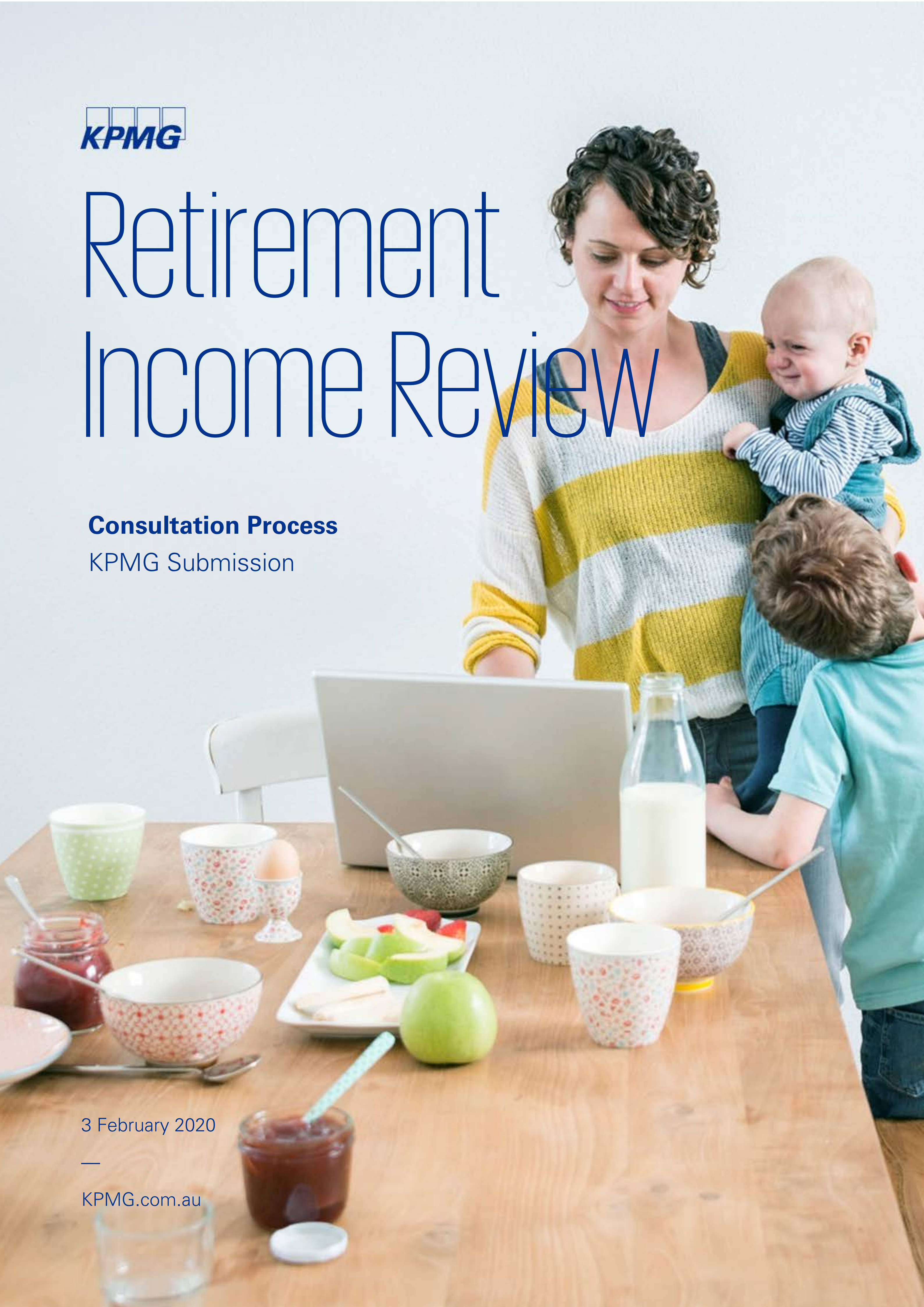


KPMG

Retirement Income Review

Consultation Process

KPMG Submission

3 February 2020

—

KPMG.com.au

DISCRIMINATION is usually thought of as the unequal treatment of minority groups, whether based on ethnicity, indigeneity, religion, age, sexual preference or disability. However, Australia actively discriminates against a majority of its population – women.

Tower Three, International Towers Sydney
300 Barangaroo Avenue
Sydney NSW 2000

GPO Box 2291U
Melbourne Vic 3001
Australia

ABN: 51 194 660 183

Telephone: +61 3 9288 5555
Facsimile: +61 3 9288 6666
DX: 30824 Melbourne
www.kpmg.com.au

The Panel
Retirement Income Review Secretariat
The Treasury
Langton Crescent
Parkes ACT 2600

Submission by email: retirementincomereview@treasury.gov.au

Subject: Retirement Income Review – Consultation Paper

Dear Mr Callaghan,

KPMG Australia strives to contribute in a meaningful way to the debate, regulation and proposed guidance which shape and support the financial services industry. To this end, we welcome the Retirement Income Review and thank the Retirement Income Review Panel for the opportunity to provide feedback on the Retirement Income Review Consultation Paper.

In making this submission KPMG has drawn on its previous modelling, focussing on the disadvantages faced by women in Australia - that is on gender equity and fairness. KPMG has published a series of reports in the last two years which explore how we can achieve greater gender equality across Australian society, including recommendations for changes to the Retirement Income system, which we've reproduced in part in this submission. Women comprise just over half of Australia's population, but earn on average $26,000 a year less than men, face strong work discrimination and receive superannuation payouts around half those of men.

Our submission makes recommendations for changes to improve the retirement outcomes for women noting that these would also impact men in similar situations. Overall, women, are disadvantaged by:

- less continuity in workplaces, less hours worked,
- less pay for equal work and
- not getting the promotions that men are able to obtain.

Further, focusing on parental care/carer responsibilities – we assert that a fair society would be one which has a relatively equal allocation of parental care responsibilities, and greater access to affordable childcare and pre-school. This is not to deny that there will be many individual preferences for one partner taking primary care or earning responsibilities, but that as a whole there should be relative equality. However, historical and current evidence confirms that women continue to bear the greater burden of parental care (and indeed carer responsibilities more broadly, including looking after elderly parents) impacting:

- a women's ability to participate in the workforce;
- more time out of the workforce (resulting in loss of skills, decreased ability to re-enter the workforce and lower pay if able to secure work);
- lower lifetime earnings and wealth; and
- greater propensity to join the part-time/gig economy and/or operate a small business.

Tower Three, International Towers Sydney
300 Barangaroo Avenue
Sydney NSW 2000

GPO Box 2291U
Melbourne Vic 3001
Australia

ABN: 51 194 660 183

Telephone: +61 3 9288 5555
Facsimile: +61 3 9288 6666
DX: 30824 Melbourne
www.kpmg.com.au

In addition, lower earnings and wealth results in lower empowerment generally and greater disadvantage where there is a relationship breakdown.

We submit that the retirement income system was not designed to discriminate against women, indeed the system's rules were designed gender agnostic (bar the age pension); rather it is a combination of factors that reduce women's participation in the workforce and other elements of Australia's system that discourage or do not enable and/or incentivise women to fully participate in the workforce, which lead to reduced retirement savings for women and a poorer retirement outcome both for the individual and to the system, given the need for the age pension and other social services.

With a "blank sheet of paper" one might expect a retirement income policy to redress the unequal contribution that women have made to society through care of the future generation. However, Australia's current retirement incomes policy does precisely the opposite.

Through superannuation concessions, for example, it takes the inequality in earnings that arise from the inequality in parental care responsibilities and amplifies them. That is, it exacerbates the issue by providing for a lifetime disadvantage for a current acceptance of a greater burden of parental responsibility.

The median superannuation balance remains lower for women than men. In 2017–18, the median superannuation balance at, or approaching, preservation age (55-64 years) was $119,000 for women and $183,000 for men.[1]

Appreciating that there has not yet been a retired generation that has yet had access to compulsory superannuation for all of their working life (such that these numbers will improve considerably in the future), neither of these retirement outcomes successfully provide for an income stream that allows for a dignified life in retirement.

In this submission, we propose a number of recommendations for the Panel's consideration (largely with regards to equity) which we believe could improve the retirement income system (bolster Pillar 2 and decrease the impacts on Pillar 1).

In summary, we recommend the following:

- Eliminate the $450 per month exemption: Helping low-wage earners save for retirement (Pillar 2 amendment);
- Provide super contributions for paid parental leave;
- Provide Top-up Super for primary carers (not on a co-contribution basis);
- Provide super contributions for those 50 to 59 receiving Commonwealth Rent Assistance;
- Amend the Sex Discrimination Act to ensure employers who pay additional contribution amounts to those who have taken on additional burdens of primary care are not in breach of the Act;
- Amend the concession caps for primary care and care-based work-breaks/Replace Contribution cap system with lifetime concessional contribution caps;
- Eliminating the Commonwealth child care subsidy's ("CCS") per-child cap that comes into play at family income of $188,163 per annum; and

[1] Australian Bureau of Statistics , Gender Indicators, Australia, Nov 2019
https://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/4125.0~Nov%202019~Main%20Features~Economic%20Security~4

Tower Three, International Towers Sydney
300 Barangaroo Avenue
Sydney NSW 2000

GPO Box 2291U
Melbourne Vic 3001
Australia

ABN: 51 194 660 183

Telephone: +61 3 9288 5555
Facsimile: +61 3 9288 6666
DX: 30824 Melbourne
www.kpmg.com.au

- Replacing the CCS's termination at family income of $352,453, with a phase-down rate of 1 percentage point for every $3,000 of extra annual income earned.

We have largely focused on those recommendations relevant to the retirement income system noting that change to policy and regulation more broadly may be needed to address the equity and fairness matters raised herein.

For a more information including economic modelling on all the recommendations we proposed on the topic of equity and women in the workforce, please see the KPMG Reports.[2]

We would be pleased to provide further information and/or clarification to assist the Panel in the development of their Report on the retirement income system. Should you require further information or have any questions, please contact Matt Schofield on *mschofield@kpmg.com.au* and on +61 3 9288 6929.

Yours sincerely,

Linda Elkins
Partner
National Sector Leader, Asset & Wealth Management

Grant Wardell-Johnson
Partner
Economics & Tax Centre

Cecilia Storniolo
Director
Superannuation Advisory

[2] See *https://assets.kpmg/content/dam/kpmg/au/pdf/2018/ending-workforce-discrimination-against-women-april-2018.pdf*
https://home.kpmg/au/en/home/insights/2019/02/women-pensioners-who-rent.html
https://home.kpmg/au/en/home/insights/2018/10/working-mothers-returning-to-work.html
https://home.kpmg/au/en/home/insights/2019/10/case-for-further-investment-in-child-care-subsidy.html

Contents

Women: Equity and fairness

Participation and women in the workforce

For the retirement income system as a whole to deliver for Australians, the retirement pillars need to be designed effectively, efficiently and equitably to enable all Australians to maximise their savings for retirement and to achieve better retirement income outcomes.

In this section we discuss women's experience in the workforce and how the current experience negatively impacts on women's ability to save for their retirement which inevitably results in less than adequate retirement outcomes.

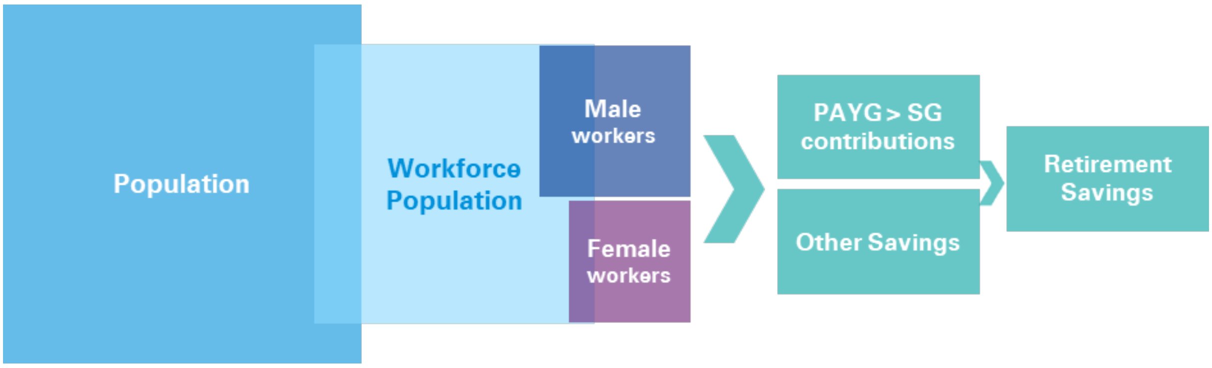
Economic benefits of higher female workforce participation

It is important to assess workforce participation in Australia as the Australian Superannuation system is predicated on monies being contributed to an individual's superannuation account by an employer – that is Pillar 2 Superannuation Guarantee, and is largely centred on the PAYG employment system. Over time, a gender workforce participation gap will consequently lead to a considerable gap in retirement savings accumulated under Pillar 2.

Our modelling suggests that if the gap between Australia's male and female workforce participation rates could be halved, our annual real GDP would be $60 billion greater in 20 years' time. Over the period our cumulative measured living standards would be raised by a massive $140 billion in present value terms.[3]

As various Commonwealth intergenerational reports explain, the 'three P's' determine a nation's prosperity: population, productivity and participation. If our living standards are to continue rising, Australia needs to achieve a combination of a growing population, increasing workforce productivity and rising workforce participation.

Figure 1 Relationship between population, participation and retirement savings, January 2020



Source: *KPMG 01.2020*

[3] KPMG Report "Ending Workforce discrimination against women", 2018, pg 13

Yet, as in other advanced countries, Australia's population is ageing. While living longer is a sign of an affluent, healthy society, an ageing population leaves a declining proportion of working age people to earn the incomes and pay the taxes to support the rising proportion of retirees. Therefore, to offset the economic pressures created by population ageing, it is important that the working-age population is as productive as possible and participates in the workforce to the greatest extent desired by those workers.

Australia's productivity growth has slowed markedly since the turn of the century. That is why we continues to advocate policies aimed at increasing productivity growth. But lifting female workforce participation is also vital to offset the effects of population ageing.

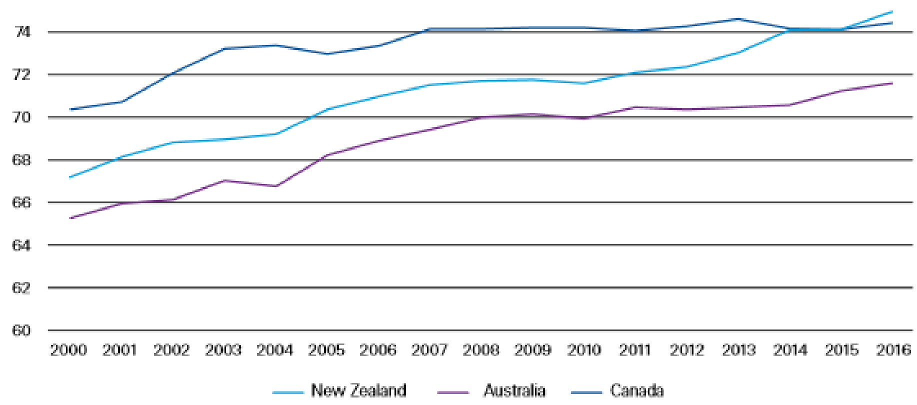
Australia's female workforce participation remains relatively low by international standards. While social change brought on by the women's movement has raised Australia's female workforce participation rate from less than 40 per cent in the early 1970s to around 70 per cent in 2015, this was still below the participation rates of women in much of Europe and in Canada and New Zealand. See Figure 2.

More than half of Australia's university graduates are women. By discriminating against women participating in the workforce, society is not achieving the best possible return on investing in women's higher education. Moreover, lower women's superannuation balances and higher life expectancies forcing more women to rely on the age pension in retirement.

The participation rate for women also includes elements of potential underemployment and occupational insecurity, such as the following, which impact on women's ability to save/contribute to their superannuation and other retirement savings:

- A growth in female business owners (who are generally not contributing to their super via the Super Guarantee): As at January 2019 female owned business now account for 34.9% of all business operators.[4] Females who operated their own business made up 12.1% of the 5.9 million employed Australian women in January 2019. Men who operated their own business represent 19.8% of the 6.7 million employed Australian men.[5]
- Women make up 68.7% of part-time employees (January 2019).[6]

Figure 2 Female workforce participation rates, Australia, Canada and New Zealand, 200-2016 (percent)



Source: *OECD*

[4] See https://www.employment.gov.au/newsroom/statistical-snapshot-women-australian-workforce
[5] Ibid.
[6] Ibid.

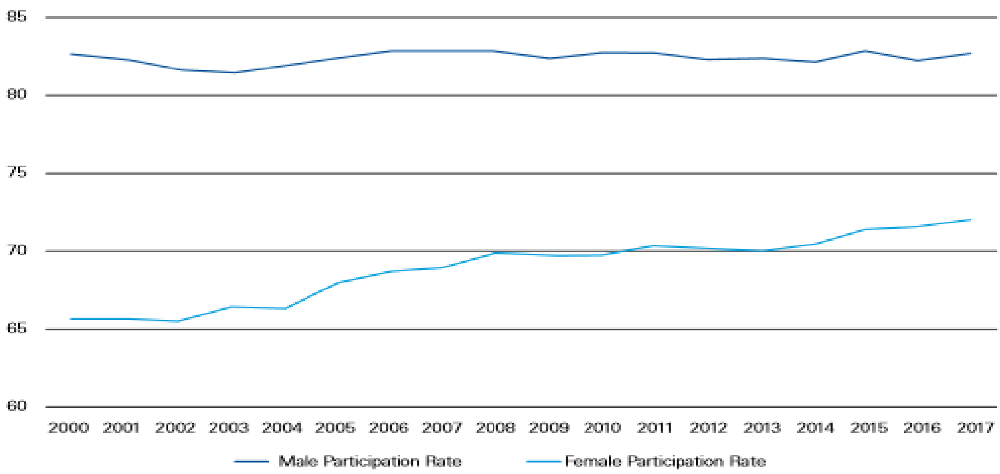
We should also recognise that since the end of the Second World War, significant legal and demographic changes such as the abolition of prohibition on married women working, improved school retention, access to tertiary education, personal computers and word processors, changing family dynamics, have occurred in our society which have been favourable to female workforce participation. These high-impact developments are now behind us, and so closing the gender workforce participation gap further will require a new focus.

Lifting women's workforce participation has clear economic benefits for the nation as a whole including greater prosperity, as reflected in an increase in per capita household disposable incomes; extra revenue from income tax and other taxes; better returns to the nation from its investment in higher education; and reduced budgetary costs of the age pension. More importantly, addressing women's workforce participation and pay gap will enable women to maximise their savings for retirement and to achieve better retirement income outcomes.

It has been estimated that if Australian women's workforce participation rate were the same as Canada's, then Australia's annual GDP would be about $25 billion higher.[7]

Australia's recent female workforce participation rate of 72.9 per cent lags well behind the male participation rate of 82.8 per cent (Figure 3). We modelled the net benefits from halving the gap between the female and male workforce participation rates over a five-year period. This would involve increasing the female workforce participation rate from 72.9 per cent to77.9 per cent.

Figure 3 Male and female workforce participation rates, Australia, 2000-2017 (percent)



Source: *ABS Catalogue 6291*

[7] Hockey, Joe (2015), 2015 Intergenerational report: Australia in 2055, Commonwealth of Australia, Canberra, March, at https://static.treasury.gov. au/uploads/sites/1/2017/06/2015_IGR.pdf

For modelling purposes, it has been assumed that halving the gap between female and male workforce participation rates would require a doubling over five years of government spending on Child Care Subsidy. The results are summarised in Figure 4.

After 20 years, Australia's annual real GDP is estimated to be $60 billion greater and annual real household consumption is estimated to be bigger by more than $38 billion.

Barriers to participation in the workforce

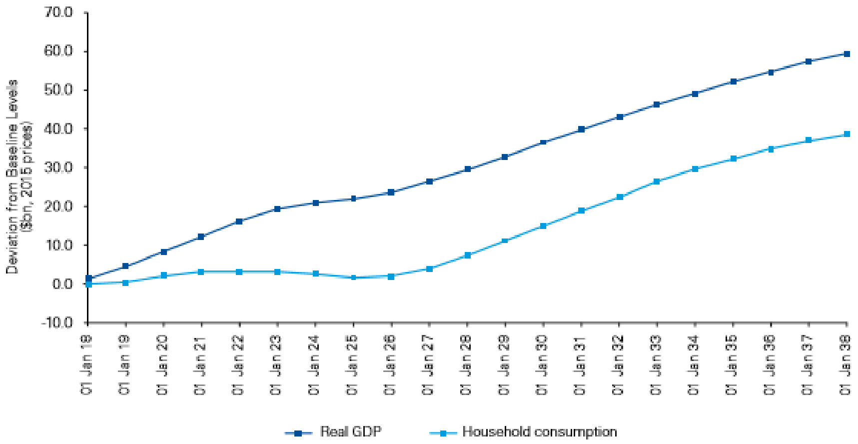
We has issued a number of Reports over the last two years on gender equity and the workforce. In our Report *The cost of coming back – Achieving a better deal for working mother,*[8] we highlighted that the design of the Child Care Subsidy, in particular the operation of 'cliffs' where a family can lose a substantial amount of subsidy for a dollar change in family income, is a key driver of the disincentive for some women to return to work. We share our proposed potential changes to the Child Care Subsidy to mitigate this outcome–albeit we note that this policy areas is not within the scope of the Retirement Income Review's terms of references.

One of the key contributors to increase women's participation in the workforce would be primary carers of young children being able to return to work to the maximum extent that suits them.

From the Australian Bureau of Statistics 2016–17 Multipurpose Household Survey (MPHS) we know that 57% of the 2.3 million Australians not in fulltime employment who were looking for work and or more hours, were women and the two more important barriers need redress financial assistance with child care and access to child care places.[9]

In addition to lack of access to child care and the need for affordable child care,[10] it remains the case that the tax and transfer system deter many of these individuals (who are predominantly women) from working additional hours.

Figure 4 Increment to GDP and household consumption from increasing the female workforce participation rate ($billion, 2015 prices), April 2018



Source: *KPMG Economics 04.2018*

[8] KPMG Report, The cost of coming back - Achieving a better deal for working mother, https://assets.kpmg/content/dam/kpmg/au/pdf/2018/achieving-better-deal-working-mothers.pdf
[9] Australian Bureau of Statistics, Barriers and Incentives to Labour Force Participation, Australia, July 2016 to June 2017 2016–17 https://www.abs.gov.au/ausstats/abs@.nsf/mf/6239.0
[10] Australian Bureau of Statistics, Barriers and Incentives to Labour Force Participation, Australia, July 2016.Op Cit. and The Centre for Independent Studies Research Report Snapshot, Why childcare is not affordable https://www.cis.org.au/app/uploads/2018/08/rr37-snapshot.pdf

The Workforce Disincentive Rate (WDR) is a concept we has created to express the percentage of income from taking on an extra day's work that a parent loses to income tax and Medicare levy, withdrawn family tax benefit, withdrawn child care subsidy and increased out-of-pocket child care costs. Based on modelling we conducted:[11]

- In the example of a couple where the male is earning $100,000 per annum and the mother is also on the full-time equivalent of $100,000 per annum, if the mother moved from working three to four days per week, she would take home – after tax and the payment of extra child-care costs – just $14.50 per hour. This is less than a person on the minimum wage would earn after tax.
- If the same mother moved from four to five days a week, the household would actually be worse off by more than $10 for each extra hour worked.

At a 2018 average of $92[12] per day for centre-based long day care (before government subsidies) the costs of child care can be a significant component of the WDR. This amount is more than half the income a parent would make from an additional day's work at the statutory minimum wage, highlighting the necessity for a government subsidy.

Despite a current Australian high in women's participation rate in the workforce, the nature of the employment (part time v full time, lower salary industries and or lower salary for equal work in other industries) and a number of other factors as discussed in this paper, women remain disproportionately disadvantaged by the current Superannuation and Retirement Income system impacting women's ability to save for retirement.

For more information including our modelling and a full list of all the recommendations we proposed on the topic of women in the workforce, please see the KPMG Reports.[13]

---

[11] See *https://assets.kpmg/content/dam/kpmg/au/pdf/2018/ending-workforce-discrimination-against-women-april-2018.pdf*
[12] Productivity Commission, Report on Government Services 2019, "Part B, Chapter 3: Early childhood education and care", p. 3.16.
[13] *https://assets.kpmg/content/dam/kpmg/au/pdf/2018/ending-workforce-discrimination-against-women-april-2018.pdf*
https://home.kpmg/au/en/home/insights/2019/02/women-pensioners-who-rent.html
https://home.kpmg/au/en/home/insights/2018/10/working-mothers-returning-to-work.html
https://home.kpmg/au/en/home/insights/2019/10/case-for-further-investment-in-child-care-subsidy.html

Recommendations

One of the most effective ways of limiting the future disadvantages faced by women in and approaching retirement is addressing the inequities faced by women of working age.

Our recommended changes to Australia's retirement income system are targeted at reducing the impact on the Age pension (Pillar 1) by suggesting amendments to increase/incentivise an increase to contributions (Super Guarantee Pillar 2) and the voluntary superannuation (Pillar 3).

We assert these amendments if made to the system would improve the retirement outcomes for women as well as other individuals who are in part-time employment and/or self-employed.

1 | Eliminate the $450 per month exemption: Helping low-wage earners save for retirement (Pillar 2 amendment).

Removing the $450 per month wage threshold for entitlement to employer superannuation contributions would assist low-income earners in saving more consistently for their retirement. It would also eliminate any temptation for employers to manipulate workers' hours so as to keep their pay below that threshold.

There should be further consideration of the possible impact of this proposal on workers' take-home pay, and whether changes to the low income superannuation tax offset would be required in order to ensure that the contributions were tax-advantaged.

2 | Provide super contributions for paid parental leave.

We recommend that the Superannuation Guarantee should also be paid on Commonwealth Paid Parental Leave and also applying it to workers' compensation payments.

Including superannuation contributions in the Commonwealth paid parental scheme would mitigate the current situation where primary care givers on Commonwealth parental leave – mainly women – cease receiving contributions to their superannuation accounts.

It would also be open to the government to mandate this practice in future for all employers. With sufficient lead time it would be something that employers could incorporate into their budgeting processes.

3 | Provide Top-up Super for primary carers (not on a co-contribution basis).

The Commonwealth could consider making top-up contributions (rather than co-contributions) into the superannuation accounts of primary carers who have a child of pre-school age. Women would make up the greater part of this cohort.

The Commonwealth currently provides a co-contribution of up to $500 (on a maximum one for two basis) for individuals on very low incomes. Individuals on such low incomes have very limited ability to take maximum advantage of this, since they need to find $1,000 of their own money to contribute in order to obtain the $500 government contribution.

We proposes that top-up contributions be made for the nominated primary carer in a family where there is a child of pre-school age and the primary carer's income is less than average weekly ordinary time earnings (AWOTE), with a phase-out as income approaches AWOTE. Entitlement to the top-up contribution should be based on the individual's income and not family income – our proposal is aimed at supporting gender equity with fiscal equity.

Given the huge potential long-term benefits of even a small boost to a mother's superannuation balance, we believe that the impacts of a $500, $1,000 and $2,000 annual top-up should be modelled by the Parliamentary Budget Office to enable the potential cost of this proposal to be estimated.

4 | Provide super contributions for those 50 to 59 receiving Commonwealth Rent Assistance.

Individuals aged 50 to 59 who are receiving Commonwealth Rent Assistance (CRA) would also benefit considerably from having their superannuation savings topped up directly, as they would have limited ability to supplement their own mandatory superannuation contributions.

This might ultimately save the Commonwealth money over the longer run if the superannuation fund performs well, and would deliver additional personal wellbeing benefits compared to greater reliance on the age pension

5 | Amend the Sex Discrimination Act to ensure employers who pay additional amounts to those who have taken on additional burdens of primary care are not in breach of the Act.

If an employer paid a higher amount of superannuation contributions for those that had taken on primary carer responsibilities then the incidence of such a policy would substantially benefit women.

We recommend that the Sex Discrimination Act also be amended to ensure that an employer is able to contribute greater than the Superannuation Guarantee without breaching any Commonwealth super, labour and tax laws, given that it would also benefit men if they took on similar roles. This is consistent with advocating a parent-care equality model for society.

6 | Amend the concession caps for primary care and care-based work-breaks/Replace Contribution cap system with lifetime concessional contribution caps.

We submit that a lifetime concessional contributions cap is preferable to the current contribution cap system in particular for Australians with breaks in their workforce participation and/or periods of part-time working. This would enable individuals who had taken time out of the workforce to undertake carer roles to "catch up" over a period of time as their ability to make additional contributions increased.

Whilst a change in the cap system is cumbersome, the current system is quite complex and less efficient than the former Reasonable Benefit Limits style system.

Further recommendations regarding Child Care Subsidy[14]

In the meantime, while societal changes are debated, modest reforms to the CCS could be made that offer potentially large returns to Australian society. KPMG Australia's proposed first-stage modifications to the CCS involve counteracting the two cliffs by:

- Eliminating the per-child cap that comes into play at family income of $188,163 per annum; and
- Replacing the CCS's termination at family income of $352,453 with a phase-down rate of 1 percentage point for every $3,000 of extra annual income earned.

[14] See KPMG Report, The cost of coming back - Achieving a better deal for working mother, *https://assets.kpmg/content/dam/kpmg/au/pdf/2018/achieving-better-deal-working-mothers.pdf*

Despite a current Australian high in women's participation rate in the workforce, the nature of the employment (part time v full time, lower salary industries and or lower salary for equal work in other industries) and a number of other factors as discussed in this paper, women remain disproportionately disadvantaged by the current Superannuation and Retirement Income system impacting women's ability to save for retirement.

Contact us

Linda Elkins

Partner

National Sector Leader, Asset & Wealth Management

+61 2 8865 6113
lindaelkins@kpmg.com.au

Grant Wardell-Johnson

Partner

Economics & Tax Centre

+61 2 9335 7128
gwardelljohn@kpmg.com.au

Cecilia Storniolo

Director

Superannuation Advisory

+61 2 9335 8274
cstorniolo@kpmg.com.au

Katrina Bacon

Director

Actuarial & Financial Risk

+61 2 9335 7661
katrinabacon@kpmg.com.au

Damian Ryan

Partner

Deals, Tax & Legal

+61 2 9335 7998
dryan@kpmg.com.au

Ian Tracey

Partner

Audit, Assurance & Risk

+61 3 9288 5272
itracey@kpmg.com.au

James Copsey

Director

Government Relations

+61 3 8663 8545
jcopsey@kpmg.com.au

KPMG.com.au