not representative of the nature of the contemporary labour market. Many workers of all skill levels, genders, and education, will experience a level of job fluidity that was not predicted in 1992, and will likely spend periods of time in a variety forms of employment. And this reality is most prevalent for women, a majority of whom continue to take deliberate breaks from the workforce for family reasons at some stage of their career. Just as policy debates around the age pension have changed in accordance with economic shifts since its inception in 1909, superannuation policy must be cognizant of contemporary and future demands associated with a more dynamic economic environment. It is incumbent on policymakers to advance changes to the system to ensure it continues to deliver fairer and more sustainable outcomes for future generations of Australian retirees. It is in this context that this report advances its recommendations aimed towards solving the key structural inequity in Australia's superannuation system – the endemic accumulations gap between male and female Australians.

Many Australians are unaware of their superannuation entitlements

One of the major impediments to improving community engagement with superannuation policy is the lack of public understanding around the issue. Superannuation is an inherently complex area of policy which is, by design, always changing as it progressively moves towards the levels of compulsory contribution originally intended. Considering the policy area has become central to the political debate in recent years, with dozens of different proposals injected into public debate, it is understandable that most citizens – those not within political, public policy or Government circles – are not fully aware of what they're entitled to.

Surveys have consistently demonstrated the lack of financial literacy many Australians maintain, particularly in the area of superannuation. Worthington (2008) surveyed 2516 superannuation fund members of both genders. The findings were alarming, in that many superannuation account holders lacked a basic understanding about their plans, and about superannuation itself.

In terms of their own account administration, only 44.1 per cent of respondents understood the fees and charges associated with their account, with only 30.1 per cent claiming to carefully read and understand superannuation statements they receive. But a lack of knowledge extends beyond just basic administrative arrangements to the basic concepts of superannuation itself. In the 2008 survey, Worthington found that 37.5 per cent of respondents did not know that employers were required to make superannuation contributions, and only 35.9 per cent of respondents were aware of the level pf superannuation their employers were required by law to be contributing to them. Also alarmingly was the fact that only 34.4 per cent of respondents had any idea of the total amount of superannuation they would require for a comfortable retirement. More recent surveys have seen similar results, demonstrating that since that 2008 survey, financial literacy had improved but were still inadequate. Chardon (2014) found that only 57 per cent of respondents knew the current rate of compulsory employer superannuation. While there has been some improvement, it is clear that the prevalence of financial illiteracy – specifically when it comes to superannuation – is wide spread. This issue is determinative of the poor results in total superannuation accumulation that is seen amongst many demographics in Australia. When employees do not understand their superannuation entitlements, they are unable to accurately ensure that their employers are meeting their obligations.

Superannuation needs to be reformed in order to guarantee super for all Australians

It is clear from the preceding evaluation of superannuation in Australia that the system needs improvement in order to ensure all Australians can accumulate adequate retirement savings, and thus lower the burden on the Federal Budget in the long term by reducing the publics reliance on the age pension. The preceding analysis has identified that it is disproportionately Australian women who accumulate significantly less superannuation over their lifetimes. This is due to a range of factors, including lower average earnings then men over a lifetime, as well as the societal norm for women to take extended periods out of the workforce to raise children, or care for loved ones who are suffering health issues. The application of the Superannuation Guarantee should reflect these existent societal and economic trends, and ensure that women who are engaged in fewer working hours, caring, or parental duties are not doing so at in exchange for a comfortable retirement. The following section outline specific policy options that the Federal Government could introduce to ensure superannuation is reformed to cover Australian women who find themselves in the aforementioned scenarios.

PART 2: TARGETING THE DETERMINANTS OF THE SUPER GENDER GAP

The following section sequentially demonstrates the value of this report's key proposals by following the lives of two hypothetical women: our Working Mother and our Working Carer-Mother. By tracking their superannuation contributions throughout their lives, we can see how their reduced workforce participation during the years of caring and early parenting will disadvantage them in retirement. To highlight the extent of the disadvantage we will compare their retirement outcomes to those of men and women with average full-time earnings throughout uninterrupted careers. Because the superannuation system is best suited to them, we will call our benchmarks Super Man and Super Woman.

At each stage of lost superannuation contributions, we will explain and apply our proposals for extending the SG to show how the Government can close the Super Gender Gap. By supporting continued superannuation contributions during the years of early parenting and caring, we can make a significant improvement to the standard of living in retirement for our mothers and carers.

Extending the SG to people playing vital roles such as parents and carers will not only significantly reduce the Super Gender Gap, but also, that the Government will receive a long-term return on its investment through improved wellbeing in retirement for mothers and carers, and reduced Government expenditure on the age pension. These proposals will make a positive contribution to the proposed primary objective of the superannuation system: to provide income in retirement to supplement and substitute the age pension.

Our working mother and working carer-mother

Our Working Mother is 21 years old in 2017. She will work full-time until she has her first child at 29. During the following years of early parenting she will move back and forth between parental leave and part-time work, having her second child at 33. She will return to full-time work at 38, when both her children are in school. Our Working Mother will retire at 67 and live to the age of 92.

Our Working Carer-Mother follows the same path as our Working Mother until she is 38 when one of her children becomes seriously ill. She will need to provide constant care for her child for the next four years, working one or two low-paying casual jobs to supplement the Carer Payment she receives from the Government. When she turns 42, her child will have recovered enough for our Working Carer-Mother to return to more substantial work. Having largely been out of the workforce for four years, and before that working part-time since her first child was born, she will work part-time for a year until she finds a full-time position. Like our Working Mother, she will then work full-time until retiring at 67 and live to 92.

The super gender gap

The years of early parenting and caring our mothers give result in reduced participation in the workforce during some of the most important years of saving for retirement. Figure 2.1 shows the retirement value of superannuation contributions for each year in the career of our Working Mother and Working Carer-Mother compared to our Super benchmarks. The period during which our mothers reduce their workforce participation coincides with the most valuable years of superannuation contributions. These are the years when people have established themselves in their careers and their contributions will enjoy decades of investment returns.

FIGURE 2.1 Retirement value of annual SG contributions (2017 dollars)

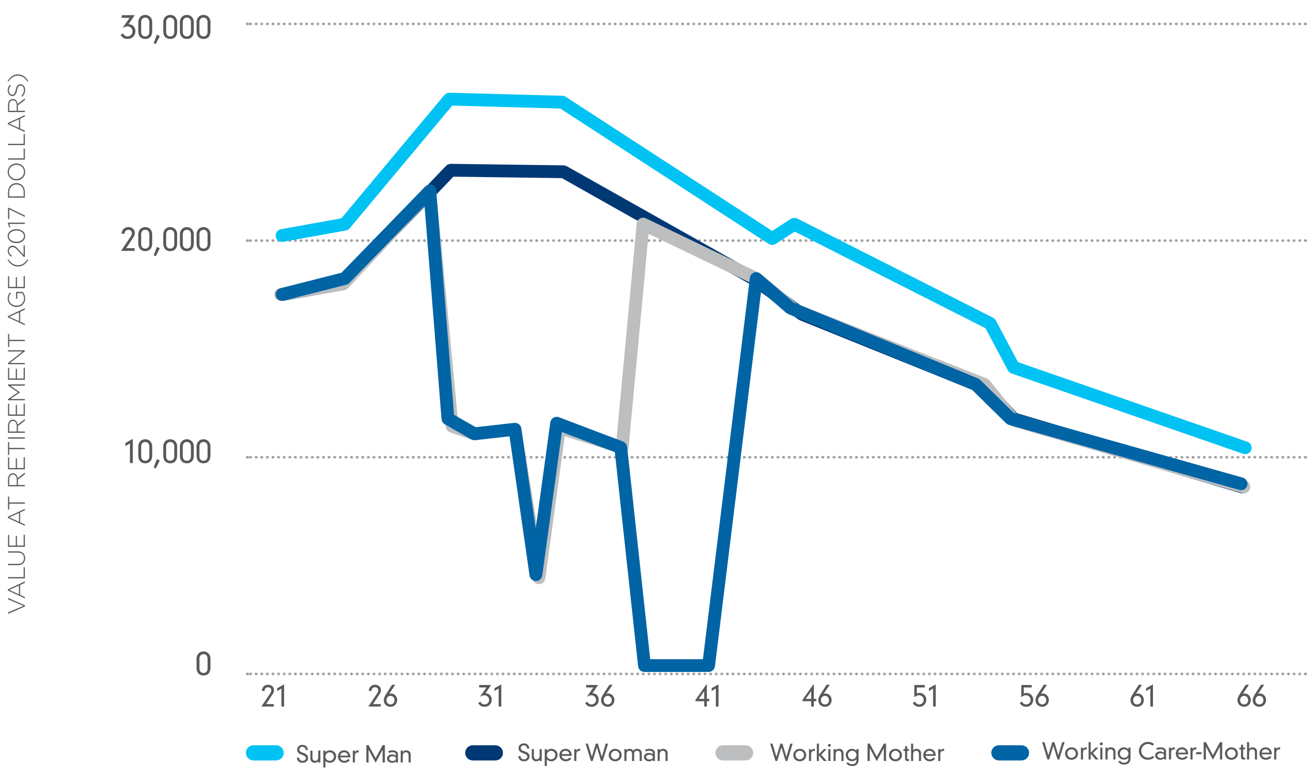


Figure 2.2 shows how missing out on superannuation contributions during those crucial years affects superannuation balances up to retirement age. Once our mothers fall behind due to reduced workforce participation, the disadvantage continues to grow throughout the rest of their careers - even after they have returned to full-time work.

FIGURE 2.2 Superannuation balances throughout career (2017 dollars)

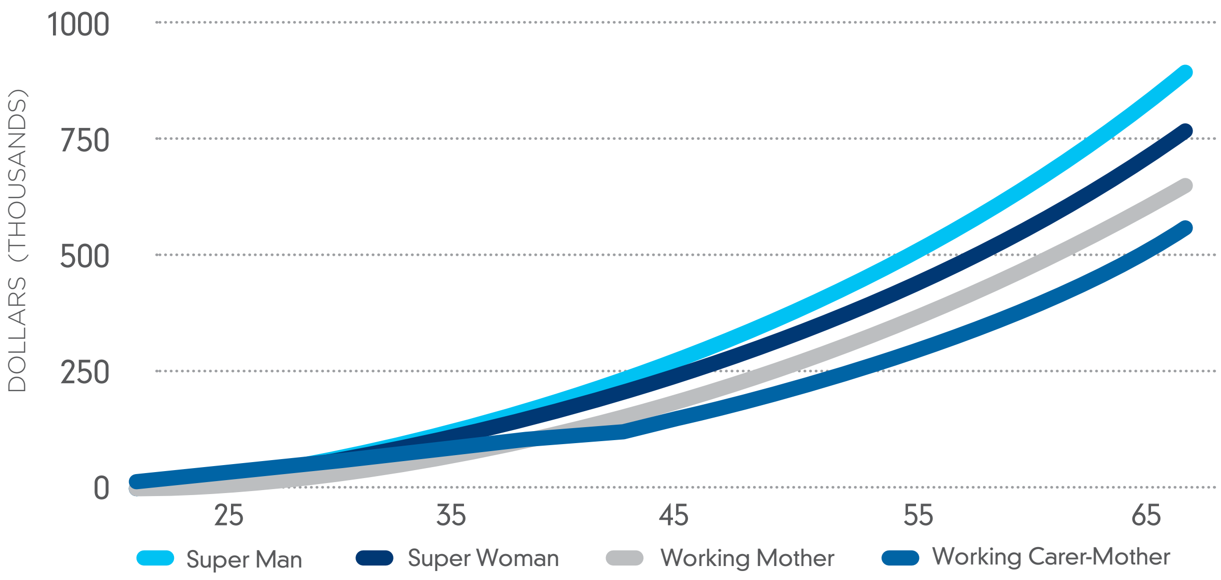
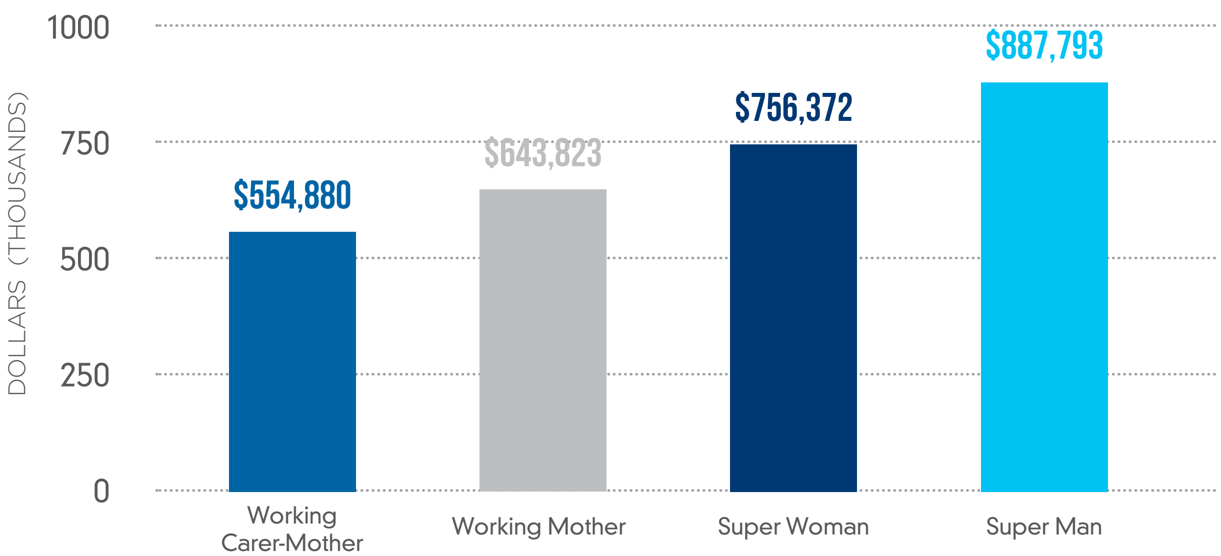


Figure 2.3 shows the disparity in superannuation balances at retirement age between our Working Mother, our Working Carer-Mother and the Super benchmarks. Our Working Carer-Mother accumulates 73 per cent of Super Woman's retirement savings, and 62.5 per cent of Super Man's. Thanks to returning earlier to full-time work, our Working Mother manages to save 85 per cent of Super Woman's superannuation balance and just over 72.5 per cent of Super Man's.

FIGURE 2.3 Superannuation balance at retirement (2017 dollars)

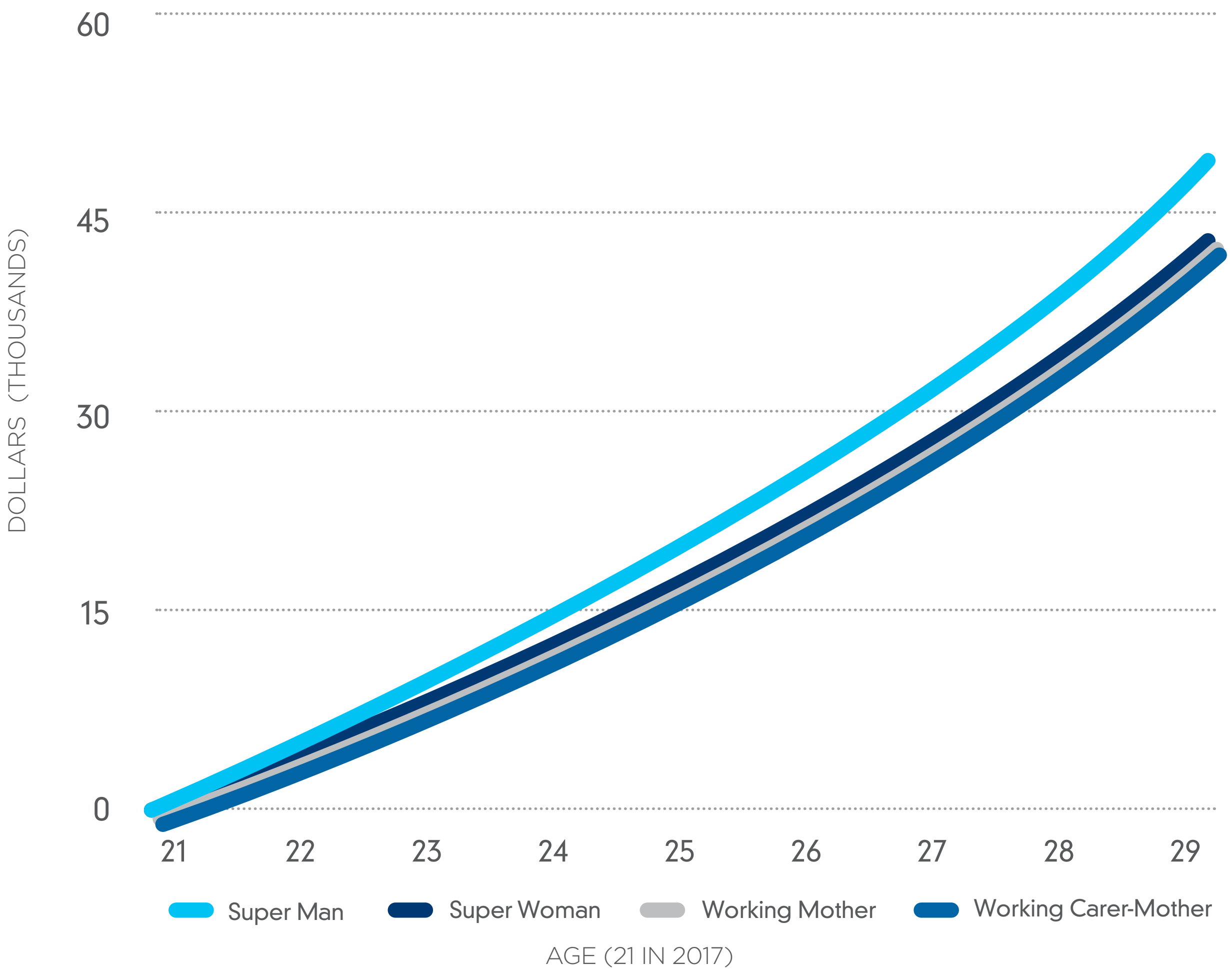


In the rest of this section we will analyse the super disadvantage at each stage of the career and show how, by implementing our proposals, the Government can make significant progress towards closing the Super Gender Gap.

STAGE 1:
EARLY CAREER PROGRESSION (AGES 21-29)

From ages 21 to 28 our mothers will follow a standard pattern of superannuation contributions for full-time workers. Figure 2.4 shows the growing superannuation balances over this period, in 2017 dollars. As the figure shows, our Working Mother and Working Carer-Mother are on track to retire comfortably alongside Super Woman. However, the gap in earnings between men and women is already creating a significant Super Gender Gap. When our hypothetical persons turn 29, the man has accumulated around $49,000 in today's dollars while the women have accumulated just $42,500 – already a shortfall of over 12.5 per cent.

FIGURE 2.4
Early career superannuation balances (2017 dollars)



STAGE 2:
FIRST-TIME PARENTAL SUPER DISADVANTAGE (AGES 29 TO 33)

First-time parental leave

In line with the national average, our mothers have their first children in 2025 at age 29.[6] They take 27 weeks out of the workforce (the average for a woman their age)[7] including 18 weeks of Commonwealth Paid Parental Leave (CPPL).

The Government does not pay the SG on payments made under the CPPL scheme. Similarly, employers are not required to pay the SG during periods of paid or unpaid parental leave (unlike most other forms of leave). This causes our mothers to miss out on superannuation contributions for the entire 27 weeks of parental leave. At retirement age, this period without contributions will result in their retirement savings being lower by nearly $12,000 in today's dollars.[8]

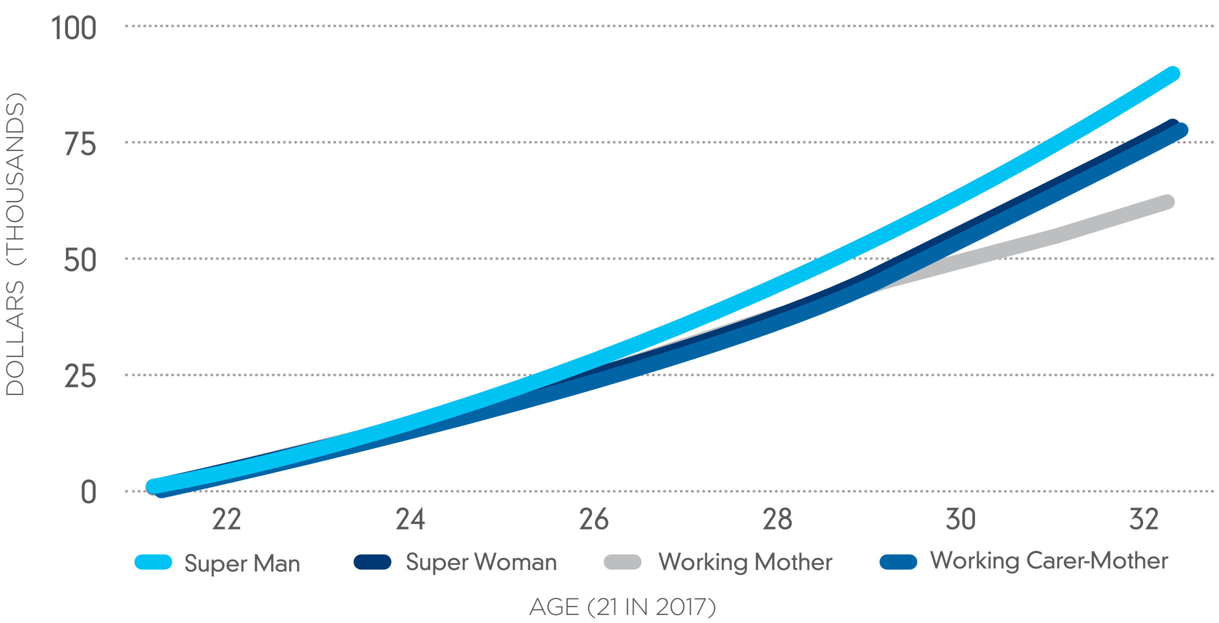
Reduced participation on return to the workforce

Like most new mothers in Australia,[9] our mothers work part-time on their return to the workforce. Their reduced earnings makes them eligible to receive the Parenting Payment from the Government. However, the Government does not pay SG contributions on Parenting Payments. During this period, our mothers only receive SG contributions on their part-time earnings, falling further behind the Super benchmarks. Three years of reduced workforce participation will cost our mothers around $36,500 in superannuation at retirement age, in today's terms.

First-time parental super disadvantage

Figure 2.5 shows the growing parental disadvantage in superannuation balances over the next few years. Before they have their second child at age 33, our Working Mother and Working Carer-Mother have accumulated just under $63,000 in retirement savings in today's dollars. At the same age, Super Woman and Super Man have accumulated around $78,500 and $89,500, respectively, saving 25 per cent and 43 per cent more than our mothers after just three years of reduced workforce participation. With compounded returns at average historical levels, first-time parental super disadvantage will cost our mothers a total of nearly $48,500 at retirement age, in today's dollars.[10]

FIGURE 2.5 First-time parental super disadvantage



RECOMMENDATION 1

Pay new parents a generous superannuation contribution tied to the number of weeks of Commonwealth Paid Parental Leave accessed, up to a maximum of 12 per cent of the annual minimum wage ("12 per cent for 12 months").

Why 12 per cent for 12 months?

The value to society of early parenting should be recognised and rewarded with a generous superannuation contribution linked to the CPPL scheme. As a minimum, the Government should be paying the SG on CPPL payments. The 2016 Senate Economics References Committee report *'A husband is not a retirement plan': Achieving economic security for women in retirement* (the SERC Report)[11] recommended as much, citing in support of its recommendation many submissions it received during its inquiry – including from the McKell Institute. We now urge the Government to do more than the minimum to provide greater economic security for women in retirement. With more than 99 per cent of CPPL recipients being women,[12] and parental responsibilities being a major cause of women's reduced workforce participation, *12 per cent for 12 months* will enable the Government to make a serious contribution to closing the Super Gender Gap.

A number of factors contribute to this parental super disadvantage, including:

- no SG paid on CPPL payments;
- no requirement to pay SG on employer-sponsored paid parental leave;
- the length of time taken out of the workforce when having a child;
- the pattern of returning to work at reduced levels of participation; and
- the ongoing career disadvantage women suffer due to the two previous points.

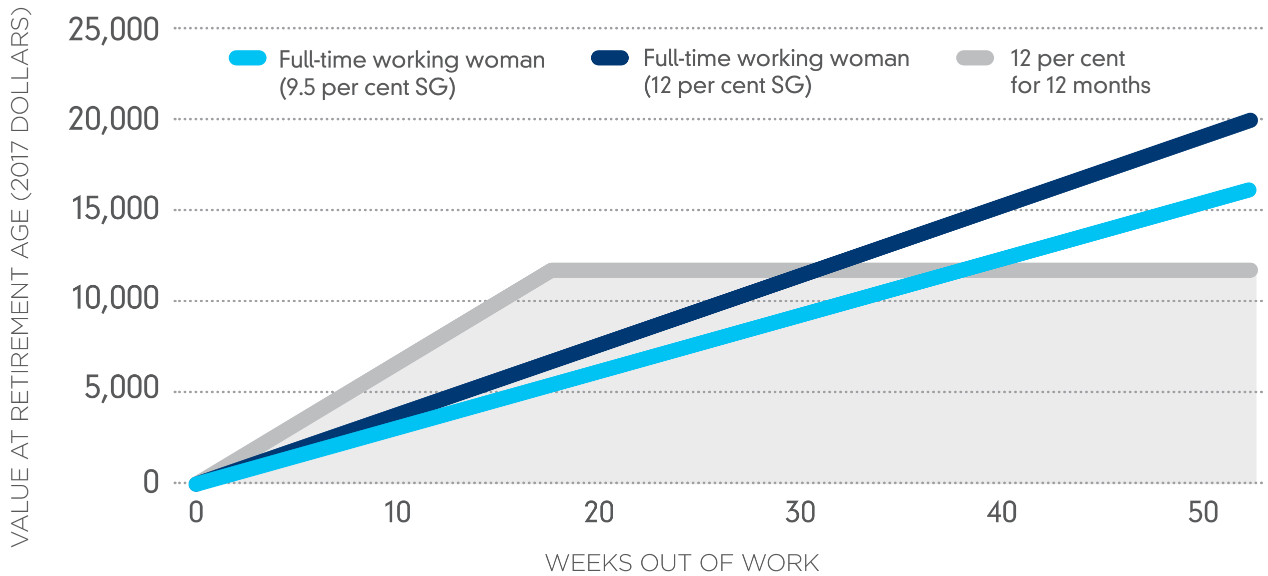
As discussed above, the impact of taking parental leave and the associated reduced workforce participation on women's superannuation balances at retirement age is significantly greater than just the contributions lost during up to 18 weeks of parental leave. In most cases, simply paying the SG on CPPL payments would still see new mothers missing out on significant retirement savings when they take parental leave. This is because CPPL payments are tied to the minimum wage and available for a shorter period than most women take out of the workforce, along with the other factors listed above. *12 per cent for 12 months* is necessary to begin to address the bigger issue of parental super disadvantage.

What will 12 per cent for 12 months achieve?

12 per cent for 12 months will benefit all new parents who access CPPL. We estimate that in the 12 months to June, 2017, approximately 165,000 people will start receiving CPPL payments,[13] almost of all of whom will be women who access the scheme for the full 18 weeks.[14] For those women our proposal would improve superannuation balances at retirement age by an average of $11,500 in today's terms.[15] In most cases this eliminates the direct financial disadvantage mothers will face in retirement from taking parental leave now. For those on lower incomes, the generous contribution will go further, beginning to compensate women for the extended super disadvantage of reduced workforce participation while raising young children and the continuing super disadvantage of earning lower wages than people (mostly men) who maintain a fuller participation in the workforce.

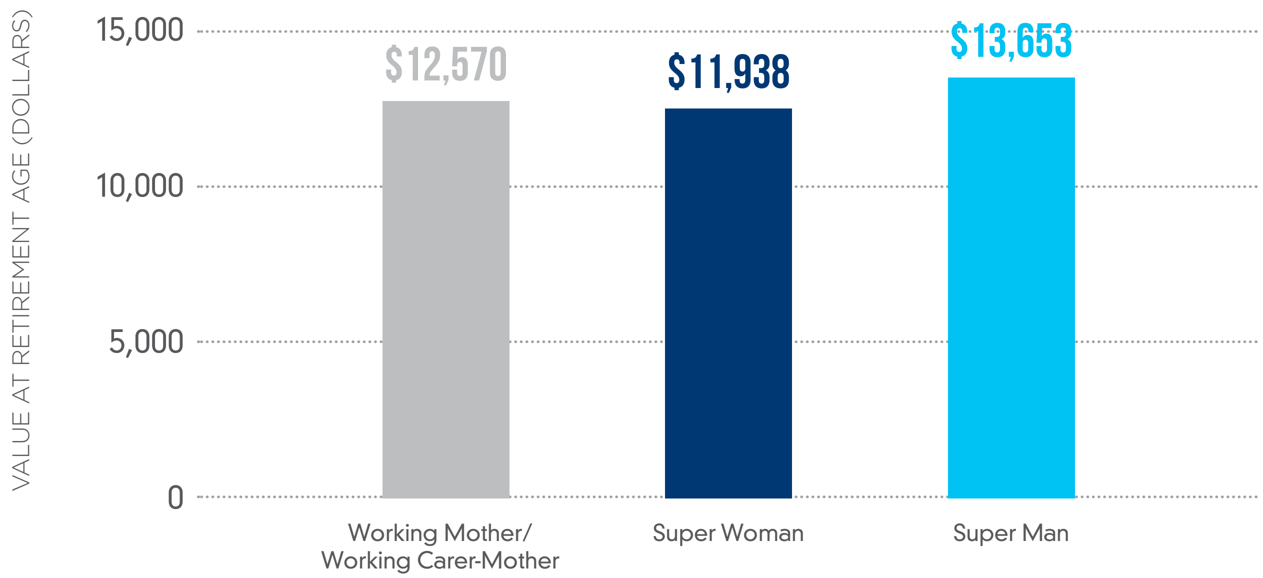
Figure 2.6 compares the value in retirement of *12 per cent for 12 months* with the value at retirement (in 2017 dollars) of lost superannuation contributions for each week taken out of the workforce by a woman aged 21-34 with average full-time earnings in 2017. The shaded area represents the value at retirement age of *12 per cent for 12 months*, while the blue lines chart the value of missed SG contributions at today's 9.5 per cent rate and the future rate of 12 per cent, respectively, as women take longer periods of parental leave. *12 per cent for 12 months* will fully address the direct first-time parental super disadvantage of missing out on 12 per cent SG contributions for close to 30 weeks, or the current 9.5 per cent SG contributions for nearly 38 weeks.

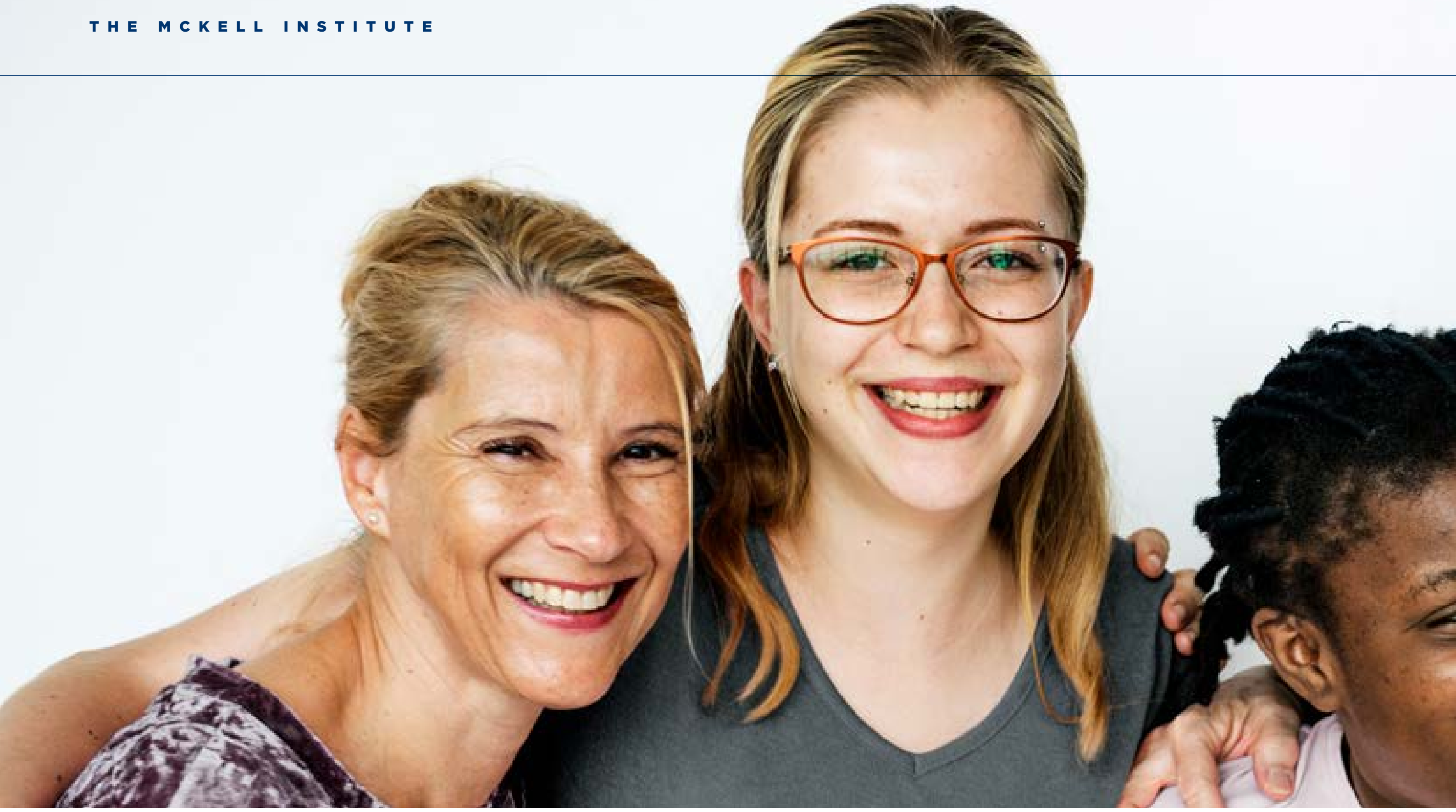
FIGURE 2.6 Super cost of parental leave



For our mothers, who take 27 weeks parental leave for their first child at age 29 in 2025, *12 per cent for 12 months* will compensate them for more than 105 per cent of their superannuation contributions lost due to taking parental leave and 26 per cent of the total first-time parental super disadvantage during Stage 2. Figure 2.7 shows the impact of *12 per cent for 12 months* compared to the superannuation contributions of our Super benchmarks over the 27 weeks.

FIGURE 2.7 Impact of 12 per cent for 12 months over 27 weeks of parental leave





What will 12 per cent for 12 months cost?

Our proposal will involve an upfront cost to the CPPL scheme of an additional 29.5 per cent for each parent accessing the scheme.[16] For a woman taking the full 18 weeks in 2017, the Government will pay around $3,600 into her superannuation account (after contributions tax). However, this investment will in most cases result in a long-term saving to the Government in the form of less expenditure on the age pension. As stated above, for our Working Mother and Working Carer-Mother, *12 per cent for 12 months* will provide an increase to their superannuation balances at retirement of over $12,500 in today's terms. Their additional savings will see them rely less on the age pension throughout retirement. For our mothers, this will save the Government a total of between $4,000 and $6,000 in today's dollars.[17] Table 1 sets out the value to our mothers in retirement and the associated long-term return to Government of *12 per cent for 12 months*.

TABLE 2.1

Value of 12 per cent for 12 months (2017 dollars)

	Working mother	Working carer-mother
Up-front cost to government	**$3,720**	**$3,720**
Increase to superannuation balance at retirement	**$12,570**	**$12,570**
Average annual increase in superannuation income stream	**$701**	**$701**
Average annual decrease in age pension	**-$243**	**-$160**
Total savings to government on age pension	**$6,085**	**$3,992**
Net government saving	**$2,365**	**$272**

RECOMMENDATION 2

Pay superannuation contributions at the scheduled rate of 12 per cent on Commonwealth Parenting Payments ("SG for Parents").

Why SG for parents?

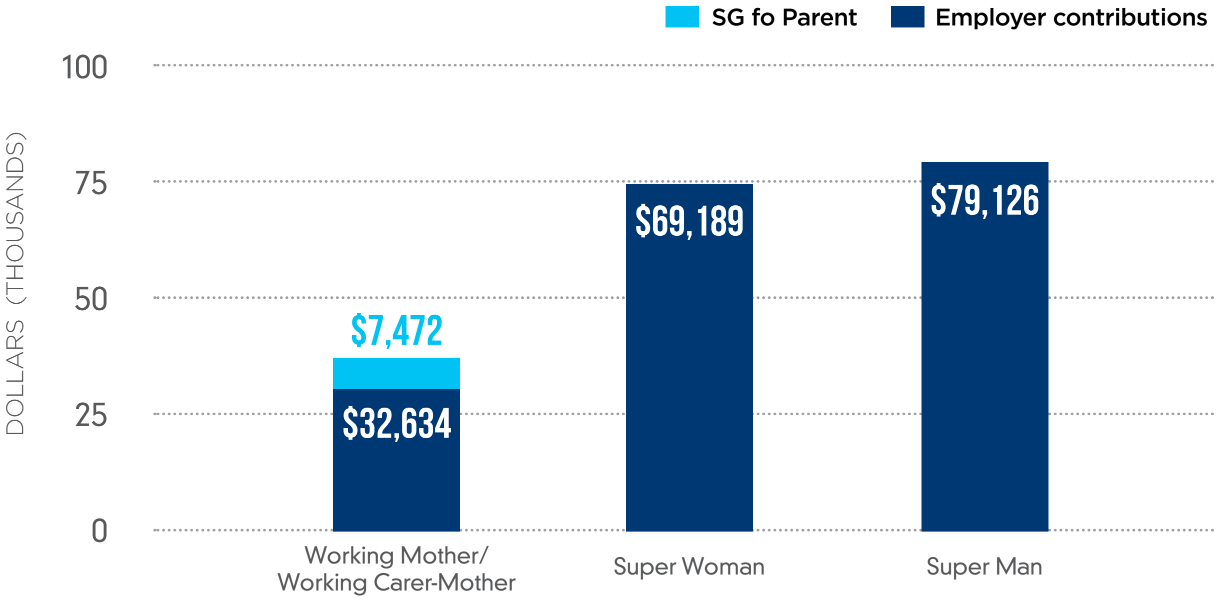
The Commonwealth Parenting Payment is a form of income support provided to parents of young children. Around 356,000 people receive Parenting Payments, 93.5 per cent of whom are women.[18] As at September 2016, only 19 per cent of recipients had earned more than $250 from employment in the last fortnight.[19] As a significant source of income for women with reduced workforce participation due to the needs of caring for young children, the Parenting Payment provides an opportunity for the Government to close the Super Gender Gap by supporting women to continue making superannuation contributions during their years of early parenting.

What will SG for parents achieve?

For a woman on the full Parenting Payment Single in 2017, SG for Parents will provide an annual superannuation contribution of around $1,800 at the current SG rate of 9.5 per cent, or $2,300 at our proposed rate of 12 per cent. For a 32 year old who retires at 67, that one year of SG for parents will be worth nearly $7,500 at retirement, in 2017 dollars.

Our Working Mother and Working Carer-Mother return to work part-time at the end of their first period of parental leave. As well as causing them to receive lower superannuation contributions from their employer, their reduced earnings makes them eligible for a partial Parenting Payment.[20] *SG for Parents* will see them receive a total of close to $2,350 in additional superannuation contributions in today's dollars (after contributions tax) for this three-year period of first-time parental super disadvantage. At retirement age, *SG for Parents* during Stage 2 will add around $7,500 to our mothers' superannuation balances. This will compensate them for over 20 per cent of the super disadvantage while working part-time during Stage 2 and more than 15 per cent of the total first-time parental super disadvantage. Figure 2.8 illustrates how *SG for Parents* provides a meaningful reduction in the Super Gap between our mothers and the Super benchmarks during this stage of their careers.

FIGURE 2.8
Impact of SG for parents over three years of reduced workforce participation



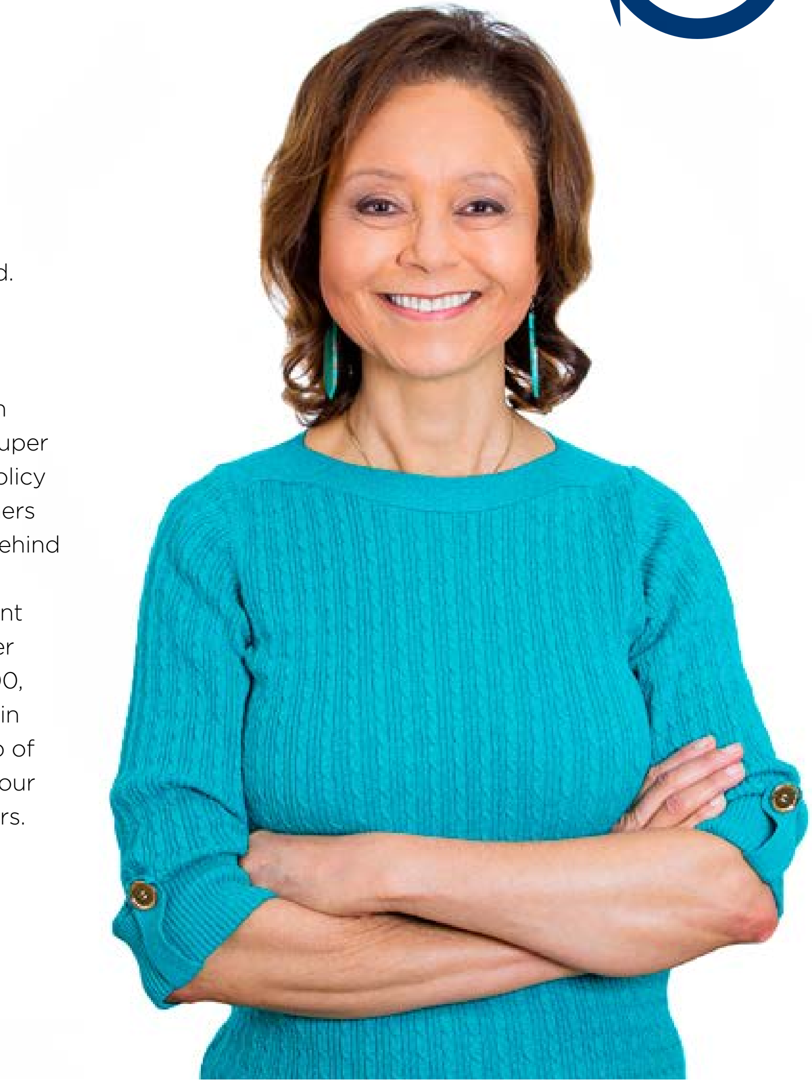
What will SG for parents cost?

The Government will pay an upfront cost of an additional 10.2 per cent to 12 per cent for each parent receiving the Parenting Payment.[21] For a woman receiving the full Parenting Payment Single in 2017, the Government will pay just over $2,300 into her superannuation account (including the Low Income Superannuation Tax Offset (LISTO)). However, this investment will in many cases result in a long-term saving to the Government in the form of less expenditure on the age pension.

For our Working Mother and Working Carer-Mother, *SG for Parents* will provide an increase to their retirement savings of around $7,500 in today's terms. This will save the Government a total of around $3,600 in age pension payments in today's dollars for our Working Mother and $2,400 for our Working Carer-Mother. Table 2 sets out the value to our mothers in retirement and the associated long-term return to Government of *SG for Parents*.

TABLE 2.2
Value of SG for parents (2017 dollars)

	Working mother	Working carer-mother
Up-front cost to government	**$2,360**	**$2,360**
Increase to superannuation balance at retirement	**$7,472**	**$7,472**
Average annual increase in superannuation income stream	**$417**	**$417**
Average annual decrease in age pension	**-$145**	**-$95**
Total savings to government on age pension	**$3,617**	**$2,373**
Net government saving	**$1,257**	**$13**

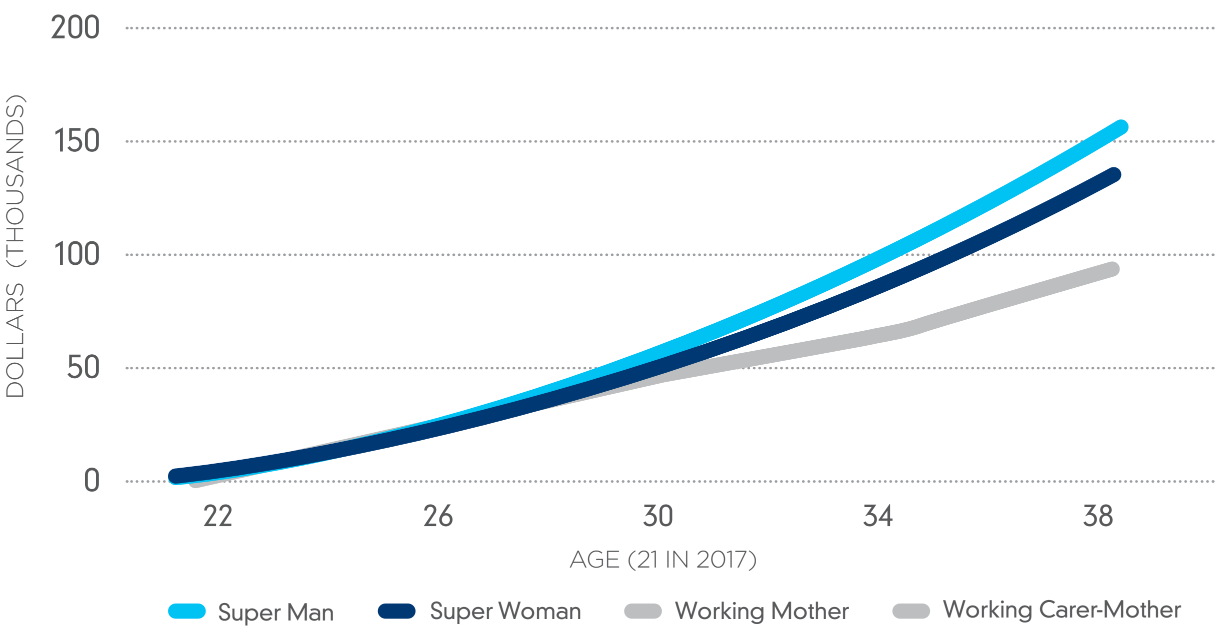


STAGE 3:
SECOND-TIME PARENTAL SUPER DISADVANTAGE (AGES 33 TO 38)

At 33, our mothers each have their second child. They take the average length of parental leave for women their age of 34 weeks.[22] Again, they will return to work part-time, planning to return to full-time work when their children are both in school. Figure 2.9 continues the story of their super disadvantage through Stage 3 under current policy settings, illustrating how our second-time mothers see their superannuation balances fall further behind our Super benchmarks. When they turn 38, our mothers will have just over $92,000 in retirement savings in today's terms. At the same age, Super Woman will have accumulated close to $135,000, while Super Man will have more than $154,000 in his superannuation account. That's a Super Gap of 46 per cent and 67 per cent, respectively, over our mothers, less than half-way through their careers.

FIGURE 2.9

Second-time parental super disadvantage



12 per cent for 12 months

The super disadvantage of taking 34 weeks of parental leave at this point in their life is equal to more than $7,200 compared to continuing part-time work, around $15,000 compared to Super Woman and close to $17,200 compared to Super Man. Figure 2.10 shows the impact of our proposal against these benchmarks. This time around, *12 per cent for 12 months* compensates our mothers for 166 per cent of the retirement value of their super contributions had they continued to work part-time, 80 per cent of Super Woman's contributions and 70 per cent of the contributions Super Man will receive over the same 34 weeks.

FIGURE 2.10

Impact of 12 per cent for 12 months over 34 weeks of parental leave

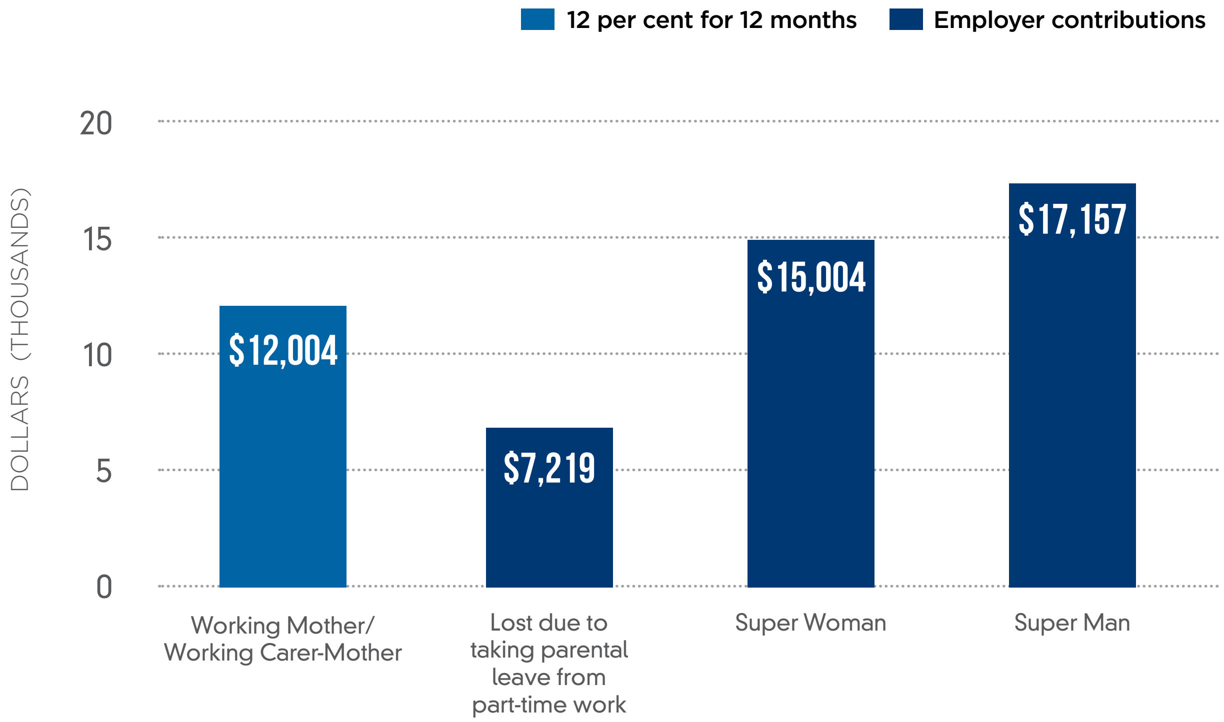


Table 3 sets out the value of *12 per cent for 12 months* at retirement for our mothers the second time around, and the associated upfront cost and long-term return to the Government (all in today's dollars). There are small differences compared to *12 per cent for 12 months* in Stage 2, due to our assumption of the minimum wage tracking wage growth rather than inflation, our mothers being eligible for the LISTO due to their lower earnings for the full year and there being fewer years for the additional superannuation contributions to earn investment returns before retirement. Importantly, the Government will still see a net return on its investment (including the LISTO) of between approximately $400 and $2,300, while our mothers will see an additional $12,000 in their superannuation accounts at retirement, in today's terms.

TABLE 2.3
Value of 12 per cent for 12 months (2017 dollars)

	Working mother	Working carer-mother
Up-front cost to government	$4,063	$4,063
Increase to superannuation balance at retirement	$12,004	$12,004
Average annual increase in superannuation income stream	$669	$669
Average annual decrease in age pension	-$253	-$178
Total savings to government on age pension	$6,334	$4,439
Net government saving	$2,271	$376

SG for parents

For the remaining 4 years and 18 weeks of Stage 3, our mothers continue to fall further behind our Super benchmarks due to their reduced earnings. They will still receive a partial Parenting Payment[23] and, under our proposal, receive additional superannuation contributions worth around $9,600 at retirement, in today's terms. Figure 2.11 shows the impact of *SG for Parents* throughout Stage 3 on superannuation balances at retirement compared to our Super benchmarks.

FIGURE 2.11
Impact of SG for Parents over five years of reduced workforce participation

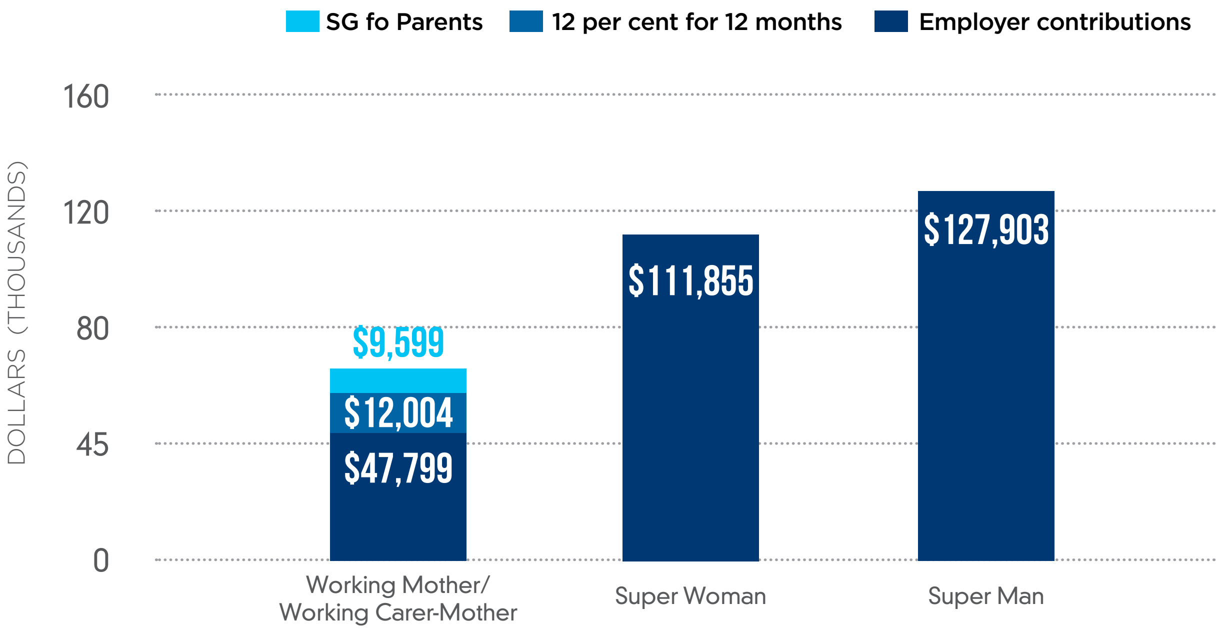


Table 4 sets out the value of *SG for Parents* to our mothers in retirement and the associated return to Government. Since Stage 3 lasts a year longer than Stage 2, our proposal will cost the government more up front this time. However, the government will again receive long-term savings in age pension payments greater than the upfront cost.

TABLE 2.4 Value of 12 per cent for 12 months (2017 dollars)

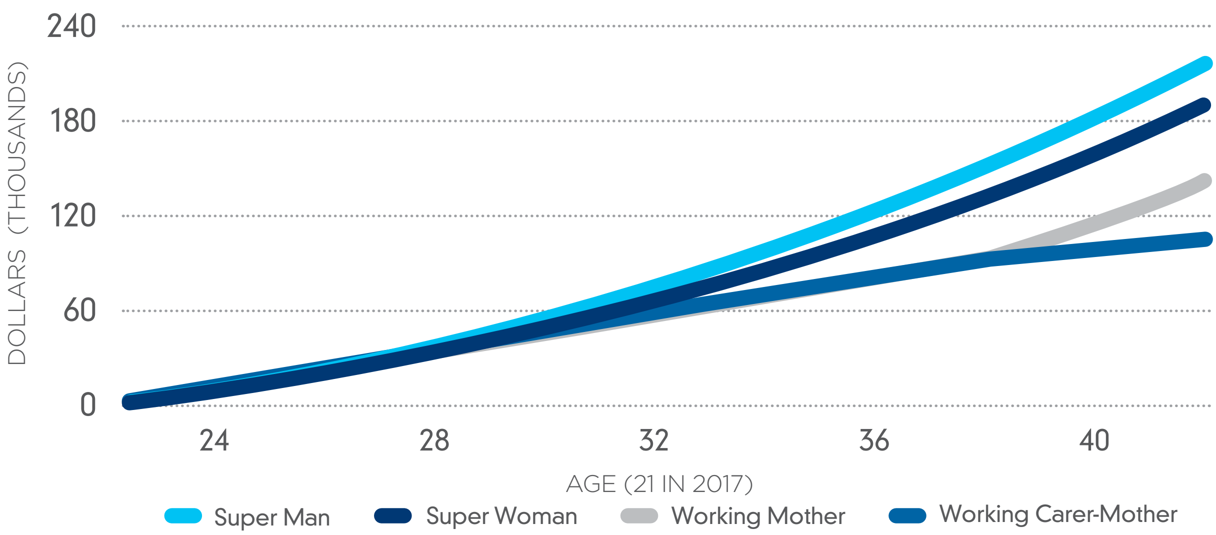
	Working mother	Working carer-mother
Up-front cost to government	**$3,434**	**$3,434**
Increase to superannuation balance at retirement	**$9,599**	**$9,599**
Average annual increase in superannuation income stream	**$535**	**$535**
Average annual decrease in age pension	**-$205**	**-$144**
Total savings to government on age pension	**$5,118**	**$3,593**
Net government saving	**$1,684**	**$159**

STAGE 4: CARING SUPER DISADVANTAGE (AGES 38 TO 42)

While our Working Mother will return to full-time work when her children are both in school, one of our Working Carer-Mother's children will require constant care for the next four years. Leaving her job, our Working Carer-Mother will receive the Carer Payment as her primary income. In her first year as a carer, she takes a casual job earning $100 a week to supplement the Carers Payment. In years two to four of Stage 4, she picks up a second casual job, also earning $100 a week.

The government does not pay the SG on Carer Payments. Similarly, employers are not required to pay the SG to employees who make less than $450 in a month. Under current policy settings, therefore, our Working Carer-Mother would make no superannuation contributions during this four-year period of caring. Figure 2.12 shows her superannuation balance stagnating throughout Stage 4, falling sharply behind our Working Mother who returns to full-time work and further behind our Super benchmarks.

FIGURE 2.12 Caring super disadvantage



RECOMMENDATION 3

Pay superannuation contributions at the scheduled rate of 12 per cent on Commonwealth Carer Payments ("SG for Carers").

Why SG for carers?

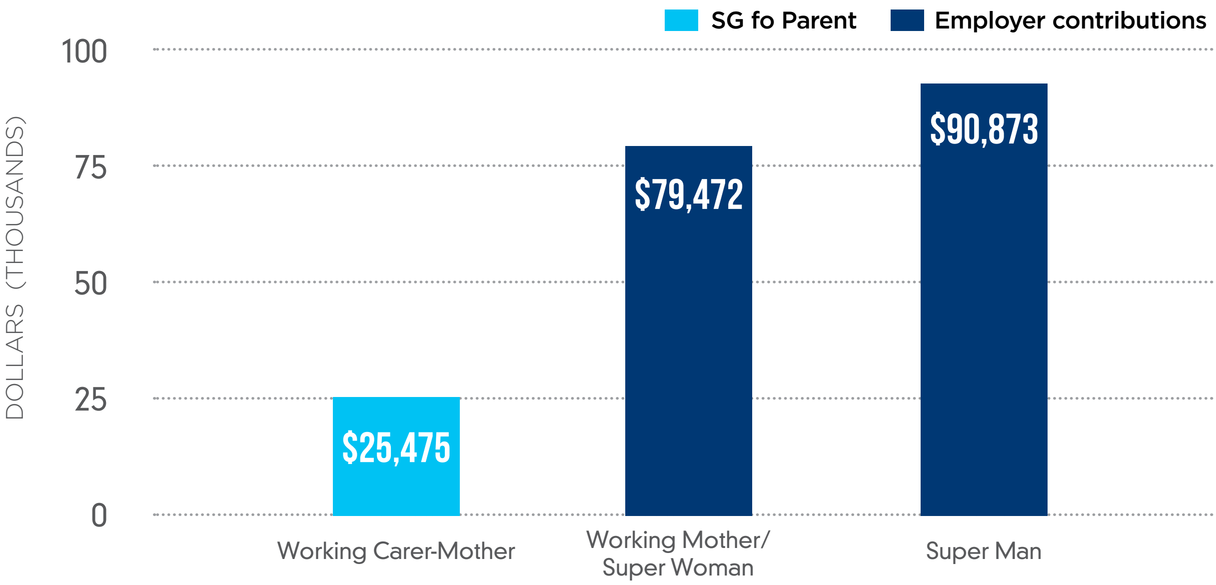
As the *SERC Report* stated, "it is time that the government acknowledges the contribution that unpaid carers provide to this country".[24] Like the Parenting Payment, the Carer Payment is a form of income support, provided to primary carers of people who need constant care. In September 2016, over 264,000 people received the Carer Payment. In addition to income and assets tests, the Carer Payment is subject to an activity test, under which the carer is only allowed to train or work for up to 25 hours a week. In fact, over 92 per cent of recipients earned less than $250 from employment in the last fortnight when the data was collected in September 2016, while over 90 per cent had no earnings at all.[25] The Carer Payment is therefore a major source of income for carers, more than two-thirds of whom are women.[26] *SG for Carers* provides an opportunity for the Government to both acknowledge the contribution of unpaid carers and close the Super Gender Gap by supporting carers to continue making superannuation contributions while their workforce participation is limited.

What will SG for carers achieve?

SG for Carers will support women to continue making superannuation contributions at a time when their contributions are severely restricted or, as in many cases, derailed entirely. For a woman on the full Carer Payment today, *SG for Carers* will provide an annual superannuation contribution of around $2,200 at the current SG rate of 9.5 per cent, or $2,800 at our proposed rate of 12 per cent. At retirement, a year of contributions under SG for Carers for a 32 year old woman will be worth $9,000 in today's terms.

Under *SG for Carers*, our Working Carer-Mother will receive over $10,500 in superannuation contributions (in today's dollars) over her four years of caring in Stage 4. At retirement age, she will have an extra $25,475 in her superannuation account in today's terms. This will compensate her for nearly a third of the caring super disadvantage compared to our Working Mother, who will work full-time for the same period. Figure 2.13 compares the value of *SG for Carers* with the value of employer contributions our Working Mother and Super benchmarks receive over the same four years.

FIGURE 2.13 Impact of SG for carers over 4 years of caring



What will SG for carers cost?

The Government will pay an upfront cost of an additional 10.2 per cent to 12 per cent for each carer receiving the Carer Payment.[27] For a woman receiving the full Carer Payment in 2017, the Government will pay nearly $2,800 into her superannuation account (including the LISTO). However, like our other proposals, this investment will in many cases result in a long-term saving to the Government on the age pension.

For our Working Carer-Mother, *SG for Carers* will provide an increase to her retirement savings of around $25,475 in today's terms. This will save the Government a total of around $10,400 in age pension payments in today's dollars. Table 5 sets out the value to our Working Carer-Mother in retirement and the associated long-term return to Government of SG for Carers.

TABLE 2.5 Value of SG for carers (2017 dollars)

	Working carer-mother
Up-front cost to government	**$10,172**
Increase to superannuation balance at retirement	**$25,475**
Average annual increase in superannuation income stream	**$1,420**
Average annual decrease in age pension	**-$422**
Total savings to government on age pension	**$10,559**
Net government saving	**-$152**

RECOMMENDATION 4

Remove the $450 monthly earnings threshold before employers must pay the Superannuation Guarantee ("SG for Low-Paying Jobs").

Why SG for low-paying jobs?

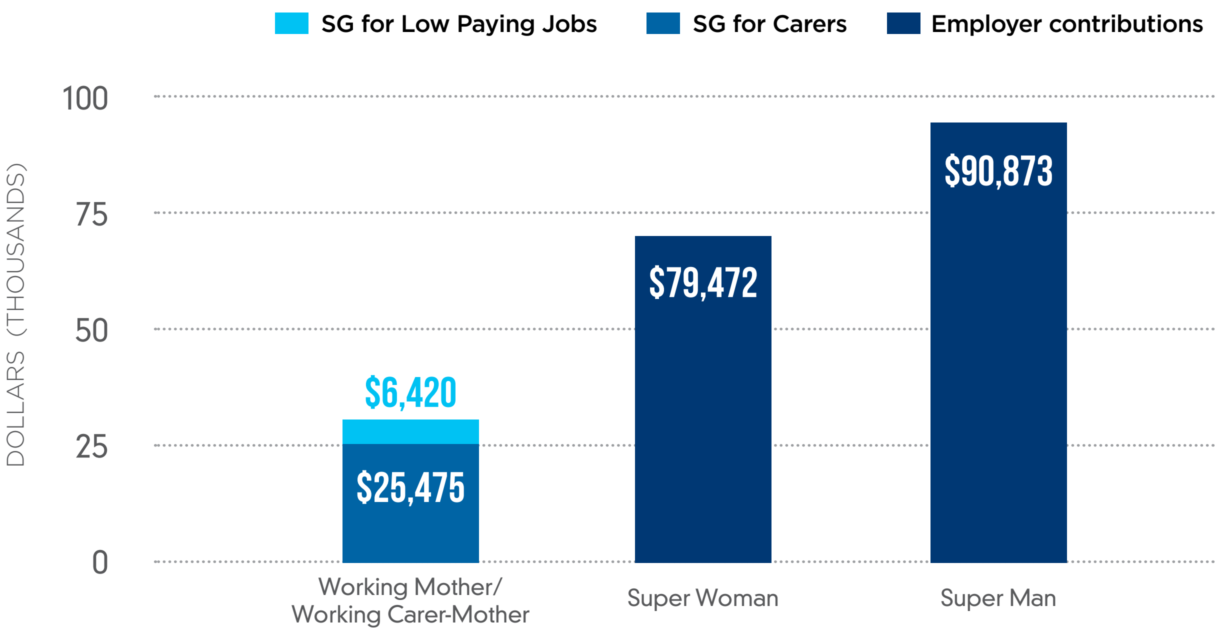
As the *SERC Report* explains,[28] the $450 monthly earning threshold was originally intended to save employers the administrative burden of managing small payments into superannuation accounts. With technological improvements and the automation of payment systems, the administrative burden no longer justifies denying employees the SG. In fact, the ATO told the Senate Inquiry that removing the threshold would simplify payments for employers under SuperStream, which all employers should now be using. The threshold affects casual and part-time workers who often have multiple, low-paying jobs. Since women are overrepresented in these groups, removing the threshold will contribute towards closing the Super Gender Gap.

What will SG for low-paying jobs achieve?

For an employee in 2017 earning $100 per week, *SG for Low-Paying Jobs* will provide an annual superannuation contribution of $495 (including the LISTO) under today's SG rate of 9.5 per cent. Over the four years of supplementing her Carer Payment, our Working Carer-Mother will receive over $2,700 in superannuation contributions (in today's dollars) thanks to *SG for Low-Paying Jobs*, providing an extra $6,400 in retirement savings in today's terms. This will compensate her for around 8 per cent of the caring super disadvantage compared to working full-time. Figure 2.14 compares the value of *SG for Low-Paying Jobs* with the value of employer contributions our Working Mother and Super benchmarks receive throughout Stage 4.

FIGURE 2.14

Impact of SG for low-paying jobs over four years of caring



What will SG for low-paying jobs cost?

Our proposal will see employers pay the additional SG on low-paying jobs, costing up to $54 per month extra for an employee earning $450 per month. The Government will receive contributions tax on the extra contributions, but in almost all cases this would be cancelled out by the LISTO.

Our Working Carer-Mother will see an increase to her retirement savings of around $6,400 in today's terms. This will save the Government a total of around $2,750 in age pension payments in today's dollars. Table 6 sets out the value to our Working Carer-Mother in retirement and the associated long-term return to Government of *SG for Low-Paying Jobs*.

TABLE 2.6
Value of SG for low-paying jobs (2017 dollars)

	Working carer-mother
Up-front cost to government	**-$42**
Increase to superannuation balance at retirement	**$6,420**
Average annual increase in superannuation income stream	**$358**
Average annual decrease in age pension	**-$110**
Total savings to government on age pension	**$2,751**
Net government saving	**$2,793**

** This is the difference between the additional contributions tax paid and the LISTO received by our Working Carer-Mother. The additional SG contributions are made by her employers.*

STAGE 5:
RETURN TO WORK (AGES 42 TO 67)

At 42 our Working Carer-Mother will begin her transition back into the workforce, working part-time for the first year until she finds a full-time position. Our mothers will then both work full-time to retirement at age 67 however, as Figure 2.3 showed, the years of parental and caring super disadvantage ensure they will retire with significantly lower superannuation balances than our Super benchmarks.

STAGE 6:
RETIREMENT (AGES 67 TO 92)

Our proposals enable our mothers to make significant inroads into the Super Gender Gap. Figure 2.15 shows how our proposals close the gap at each point during the expensive years of lost SG contributions between the ages 29 and 38 for our Working Mother and through to 42 for our Working Carer-Mother.

FIGURE 2.15 Value of annual SG contributions throughout career (2017 dollars)

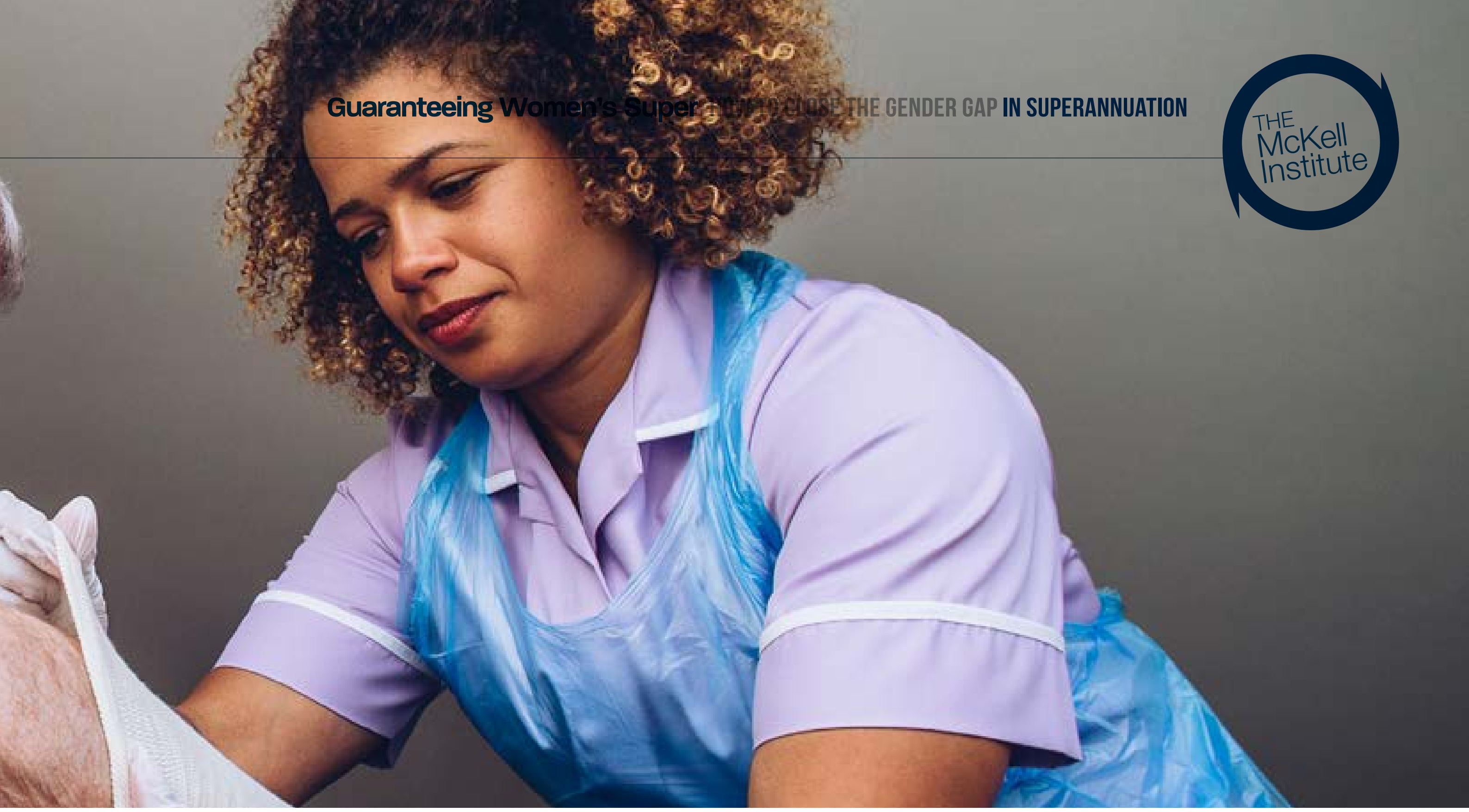
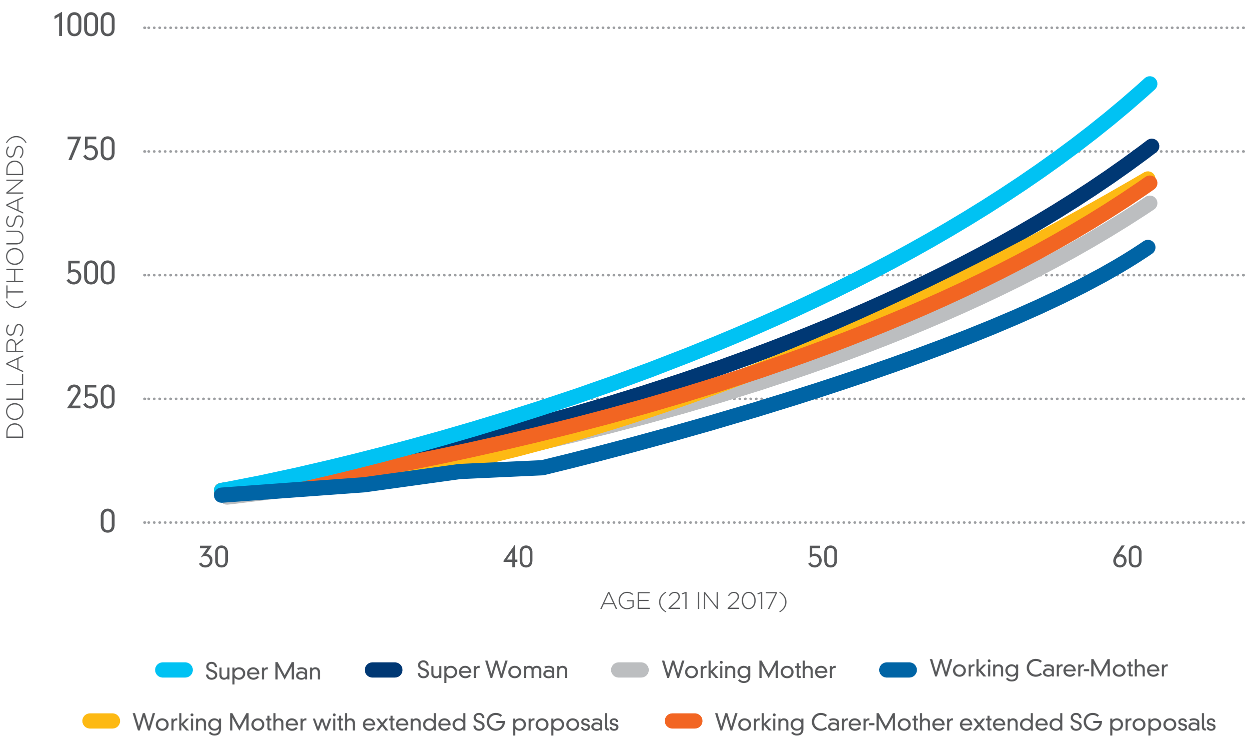


Figure 2.16 shows the growth of superannuation balances through the careers of our mothers and the Super benchmarks from the first child onwards. The graph demonstrates how the improved pattern of superannuation contributions under our proposals helps our mothers to accumulate larger retirement savings accounts.

FIGURE 2.16 **Superannuation balance throughout career (2017 dollars)**



At this point, we can update Figure 2.3 with the value of our combined proposals at retirement, in 2017 dollars. As Figure 2.17 shows, our proposals go some way to reducing the Super Gender Gap for our mothers – but there is still a long way to go.

FIGURE 2.17 Superannuation balance at retirement (2017 dollars)

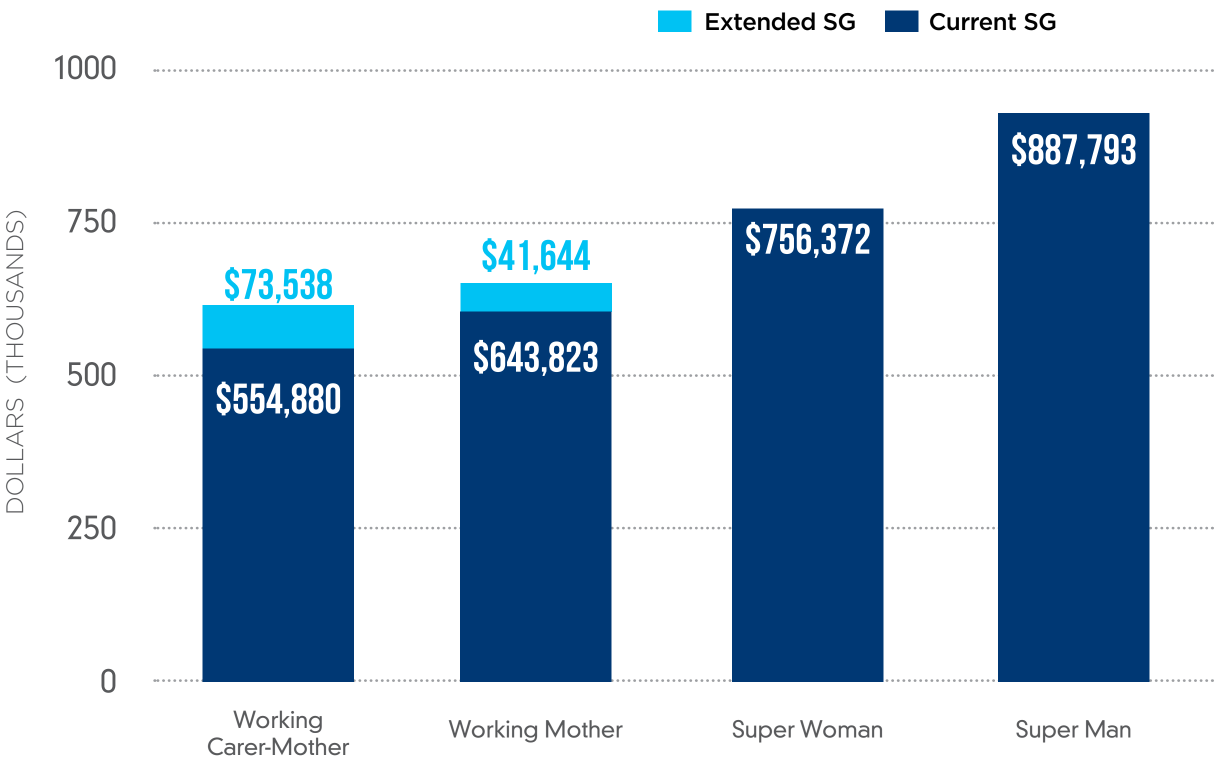


Figure 2.18 breaks down the Super Gender Gap into its main causes. For Super Woman, the Gender Pay Gap results in her saving just 85 per cent of the retirement savings Super Man accumulates. We can call this the Pay-related Super Gender Gap. It isn't so much a flaw of the superannuation system as it is a reflection of gender inequality in earning power. Meanwhile, the gap in retirement savings between our mothers and Super Woman can be called the Work Pattern-related Super Gender Gap. It is attributable to the years of reduced workforce participation due to parenting and caring responsibilities (which are mostly borne by women). Even if there were no gender pay gap causing a pay-related gap, there would be a work pattern-related gap so long as women take on the majority of parenting and caring responsibilities. Our proposals are concerned with extending the SG to incomes which women rely on during their years of parenting and caring and which don't currently attract the SG (rather than increasing incomes which do). Our proposals are therefore targeted towards reducing the Work Pattern-related Super Gender Gap. For our Working Mother, the Work Pattern-related Super Gender Gap is over 12.5 per cent of Super Man's retirement savings, while for our Working Carer-Mother the gap is over 22.5 per cent.

FIGURE 2.18 Breaking down the super gender gap

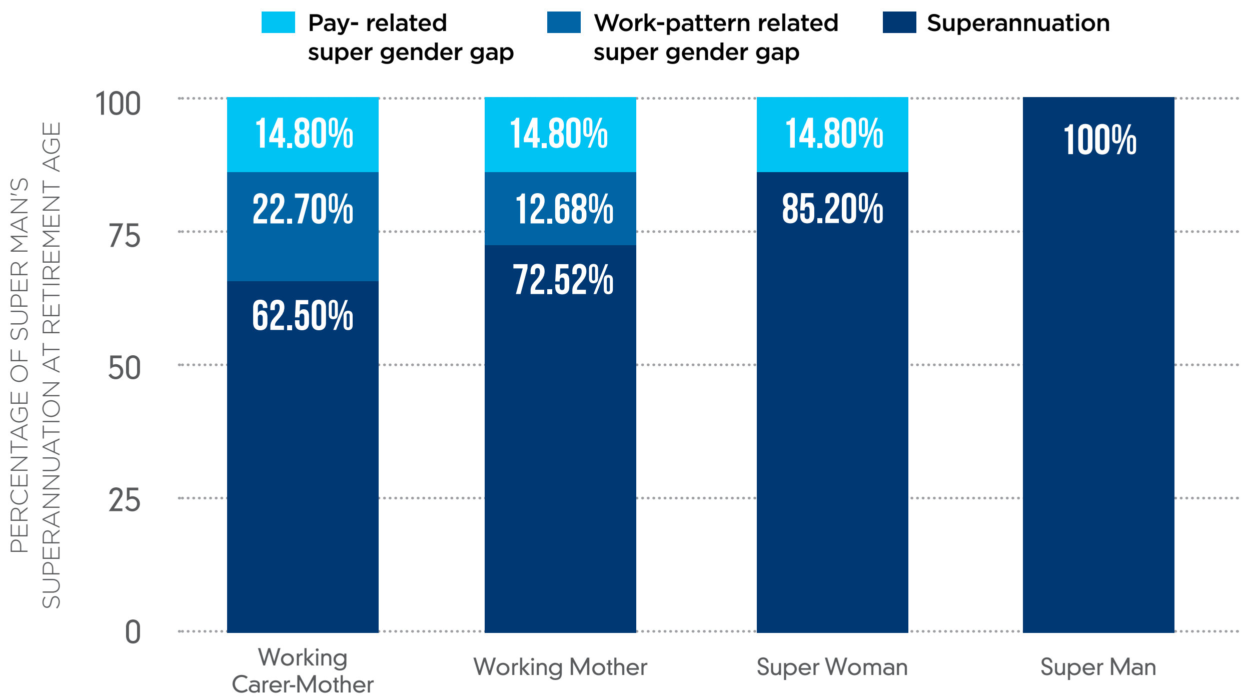


Figure 2.19 and 2.20 show the value of our proposals as a percentage of the Work Pattern-related Super Gender Gap for our Working Mother and Working Carer-Mother, respectively. Our proposals reduce the gap by 37 per cent for our Working Mother and 36.5 per cent for our Working Carer-Mother.

FIGURE 2.19 Closing the work pattern-related super gender gap

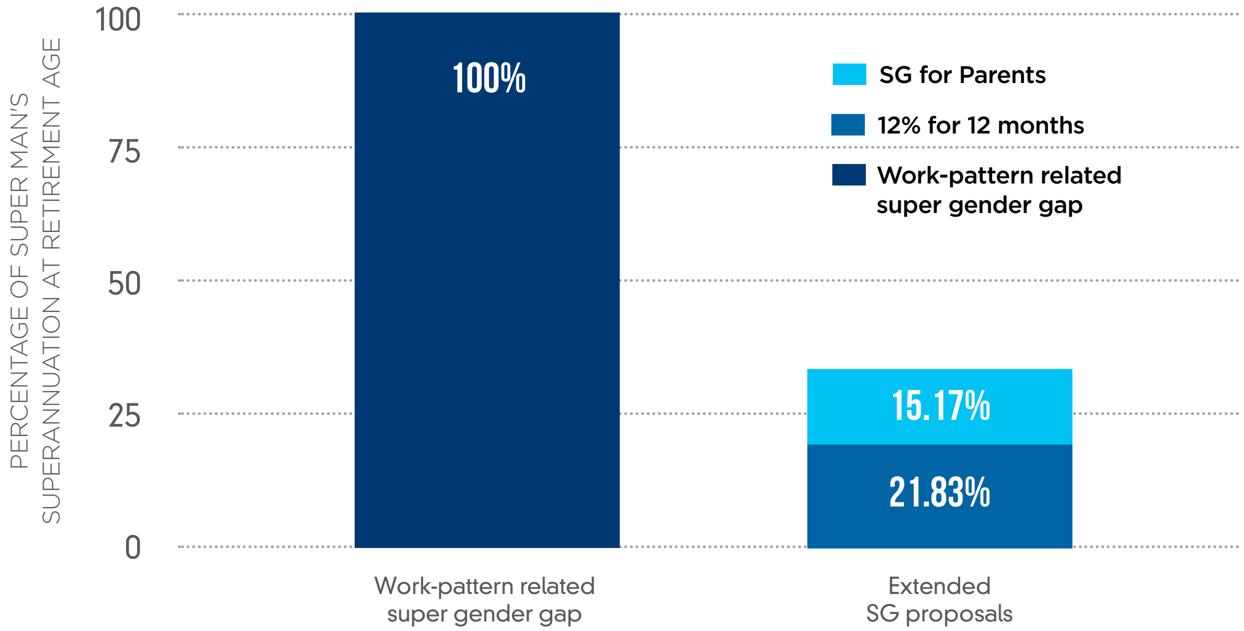
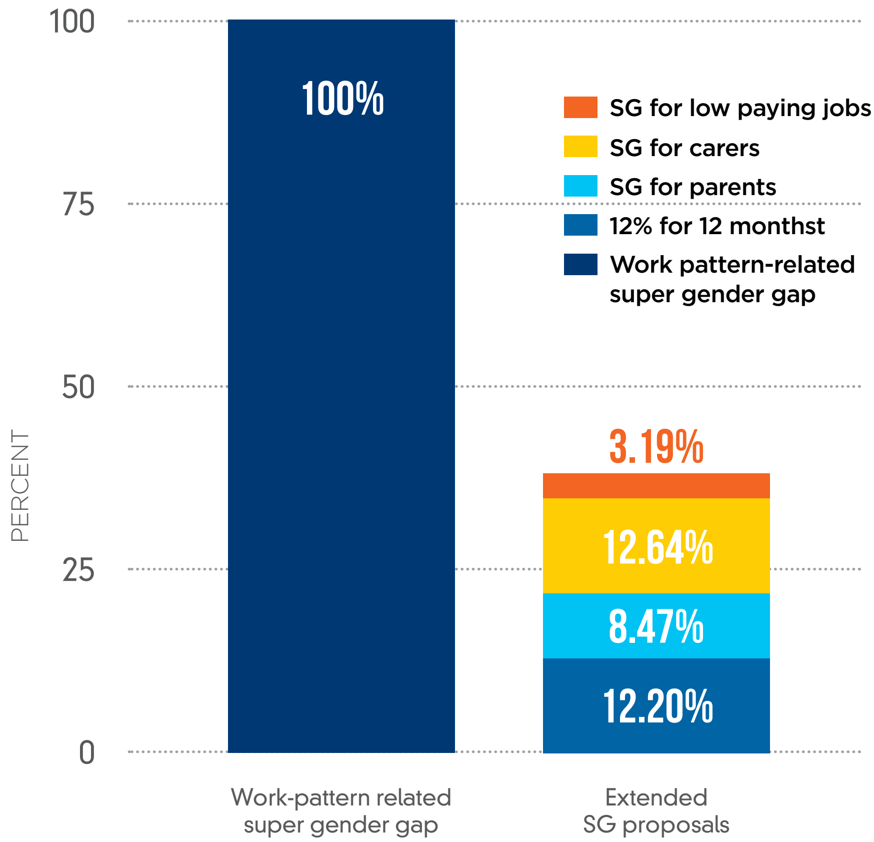
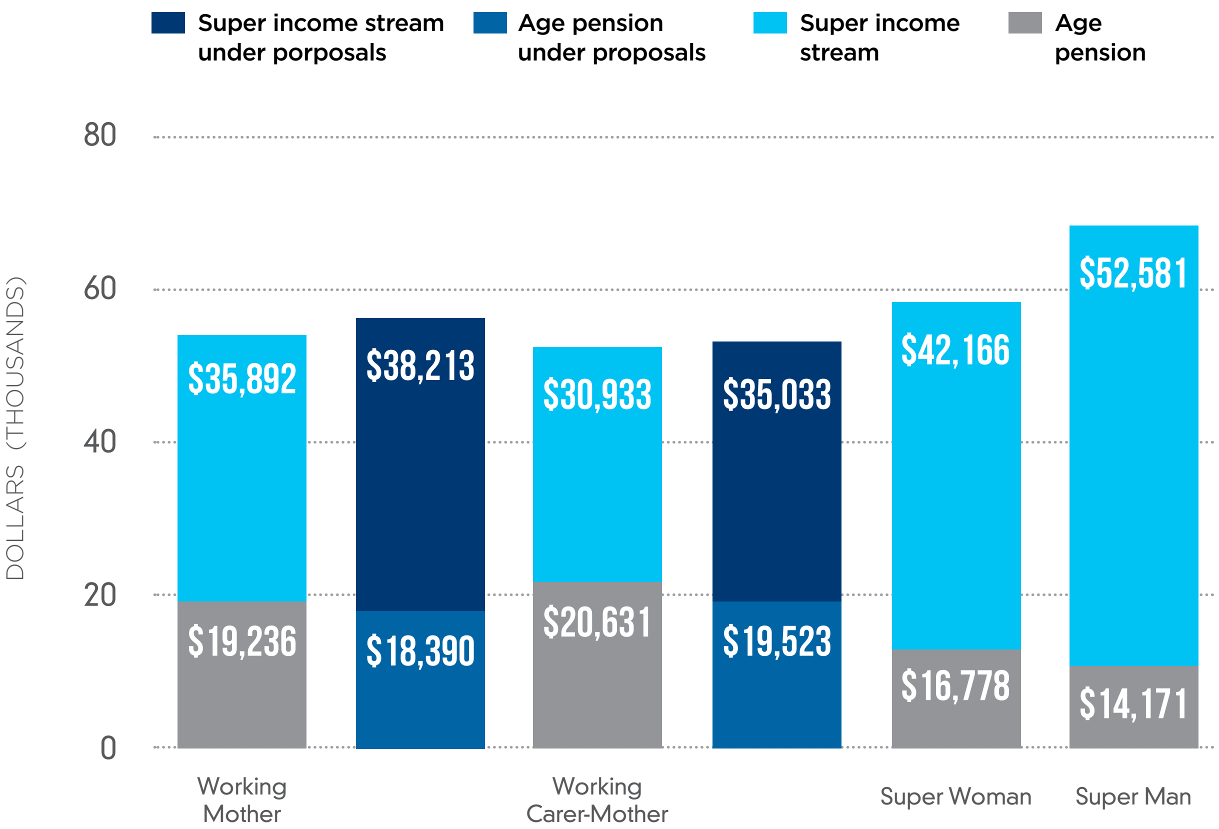


FIGURE 2.20 Closing the work-pattern-related super gender gap



The increased retirement savings will mean a significant boost to living standards for our mothers and carers in retirement. Assuming they convert their superannuation to a pension account at retirement and draw down their savings to zero at life expectancy, they will see an increase of between $2,300 and $4,100 to their annual superannuation income stream (in 2017 dollars). After the reduction in age pension they receive due to their increased retirement savings, our Working Mother and Working Carer-Mother will receive an additional $1,500 and $3,000, respectively, each year in retirement, in today's terms. Figure 2.21 shows the average annual incomes our mothers will receive with and without our proposals, split between the age pension and their superannuation income stream. Compared to the Super benchmarks, extending the SG will see a significant reduction in the Super Gender Gap as it translates to living standards in retirement. For our Working Mother, our proposals will reduce the annual gap in retirement income by 38.5 per cent to Super Woman and 12.5 per cent to Super Man. Our Working Carer-Mother will close the gap to Super Woman by 40.5 per cent and to Super Man by nearly 20 per cent.

FIGURE 2.21
Average age pension and income streams in retirement (2017 dollars)



These proposals present an upfront cost, but long-term saving, for government

The nature of our proposals for extending the SG mean the upfront cost to Government will be a percentage increase in the current cost to Government of the relevant underlying payments. Table 7 sets out the additional cost based on the best available published Commonwealth budget figures. In this section we will ignore *SG for Low-Paying Jobs* because the costs of additional SG contributions are borne by employers.

TABLE 2.7 Estimated upfront cost to government ($m)

	12 per cent for 12 months	SG for parents	SG for carers
Budgeted cost of underlying program for 2017-18	2,074	5,482	8,992
Estimated cost of extended SG proposals in 2017-18	667	658	1,079

The cost of 12 per cent for 12 months is estimated to be $667 million per annum

The published cost of the CPPL since the 2014-15 Budget has included the Government's 'zombie' measure of reducing payments under CPPL to avoid so-called 'double-dipping' with employer-sponsored paid parental leave schemes. Accordingly, we have used the actual cost of the CPPL for 2016-17 from the Department of Human Services Portfolio Additional Estimates Statements 2016-17 as the best available 2017-18 budgeted figure.

Each person who accesses CPPL would, under our proposal, receive SG payments of close to 35 per cent of their total CPPL payments, before contributions tax. The total cost of *12 per cent for 12 months* depends on how much of the additional contributions tax the Government receives is offset by the LISTO. CPPL is available to people who earn less than $150,000 in a year, while the LISTO is only available to those earning $37,000 or less. Due to normal extended periods of parental leave and patterns of returning to work part-time, we have assumed half of CPPL recipients will be eligible for the LISTO in respect of the additional contributions tax they pay under *12 per cent for 12 months*. Therefore, the total annual cost of our proposal in 2017-18 will be around 32 per cent of the total CPPL payments made, or $667 million.

SG for parents and carers

Our estimate of the total cost of *SG for Parents* and *SG for Carers* is simply 12 per cent of the cost of the underlying payments in 2017-18 as estimated in the 2016-17 Budget. We expect that most people relying on parenting and carer payments will be eligible for LISTO,[29] so we have assumed conservatively that the Government will receive no additional contributions tax from these proposals.

There is a long-term return to government from investing in women's superannuation

As discussed throughout this section, the Commonwealth will receive a long-term saving from our proposals in the form of reduced expenditure on the age pension. At each stage in the career of our Working Mother and Working Carer-Mother, our proposals have made a net positive impact on Government spending after taking their reduced reliance on the age pension in retirement into account. Table 8 shows the overall costs and savings of our proposals in today's dollars.

TABLE 2.8

Total government savings from our proposals (2017 dollars)

	Working mother	Working carer-mother
Up-front cost to government	**$13,577**	**$24,246**
Increase to superannuation balance at retirement	**$41,644**	**$73,538**
Average annual increase in superannuation income stream	**$2,322**	**$4,100**
Average annual decrease in age pension	**-$846**	**-$1,108**
Total savings to government on age pension	**$21,154**	**$27,706**
Net government saving	**$7,577**	**$3,450**

The total impact on future Government expenditure on the age pension of our proposals is difficult to estimate. Retirement balances are influenced by work patterns, incomes, investment returns and superannuation policy settings. Eligibility for the age pension is affected by whether or not women are single and/or own their own home, their assets and other income and age pension policy settings. The savings to Government will depend on how many years of their retirement beneficiaries of our proposals spend on a part- age pension, with and without our proposals. Due to our still-maturing superannuation system, there is no clear guide as to how much superannuation our population will accumulate over an entire career of making contributions.

The Treasury's 2015 *Intergenerational Report* projected that in 2055 the proportion of people over age pension age who receive the age pension will be 67 per cent (compared to 70 per cent in 2015). The proportion of those on a part-age pension is projected to increase from 40 per cent in 2015, although the report did not put a number on it. The savings to Government from our proposals are maximised when people are tapering off the full age pension as their superannuation balances increase. Therefore, the more successful our superannuation system is at moving people off the full age pension, the greater return the Government will see on its investments under our proposals.

We have shown that our proposals will boost women's superannuation contributions at the most important stages of their careers, helping them to continue to accumulate superannuation during years of reduced workforce participation. This will give them a far better chance of retiring with reduced reliance on the age pension and providing a return on the Government's investment in extending the SG. For those women who will still rely on a full age pension in retirement, our proposals will make the most relative improvement to their living standards. Accordingly, the Government will be able to tally the return on its investment both in the form of improved standards of living in retirement for mothers and carers and a financial return due to reduced age pension expenditure for an increasing number of women as our superannuation system matures. Our proposals are an important and affordable measure in tackling the Super Gender Gap.

PART 3:
ADDITIONAL REFORM OPTIONS

Part 2 of this report has emphasised reform options aimed specifically at improving the contributions to female superannuation accounts by targeting the key determinants of the Gender Gap in Superannuation. However, other reform options that reduce costs elsewhere in the superannuation system are also worth implementing.

While women are disproportionately impacted by inequities in the superannuation system, so too are other members of the workforce, especially those reliant on multiple lower paying jobs, or those working for employers that consistently neglect their responsibilities and do not pay the full superannuation guarantee. Often, employers neglect to fulfil their superannuation guarantee obligations simply as an oversight. But it is also common for certain employers to act more nefariously and avoid their obligations intentionally. Commonwealth authorities must have the authority to proactively identify and punish employers who deliberately avoid their responsibilities. The following recommendations are aimed at achieving these ends.

RECOMMENDATION 5

Allow for joint-superannuation accounts for couples.

Currently, no two individuals are allowed to consolidate superannuation holdings. For married couples in particular, this can be a burden. Superannuation accounts levy administration fees and charges on their superannuants accounts, and by combing the superannuation fees of couples who desired to do so, these administrative fees and charges could be lowered. For many couples, the idea of sharing income streams is familiar. Nationally, surveys have found that around 21 per cent of Australian couples have shared savings accounts, with around 25 per cent of couples sharing credit cards.[30] When it comes to maintaining shared day-to-day transaction accounts, up to 50 per cent of Australian couples have opted into shared accounts.[31] For many individuals, the concept of combining superannuation accounts, therefore, makes sense in the context of their family's financial circumstances. The benefits of combing superannuation accounts could be significant. Some estimates have claimed that couples might be able to save up to $6,000 in fees and charges over the life of their accounts.[32] Modeling by ANZ has suggested that combined superannuation accounts could also boost savings overall, adding around $18 billion to aggregate super savings by 2044.[33] While joint accounts have traditionally been rejected by the superannuation industry, legilstaion enabling this change may actually enhance the overall superannuation savings pool, benefiting individuals as well as the funds themselves.

However, while joint superannuation accounts are advantageous for certain female superannuants, allowing for such a change is only one small adjustment to a system in need of substantial reform. Combing superannuation accounts would be beneficial for some couples and individuals, but this policy measure is not a solution to the super gender gap. In order to address the super gender gap more thoroughly, addressing the determinants of that gap, such as lower pay in feminised industries and gaps in superannuation contributions during motherhood and caring, as argued in Part 2 of this report, must be prioritised. While joining superannuation accounts will be beneficial for women in partnerships, as in any reform, those most in need should have their concerns prioritised. Single women, and in particular single mothers and female carers, will see no benefit in joint superannuation accounts. This option should be considered as part of a broader reform package improve the financial security of women in retirement, but is not a solution for those most in need of a more equitable superannuation system.

RECOMMENDATION 6

Mandate that all superannuation funds allow automated account consolidation through the MyGov system.

A defining characteristic of Australia's modern economy and labour force patterns is the frequency in which Australian workers change job. The concept of working in a single occupation, or even have a single career over one's working life, is a relic for most Australians, who on average are expected to change careers five times, and work in seventeen different jobs throughout their working lives.[34] Job mobility has continued to increase, and is particularly acute amongst younger workers. While job mobility is not an impediment to the nation's economy – workers should be able to move occupations in search for better ages and conditions, and better utility of their skillsets – it does impede on many workers' superannuation savings.

There are at least 93 superannuation funds operating within Australia,[35] with many employers preferring that their employees choose a superannuation fund that employers prefer. While it is illegal to coerce an employee into changing to a superannuation fund that is not their preference, many employees simply engage in the process that their new employer prefers. The result is that most Australians have numerous superannuation accounts sitting idle, being eroded by fees and charges without accruing any additional contributions. In 2016, the Australian Taxation Office estimated the total amount of unclaimed superannuation – that is, superannuation sitting idle in accounts that their owners no longer are aware of or know how to consolidate – had reached $11.7 billion.[36]

The Commonwealth Government has been proactive in addressing this problem, and should be credited for the implementation of a superannuation consolidation interface in the MyGov website. MyGov is a website through which Australians can access a range of Commonwealth Government services, such as entitlements, and complete tasks, such as a tax return. Through this interface, users can search for lost superannuation that is associated with their tax file number. This interface is highly efficient, simple to use, and means that citizens concerned about their lost super have a simple, accessible way of addressing the issue. However, not every superannuation fund is integrated with the system fully. Occasionally, users are required to complete additional physical paperwork to complete the consolidation process, instead of the process simply being automated, like it is with many of the largest superannuation funds. The Commonwealth should mandate that all superannuation funds operating within Australia fully integrate with the MyGov superannuation account consolidation system, applying penalties for funds that do not comply. This will ensure that all Australians can simply and quickly identify and consolidate their lost superannuation, saving them unnecessary fees, and providing them with greater resources into retirement.

RECOMMENDATION 7

The Commonwealth should introduce a Superannuation Gender Parity Target, and resource Government bodies such as the Australian Bureau of Statistics and Australian Taxation Office to adequately monitor progress.

In order to overcome the structural gender inequity in Australian superannuation, the Commonwealth Government must introduce a Superannuation Gender Parity Target. A Super Gender Parity Target consist of a future date that the Commonwealth aims to achieve gender parity in superannuation holdings.

Only by establishing a firm target date to overcome this inequity will progress be able to be adequately monitored, with policies adjusted if the progress is not sufficient to meet the target.

Targets are a powerful way in which the Government can signal its intention to achieve a social and economic outcome, and provides more certainty over of superannuation policy for the industry and for the public. A Superannuation Gender Parity Target of 2040 would enable the Commonwealth to implement a suite of measures by 2020 and introduce annual, five-yearly, and decadal targets from 2020 to 2040. Introducing and monitoring progress on such a target would require detailed data analysis, and the Australian Bureau of Statistics and Australian Taxation Office should be resourced accordingly.

RECOMMENDATION 8

The Commonwealth Government must be more proactive in overseeing and enforcing the Superannuation Guarantee, with stronger penalties for repeat violators.

It is illegal for employers to neglect their responsibility to pay the Superannuation Guarantee to their employees. But still, there are cases in which employees do not fulfill their obligations. Data from 2006, although dated, suggested that less than 50 per cent of Australian employers were *fully* compliant with their superannuation obligations. In that survey, 12 per cent of employers surveyed suggested they did not pay any superannuation at all.[37] This is likely to be prevalent with cash in hand employment, which common in labouring or kitchen hand work. While technological advances since 2006 mean it is easier for employers to comply with their obligations, it is clear that employers do not unanimously comply. Currently, the onus is on employees to report when they are not receiving superannuation from their employer.

This is insufficient, however, as there are ample reasons why an employee would feel uncomfortable in confronting their employer about not receiving their entitlements. A 2014 survey also demonstrated that only 57 per cent of the Australian public were aware of the current rate of compulsory employer superannuation.[38] This means that many Australian workers will simply not be aware when their employer is not contributing the required amount of superannuation into their accounts. Instead of employees being solely responsible for reporting their employers' failure to contribute the required superannuation to their account, the Commonwealth Government should proactively identify violating employers. Similar to tax audits, the Australian Taxation Office should be empowered to audit employers to ensure they are applying the full superannuation guarantee. This will discourage the small number of employers who intentionally avoid their superannuation obligations to reconsider. Employers who do continue to violate their responsibilities, however, should be subject to stronger penalties than are currently in force. While employers found to be consistently avoiding their superannuation obligations are currently subject to fines and a removal of tax concessions, repeat offenders should be subject to reporting to credit agencies, with their digressions made known to the public. These strong measures would act as a deterrent for the small number of employers willing to subvert the system and limit their employees' potential to adequately save for their retirement.

CONCLUSION

This report has outlined proposals will boost women's superannuation contributions at the most important stages of their careers, helping them to continue to accumulate superannuation during years of reduced workforce participation. This will give them a far better chance of retiring with reduced reliance on the age pension and providing a return on the Government's investment in extending the SG.

For those women who will still rely on a full age pension in retirement, our proposals will make the most relative improvement to their living standards. Accordingly, the government will be able to tally the return on its investment both in the form of improved standards of living in retirement for mothers and carers and a financial return due to reduced age pension expenditure for an increasing number of women as our superannuation system matures. These proposals are an important and affordable measure in tackling the Super Gender Gap. In essence, this report argues that parenting and caring should be seen as legitimate forms of employment, with the superannuation guarantee applied accordingly. Additionally, the Commonwealth must prioritise closing the super gender gap by introducing a Superannuation Gender Parity Target, and proactively monitor progress in this essential area of economic and social policy. Superannuation is at the heart of Australia's economic framework, but it is simply not providing for nearly half the population. The reform options outlined in this report provide a path forward to gender parity in superannuation holdings, helping to secure the economic future of Australian women.

APPENDIX

Modelling assumptions and methodology

EARNINGS

We have plotted an earnings trajectory throughout the careers of our hypothetical Working Mother, Working Carer-Mother and Super benchmarks based on the latest ABS Weekly Total Cash Earnings data (ABS 6306.0 dated May 2016) as follows:

- To estimate the median earnings for each ABS age category, employment category by sex we have applied a percentage to the average earnings for each category in ABS Data Cube 63060DO001 Table 2 after deriving the median to average ratio from ABS Data Cube 63060DO003 Table 2, rounded to:
- for 21 to 34 years: median estimate = 90 per cent of the average;
- for 35 to 44 years: median estimate = 85 per cent of the average;
- for 45 to 54 years: median estimate = 85 per cent of the average; and
- for 55 years and over: median estimate = 85 per cent of the average.
- For the age category 21 to 34 years, we have adjusted the earnings in each year to mimic early career progression, while maintaining the same average over the whole category (prior to applying the median to average percentage and indexing).
- Finally, we have indexed earnings annually from 2016 in line with our Wages growth assumption.

Whenever we have used the term average in relation to earnings in this report (but not in relation to our hypothetical persons), we are referring to the median, estimated using the methodology above but without adjusting the earnings for the age category 21 to 34. (For example in Figure 2.6, the full-time working women are earning 90 per cent of the average weekly cash earnings for women aged 21 to 34).

Government payments, thresholds and caps

We have indexed government payments, thresholds and caps according to the following table:

Payment, threshold, cap.	Indexed in line with (assumed):	Annual indexing rate applied:
Age pension	CPI	2.5%
Assets test thresholds	CPI	2.5%
Carer Payment	CPI	2.5%
CPPL (tied to minimum wage)	WPI	3%
Income test thresholds (including deeming rate thresholds)	CPI	2.5%
Low Income Superannuation Tax Offset cap	CPI	2.5%
Parenting Payment	CPI	2.5%

In order to simplify comparisons:

- for age pension eligibility and tapering, we have assumed our hypothetical persons do not own own their own home; and
- for all payments, we have assumed our hypothetical persons are single.

We have assumed no change to the deeming rates for the purposes of the age pension income test.

INFLATION AND DISCOUNTING FUTURE VALUES

We have assumed annual inflation of 2.5 per cent, based on the ten-year average December to December annual growth in the Consumer Price Index (ABS 6401.0). We have used this figure to discount all future values to 2017 dollars.

INVESTMENT RETURNS

We have assumed annual investment returns of 6 per cent net of expenses and taxes, based on the Chant West 15 year average return for balanced funds.[39]

LIFE EXPECTANCY

We have assumed a life expectancy for 21 year olds in 2017 of 93 for women and 91 for men, based on Treasury projections in the 2015 Intergenerational Report: Australia in 2055. In our model this means women will take their last superannuation income payment on their 92nd birthday, men on their 90th.

RETIREMENT AGE

We have assumed the currently legislated retirement age of 67 from 2023 onwards will apply to all persons in our model.

SUPERANNUATION CONTRIBUTIONS AND INCOME STREAMS

We have assumed contributions are deposited into superannuation accounts at the end of each year, and income streams are withdrawn from the superannuation account at the beginning of each year. Superannuation balances at retirement are converted into a pension account that pays an equal nominal amount at the beginning of year during 25 years of retirement for women and 23 years of retirement for men.

WAGES GROWTH

We have assumed annual growth in wages (including the minimum wage, which CPPL payments are tied to) of 3 per cent, based on the average December to December annual growth over the last ten years in the Wage Price Index (ABS 6345.0).

TERMINOLOGY

'the Government' refers to The Commonwealth Government.

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8. Based on the scheduled 12 per cent SG rate from 2025 onwards, a net annual return on superannuation of 6 per cent, a discount rate equal to the approximate 10-year average annual CPI growth of 2.5 per cent and a retirement age of 67.
9. According to ABS *Pregnancy and Employment Transitions*, November 2011, 84 per cent of mothers who started or returned to work after giving birth worked part-time.
10. Made up of nearly $12,000 due to 27 weeks out of the workforce for parental leave and around $36,500 due to three years working part-time, both compared to full-time work.
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13. We have projected this figure using the 2012-13 published figures (DSS *Paid Parental Leave Scheme Review Report* June 2014), increased in line with population growth between the beginning of 2012-13 and 2016-17 (ABS 3101.0) and assuming an increase in claimants due to the removal of the Baby Bonus.
14. The DSS *Paid Parental Leave Scheme Review Report* June 2014 found that over 99 per cent of recipients were women and around 98 per cent of recipients received the payment for the full 18 weeks (at p 28).
15. Based on the median age of CPPL recipients of 32, according to the DSS *Paid Parental Leave Scheme Review Report* June 2014.
16. Net of contributions tax, assuming the parent does not receive the Low Income Superannuation Tax Offset and ignoring any income tax paid on CPPL payments.
17. Because our Working Carer-Mother has lower retirement savings due to her years of caring, her pension rate reduces over the years differently to our Working Mother, which affects the level of government savings on the age pension.
18. Department of Social Services, *Demographics* September 2016 (https://data.gov.au/dataset/dss-payment-demographic-data/resource/289308f1-23e8-48a6-9df9-14f96c591abf)
19. ibid
20. In line with our adjusted average weekly earnings, our mothers will earn higher part-time wages each year, seeing their Parenting Payment drop from 43 per cent of the full payment in 2026 to 37 per cent in 2028.
21. Depending on whether the parent receives the LISTO.
22. ABS *Pregnancy and Employment Transitions*, November 2011
23. Due to the interrupted pattern of work during the year of parental leave, our mothers will receive on average 54 per cent of the full Parenting Payment Single in 2029. In the following years, in line with our adjusted average weekly earnings, our mothers will earn higher part-time wages each year, seeing their Parenting Payment drop from 32 per cent of the full payment in 2030 to 28 per cent in 2033.
24. At paragraph 5.56
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