Victorian Government Submission to the

Commonwealth Government's
Review of the Retirement Income System

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VICTORIA State Government | Premier and Cabinet

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Executive Summary

The Victorian Government welcomes the opportunity to provide input to this Review announced by the Commonwealth Treasurer in late 2019.

The Victorian Government notes the Review's Terms of Reference and questions outlined in the Consultation Paper released as part of the Review. This submission focuses on some but not all the questions in the Consultation Paper. It will primarily focus on the Superannuation Guarantee system, described as one of the three pillars of the retirement income, alongside the Age Pension and voluntary savings.

The Commonwealth Review Panel has identified four principles it proposes to use to assess the performance of Australia's retirement income system. They are adequacy, equity, sustainability and cohesion. The Victorian Government considers that the Superannuation Guarantee system contains some structural impediments and assumptions that do not produce equitable or adequate outcomes for certain groups of Australians.

Australia has an ageing population, is seeking to encourage older workers to stay in the workforce and is also facing increasing non-traditional patterns of work that leave some with inadequate retirement superannuation balances. Affected groups include female workers, carers and those that work in insecure work including some gig economy workers. As a result, the current retirement income system does not support these Australians to achieve an acceptable standard of living in retirement.

It is important also, not to forget that the Superannuation Guarantee system has only been in place a relatively short period, since 1992. There remain a number of workers in the workforce who have worked a considerable part of their working lives without this benefit and it will be some years before there is a full cohort of Australian workers whose entire working lives and working incomes fall under the auspices of the scheme. Even after that event, there will be many workers who are unable to accrue sufficient balances of superannuation to do more than provide a small portion of income towards the total of their retirement years.

In addition, a growing problem of 'wage theft' impacts significantly on superannuation balances. Various estimates that up to a third of all Australian workers are not being paid their full superannuation entitlements, have been put forward.[1] Given the significant direct and indirect impacts of wage theft on victims and the economy more broadly, the Victorian Government is introducing criminal wage theft offences to hold employers who deliberately withhold entitlements to account and simplifying the process for workers to recover entitlements owed to them. In addition, recommendations from this submission, such as a requirement to pay superannuation at the same time as wages, may go a significant way to stamp out non-payment or underpayment of superannuation.

In light of all these factors, superannuation supports to assist workers are crucial, but adequate pension benefits, and other savings incentives that do not penalise our senior citizens are also crucial and will remain so for the foreseeable working future.

1 Background to Australia's Aged Pension arrangements

1. As set out in the Consultation Paper released as part of the Review and the Terms of Reference for the Review, Australia's retirement income policy is based on three pillars:

   a. the Age Pension;

   b. mandatory Superannuation Guarantee (SG) system; and

   c. private savings.

2. Various commentators[2] have noted that when the Age Pension was first established at the Commonwealth level in 1909, eligibility ages and life expectancy were vastly different. The Actuaries Institute points out:

   - In 1909, the male pension eligibility age was 65 years but average male life expectancy at birth was 55 years and average life expectancy at Age Pension eligibility age was 76 years. For females the corresponding figures were 59 and 78 years respectively.

   - Australians today can apply for the Age Pension aged between 65 and 67 years, dependent on when they were born. By 2023, the eligibility age will be 67 years for all people. However, male life expectancy at birth is now 80 years and average life expectancy at Age Pension eligibility age is about 84 years. For females, the corresponding figures are about 84 life expectancy and 87 average life expectancy at Age Pension eligibility age.

3. The Actuaries Institute concludes that the average retirement period funded by the Age Pension is increased from about 12 years in 1909 to close to 20 years now. The figures demonstrate the importance of the SG system in providing a broadly sustainable retirement income. However, whilst this submission focuses mostly on structural impediments within the SG system, it is important as already noted, to identify that many older Australians will not be able to accumulate adequate superannuation balances and that the concept of universal superannuation is not necessarily applicable to the circumstances of every Australian.

4. There are a number of longer-term trends to consider when determining relevant retirement incomes policy – population ageing, the maturing of the SG system, changing patterns of home ownership and work, a growing dispersion in wealth and health, changing longevity, and growing private costs for health and aged care.[3]

5. Whilst not addressed in detail in this submission, the Victorian Government encourages the Commonwealth to also review factors or frameworks in the 'three pillars' that can have unintended consequences for older Australians. For example, some existing measures such as deeming of interest rates on pensioner savings (for some years significantly above what can be achieved in bank accounts) penalises

prudent financial management and savings ‘for a rainy day’ or unexpected lump sum expenses. This is important particularly given the need to have adequate resources to cover increasing health costs in older age for a longer period given life expectancies.

6. Requirements to withdraw certain annual superannuation amounts can have similar unintended effects: the overall retirement system objectives need to provide not just income for day to day living expenses but adequate reserves for contingencies.

7. The Actuaries Institute also notes that “general uncertainty about financial security in retirement causes many retirees to be too frugal and risk averse with a consequential lower living standard than could be achieved otherwise. These uncertainties are aggravated by ongoing changes to the three key elements of the system: Age Pension, superannuation and aged care.”[4]

8. As noted, in light of all these factors, superannuation supports to assist workers are crucial, but superannuation is only one pillar. Adequate pension benefits, and other savings incentives that do not penalise our senior citizens are also crucial pillars to be upheld.

2 Background to Australia's Superannuation Guarantee system

2.1 SG Lifetime

9. The mandatory SG system was introduced in 1992 by the Keating Labor Government and was established by the *Superannuation Guarantee (Administration) Act 1992* (Cth) (SGA Act) and the *Superannuation Guarantee Charge Act 1992* (Cth). The primary objective of superannuation is to 'provide income in retirement to substitute or supplement the Age Pension'. The SG system requires employers to pay a prescribed level of SG contributions on behalf of their eligible employees. The SG prescribed level and timetable is set out in section 19(2) of the (SGA Act) (see Appendix 1). Presently the SG rate is 9.5 per cent of an employee's ordinary time earnings and is set to incrementally rise to 12 per cent from the year commencing on or after 1 July 2025.[5] The next rise is to occur in July 2021 (to 10 per cent),[6] seven years later than originally planned.[7]

10. As at 30 June 2018, the Australian Bureau of Statistics (ABS) estimated that 14 million persons aged 15 and over were covered by superannuation arrangements.[8] The total pool of superannuation funds in Australia is over $2 trillion and is forecast to grow to around $9.5 trillion by 2035.[9]

11. Employers must calculate and report the SG contribution amount on a payslip for each pay period, but only have to transfer the contributions once a quarter.[10] Some superannuation funds, awards and contracts require superannuation to be paid more regularly, for example, monthly. If an employer misses a payment by the quarterly due dates, they must pay the SG charge and lodge an SG charge statement with the ATO.[11]

12. In broad terms, all employees are entitled to SG contributions unless they:

- earn less than $450 per calendar month; or
- are aged under 18 years of age and do not work more than 30 hours a week; or
- perform work of a domestic or private nature for not more than 30 hours a week for a non-business employer.[12]

13. In general, superannuation savings can be accessed from age 60 tax-free.[13]

14. Those who are self-employed (i.e. operate as a sole trader or a partner in a partnership) or independent contractors, do not have to make superannuation contributions to a fund for themselves. However, they may wish to consider using superannuation as a vehicle for retirement. Superannuation contributions are tax-deductible for those who are self-employed.[14]

15. There are different types of superannuation fund. Defined benefit super fund was the traditional form of super fund, but today most Australians are members of an accumulation super fund. Defined benefit funds are mostly for public sector and corporate employees and many are now closed to new members.

16. The key difference between the two types of funds is that the investment risk shifts from the employers to employees. In a defined benefit super fund, retirement benefits are typically calculated by pre-retirement average salary and number of years of service. Market performance generally has limited effect on the balance. By contrast, in an accumulation super fund, retirement benefits are based on the money put in by the employee and employer and the balance may decline depending on market performance.[15]

17. Other types of superannuation funds include large funds, regulated by the Australian Prudential Regulation Authority (APRA) and self-managed superannuation funds (SMSF), regulated by the Australian Taxation Office (ATO). Under APRA-regulated funds, several types of funds exist including retail, industry and corporate.

18. Victoria's public sector super scheme, Emergency Services & State Super (ESSSuper), is not APRA regulated, but is an Exempt Public Sector Superannuation Scheme to which a different form of regulation applies. All such schemes are covered by a Heads of Government Agreement under which these schemes have agreed to comply with the principles of the Commonwealth's superannuation legislation. In return, the schemes are provided with equivalent tax concessions to regulated schemes.

19. There is an ongoing policy debate about the performance of industry funds versus retail funds. There is evidence that shows the industry funds are generally better performing, return profits to members (rather than shareholders) and charge lower fees for the administration of worker's funds, which can lead to superannuation balances for women and men that are higher overall compared to the other types of funds. Industry funds are now open to the public and no longer restricted to their industry.[16]

20. An employee can split their employer super contributions with their spouse. In such cases, they transfer or roll over a portion of the contributions they made to their super account, to their spouse's super account. Contribution splitting can only be done after the end of the financial year.[17] An employee can also make super contributions to a complying super fund on behalf of their spouse who is earning a low income or not working. In such cases, they can claim a tax offset of up to $540 per year.[18] These arrangements could be promoted to help achieve more equitable superannuation benefits for each partner.

2.2 Compliance and enforcement of SG obligations

21. An employee has two options to pursue employer non-compliance with SG obligations:

- Lodge a complaint with the Fair Work Ombudsman (FWO) who may pursue the employer for the unpaid SG contributions. This option is available if the employee has extra superannuation terms in their award or agreement, on top of the SG.[19]

- Alternatively, lodge an enquiry with the Australian Tax Office (ATO), in which case the ATO may investigate the employer and issue a default assessment for the employer to pay an SG charge.[20]

22. On 3 June 2015, the Australian National Audit Office (ANAO) published its audit report on the ATO and noted that:

- the ATO's internal risk assessment indicates that 11 to 20 per cent of employers were not meeting their SG obligations and that non-compliance is endemic; and

- employer non-compliance was likely to be widespread in small businesses and in businesses where many cash transactions and contracting arrangements occur. These are often the industries where employment is the most transient, salaries are more likely to be low, and the workforce young, employed on a part-time or casual basis, or from migrant backgrounds and with low levels of skills and literacy.[21]

23. The ANAO will likely conduct a follow-up audit of the ATO to examine the effectiveness of the ATO's activities in addressing SG non-compliance. This audit may occur in the 2019-20 financial year.[22]

24. The ATO has undertaken several measures to address non-compliance with SG, including for example:

- establishing the Superannuation Guarantee Taskforce to improve the ATO's visibility and address the key barriers to compliance; and

- using data from Single Touch Payroll reporting arrangements to identify in relative real time employers that are late or non-payers of SG contributions and issuing notices to such employers. The Single Touch Payroll is the new way employers report employees' payroll information (i.e. salaries and wages, pay as you go withholding and superannuation) to the ATO.[23]

25. Further, in a 2017 report to the Minister for Revenue and Financial Services entitled *Superannuation Guarantee Non-Compliance*, the ATO committed to rebalance the focus of its SG compliance program to increase by ten per cent. This means the proportion of its ATO-initiated SG case work will increase to 40 per cent.[24] As a result of its compliance activities, the ATO collected $532 million in outstanding SG contributions and distributed it to 471,000 individuals during 2018-19.[25]

26. As noted, employer non-compliance with SG obligations is prevalent in the cash and hidden economy. In such cases, employers can deliberately hide income to avoid paying superannuation or tax by not recording or reporting all their cash income or electronic transactions. This disadvantages the community, taxpayers and honest businesses by not competing fairly.

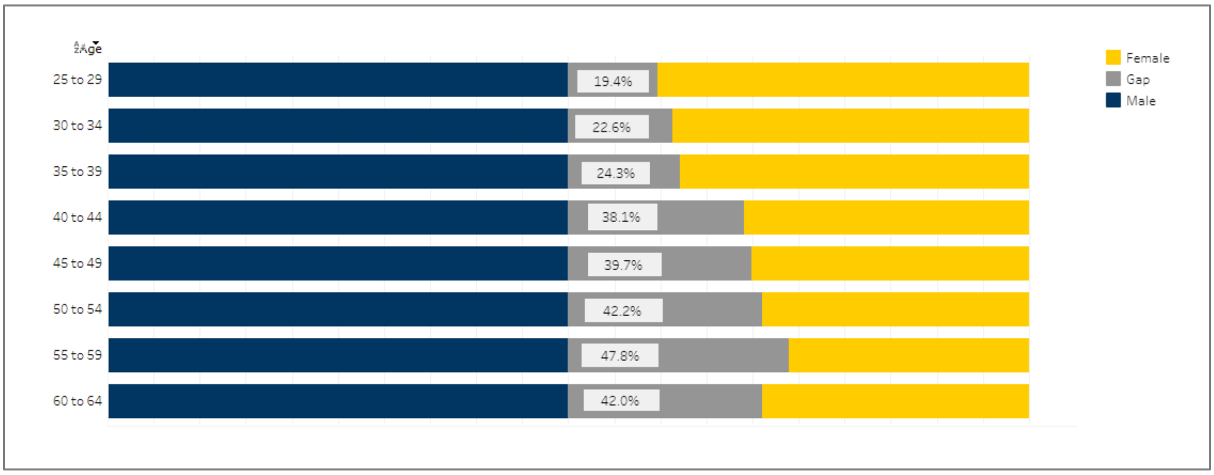
27. Along with the obvious superannuation implications this also impacts income tax revenue for the Commonwealth, payroll tax revenue for the State and workers' compensation coverage. The ATO has a range of tools to identify and act against participants in the cash and hidden economy including using data matching strategies to identify businesses that do not have electronic payment facilities.[26]

3 Women and the gender superannuation gap

3.1 Gender superannuation gap

28. Women retire on average with a lower superannuation balance than men. A 2017 Association of Superannuation Funds of Australia (ASFA) research found that the average superannuation balance at the time of retirement (aged 60 to 64) in 2015-16 was $270,710 for men and $157,050 for women, equating to a 42 per cent 'gender superannuation gap'.[27] This gap is outlined in Figure 1 below. Moreover, 23 per cent of Australian women retire with no superannuation at all compared to 13 per cent of men.[28]

Figure 1: Superannuation gap by age and gender



Source: Clare (2017)

3.2 The causes of the gender superannuation gap

29. In terms of median figures, the statistics are far worse. The median superannuation balance at retirement in 2017 was $110,000 for men and $36,000 for women, equating to a wider gender superannuation gap of 67 per cent.[29] Arguably, the SG system is not of itself the cause of the gender gap. The gender superannuation gap is a result of a range of inter-related factors as discussed below. This is driven by employment policies and practices and societal roles and expectations. However, the current superannuation framework certainly embeds disadvantage caused by these employment arrangements and societal patterns.

30. The SG system was originally designed for those who work for 30 to 40 years continuously, full time, with a linear and upward trajectory associated with experience and age. This model typically reflects the male breadwinner role, which provides the ability to accumulate enough superannuation savings to support a comfortable retirement. Australian women, however, often do not conform to this pattern. Women are more likely to have non-linear working lives, as they move in and out of the paid workforce, between full time and part-time work, changing occupations or fields, or take career breaks. Some fall under the threshold required for their employer

to contribute super, while others become self-employed or become full time carers. These changes are often connected with life events such as having children, illness, divorce and widowhood.

31. While change is occurring, women tend to take extended time out of the paid workforce to have and care for children. This is reflected in data showing that the national workforce participation rate is 61.4 per cent for women compared to 71.3 per cent for men.[30] Further, overwhelmingly 95 per cent of female employees (83,269) used primary care giver leave (whether paid or unpaid) compared to just five per cent of male employees (4,285).[31] As superannuation contributions are linked to paid work, women therefore have fewer hours to build their superannuation savings.

32. When mothers return to work after parental leave, they often do so on a part-time or casual basis. ABS Labour Force data shows that women constitute 37.3 per cent of all full-time employees and 68.1 per cent of all part-time employees.[32] In the 2018 report by Monash University and AustralianSuper entitled The Future Face of Poverty is Female (2018 Monash Report), several women stated that caring responsibilities limited the time they had available for paid work. To balance income-earning with these caring responsibilities, women tend to work in casual positions or part-time work and insecure types of employment.[33]

33. To balance caring responsibilities for children and gain the benefit from flexible working conditions, some women engage in self-employment by setting up and running small businesses. This type of employment often results in income reduction and no super contribution as super is not compulsory for the self-employed. A 2014 ASFA research found that around 23 per cent of self-employed people have no superannuation, compared to 7.5 per cent of other employees. Further, the research found that women who are self-employed are less likely to have superannuation than men who are self-employed.[34]

34. Self-employed persons can make voluntary contributions to a superannuation fund, but as noted later in this submission, self-employed persons may not have adequate disposable income to do so. Alternatively, they may consider the business they own as ‘their superannuation’ and prefer, or in some instances, be better placed, investing in that business to provide them with adequate retirement support.

35. In addition to childcare responsibilities, women are more likely than men to take on unpaid caring work associated with family members, such as ageing parents or an ill-relative. The flexibility and effort required to care for others limits women’s opportunity to fully engage in paid employment.

36. Many women not in the paid workforce or who are marginally engaged are reliant on their spouses’ superannuation coverage for their financial security, which emerges as a major issue in life events such as divorce and widowhood. Women may find themselves with little or no individual retirement savings and low prospect of gaining high-paying work due to prolonged absence from paid employment.

37. When women are in the paid workforce, they earn on average less than men. In Victoria the gender pay gap for non-public sector organisations with more than 100 employees in 2017-18 was 9.3 per cent.[35] Since superannuation contributions are paid as a percentage of earnings, women with lower earnings will obviously accrue lower superannuation contributions.

38. Not only do women earn less than men generally, female-dominated industries such as the community sector, aged care and administration, are also lower paying. Male-dominated industries offer higher levels of discretionary payments such as bonuses and commissions that are not available or limited in female-dominated industries. Taking such remuneration into account, the Workplace Gender Equality Agency (WGEA) calculated that the full-time total remuneration[36] gender pay gap based on 2017-18 WGEA data is 21.3 per cent.[37]

39. Further, older women face greater barriers to obtaining employment, which reduces their ability to increase their superannuation balance. The Australian Human Rights Commission (AHRC) found that older women are more likely than older men to face age discrimination due to perceptions that they have outdated skills, are too slow to learn new things or that they will deliver an unsatisfactory job.[38] Women in Super observed that women who have been out of the workforce for a prolonged period before returning to work due to changed circumstances find it difficult to find suitable work.[39]

40. The lack of employment opportunities for older women can lead to poverty in retirement. It is estimated that more than 40 per cent of older single women live in poverty[40] and the fastest growing cohort of homeless people is single older women.[41] Concerningly, in a 2014 ASFA report it was noted that 34.6 per cent of women reported having no superannuation and this increases to around 60 per cent of women aged 65 to 69.[42]

41. Moreover, single mothers, women with a disability and women from culturally diverse backgrounds face additional barriers including racism and discrimination, lack of affordable childcare, and family pressures relating to traditional gender roles. Migrant and refugee women in particular are overrepresented in insecure work and are often overqualified for their employment positions.[43]

42. It is estimated that in Australia, women with disability are three times more likely to experience sexual violence, and twice as likely to experience partner violence, than women without disability. Women with disability are less likely to be in paid employment and are paid less than men with disability and women without disability.[44]

43. Supporting economic participation for women – through education, employment opportunities and investment – is a key driver to improving workforce participation and closing the gender superannuation gap.

44. The combination of factors outlined above means that women in the Australian workforce accumulate less superannuation savings at retirement than men.

3.3 The impact of the gender superannuation gap

3.3.1 Reduced workforce participation adversely impacts superannuation savings

45. The Victorian Government is considering various options to develop a targeted industry strategy to address barriers women frequently face with respect to entry, retention and progression in certain male-dominated industries. The Government already recognises the value of industry-specific initiatives and is currently progressing work to increase female participation in certain sectors, including in transport and construction.

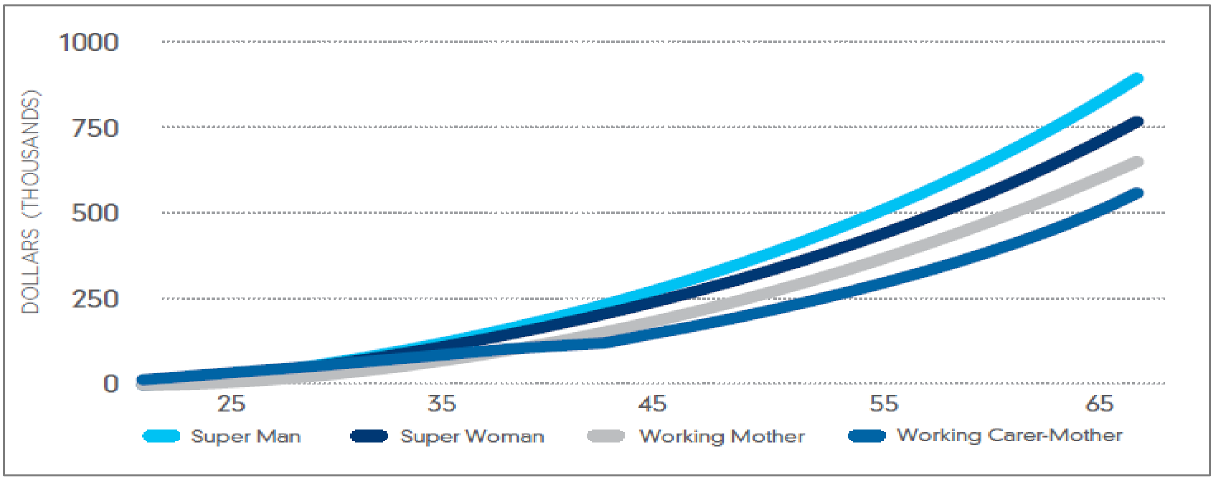
46. The McKell Institute's modelling shows that reduced workforce participation amongst women adversely impacts their retirement superannuation balance. It does this by following the superannuation savings of two hypothetical women – 'Working Mother' and 'Working Carer-Mother' and tracks their superannuation against those who do not have uninterrupted careers – 'Super Man' and 'Super Woman'.[45]

47. The 'Working Mother' is 21 years old in 2017. She works full time and has her first child at 29 and second child at 33. She moves between parental leave and part time work until she returns to work full time at 38, when both her children are at school. She will retire at 67 and will live until 92.

48. The 'Working Carer-Mother' has a similar path to the 'Working Mother', except at 38 one of her children falls ill. The Working-Carer Mother spends four years taking care of her sick child, working one to two low paying jobs to supplement the Carer Payment received from the Government. She returns to full time work at 43. Like the Working Mother, she will retire at 67 and will live until 92.

49. The McKell Institute found that once mothers fall behind in their superannuation, the gap continues to grow throughout their career despite returning to full-time work (see Figure 2).

Figure 2: Superannuation balances throughout career (2017 dollars)



Source: The McKell Institute (October 2017)

3.3.2 Impact of non-payment of superannuation during parental leave

50. As noted, non-payment of superannuation contributions during parental leave means mothers lose superannuation during this time. For mothers with more than one child, missing superannuation contributions per child can have a significant cumulative impact and result in lost retirement income. Simulations show that a five to six-year labour market absence to raise children creates a 17 to 25 per cent drop in final superannuation savings.[46]

51. Women who take parental leave and return to work part-time are subject to a ‘double penalty effect’. Not only do women miss superannuation contributions while on parental leave, they then accumulate lower superannuation associated with part-time work: this leads to women losing compounding returns, which are often most powerful and effective in initial stages of working life.

3.3.3 Women face financial insecurity in retirement

52. With significantly lower superannuation than men, women are more likely than men to rely on the Age Pension. Women account for over half (53 per cent) of those aged 65 years or more receiving the Age Pension compared to 47 per cent of men. Further, women are more likely than men to rely solely on the Age Pension to fund their retirement income. Data shows that 42 per cent of women were full Age Pension recipients compared to 36 per cent of men.[47]

53. The effect of the superannuation gender gap is further exacerbated by the fact that women retire earlier and live longer than men. In its submission to the 2016 *Senate inquiry into economic security for women in retirement* (2016 Senate Inquiry), ANZ noted that women are forecast to significantly outlive their superannuation savings and therefore be more reliant on the Age Pension alone.[48]

4 Superannuation for other groups

4.1 Inquiry into the Victorian On-Demand Workforce

54. The Victorian Government is completing an Inquiry into the Victorian On-Demand workforce and economy in early 2020. The On-Demand Inquiry, which is being chaired by former Fair Work Ombudsman, Natalie James, was set up to address concerns expressed about the wages and conditions being offered to workers in the on-demand economy, and the lack of a level playing field for businesses. The Inquiry is considering the extent and nature of the on-demand economy and its impact on the labour market including: the legal or work status of persons working for or with platform businesses; the application and enforcement of workplace laws and instruments to participants in the on-demand economy; and whether contracting or other arrangements are being used to avoid workplace and other statutory obligations.

55. The Inquiry has received 94 written submissions, from businesses, employer organisations, unions, community legal centres, academics and workers, and undertaken consultations with 220 participants.

56. The nature of on-demand work can be considered precarious due to limited income security, minimal worker entitlements, a lack of superannuation or pension contributions and few opportunities for career development.

57. In general, if an individual is not an employee as defined in the SGA Act, they are not entitled to any SG contributions.[49] An independent contractor is not considered an employee under the SGA Act, unless they: are paid wholly or principally for their labour and skills; perform work for themselves and are not paid to achieve a result.[50]

58. Where gig economy workers are not engaged as employees but as independent contractors, they may not be entitled to any SG contributions. Studies indicate that around 100,000 gig economy workers[51] miss out on SG payments.[52] Many gig economy workers will be responsible for making their own contributions to their super accounts; however, they tend not to do so. Using ATO data of the 'self-employed' as proxy for 'gig economy workers', estimates indicate that only around a quarter of gig economy workers would make contributions to their superannuation accounts.[53] With little or no receipt of super contributions, this will lead to lower superannuation balances at retirement for gig economy workers.

59. With research revealing that the number of gig economy workers is on the rise,[54] and that there are more workers in the gig economy than previous estimates suggested,[55] more workers will be left with a lower retirement income. The Victorian Government commissioned research in 2019 to support the work of the On-Demand Inquiry. Researchers from the University of Adelaide, Queensland University of Technology and the University of Technology, Sydney, conducted a national survey of more than 14,000 people. The research established that 7.1 per cent of respondents currently work in the gig economy or have done so in the last 12 months, and over the last two years 13.1% of survey respondents have, at some time, undertaken digital platform

work. This rate of participation is similar to recent survey findings in Europe, and higher than previous estimates for Australia.

60. Other key learnings from the research include –

- that the main type of work is in transport and food delivery (18.6 per cent of platform workers).[56]
- A wide variety of people in Australia are seeking work through digital platforms.
- Younger people (aged 18-34) and males are working through digital platforms in higher proportions than other demographic groups. Females are only half as likely as males to work on digital platforms. People are also less likely to participate in platform work as they age.
- Students and the unemployed have higher participation rates. Compared to employed respondents, students are 1.3 times more likely to be doing platform work, and unemployed respondents are twice as likely.
- Respondents who identified as living with a disability, temporary residents, and those who spoke a language other than English at home, were more likely to participate in digital platform work
- Relative to Australian citizens, temporary residents are three times more likely to be a current platform worker and twice as likely to have been a former platform worker. Permanent residents are 1.7 times more likely than Australian citizens to be current or former platform workers.
- Respondents who speak a language other than English at home are also 1.5 times more likely to be current platform workers.

61. The On-Demand Inquiry is currently preparing its report to the Victorian Government. Without pre-empting that report's recommendations, the accumulation of superannuation for gig workers is an area requiring consideration within this Review.

4.2 Unpaid Carers

62. Carers contribute significantly to the economy. The annual cost of replacing the support provided by Victorian carers would be about $15 billion.[57] Conversely, however, taking on a carer's role results in financial disadvantage for carers both during and into the future as carers age.

63. Carers, both women and men, may take extended time out of the workforce or work part time to provide care for others. Carers support people with a mental illness, disability, chronic illness or complex care needs. They care for older people with specific needs children and young people with additional care needs and people who are dying.

64. One in ten carers are under the age of 25. They care for a parent or grandparent, sibling or other relative with a chronic illness, mental illness, disability, drug/alcohol addiction or other care needs. They miss about 50 school days. They struggle to complete higher education. They are often financially disadvantaged and have fewer job opportunities.[58] This may lead to long-term dependence on welfare and, in turn, adverse implications on their retirement incomes of these young carers.

65. Carers in the workforce may be unable to access enough leave to cover their carer responsibilities. Only 56 per cent of primary carers are in the workforce compared with 80 per cent of non-carers. About one in five carers give up work to care for someone. Others may be working part time or as casual workers.[59]

66. As with 'Working Carer-Mothers', carers' reduced and intermittent periods in the paid workforce impact on their capacity to contribute to superannuation. Significant periods where salary and superannuation benefits are not being earned contribute to a long-term financial impact. The Productivity Commission analysis of 2008 trends of superannuation shows that if a man leaves the workforce to enter a caring role at 55 years of age, around $60,000 of superannuation is lost at age 65.[60] Modelling undertaken by the Commonwealth Bank shows that if a woman leaves the workforce to enter a caring role at aged 50 around $40,000-$50,000 in superannuation is lost at age 65.[61] It is important to note that women as a group have lower lifetime earnings and therefore lower super balances than men as a group. Nevertheless, all carers exiting the labour force have reduced superannuation and significantly lower long-term lifetime earnings than a worker who does not leave work to undertake caring duties.

67. More than one in three people aged 65 years and older need assistance with daily activities. People who are primary carers for their parent(s) are most likely to be 45-64 years of age, and most of them are women. One in seven people over the age of 50 separate or divorce from the time they start being a carer. There are more than 162,000 Victorian carers aged 65 years and over themselves, and nearly nine per cent of them care for a parent who may be aged in their eighties or nineties.[62]

68. During consultations to inform *Recognising and supporting Victoria's carers – Victorian carer strategy 2018-22,* carers requested the Victorian Government advocate to the Commonwealth Government for fairer means testing of carers with superannuation funds.

69. The Victorian Government has expanded the Support for Carers Program from 1 January 2019 to extend access to financial counselling.

70. The Victorian Government recognises the unpaid work that carers do in the community through the Victorian Carer Card ('We Care') program. Carer Card holders receive discounts and offers from a wide range of businesses, local government agencies and community organisations, including those offered through the Seniors Card discount directory.

4.3 Older Australians

71. Australia has an ageing population. It is seeking to encourage older workers to stay in the workforce but is also facing increasing non-traditional patterns of work that do not provide adequate superannuation for these older workers.

72. There are existing discriminatory features of the SG system that directly contradict other policy objectives such as assisting older workers to stay engaged in the workforce. The $450 threshold, for example, does not just affect female or young workers. Older workers who have retired from full-time work but work small numbers of hours part-time or casually would also be adversely affected by this structure.

73. The following section addresses the consultation question: '*What is the evidence that the outcomes the retirement income system delivers and its interactions with other areas (such as aged care) are well understood?*'

74. Tools provided by the superannuation industry to assist people to determine the quantum of superannuation required to support them in retirement, typically assume that the person will become reliant on the Age Pension at some point. Further, assumptions regarding what is needed to support a very modest lifestyle or even a more comfortable retirement, often do not consider the additional supports a person may require as they age. This means that many people are unprepared for these costs of necessary additional supports which further impacts their quality of life.

75. The aged care system is difficult for consumers to navigate, a task made more challenging by the lack of transparency regarding the cost of aged care services. People cannot adequately plan for potential costs they are unaware of or do not readily understand. Clear and accessible information is required both by the consumer as well as the superannuation and financial planning sectors to support decision making and advice.

76. The combined income and asset test used to determine residential aged care fees differs to the test used for the Age Pension. This is something that is not commonly understood and can mean people of very modest means will be faced with significant additional costs they had not anticipated. The methodology used to determine fees for a person classified as financially disadvantaged (supported or concessional resident) can significantly exceed their net worth and may exceed the accommodation fee paid by wealthier people.

77. At present, the combined income and asset test excludes the family home if occupied by a protected person (spouse, dependent or carer). It is important that those persons are adequately supported. Aged care service providers have been advocating for inclusion of the full value of the home in the income and assets test. However, there could be unintended consequences of adopting such a measure. For example, this would have the effect that most people entering residential aged care would be unsupported residents and be required to pay the full costs of their accommodation. For most people with limited resources, this would mean selling the family home and

in so doing, impact the housing security for individuals who may already be relatively financially disadvantaged, for example their carers, noting that an accommodation deposit is typically $350,000 – $500,000. Others who may be affected unintentionally include people living in rural areas as rural property values are generally below this level of accommodation deposit.

78. Current mechanisms to protect the interests and housing security, of vulnerable groups including carers and people living in rural areas need to remain in place not just for themselves, but in recognising the significant contribution of carers to the Australian economy.

4.4 Victorian Government measures to support older Australians and low-income households

79. The Victorian Government offers a broad range of concessions to make essential services more affordable for low-income households and to help with bills in times of hardship. Concessions are available for essential services, such as electricity, gas, water and council rates, as well as other services such as health, education and public transport.

80. To make it more affordable for senior Victorians to get out and about, the Victorian Seniors Card program partners with public and private sector businesses to provide Seniors Card holders with access to a range of discounts on goods and services.

81. Victorian permanent residents over 60 years of age and working less than 35 hours per week can apply for a Seniors Card. People who work over 35 hours per week can apply for a Seniors Business Discount Card providing the same discounts of goods and services, excluding public transport concessions.

82. Seniors Card holders receive 50 per cent off full fare travel on trains, trams and buses, including V/Line trains and coaches through the Seniors Myki card and free weekend travel in any two consecutive zones and on regional town buses. These discounts were extended to Carer Card ('We Care') holders from 1 July 2019. In addition, free public transport is provided to Seniors Card holders for eight days during the Seniors Festival celebrations. Victorian Carer Card holders receive free travel during the annual Carers Week.

5 Other issues affecting accumulation of superannuation

5.1 Low wage growth and not topping up superannuation balance

83. Many Australians will not save enough independently or earn enough from their superannuation accounts to have a comfortable retirement life. The biggest barrier to retirement savings is not having enough disposable income to invest after deducting living expenses. Lack of disposable income has been exacerbated by a significant slowing in wage growth in Australia over the past five years.[63]

84. A second factor in not having adequate superannuation may be that only one in two people view their superannuation as an important investment vehicle for their retirement.[64], according to an MLC Quarterly Australian Wealth Sentiment Survey. This priority may be reflected in data showing that only 8 per cent of people topped up their superannuation balance but arguably is equally likely to reflect the lack of disposable income people feel they have available to invest for this purpose.[65]

5.2 Wage theft laws in Victoria and unpaid superannuation

85. Underpayment of superannuation is often linked with the deliberate underpayment of wages, commonly referred to now as ‘wage theft’. (Wage theft is distinct from genuine mistake resulting in underpayment of wages or superannuation).

86. Underpayment of wages is particularly prevalent in some sectors, for example, the hospitality industry.[66] However, the breadth of this behaviour across many if not all industries is now recognised as endemic and systematic. In Victoria it is estimated that 79 per cent of hospitality employers failed to comply with the national award wage system from 2013 to 2016.[67] Further, vulnerable workers working in insecure employment, including migrant workers, international students, young workers and women, are more likely to be affected by underpayment of wages.[68] [69] Wage underpayment is often accompanied by employers failing to keep or falsifying records to avoid detection. Wage theft can take many forms, including, but not limited to underpaying wages, penalty rates and superannuation.

87. Industry Super Australia (ISA) (and others) argue there is a clear connection between unpaid superannuation and unpaid wages. The inability to pay superannuation is often a first sign of business cash flow problems. ISA quotes ASIC’s 2015-16 insolvency statistics to reveal that while 18.7 per cent of insolvencies involved unpaid wages, a much higher proportion – 39.2 per cent included unpaid superannuation. ISA argues that the total amounts of unpaid superannuation over time will have a more significant impact on impacted employees (than unpaid wages) due to foregone compound interest.[70] ISA calculates that in 2013-14 2.76 million Australians are short-changed on average by $2,025 per person.[71]

88. Addressing wage theft is a key priority for the Victorian Government. In May 2018, the Victorian Government committed to introducing a new offence targeting employers who deliberately withhold employee entitlements. The Victorian Government is also introducing criminal offences that target employers who deliberately fail to keep, or falsify, employee entitlement records to avoid paying employee entitlements. These new offences are intended to capture deliberate underpayments, and not those employers who make mistakes or inadvertently underpay employees. Work is underway to progress the Bill which will introduce these offences.

89. Under the proposed new laws, wage theft offenders will be liable to up to 10 years imprisonment or fines of up to $198,264 for individuals or $991,320 for companies. To ensure employers do not benefit by attempting to hide wage theft through a failure to keep, or falsify, records, the record keeping offences will attract the same penalty. The penalty is tough but reflects the seriousness of the crime and will protect workers by deterring those employers who may be tempted to do the wrong thing.

90. The new wage theft offences will be investigated and prosecuted by the Victorian Wage Inspectorate. The Wage Inspectorate will be provided with strong investigative and enforcement powers as well as specialised industrial relations knowledge to ensure that the new offences are effective.

91. To make it easier for employees to recover their unpaid entitlements, the Victorian Government is also improving the claims process in the Magistrates' Court of Victoria by making it faster, cheaper and easier for workers to get the money they are owed from employers.

92. In addition to the Unlawful Underpayment of Employees' Remuneration Inquiry, the Commonwealth Government is also considering improvements to the Fair Work system which are aimed at protecting employees' entitlements. While the Fair Work Ombudsman (FWO) has powers to investigate and enforce civil penalties under the *Fair Work Act 2009* (Cth) (FW Act), this does not always result in employers being held sufficiently accountable or deter further unlawful conduct. Evidence has shown that wage theft is often systematic and ingrained within legitimate business models. In 2018, the FWO reported that almost 1 in 4 employers continue to engage in wage theft after being audited.

93. In light of this, the Victorian Government believes it is critical to strengthen enforcement of workplace laws, with the introduction of its own wage theft laws providing criminal sanctions for serious cases of deliberate wage theft, but also by increasing the resourcing capabilities of compliance and enforcement agencies such as the FWO and the ATO.

5.3 Underpayment of wages: small claims process

94. Employees affected by unpaid wages can contact the FWO for assistance. If owed under $20,000, they can also commence their own legal action to recover the unpaid entitlements using the small claims process. The small claims process is aimed to be quicker, cheaper and more informal than regular court proceedings, with capacity to settle disputes quickly and fairly, with minimum expense to the parties. If owed more than $20,000 the matter must be taken to the Federal Circuit Court.[72] However not all workers can access these remedies and regulatory resources are limited. This is why the Victorian Government is strongly pursuing its wage theft objectives and a fast-track process to recover entitlements up to $50,000.

5.4 Fair Entitlements Guarantee scheme

95. If an employer is in liquidation or bankruptcy, an employee can lodge a claim for Fair Entitlements Guarantee (FEG) assistance for certain categories of employment entitlements that are left unpaid by the employer. These include unpaid wages, unpaid annual leave and long service leave, payment in lieu of notice, and redundancy pay. The FEG is a legislative safety net scheme provided by the Australian Government. The FEG scheme does not cover unpaid employer superannuation contributions under the SG. As noted, enforcement of unpaid employer superannuation contributions is currently dealt with by the ATO.[73]

5.5 Rate of Return and domestic expectations

96. Historically many public sector and corporate employees were provided with defined benefit superannuation under which their benefit was generally determined as a multiple of salary. Under such arrangements, employers bore the associated investment risk.

97. Over time, varying market conditions, employment arrangements and legislative changes, have seen a shift such that most employees are now provided with accumulation superannuation arrangements. Under these arrangements, employees/members bear investment risk associated with the superannuation benefit. Hence investment market returns now have a far greater impact on retirement incomes. Furthermore, given that members can typically choose their investment fund and investment option, to an increasing extent, superannuation outcomes depend upon members' choices which in turn depends upon how well prepared or able they are to make these choices.

98. Table 1 below shows the super performance across various timeframes for five investment categories to 30 June 2019.

Table 1: Super fund performance – Results to 30 June 2019

Fund category	Growth Assets (%)	1 year (%)	3 years (% per year)	7 years (% per year)	10 years (% per year)	15 years (% per year)
All Growth	96-100	7.7	11.9	12.2	10.2	7.8
High Growth	81-95	7.4	10.5	11.2	9.7	7.6
Growth	61-80	7.0	8.9	9.7	8.8	7.4
Balanced	41-60	6.2	7.1	7.8	7.4	6.3
Conservative	21-40	5.6	5.3	5.9	6.2	5.7

Source: Chant West. Performance is shown net of investment fees and tax, and before administration and adviser commissions.

99. According to the Organisation for Economic Co-operation and Development (OECD), over the 15 years prior to 2018 Australia is ranked second in the OECD for investment returns to public and private pension superannuation funds in real terms.[74]

100. Given that future performance is uncertain, it is important to ensure that members are sufficiently educated to make appropriate long-term investment decisions about their retirement income. According to a 2019 Industry report, there is increased engagement by members with their superannuation funds however funds are not always able to meet the advice needs of members.[75]

5.6 Administration of funds

101. Most Australians have the right to choose the super fund they want their employer SG contributions paid into, provided it is a complying super fund under superannuation regulations. However, it is not compulsory for an employee to choose a super fund and, when no active decision is made, employer superannuation contributions are paid into a default super fund selected by the employer or, in some cases, the super fund listed in the relevant industrial award or enterprise bargaining agreement (EBA).

102. These choice of fund arrangements can mean that individuals end up being members of multiple superannuation funds when they move jobs and end up paying fees and charges to more than one fund.

103. The Victorian Government supports in principle measures that will address erosion of superannuation through multiple funds or inflated administration costs.

6 Policy options to make the SG system more equitable

104. The Review Panel has identified four principles it proposes to use to assess the performance of Australia's retirement income system. They are: adequacy, equity, sustainability and cohesion. The Victorian Government considers that the SG system, one of the three described pillars of Australia's retirement income system, contains some structural impediments and assumptions, that do not produce fair or equitable outcomes for certain groups of Australians.

105. The recommendations included in Part 6 of this submission are mainly directed at improving women's superannuation balances. However, a number of the broad policy changes proposed in Part 7 of this submission will also create significant improvement for women and those with low superannuation balances, for example, workers in low paid or multiple low-paid jobs below the $450 threshold for non-payment of superannuation. Affected groups also include carers and those that work in insecure work including some gig economy workers.

106. The Victorian Equal Workplaces Advisory Council (Council) provides advice to the Minister for Industrial Relations. The Council has endorsed a number of suggestions referenced in this submission aimed at improving the retirement financial security of women. A number of the suggestions originate from two key papers, namely *Not So Super, For Women* by Per Capita and Australian Services Union, and *Guaranteeing Women's Super* by the McKell Institute.

107. The Victorian Government encourages the Commonwealth Government to genuinely consider and evaluate these measures for potential implementation. Some of the proposed measures do require other public policy choices to be made, for example a fee-free period of up to 12 months for parents on parental leave, may mean other members, including other low income members are effectively subsidising the parental leave of those members, unless Government measures can be included to offset those costs to the funds.

108. Other measures, for example, payment of superannuation on Family Tax B measures may arguably be characterised as superannuation paid on an expense's payment, rather than superannuation paid on income support (which superannuation is designed for). Regardless of this distinction, implementing this recommendation would offset low superannuation accumulation, especially for women. Introducing superannuation contributions on payments not strictly classed as income support may on the one hand set a costly precedent. However, on the other hand, this will save costs in Government provided broader retirement supports, so should be balanced against the broader economic and social benefits to the Australian community.

109. The current SG system does not support all working Australians to achieve an adequate standard of living in retirement. The Victorian Government, therefore, calls on the Commonwealth Government to review and assess for implementation as many of the following recommendations as possible.

6.1 Parents and superannuation

6.1.1 Recommendation – pay super on CPPL parental leave

110. Employees can receive paid parental leave from the Commonwealth Government or from their employer.[76]

111. The Commonwealth paid parental leave (CPPL) scheme came into effect on 1 January 2011. Under the scheme, eligible employees who are either the birth mother of a newborn child or the adoptive parent of a child may receive 18 weeks' leave paid at the national minimum wage (currently $740.80 per week).[77] [78] However, the Government does not make SG contributions on CPPL payments.[79]

112. Many employers provide paid parental leave to their employees, via a registered agreement, a contract of employment or a workplace policy.[80] Leading practice employers provide permanent employees who are primary carers at least eight weeks of paid parental leave at full pay.[81] According to the WGEA, in 2017-18 the average length of employer-funded paid primary carer's leave was 10.3 weeks across all industries.[82] Under its Victorian Public Service Agreement, the Victorian Government provides an average of 14 weeks paid parental leave, for primary caregivers with 38 weeks unpaid leave.[83]

113. Like the CPPL, employers are not required to make SG contributions on paid (or unpaid) parental leave (unlike other types of leave),[84] but some do. Employers that include SG payments in their parental leave policies include: HSBC Australia, Commonwealth Bank of Australia, ANZ, NAB and Westpac, amongst others.[85]

114. The National Employment Standards in the FWA provide that eligible employees are entitled to 52 weeks of unpaid parental leave when an employee gives birth or adopts a child under 16 years of age.[86]

115. While this proposal would increase the cost of the CPPL scheme, the cost is modest compared to other OECD nations. Australia has the third-least generous paid parental leave scheme in the OECD.[87]

116. Implementing the above will deliver the following benefits:

- Provide the most direct way of increasing the superannuation balance of primary carers (who are mostly women).
- Recognise and reward parenting and ensure that primary carers (who are mostly women) are not penalised for taking time out of paid work to raise children – a task that adds significant value to society.
- Enable the Commonwealth Government to meet previous calls by the *United Nations Committee on the Elimination of Discrimination against Women* to ensure the CPPL scheme operates to consider the inclusion of superannuation.[88]

- Align with the original CPPL scheme design objective which included superannuation (albeit to be funded by employers not the Government).[89]

117. The Victorian Government recommends - given reduced workforce participation during years of parenting and caring leads to lower superannuation balance of primary carers (mostly women) at retirement – that the Commonwealth Government make CPPL payments subject to the SG. While primary carers are entitled to 18 weeks of CPPL, the majority take significantly more time out of the workforce. Accordingly, a superannuation contribution at least equal to that which would have been payable on an equivalent salary, should be extended to primary carers (mostly women) during their CPPL.

118. An alternative would be to pay superannuation payment on CPPL at the 12 per cent SG rate. Modelling shows this would improve an individual's superannuation balance on average by $12,570 and provide a full replacement of the superannuation lost during parental leave.[90]

6.1.2 Recommendation –superannuation under enterprise agreement parental leave

119. In addition, use of EBAs including provisions for employers to pay superannuation on parental leave presents a further vehicle for increasing SG payments for workers on parental leave.

6.1.3 Recommendation – superannuation contributions for other parenting and family benefit payments

The Victorian Government recommends that the Commonwealth Government consider the following measures:

120. Payment of superannuation contributions at the scheduled SG rate of 12 per cent on Commonwealth Parenting Payments (this is an income support payment for parents who are main carers of a child under 8 if they are single, or the child is under 6 if they are partnered. To receive such payments, parents must meet certain eligibility criteria).[91]

121. Inclusion of a superannuation component in Family Tax Benefit (FTB) B. FTB B is already calculated based on one parent having a low income. This information could inform a superannuation payment schedule for parents who are below the superannuation accumulation pathway.

122. Encouraging superannuation funds to introduce a fee-free period of up to 12 months for parents on parental leave.

6.2 Gender and superannuation

The Victorian Government recommends that the Commonwealth Government consider the following measures:

6.2.1 Recommendation – Encourage more equitable sharing of financial resources and caring responsibilities

123. Allow joint-superannuation accounts for couples (including same-sex couples).

124. Reduce the gender pay gap by encouraging employers to provide flexibility for all workers, so that men are more likely to take time out from work to care for children and other relatives and can contribute more to other unpaid domestic work. Included in this must be a program of cultural change, increasing the acceptance of, and value of, part-time work.

125. Commonwealth Government to introduce structures and incentives that encourage superannuation contribution sharing when only one parent is working, and specifically that make it easier and more acceptable for men to take time out from work to share the caring burden.

6.2.2 Recommendation – target setting, awareness raising and compliance

126. Commonwealth Government to introduce a Superannuation Gender Parity Target, and resource Government bodies such as the ABS and the ATO to adequately monitor progress, including at a sub-national level.

127. Commonwealth Government to introduce mandatory publicly reported gender analysis of Commonwealth government policies and programs, including, but not limited to gender-based budget analysis.

128. Superannuation funds be encouraged to provide free financial literacy education for all low-balance account holders and introduce financial literacy courses through the workplace for all employees. Other independent sources of free financial information should also be supported, including government funded.

129. Superannuation funds be encouraged to boost awareness of default fund settings for employees' superannuation. Default settings are adopted by most superannuation account holders and can have a very substantial impact on retirement balances, particularly for low income earners.

130. Commonwealth Government (and responsible agencies) to be more proactive in overseeing and enforcing the SG with stronger penalties for repeat violators.

6.2.3 Recommendation – amend the Sex Discrimination Act to offer higher superannuation payments for female employees

131. Some employers have implemented measures to reduce the gender superannuation gap and boost women's retirement savings. For example, financial services firm Rice Warner pays its female staff an extra two per cent superannuation on top of their SG payments. Rice Warner had to apply to the AHRC for an exemption to implement its policy as a 'special measure' under the *Sex Discrimination Act 1984* (Cth) (SDA). According to Rice Warner, the application process was complex and lengthy, and Rice Warner was required to provide substantial evidence demonstrating the disadvantages that women face. The entire process took 18 months to resolve. [92] Further, unlike a temporary exemption which was what Rice Warner had initially sought from the AHRC, a special measure that was granted to Rice Warner can be challenged in court. These factors can act as barriers for employers who wish to take positive steps to make extra superannuation payments for their female staff.

132. The Victorian Government recommends that the Commonwealth Government consider amending the SDA to allow employers to make voluntary extra superannuation payments for their female employees when they wish to do so without requiring the need to seek an exemption or special measure from the AHRC.

6.2.4 Recommendation – Commonwealth to commit to providing ongoing funding in relation to the Equal Remuneration Order for community services workers after 2020

133. Female-dominated industries such as the social and community services sector have experienced low levels of pay, due in part to the historical under valuing of women's work because of their gender. Since superannuation contributions are paid as a percentage of earnings, women working in such sectors will obviously accrue lower superannuation balances to support them in retirement.

134. The Victorian Government is committed to addressing gender pay inequity in Victoria and has committed to providing ongoing funding arrangements in relation to the Social and Community Services (SACS) Equal Remuneration Order (Order), as determined by the Fair Work Commission in 2012. The funding of this initiative was incorporated into the relevant departments' base funding from 2015-16 onwards.

135. The Victorian Government recommends that the Commonwealth Government commit to provide ongoing funding in relation to the Order, following the final tranche of the Order instalments in 2020.

7 Broad-based policy options to improve SG framework

136. The Victorian Government continues to champion economic growth that is distributed fairly, equitably and creates opportunity for all Victorians. Inclusive growth driven by strong employment and higher wage growth improves social and economic inclusion and contributes to community stability and engagement.

137. Enhancing the superannuation balances of both men and women, particularly those who are low paid and may have a precarious or underutilised engagement with the workforce, will contribute to equitable and inclusive economic growth in Victoria.

138. Victoria's economy has recorded above-trend growth for the past five years, supported by an extended period of low interest rates and strong population growth. Victoria also has one of the strongest labour markets among the states. Consequently, the Victorian Government submits that there is capacity for the SG to be increased, without any adverse effects on working hours or employment.

139. The suggestions included in this part of the submission will create significant improvement not just for women but generally for those with low superannuation balances, for example, workers in low paid or multiple low-paid jobs below the $450 threshold, carers and those that work in insecure work including some gig economy workers.

140. The Victorian Government, therefore, calls on the Commonwealth Government to review and assess for implementation as many of the following recommendations as possible.

7.1 Increases to the SG rate

7.1.1 Recommendation – increase the SG rate to 12 per cent

141. There is policy debate about lifting the compulsory SG rate. The Australian National University (ANU) asserts that no single SG rate suits all and that workers need different SG rates depending on their earnings. ANU's modelling found that a worker earning over $60,000 need an SG rate of 9 per cent to save for a comfortable retirement, while a worker earning $90,000 would only need an SG rate of 6 per cent. ISA, however, argues that the ANU's research is flawed and misleading as it assumes that women and children do not exist and that men work continuously for more than 40 years and have not accumulated assets outside of super.[93]

142. Others such as the Grattan Institute (Grattan) argue that lifting the SG rate would reduce wages,[94] and that an increase in the SG rate from 9.5 per cent to 12 per cent will leave an average worker $30,000 worse off over their lifetime.[95] However, there are conflicting views on this. For example, the McKell Institute found there is no evidence that SG rate increases produce lower wages.[96] ASFA's modelling indicate that workers will in fact be better off if the SG rate is raised to 12 per cent, with results

showing that a person on a $60,000 median wage would increase their retirement savings by $69,000.[97]

143. Like the McKell Institute, ISA notes that there is no Australian evidence that an increase in SG rate will result in a reduction in wages. ISA states that a small potential reduction in wages (impact of less than one per cent) is readily offset by the greater compound interest that will be earned on increased super contributions, which will result in higher retirement incomes (an increase of up to 10 per cent in a person's annual retirement income). In direct contrast to Grattan's claims, ISA's modelling found that an increase in the SG rate from 9.5 per cent to 12 per cent would provide:

- an average worker $18,100 in extra income over their lifetime
- a married couple on average full-time wages (which Grattan did not model as they do not analyse women or couples) an extra $44,300 in income over their lifetime.[98]

144. Moreover, actuarial firm Rice Warner concludes that an SG rate below 10 per cent would result in median income earners relying on the Age Pension for most of their retirement income. It argues that many people relying on the full Age Pension (particularly renters) live in poverty, indicating that the Age Pension alone is inadequate. Rice Warner states that a 12 per cent SG rate would provide most Australians with adequate retirement income, and that an SG rate of 10 to 15 per cent would be ideal, taken together with the Age Pension.[99]

145. Studies show that if the SG rate increases to 12 per cent, the proportion of the eligible population receiving the Age Pension is projected to fall from around 68 per cent in 2018 to around 57 per cent in 2038. This fall is comprised of a fall in the proportion of the eligible population receiving the full pension (42 per cent in 2018 to 29 per cent in 2038) and a relatively smaller increase in the proportion of the population receiving a part-pension (25 per cent in 2018 to 28 per cent in 2038).[100]

146. The SG system is still maturing. Older workers have only had the benefit of the system since 1992 and at relatively low contribution rates (in 1992 the contribution rate was 3 per cent of salaries or 4 per cent for employees with payroll above $1 million per annum). The SG system will mature in the mid-2030s when retirees will have accumulated superannuation savings for their entire working lives.[101] The maturing SG system and the legislated SG rise to 12 per cent is expected to increase superannuation balances and reduce reliance on the Age Pension.[102]

147. To ensure all workers, and especially women and low-income earners, retire with economic security and dignity, the Victorian Government considers it crucial that no further delays occur in reaching the planned increase of the SG rate to 12 per cent and that preferably this timetable be accelerated. Further, that a pathway to increase the SG to 15 per cent be pursued.

7.2 Carers and superannuation

7.2.1 Recommendation – superannuation contributions for carer payments

148. Pay superannuation contributions at the scheduled SG rate of 12 per cent on Commonwealth Carer Payments. Particularly for recipients below the 'accumulation pathway' (this maps the superannuation balance at any given age that a person should hold in order to expect a basic living standard in retirement based on a combination of superannuation and the Age Pension).[103]

7.3 Improve coverage for independent contractors and others

7.3.1 Recommendation – improve coverage for independent contractors under the SG system

149. The Victorian Government encourages the Commonwealth Government to consider amending the SGA Act and/ or the *Independent Contractors Act 2006* (Cth), to better support payment of SG contributions for independent contractors, gig workers and self-employed workers.

7.4 Reduce inequity for low income or multiple job holders

7.4.1 Recommendation – abolish the $450 monthly earnings threshold

150. As noted, section 27(2) of the SGA Act provides that an employee is not entitled to any SG contributions if they earn less than $450 per calendar month. This threshold disproportionately affects part-time and casual workers, who often work in multiple jobs. ABS data indicates that a quarter (25 per cent) of women and 19 per cent of men find themselves working in insecure non-permanent work.[104] Reasons for working in multiple jobs vary. For women, they often have one or two part-time or short-term roles with multiple employers to fit around their caring responsibilities. In such cases, they may earn more than $450 per month in total, but still not qualify for SG contributions with any one employer. Men in similar situations would also be adversely impacted by the threshold. As a result, such workers have lower superannuation balances at retirement.

The policy rationale for maintaining the threshold is arguable

151. In response to the 2016 Senate Inquiry, the Commonwealth Government stated that the threshold was to minimise the administrative burden to employers of paying small amounts of superannuation.[105] This policy rationale loses force given more recent reforms in the SG system aimed at reducing administrative inefficiencies.

152. For example, historically it was time consuming for employers to make SG payments to multiple superannuation funds, especially when employers use manual methods such as paying by cheques. SuperStream, introduced in 2015 and administered by the ATO, simplified this process. SuperStream enables employers to pay all their SG

contributions for each period in a single electronic transaction, even if the payments are going to multiple superannuation funds.[106] The ATO confirmed that SuperStream makes SG contributions easier for employers.[107] From 1 July 2016, all employers were required to be SuperStream compliant.

153. In addition, modern payroll systems have reduced the compliance and administrative burden on employers. For instance, the MYOB payroll software is SuperStream compliant and has a time saving feature called Pay Super, which automatically calculates the SG entitlements per employee with each pay period. When superannuation is due, employers simply authorise the payments.

154. Further, to assist small employers meet their SG obligations, the ATO offers a free Small Business Clearing House to employers with 19 or fewer employees or an annual turnover of less than $10 million.[108]

The threshold is inequitable

155. The $450 monthly threshold is inequitable as it denies SG contributions to those who earn less than that amount. It is also inequitable as low-income earners who earn less than the threshold do not receive the same proportional SG contributions than another person earning the same overall income from a single employer. For example, a person earning $1,200 per month from three jobs, in which they earn under $450 in each job, will receive no superannuation. By contrast, a person earning $1,200 per month on one part-time job at the current 9.5 per cent rate will receive $1,368 per year in superannuation. All employees should be entitled to SG contributions irrespective of what they earn.

The threshold could potentially encourage under-employment

156. The $450 monthly threshold creates undesirable consequences because it could potentially incentivise employers to restrict an employee's hours of work to avoid incurring the SG liability. Groups such as ISA and the National Foundation for Australian Women have reported [109] that some employers deliberately roster staff to keep them under the threshold to avoid paying SG contributions.[110]

157. To improve the fairness of the SG system, the Victorian Government recommends that the Commonwealth Government amend the SGA Act to abolish the $450 monthly threshold. To assist implementation of this change, affected employers should be given a short period of time to transition. However, progressively phasing down the threshold to $0 would not deliver any significant benefits and is not recommended. It would simply delay the benefits for these workers and create confusion and ongoing administrative burden for employers.

7.5 The Low-Income Superannuation Tax Offset

7.5.1 Recommendation – retain the Low-Income Superannuation Tax Offset indefinitely

158. The Victorian Government is pleased that the Commonwealth Government retained the Low-Income Superannuation Tax Offset (LISTO) beyond 30 June 2017. Formerly referred to as the low-income super contribution, the LISTO is a government superannuation payment of up to $500 to help low-income earners save for retirement. Individuals earning $37,000 or less a year may be eligible to receive a LISTO payment, which is usually paid directly into their super fund. LISTO will provide continued support for low-income earners and ensure that generally they do not pay more tax on their super contributions than on their take-home pay.[111]

159. The Victorian Government recommends that the LISTO is retained indefinitely and the government superannuation payment is increased to $1,000. This would address the inherent inequity in the taxation of super contributions of low-income earners and has significant positive impacts on those who receive it. Using an example of a 42-year-old nurse with around $17,000 in her superannuation account and a retirement age of 67, retaining the LISTO translates to an extra $20,000 towards her retirement.[112] While all low-income earners will benefit from LISTO, women are more like than men to be beneficiaries. 3.6 million Australians receive the LISTO and of those approximately 63 per cent are women.[113]

7.6 Supporting low income earners

7.6.1 Recommendation – provide extra support for low-income earners

160. In its recent report about ‘reigniting productivity and inclusive income growth’,[114] McKinsey & Company notes that Australia has “enjoyed a 27-year streak of uninterrupted economic growth” and “the results have been the envy of the world”, while undertaking significant structural reforms, such as increasing labour market flexibility and transitioning to a service-based economy. However, “despite a recent slight uptick, both income and wealth inequality in Australia are at or below the average for advanced economies, and well below levels in the United States”.[115] McKinsey presents data from the ABS’s National Accounts and Household Income and Wealth catalogues that shows the mean real income change between 1995 and 2008 was 3.6 per cent per year, whereas between 2008 and 2016, this was 0.3 per cent.

161. Recent in-depth analysis of the ABS’s Wages Price Index (WPI) data by Reserve Bank of Australia (RBA) staff, Bishop and Cassidy, assesses the nature of wages growth across all wage setting methods: awards, enterprise bargaining agreements and individual contracts. A driver of this analysis by the RBA is that low wages growth has contributed to a decline in the growth of household income and consumption, and associated decline in inflation. From 2012 to 2016, the RBA shows that the decline in the WPI was across all pay setting methods. However, in a period of sustained decline

in wages growth, award mechanisms are recently returning the strongest wage outcomes – albeit for workers, who are for the main, on low wage rates.[116]

162. As well as low wage growth in recent years, there is growing non-compliance with the payment of award minimum wage rates, particularly in some sectors, a decline in wage determination via collective bargaining arrangements, compounding adverse impacts in some sectors due to penalty rate reductions, increased award reliance and an increase in alternative work arrangements, where workers may not be eligible or able to access standard protections.[117]

163. The Victorian Government recommends that the Commonwealth Government consider the following measures to provide extra support for low-income earners:

- Remove the 15 per cent contributions tax for all men and women more than 10 per cent below the accumulation pathway.
- Superannuation funds to introduce a fee discount (either in basis points or percentage) for all account holders more than 10 per cent below the accumulation pathway (this might involve lifting fees on other account holders).
- Superannuation funds to introduce a fixed maximum fee for all account holders below the accumulation pathway.

7.6.2 Recommendation – top ups for low-income earners

164. Consider introducing a co-contribution top-up of 2.5 per cent of income, paid by the Commonwealth Government annually, for account holders more than 5 per cent below the accumulation pathway. This top-up would be phased out on a sliding scale as balances approach the accumulation pathway.

7.7 Strengthen workforce participation

7.7.1 Recommendation – increase workforce participation and super contributions

165. According to the ABS in 2017, of the 2.3 million persons who wanted a job or work with more hours and were available to start work within four weeks, 1.1 million persons (47%) indicated that they were not looking for a job or work with more hours. Three-fifths of this group were females (664,900 or 62%). 'Caring for children' was a commonly reported main reason for not looking for a job or work with more hours (168,800 persons or 16%). Most persons who reported this (108,600 or 64%) were aged between 30 - 54 years.[118]

166. In light of the above, the Victorian Government recommends that the Commonwealth Government consider the following measures:

- Reduce effective marginal tax rates faced by second earners returning to work after having children. One option for achieving this is to make FTB payments universal for all parents while increasing the top marginal tax rates such that the overall impact is revenue neutral.

- Commonwealth Government programs to improve affordability and access to quality childcare to increase the financial incentive for women to return to work.

7.8 Preventing non-payment and underpayment of superannuation and better enforcement

7.8.1 Recommendation – SG payments should be made at the same time as salary and wage payments

167. As noted, employers must pay SG contributions into each eligible employee's complying superannuation fund or retirement savings account.[119] Although employers must calculate and report the SG contribution amount on a payslip for each pay period, they only have to transfer the contributions once a quarter.[120]

168. This quarterly payment cycle gives rise to several issues, including:

  - It creates difficulty for the ATO to effectively monitor the SG payment and prevents the ATO from promptly detecting non-compliance in real-time.
  - It creates difficulty for employees to determine whether their employer has paid the actual superannuation contributions reported on the payslips.
  - It creates a significant risk of non-compliance by employers.
  - It denies workers the investment returns and compounding interest that they would have otherwise received if superannuation was paid at the same time as salary and wages.

169. The need for quarterly payment cycles reflected a time where most payments were processed manually. As is the case with the rationale for abolishing the $450 monthly threshold, technological advancements make this administrative justification no longer valid.

170. The Australian Senate Standing Committee on Economics investigated this problem in 2017 and recommended the Government consider introducing amendments to the SGA Act to require SG to be paid at least monthly, and preferably in alignment with regular pay cycles.[121]

171. The Victorian Government supports its public service workers by making SG contributions fortnightly or monthly.

172. To address the risk of non-payment of SG contributions and to encourage better compliance, the Victorian Government calls on the Commonwealth Government to amend the SGA Act compelling employers to make SG contributions at the same time as salary and wage payments. The implementation of this change could be underpinned by an appropriate transition period to allow employers to adjust their cash flow practices and be supported by an awareness-raising and education campaign.

7.8.2 Recommendation – strengthen the ATO's compliance and enforcement activities

173. The ATO estimates that the 'SG gap' for 2016-17 is 3.9 per cent or $2.3 billion. The SG gap measures the difference between the value of SG contributions required to be paid under the law and the actual SG contributions made.[122] With $2.3 billion of unpaid superannuation, the impact of SG non-compliance is detrimental to the Commonwealth Government, employees and compliant employers. Failure to detect and address SG non-compliance leads to an additional cost impost on the Commonwealth Government's budget through additional reliance on the Age Pension, robs an employee of the benefits of increased superannuation balance, investment earnings and compound interests, and puts compliant employers at a competitive disadvantage.

174. Consideration should be given to significantly expanding ATO's proactive SG audit work to allow for a timelier detection of SG non-compliance, particularly in known high-risk industries. This work should be supported by better risk identification strategies coupled with targeted campaigns. Further, the ATO needs to be properly resourced for it to undertake effective compliance and enforcement activities to address SG non-compliance.

175. The Victorian Government recommends the Commonwealth Government significantly strengthens the ATO's compliance and enforcement approach to SG non-compliance.

8 Conclusion

176. The Victorian Government welcomes the opportunity to make a submission to this critical review of the Australian retirement incomes system. The Review is a significant opportunity for the Commonwealth to strengthen and modernise the system and make it more equitable. The Victorian Government calls on the Commonwealth Government to strongly consider all the recommendations and issues contained in this submission.

9 Appendix

Section 19(2) of the *Superannuation Guarantee (Administration) Act 1992 (Cth):*

(2) The charge percentage for a quarter in a year described in an item of the table is the number specified in column 2 of the item.

Table 2: Charge percentage (unless reduced under section 22 or 23)

Item	Column 1 – Year	Column 2 – Charge percentage
1	Year starting on 1 July 2013	9.25
2	Year starting on 1 July 2014	9.5
3	Year starting on 1 July 2015	9.5
4	Year starting on 1 July 2016	9.5
5	Year starting on 1 July 2017	9.5
6	Year starting on 1 July 2018	9.5
7	Year starting on 1 July 2019	9.5
8	Year starting on 1 July 2020	9.5
9	Year starting on 1 July 2021	10.0
10	Year starting on 1 July 2022	10.5
11	Year starting on 1 July 2023	11.0
12	Year starting on 1 July 2024	11.5
13	Year starting on or after 1 July 2025	12.0

Source: Adapted from Section 19(2) of the *Superannuation Guarantee (Administration) Act 1992 (Cth)*

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