National Foundation for Australian Women

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Treasury

Retirement Income Review

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Authorisation

This submission has been authorised by the NFAW Board

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Inquiry title Retirement Income Review

This submission is being made by The National Foundation for Australian Women (NFAW).

NFAW is dedicated to promoting and protecting the interests of Australian women, including intellectual, cultural, political, social, economic, legal, industrial and domestic spheres, and ensuring that the aims and ideals of the women's movement and its collective wisdom are handed on to new generations of women. NFAW is a feminist organisation, independent of party politics and working in partnership with other women's organisations.

The retirement income system affects women and men in different ways; it is not gender neutral. This submission responds to the terms of reference through a gender lens.

This submission particularly addresses question 14 in the consultation paper:

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

Recommendations

1. NFAW recommends that withdrawals from superannuation should be taxed, albeit at a concessional rate to allow for the tax paid on contributions.

2. NFAW recommends that further detailed modelling should be undertaken to consider the combined effect of taxing superannuation withdrawals; the removal of the SAPTO and adjusting the pension means test to ensure that the effective tax rate on the age pension is comparable to marginal tax rates.

3. The legislated increase in superannuation guarantee should not proceed if it results in lower levels of take-home income for low income earners.

4. NFAW recommends that superannuation guarantee be payable on parental leave entitlements, and that a system of carer credits be introduced in respect of other full time carers.

5. NFAW recommends that the exemption from the superannuation guarantee for workers earning less than $450 per month be removed, with the change phased in to ensure that the take-home pay for such workers is not reduced.

6. Companies should be further incentivised to address the gender pay gap, career break and shared parental care policies within their workforce.

7. NFAW recommends that the rate of Commonwealth Rent Assistance be reviewed to ensure that it meets the needs of older renters; and that the value of home ownership taken into account when determining pension rates and aged care subsidies be reviewed to ensure that non-home owners are not disadvantaged.

Discussion

It is now widely acknowledged that the different elements of the retirement income system affect women differently to men.

In respect of each of the pillars of the retirement income system:

- Women are more likely to be recipients of the Age Pension[1] and are more likely to be in receipt of the full rate of the Age Pension[2];
- Women have lower superannuation balances at all stages of life, and by retirement age men have 25% more superannuation than women;[3]
- Older single women are the fastest growing group of homeless Australians[4], with rental properties increasingly out of reach of pensioners[5];
- Women have lower levels of financial assets at retirement[6]; and
- Women have an increased longevity risk than men as they live longer.

Overall, women have fewer financial resources at the point of retirement, and these resources must support women for a longer period. A significant reason for this is the gender pay gap, which limits the amount that employers are required contribute on behalf of female employees under the superannuation guarantee and also limits the disposable income that women can save under the voluntary savings pillar.

Accordingly it is essential that the Age Pension remain as a strong element of our retirement income system, set at a rate that provides a recipient with sufficient income to ensure a dignified lifestyle. This must be supported by a rent subsidy that allows the recipient to rent a habitable property appropriate to their circumstances.

The design of the superannuation guarantee system is inherently flawed as it is based on lifetime income. This has always limited the superannuation accrued by casual and part time workers, of which a high proportion are women, and this will be exacerbated by current trends in the “gig economy”.

The tax concessions that are associated with the superannuation system, particularly in respect of voluntary contributions, are skewed to male contributors. As women are underrepresented in the higher income brackets, men are more likely to be access the tax benefits available on voluntary savings in superannuation.

We will explore these issues further in the context of the consultation questions.

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[1] DSS Demographics September 2019: updated 21/01/2020 www.data.gov.au

[2] Department of Social Services (2014) Statistical Paper No. 12: Income support customers: a statistical overview 2013 https://www.dss.gov.au/publications-articles/research-publications/statistical-paper-series/statistical-paper-no-12-income-support-customers-a-statistical-overview-2013

[3] Clare, R (2019) Better Retirement Outcomes: a snapshot of account balances in Australia Association of Superannuation Funds of Australia; www.superannuation.asn.au Table 1. Based on median balance at age 60-64

[4]Travia, B. & Webb, E. (2015). Can Real Property Law Play a Role in Addressing Housing Vulnerability? The Case of Older Women Experiencing Housing Stress and Homelessness. Law in Context, 33, 52-86

[5] Hodgson H, James A, Webb E (2018). Older renters in the Western Australian private rental sector: Strategies to enhance housing security for WA’s older renters, Research Report No. 19/18. Bankwest Curtin Economics Centre

[6] Austen, S., and Mavisakalyan, A., 'Gender gaps in long-term earnings and retirement wealth: The effects of education and parenthood', The Journal of Industrial Relations, vol. 60, no. 4, pp. 492-516.

International Comparisons of the Retirement Income System:

One of the distinguishing features of the Australian superannuation system compared to other countries is the taxation structure, under which contributions and fund earnings are taxed concessionally but withdrawals are tax exempt once the member has reached age 60 (ttE). Half of the OECD countries adopt an EET model which exempts contributions and fund earnings, with tax paid on withdrawals[7]. The OECD recommends that countries with an EET model maintain that model.

Further OECD analysis shows that in Australia concessional contributions, which consist of superannuation guarantee, salary sacrificed and tax deductible contributions, provide a 25% tax advantage over the benchmark savings vehicle[8]. The tax advantage for compulsory savings can be justified, whereas non-concessional contributions which have been taxed at source still provide an 11% tax advantage over the benchmark vehicle. This presents a lack of neutrality in the choice of investment and encourages the accumulation of excessively high balances in superannuation and the use of superannuation as an estate planning vehicle.

Further, the data provided in figure 4 of the consultation paper indicates that people in the top two income deciles receive more Government support than people in lower deciles, and that most of that support comes through earnings tax concessions. Tax data shows that 73% of taxpayers with a taxable income in the top 20% of taxpayers are male, with only 27% being female[9]; indicating that men are more likely to be in the income range that obtains most benefit from the earnings tax concession.

The Age Pension in Australia is means tested, which may result in a disincentive to save as superannuation is included as an asset in applying the means test. The Senior Australian and Pensioner's Tax Offset is then applied to increase the tax threshold for pension recipients. In contrast, other countries including New Zealand do not means test the state pension (NZ Super) but include it in assessable income. This results in the pension being clawed back at marginal tax rates instead of at a uniform rate based on the value of the assets held by the pensioner.

Recommendations:

1. *NFAW recommends that withdrawals from superannuation should be taxed, albeit at a concessional rate to allow for the tax paid on contributions.*
2. *NFAW recommends that further detailed modelling should be undertaken to consider the combined effect of taxing superannuation withdrawals; the removal of the SAPTO and adjusting the pension means test to ensure that the effective tax rate on the age pension is comparable to marginal tax rates.*

[7] OECD (2018), Financial Incentives and Retirement Savings, OECD Publishing, Paris. https://doi.org/10.1787/9789264306929-en p 23

[8] Above n7 p 62

[9] ATO (2019) Taxation statistics 2016–17 Table 16: Individuals: Percentile distribution of taxable individuals, by percentile distribution on taxable income and gender, updated 25/06/2019 data.gov.au

Purpose of the system and role of the pillars

We are of the view that the objective of superannuation is not well understood within the community. There is evidence that the majority of retirees are now drawing down on their superannuation in the form of a pension, most commonly an account based pension[10]. However a significant proportion, 67.8% of men and 81.3% of women, retained funds in a superannuation account, and retiree are net savers[11]. It is likely that retirees are complying with the requirement that a minimum amount is drawn from superannuation as an income stream in order to ensure that the superannuation fund qualifies for the tax exemption[12].

While we do not have definitive evidence on this, the nature of the discussion around the 2016 superannuation reforms indicates that superannuation is regarded as a wealth building vehicle rather than a capitalised income stream. To some extent this seems to be consequential on the move from defined benefit funds that produced an income stream to accumulation funds that are perceived as an asset.

This is reinforced by discussion of superannuation as forced savings. Superannuation accounts are seen as a form of savings account in estate planning. Strategies such as recontribution strategies under which contributions are withdrawn in a tax exempt form and recontributed as non concessional contributions are adopted to facilitate bequests in a tax free form, avoiding the so-called "superannuation death tax".

Specifically the policy settings around the superannuation system need to be clarified. NFAW supported the *Superannuation (Objective) Bill 2016* that lapsed prior to the 2019 Federal Election. (refer to Appendix 1 attached). We are of the view that a legislated objective that clarifies that superannuation is designed to support a person in retirement, would guide perceptions of superannuation. Such an objective needs to recognise the role of superannuation as a retirement income stream, without diminishing the role of the Age Pension in providing an adequate level of retirement income.

The Age Pension

The pillars that are used to describe the Australian retirement income system are consistent with the World Bank model[13]. The Age Pension represents the first pillar in the Australian system. The first pillar is a form of social insurance to protect against poverty in older age, and the Government must play a role in ensuring that this safety net is adequate. UN Women has identified the first pillar, being the basic or social pension as often being the main source of income in retirement for women who have not participated in the paid economy[14]; which is consistent with the Australian data.

Research on data drawn from HILDA between 2002 and 2014 has shown that income inequality among Australians over the age of 55 did not significantly increase over that period. The authors

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[10] Wilkins, R (2017) The Household, Income and Labour Dynamics in Australia Survey: Selected Findings from Waves 1 to 15; Melbourne Institute: Applied Economic and Social Research; Table 5:6

[11] Cassells R, Duncan A, Kelly S and Ong R (2015), 'Beyond Our Means? Household Savings and Debt in Australia', Bankwest Curtin Economics Centre, Focus on Australia Series, Issue #2, June 2015; p 26.

[12] *Superannuation Industry Supervision Regulations* 1994 Sch7:5 sets out the required withdrawal; *Income Tax Assessment Act* s.295-385 provides a tax exemption on assets set aside to meet pension liabilities

[13] World Bank (2008) The World Bank Pension Conceptual Framework; http://siteresources.worldbank.org/INTPENSIONS/Resources/395443-1121194657824/PRPNoteConcept_Sept2008.pdf accessed 31/01/2019

[14] UN (United Nations) Women. (2015). *Progress of the World's Women 2015–16* (p 155). Available at: progress.unwomen.org/en/2015/

concluded that access to the Age Pension moderated the effect of other changes, with the Age Pension replacing fluctuations in other income over that time.[15]

The Superannuation Guarantee

The next two tiers of the World Bank framework are based on mandated contributory pensions that provide for consumption smoothing as with the superannuation guarantee. However where contributions are based on lifetime earnings the system perpetuates gender inequities that develop during the person's working life.[16] Compulsory superannuation was introduced as a supplement to the safety net[17], however more recent public discourse is based on the superannuation guarantee being the primary source of income in retirement. [18] Discussion over the legislated increase in the required rate of the superannuation guarantee from 9.5% to 12% is premised on the superannuation guarantee largely replacing the age pension as the primary source of income for retirees.

As the compulsory superannuation system matures the number of Australians without some superannuation cover is declining. However there are still workers who are not covered by the superannuation guarantee. Around 1 in 4 women have no superannuation compared to 1 in 3 men[19], although this includes retirees who have cashed out their superannuation post retirement.

Self employed workers who do not operate through an incorporated entity and are therefore not employees, are not included under the *Superannuation Guarantee (Administration) Act 1992.* Changes in the labour market, including the growth of the "gig economy", has changed the composition of this group of workers. Although the legislation contains measures to include workers who are providing labour under a contract this is often not complied. These workers are expected to make personal contributions to superannuation.

People who are not in the workforce or are earning less than $450 per month are also not covered by the superannuation guarantee. Older women are overrepresented in this group which is strongly linked to workforce participation rates.

NFAW is concerned that increases in the rate of the SG may affect the take-home wages of low income earners, particularly women who are more likely to be part time and casual employees[20]. NFAW notes the different views expressed by the Australia Institute[21] and the Grattan Institute[22] on this point, but notes that even if the burden is not passed on to the employee in full, in the current environment of low wage increases any reduction in take-home pay will reduce the standard of living for low income households. It can also be argued that if the measure of adequacy is based on a replacement rate, then the level of superannuation guarantee should be variable.

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[15] Hodgson HM, Tapper A. Superannuation And Economic Inequality Among Older Australians: Evidence From Hilda. *eJournal of Tax Research*. 2018; 16:236-265.
[16] Hodgson H, Sadiq K. (2017) *Gender equality and a rights-based approach to tax reform*, in Tax, Social Policy and Gender: Rethinking equality and efficiency ed M Stewart. Canberra, Australia: ANU Press.
[17] Keating (1991) *A Retirement Incomes Policy*, Address to the AGSM, 25 July 1991
[18] Yeates, C (2018) *'They're on their own': Keating plea for retirees who run out of super*; Sydney Morning Herald 23 October 2018
[19] Above n 3, p 5
[20] ABS Cat No 6306.0 - Employee Earnings and Hours, Australia, May 2018
[21] Stanford, J (2019) *The Relationship Between Superannuation Contributions and Wages in Australia* The Centre for Future Work at the Australia Institute
[22] Daley, J & B Coates (2018) *Money in retirement: more than enough*, Grattan Institute

Recommendation:

3. *The legislated increase in superannuation guarantee should not proceed if it results in lower levels of take-home income for low income earners*

The gender superannuation gap reflects the gender pay gap, which is influenced by lower pay rates as well as differences in women's work patterns[23]. Specifically women are more likely than men to take a career break or reduce their working hours to give birth to and care children, and this happens relatively early in their working life. Not only do women lose the value of contributions over this period, but they lose the compound returns on that investment over the period to retirement. While differences in pay rates are not a matter of superannuation policy, there are policy changes that can be made to reflect the differences in work patterns.

The tax system does allow a tax offset where a partner makes a contribution into superannuation in respect of a low income spouse[24]; and the superannuation regulations provide for contributions to be transferred from one spouse to another[25]. It is also possible for spouses to decide which account voluntary contributions should be deposited into.

However these transfers are based on the existence of a spousal relationship, and there is more that can be done by Government. Currently superannuation guarantee is not payable on paid parental leave, which would total $1,125 for a person on leave for the maximum of 16 weeks at the legislated minimum wage. If this compounded at 5.5% for 20 years, it would represent an additional $3,282 at retirement. Another option that would assist carers is the introduction of a carer credit paid into superannuation that would be available more broadly to a person who has taken a break from work in order to care for children or other family members.[26]

Currently there is an exemption from the superannuation guarantee in respect of a person who earns less than $450 per month. This exemption is anachronistic and should be removed. The exemption affects primarily low paid and casual employees, and it encourages employers to limit the hours offered to those employees, who are predominately women. This exemption has been in place since the introduction of the superannuation guarantee, and it predates the ability for current payroll technology to process small amounts cost effectively.

Recommendations:

4. *NFAW recommends that superannuation guarantee be payable on parental leave entitlements, and that a system of carer credits be introduced in respect of other full time carers.*
5. *NFAW recommends that the exemption from the superannuation guarantee for workers earning less than $450 per month be removed, with the change phased in to ensure that the take-home pay for such workers is not reduced.*
6. *Companies should be further incentivised to address the gender pay gap, career break and shared parental care policies within their workforce.*

[23] Above n 6

[24] Subdivision 290D *Income Tax Assessment Act* 1997

[25] Division 6.7 *Superannuation Industry Supervision Regulations* 1994

[26] Australian Human Rights Commission (2013) *Investing in care: Recognising and valuing those who care*, Volume 1 Research Report, Australian Human Rights Commission, Sydney, p 10

Voluntary Savings

The third pillar has generally been expressed in Australia as voluntary savings, however the broadening of this pillar to include housing and other non-financial assets is a welcome response to the current policy debate around the role of housing and aged care.

The tax concessions available for the voluntary component of superannuation are even more regressive than the superannuation guarantee as they are dependent on the participant having sufficient funds to make additional savings for retirement. For reasons already discussed, women are less likely than men to have funds available for voluntary investment. There is evidence from Canada that even where women take control of the family finances, retirement savings are more likely to be held by men[27]. In addition to being a manifestation of the male breadwinner model of household earnings this is a rational response to household decision making when male earnings are higher and taxed at a higher marginal rate than the earnings of their female partner.

One of the consequences of voluntary contributions is that superannuation balances may exceed the amount that is required to adequately fund retirement. The availability of tax concessions provides an incentive to choose superannuation over other investments[28], which may not be the most efficient outcome.

It is also worth noting that access to voluntary contributions is generally restricted to high income earners, or those who can transfer wealth from another form of investment[29]. The data show that although voluntary contributions and superannuation balances of females aged 60 to 64 earning more than $87,000 are higher than those for males, the proportion of women in the two highest tax brackets is less than half of men: 8% compared to 18%. The author speculates that this may be as a result of women making additional contributions to catch up to their male counterparts.

The data available does not yet reflect the effects of the 2016-17 reforms. The reduction of the non-concessional cap will limit the amount that can be contributed from 1 July 2017, however the new cap of $100,000 pa is still generous when viewed over a lifetime.

The transfer balance cap introduced from 1 July 2017[30] does not adequately address the issue of over-accumulation in superannuation. The new cap only applies to limit the amount of superannuation in retirement phase, which is generally tax exempt, to $1.6m. If the member holds more than $1.6m, the balance can remain in accumulation phase where the tax rate is 15%, which is still a concessional tax rate. At current tax rates, a person with a taxable income of more than $72,000 pa, excluding exempt superannuation, will pay an average tax rate that is higher than 15%, providing an incentive to leave surplus superannuation in accumulation phase.

There is some evidence that high superannuation households are restructuring their superannuation as a response to the changes to caps from 1 July 2017. Where an account holder has met a condition of release; ie is over the age of 65 or has retired, they can withdraw superannuation in a lump sum and recontribute it to their spouse. The most recent tax statistics show a significant increase in the

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[27] Phipps, Shelley and Frances Woolley. 2008. 'Control over money and the savings decisions of Canadian households'. The Journal of Socio-Economics: Special Issue on the Household Economy 37(2), 592–611. DOI: doi.org/10.1016/j.socec.2006.12.042.
[28] Treasury (2010) *Australia's future tax system, Final Report (Henry Review)* Commonwealth of Australia, Chart A-17 at p 65
[29] Above n 3, Table 3
[30] Division 294 *Income Tax Assessment Act 1997*

average value of contributions to a spouse or child account where no tax offset has been claimed. While this could be motivated by an altruistic motive to increase a spouse share of superannuation, it is also likely to be a response to the changes in the caps that came into effect from the following year.

Spouse and Child Contributions: No Superannuation Spouse Tax Offset claimed 2013-14 to 2016-17[31]

		2013-14	2014-15	2015-16	2016-17
Tax Offsets Claimed	number	12,050	11,591	10,253	10,498
	average $	414	424	440	449
Spouse & Child Contributions	number	19,475	19,167	18,612	20,669
	average $	16,408	17,372	16,237	28,074
Unclaimed contributions	number	7,425	7,576	8,359	10,171
	average $	15,994	16,948	15,797	27,625

Overall, NFAW is of the view that the changes introduced in 2017 in respect of voluntary contributions did not go far enough to reduce the tax incentives to overinvest in superannuation with a consequent cost to the revenue. This creates a disincentive to invest in other financial investments which has a potentially distortionary effect on the economy.

Housing

A more significant trade-off is the trade-off between housing and superannuation. Home ownership is a more tax effective investment than superannuation as it is exempt from federal and state taxes and most forms of means testing. Housing is also an important wealth equaliser in Australia with analysis based on HILDA data showing that increases in housing wealth over the period from 2002 to 2014 was a significant factor in moderating changes in wealth inequality among older Australians.[32]

The trade-off between housing and superannuation arises in the following instances:
- A non-home owner must make decisions regarding the more effective investment: a home or increased superannuation contributions, based on the anticipated growth in value and the opportunity costs;
- A home-owner must make decisions about which will create more security in retirement: increased mortgage repayments will allow them to enter retirement debt free, whereas increased superannuation contributions will provide additional income in retirement; and
- A retiree must decide whether to access superannuation to repay a mortgage in full or whether to take a higher income stream to meet the repayments.

The home is also recognised as a store of wealth that can support a person through retirement [33]. When determining access to the pension the value of the pensioner's home is disregarded, but it is taken into account in respect of aged care subsidies. In contrast, superannuation is taken into account under both the income and the assets means test. Although the non-home owner is entitled to a higher asset threshold in means testing, the relativities between a home owner and a non-home owner, who may have higher levels of financial assets, need to be reviewed.

[31] Author calculations from Australian Government, Taxation Statistics 2015-16: Individuals, Table 1, Table 23, available at www.data.gov.au updated 27/08/2019;
[32] Above n 15
[33] Productivity Commission (2015), *Housing Decisions of Older Australians*, Commission Research Paper, Canberra

Pension rates and aged care entitlements take account of home ownership, although the relativities of the pension and any rent assistance between home owners and non-home owners should also be reviewed by reference to current values.

There is evidence that debt levels are increasing among pre-retirees, whether as a result of higher housing costs or as a trade-off between superannuation and mortgage repayments, with superannuation being used to repay mortgages at retirement.[34]

What is clear is that renters face financial difficulties in retirement. In 2018 a survey of older renters found that 63% of respondents over 55 were in housing stress, defined as paying more than 30% of their income on rent, and even more alarmingly 21 % paid more than 60% of their income on rent. Fifty-seven percent did not have superannuation, and those who did have a superannuation account had an average balance of $75,000 [35].

Although this survey did not draw any conclusions based on gender, it is known that older women are at particular risk.[36] If older women become homeless, they do not have substantial superannuation assets to fall back on, and may be required to exhaust all financial resources before being eligible for additional housing support.

Recommendation:

7. *NFAW recommends that the rate of Commonwealth Rent Assistance be reviewed to ensure that it meets the needs of older renters; and that the value of home ownership taken into account when determining pension rates and aged care subsidies be reviewed to ensure that non-home owners are not disadvantaged.*

Principles for Assessing the System

The principle identified by the Panel are a variation on the policy principles generally adopted when assessing the effectiveness of elements of the tax and transfer system, which is an appropriate starting point for this analysis.

While individuals are encouraged to save for their retirement, government support through tax concessions and direct distributions should be targeted to ensure that:

- Tax-transfer concessions delivered over a person's lifetime do not increase inequalities in retirement (equity);
- All retirees are able to live a comfortable life with appropriate housing, access to health care and aged care as needed (adequacy); and
- Succeeding generations are assured of the same level of support in retirement (sustainability).

This requires a redistribution of resources away from high net worth retirees to vulnerable older Australians though a realignment of the current tax -transfer system

[34] Ong, R., Wood, G., Cigdem-Bayram, M. and Salazar, S. (2019) Mortgage stress and precarious home ownership: implications for older Australians, AHURI Final Report No. 319, Australian Housing and Urban Research Institute Limited, Melbourne, https://www.ahuri.edu.au/research/final-reports/319, doi:10.18408/ahuri-8118901.
[35] Above n 5
[36] Australian Human Rights Commission (2019) *Older Women's Risk of Homelessness: Background Paper*, AHRC

Equity

The previous discussion highlights issues of equity, specifically reviewing the system through a gender lens. The different effects of a system on diverse categories of users must be acknowledged, particularly where the design of the system does not differentiate between them. [37] Equity is a subjective concept that can be measured against a range of concepts[38]. However in the context of the retirement income system the relevant measures include:

- vertical equity, ensuring that government support is targeted appropriately over a lifetime;
- horizontal equity, ensuring that all Australians and
- intergenerational equity.

There are a number of characteristics that are relevant to security in retirement. Each of the pillars will expose vulnerable groups: renters will not have the security of home ownership; workers with broken work patterns or low income workers will not accumulate as much compulsory superannuation as workers with a steady income or high income earners; and low to middle income earners will have limited capacity for voluntary financial investments.

A further consideration relates to the nature of a household, and the resource bargaining that occurs within that household. While generally a pooling of resources will result in improved retirement outcomes, the ways that different households internally make financial decisions is not clear. There is also a vulnerability that emerges when considering the effects of relationship breakdown and financial abuse. It is important that women not only have access to resources, but that they are able to recognise and seek appropriate assistance where financial abuse is occurring. There are a range of programs that have been developed to assist women facing domestic and financial abuse.[39]

Single retirees face different challenges in resource allocation. While compulsory superannuation is individualised, with individual accounts based on personal earnings, it may be more difficult to obtain housing finance as a single applicant, or the loss of a partner may result in a disruption in housing circumstances [40].

When applying a gender lens to the retirement income system the most vulnerable women sit at the intersection of these groups. A mother who has taken time out of the workforce, or worked part time while raising a family will see the effects of lower compulsory superannuation contributions in her superannuation balance; as will a worker in the "gig economy". If the mother is also a single parent and/or a renter, this compounds her disadvantage.

Adequacy

The difficulty in determining what constitutes an adequate income is that individual circumstances will dictate the level of income needed to meet a person's needs. A person may become accustomed to a certain standard of living based on income earned while working, but this standard of living may not be sustainable following retirement. Conversely a person who has lived frugally may find that their savings exceed their requirements. Three areas that must be considered are providing

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[37] Austen SE, Sharp R, Hodgson H. *Gender Impact Analysis And The Taxation Of Retirement Savings In Australia*. Australian Tax Forum. 2015; 30:763-781. Hodgson and Sadiq above n 16

[38] Hodgson, H. 2010. Theories of Distributive Justice: Frameworks for Equity. Journal of the Australasian Tax Teachers Association. 5 (1) : pp. 86-116

[39] For example The Good Shepherd https://www.goodshep.org.au/ ; Financial Toolbox: Your Toolkit https://www.financialtoolbox.org.au/your-toolkit/

[40] Wood et al (2008) The implications of loss of a partner for older private renters Final Report No. 116 Australian Housing and Urban Research Institute

accommodation that is appropriate for a person's needs, medical costs and aged care, all of which are substantially subsidised by the Government.

Applying a benchmark level of income, for example the Retirement Income Standards published by ASFA, makes assumptions around the circumstances of individuals in these areas. Specifically home ownership is assumed, and health care costs can vary significantly depending on the health of a particular individual. Therefore any such benchmark must also ensure adequate levels of Rent Assistance.

Cohesion

Examining the interactions of the different elements of the retirement income system is essential to establish cohesion. For example, as noted previously, while means testing of the age pension does have regard to superannuation assets and income; the role of housing needs to be examined more closely. The treatment of housing for means testing the age pension (exempt) is different to that in aged care (partly included in certain circumstances). This may be justified by reference to the nature of aged care, but creates additional complexity.
The complexities of superannuation are incomprehensible to many Australians who rely on advice to navigate the system in both accumulation and retirement phase. Since the 2017 reforms there has been an increase in the number of SMSFs that have been wound up[41], suggesting that the additional complexity introduced into funds in retirement phase has resulted in retirees deciding that they are no longer able to manage their responsibilities as a trustee.

The complexities around aged care subsidies is another emerging area. Not only are there are specific complexities required around understanding the different components of the charges; differences between accommodation deposits and daily accommodation charges, and the relevant subsidies but the means tests that determine eligibility are different to those that apply to the pension system. To add to the difficulty in dealing with this system, these decisions are frequently made when the client and their family are under significant stress and have a limited time to make decisions.

The complexities of the Aged Care system have a particular impact on women. Not only are women more likely to be clients in the system, with 2 out of 3 clients being female[42], but women are also more likely to provide support either as a family carer or a worker in the sector.

[41] ATO: SMSF Population Table: data extracted 8 April 2019 https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Super-statistics/SMSF/Self-managed-super-fund-quarterly-statistical-report---March-2019/#SMSFpopulationtableannualdata
[42] AIHW GEN Aged Care Data: People Using Aged Care https://gen-agedcaredata.gov.au/Topics/People-using-aged-care updated 16 Dec 2019

Concluding Comments:

The Australian superannuation system is maturing, with increasing numbers of Australians being able to draw on superannuation and other savings in retirement[43]. However there are inconsistencies in the system and inequities in the level of support provided to people with different characteristics.

A system that is based on lifetime earnings will perpetuate earning inequalities into retirement; and the provision of tax incentives on voluntary savings has the propensity to distort investment decisions. The level of tax incentives available to high income earners currently exceeds the support provided to low income earners through the pension, and it is questionable as to whether it has changed the level of savings for high net wealth individuals.

NFAW applies a gender lens in analysis of public policy issues, and it is clear that the current system is inherently biased against women as they are less likely to benefit from the contributions and earnings tax concessions than men.

The Age Pension must be supported as a strong first pillar of the retirement income system. To the extent that the system is linked to earnings through reliance on the superannuation guarantee, it will limit retirement outcomes for women who experience career interruptions, part time and low paid work.

We acknowledge that women are not the only vulnerable group in the superannuation system, however many women experience multiple disadvantages. To this end it is essential that the interactions between the age pension, superannuation, housing and aged care; and the extent of Government support provided for each; are examined to ensure that all parts of the system are transparent and interact without unintended consequences.

[43] Above n 10