

Thank you for the opportunity to submit to The Treasury Retirement Income Review (the Review). This submission is made on behalf of the Financial Equity Alliance (FEA).¹

The Financial Equity Alliance (FEA) is a coalition of corporate, government and not-for-profit sector leaders working together to create equitable financial outcomes for all Australians.

Australia's superannuation system is modelled on inequity. The FEA's immediate priority is to address this, improving financial outcomes for Australian women:

- Women retire with 47% less super than men
- Women live five years longer than men on average
- 40% of single retired women are living in poverty
- The fastest-growing cohort of homeless people in Australia is single older women

This submission responds to three of the consultation questions in the context of pillar two, superannuation, of the Australian retirement income system.

13. What should the Panel consider when assessing the equity of the retirement income system?

The retirement income system and superannuation specifically, cannot be considered in a void. The system sits within existing social constructs, mores, understandings and expectations. This is particularly the case when it comes to expectations around gender roles and income.

Retirement income is based on peoples' employment experiences, which is in turn based on socio-economic status, gender and age. That is people from more privileged backgrounds are likely to have higher incomes, greater access to resources, greater understanding of future financial requirements and the means to make provision. People from lower socio-economic backgrounds are more likely to be focused on ensuring they are able to survive the here and now, leaving limited if any resources for future focused activities. Younger people are likely to be less focused on the future as it is often considered too far away to warrant thinking about. Older people, as they close in on retirement age, are more interested in the financial implications of retirement due to its imminence but have limited opportunity (as compared to younger people) to address any shortcomings in their retirement planning.

These experiences are compounded by gender roles and the existing gendered understanding and expectations around men's and women's work in our society. This is a societal issue. Until society values work performed by those in the community, government and private sectors equally, and also values other forms of contribution (whether that be for child rearing, caring or other activities afforded some value by society) the retirement income system will remain unequitable.

The structure of Australia's superannuation system is salary based. The longer you are in employment and the more you earn, the greater the amount of superannuation you will

¹ www.financialequityalliance.org

have on retirement. The structure of the superannuation system is inherently problematic, being based on an increasingly outdated model of employment and family. Taken in the context of the above, it rewards those in employment afforded financial value by society and effectively penalises those engaging in work that is financially undervalued by society.

Therefore when assessing the retirement income system it is essential that the Review consider the underlying causes and patterns of income inequity, especially as it relates to gender, alongside the structure of the system itself.

14. What factors and information should the Panel consider when examining whether the retirement income system is delivering fair outcomes in retirement? What evidence is available to assess whether the current settings of the retirement income system support fair outcomes in retirement for individuals with different characteristics and/or in different circumstances (eg women, renters, etc)?

When examining whether the retirement income system is delivering fair outcomes in retirement, the Panel should consider the following:

Drivers of income inequity

As noted in response to question 13, given superannuation contributions are a direct function of salary, any factor that creates an imbalance or inequity in salary must be considered. These include:

- The rise of non-standard work (standard work being full time ongoing employment) such as workforce casualisation, zero hours contracts, the gig economy, labour hire, self-employment, contracting and subcontracting.
- The gender pay gap.
- Structural inequalities as they relate to retirement income (eg housing affordability, access to and amount of government benefits and other safety nets for vulnerable people.
- Time out of the workforce to undertake caring responsibilities.²

There are four initiatives related to superannuation that would start to shift these inequities. They are:

1. Incentivising early contributions.
2. Removing the \$450 threshold for payment of the superannuation guarantee.
3. Introducing stronger co-contribution practices for younger employees.
4. Providing additional tax concessions for those on lower incomes during their accumulation and retirement phases.

In addition, increasing employer contributions will also assist. Employer contributions are slated to begin increasing in 2021, reaching 12% in July 2025. This increase needs to be

² Hetherington D and Smith W, *Not So Super, For Women: Superannuation and Women's Retirement Outcomes*, July 2017, pp 11-13.

expedited to start addressing the existing inequities and limit the development of further, as yet unidentified, inequities in the system.

Consideration needs to be given to developing a solution to ensure that those with the most need are not the most disadvantaged in terms of retirement income. For instance there could be a cap on super for the highest income levels or a creation of a superannuation scheme targeted for those who are in most need such as low income households.

Impact of gender

The *Australian Government response to the Senate Economic References Committee Report: 'A husband is not a retirement plan' – Achieving economic security for women in retirement* lists achievements that are intended to improve the economic security of women in retirement. These include increasing rates of women's employment, reduction in the gender pay gap, progress on targets for women on boards and increasing investment in childcare support.³ These initiatives fail to tackle the underlying inequities within our social system as they are premised on the status quo.

To truly address the inequities that exist as a result of the super guarantee, additional work must be undertaken to tackle the underlying drivers. The underlying drivers being entrenched social understandings and expectations around gender roles in society. In other words, shifting expectations that men's and women's roles, as breadwinners and carers respectively, are immutable.

Within the context of the workplace, greater flexibility for all employees is vital. Although many workplaces have flexible workplace policies, their utilisation is patchy. Men are less likely to request flexible work arrangements, are more likely to have that request refused and are more likely to suffer career penalties than women.⁴ This attitude disincentivises men from seeking flexible arrangements, reinforcing social expectations that caring is women's work. Women remain out of the workforce or work reduced hours for longer periods leading to a reduction in their earning capacity which has a flow on effect to their superannuation balances.

There is extensive research on the inequities of the current superannuation system and its impact on society, particularly the increase in older women living in poverty. Reports for consideration by the Review include:

- 2016 senate report⁵
- Sex discrimination commissioner⁶
- Workplace gender equality agency⁷

³ *Australian Government response to the Senate Economic References Committee Report: 'A husband is not a retirement plan' – Achieving economic security for women in retirement*, August 2018, pp 4-5.

⁴ Grattan Institute, *Female Workforce Participation*, Project Preview, October 2019

⁵ Senate Economics References Committee, *A husband is not a retirement plan' Achieving economic security for women in retirement*, The Australian Senate: Economics References Committee, 2016

⁶ Broderick, E., Goldie, C. & Rosenman, E, *Gender Equality Blueprint*, Australian Human Rights Commission, 2010

⁷ Workplace Gender Equity Agency, *Gender equity insights 2017: inside Australia's gender pay gap*, 2017

- KPMG⁸
- Per Capita⁹
- Not so super for women¹⁰
- Age discrimination commission¹¹
- HILDA Survey Reports¹²

16. To what extent does the retirement income system compensate for, or exacerbate, inequities experienced during working life?

The retirement income system exists within our current social structure. Given the inequities within society, particularly as they relate to salary the retirement income system can only exacerbate these inequities. That is, as women are paid less on average throughout their working lives, they will have less superannuation in retirement. As women have greater life expectancy than men, this also means that not only do women retire with less superannuation than men, they must live off this lesser amount for a longer period of time. This inequity underpins the structure of the superannuation system which is premised on an individual in full-time ongoing long-term employment supported by a person who is not working in paid employment undertaking caring and support responsibilities.

To address this inequity and limit the manner in which the retirement income system exacerbates people's experiences during working life, the system must recognise the inherent structural shift required to address these issues. The initiatives noted in response to question 14 will limit the degree to which the retirement income system exacerbates inequities, however they cannot address these inequities in their entirety.

Emphasis needs to be placed on shifting social understandings on the value of other roles in the community including taking time out of the paid workforce for all people. Child rearing and caring roles are not inherently gendered, it is our social structure that makes them so. As such we can unmake these expectations. Whether this is through incentives to reduce the gender pay gap or support men to take time out of the workforce, these can only but help to provide greater social equity which in turn will make the retirement income system more equitable.

It is suggested that the following initiatives will assist in overcoming the inequities exacerbated by the retirement income system:

- Continue initiatives which seek to ensure equal pay for equal work

⁸ KPMG, *She's Price(d)less: the economics of the gender pay gap*, KPMG Australia, 2016

⁹ Smith, W. & Hetherington, D. *The Adequacy of the Age Pension in Australia: An assessment of pensioner living standards*, Per Capita Australia, Sydney, 2016

¹⁰ Hetherington D and Smith W, *Not So Super, For Women: Superannuation and Women's Retirement Outcomes*, July 2017

¹¹ Australian Human Rights Commission, *Older Women's Risk of Homelessness: Background Paper*, April 2019

¹² Including: Coates, B, *What's the best way to close the gender gap in retirement incomes?*, Grattan Institute, 2018; Hodgson, H., Tapper, A., and Nguyen, H, *Inequality in later life: The superannuation effect*, Research Report no. 11/18, Bankwest Curtin Economics Centre, Perth, 2018; Sila, U., and Dugain, V, *Income, wealth and earnings inequality in Australia: Evidence from the HILDA Survey*, OECD Economics Department Working Papers, No. 1538, 2019.

- Incentivise early retirement income savings for people in the 20's. Examples of this may include paying younger women a higher percentage of superannuation or a stronger government co-contribution scheme.
- Enforcing KPIs around flexible work arrangements that are balanced between genders. Requiring men to take time out of the workforce rather than relying solely on women.
- Shifting the basis on which superannuation is paid in recognition of changes to employment types and availability. Removal of a minimum income for the payment of super and requiring the payment of superannuation for a greater range of work types (including the removal of the \$450 threshold).