

3. EQUITY

Outline of this chapter

This chapter examines whether the retirement income system is delivering equitable outcomes. When discussing the objective of the retirement income system (see *1C. The objective of the system and the roles of the pillars*), two aspects of equity highlighted were to:

1. Target Government support to those in need
2. Provide similar outcomes for people in similar circumstances

Submissions focused on whether particular groups in the population receive equitable outcomes from the retirement income system (see *Appendix 6E. Consultation process*).

This chapter analyses internal and external influences on the retirement income system that deliver retirement outcomes for:

- Those with different lifetime incomes and levels of wealth
- Men and women, and singles and couples
- Home owners and non-home owners
- Those covered by the Superannuation Guarantee (SG), and those who are not
- Those who retire at different ages, voluntarily and involuntarily
- Aboriginal and Torres Strait Islander people and the total population
- Those with and without disability
- Different generations (intergenerational equity)

Box 3-1 Approaches to measuring equity

Equity has no universal measure. Whether an outcome is equitable is a value judgement based on subjective notions of fairness and justice, which may vary from person to person or over time. Any assessment of the equity of the retirement income system depends on the value judgement of the community as a whole.

Some submissions stated or inferred how equity should be measured, referring to factors including:

- **Distributions of income and wealth**, such as the relative size of superannuation balances or retirement incomes
- **Distributions of Government support at points in time and over a lifetime**, such as the average value of superannuation tax concessions or income support payments different groups receive
- **Proportions of people meeting minimum standards of living**, such as the number in poverty or financial stress
- **System coverage**, such as the proportion who receive the Age Pension or compulsory superannuation
- **Qualitative factors**, including survey responses and anecdotal evidence, such as how easy it is to engage with the system

All these factors were considered in assessing the equity of the retirement income system settings and the outcomes they delivers to different groups.

Section 3A. Income and wealth distribution

Box 3A-1 Section summary

- **The Age Pension reduces income inequality among retirees, as it provides a greater proportion of retirement incomes to lower-income earners.** Income inequality among retirees is similar to that of working-age people. The Age Pension more than offsets the increased income inequality due to superannuation tax concessions. As the superannuation system matures, retirement incomes from the Age Pension and superannuation are expected to be more equally distributed as superannuation balances become more equally distributed.
- **Full-time, higher-income and continuously employed people receive more lifetime Government support within the retirement income system than lower- and middle-income earners, in dollar terms.** As superannuation is an employment-based scheme, full-time and continuously employed people and those at the higher end of the income distribution make more superannuation contributions and receive more superannuation tax concessions. People with the lowest lifetime incomes generally receive most of the Age Pension payments. Reforms, such as lowering the threshold for Division 293 tax and introducing the low income superannuation tax offset, have to some extent reduced the difference in the size of superannuation tax concessions received by lower- and higher-income earners.
- **A large proportion of voluntary superannuation contributions are made by people aged 55 and over and higher-income earners.** Compulsory superannuation contributions are more evenly spread across ages and incomes than voluntary contributions.
- **Many of the very large superannuation balances, which were built up under higher previous contributions caps, are expected to remain in the superannuation system for several decades.** In June 2018, over 11,000 people had a superannuation balance over \$5 million. These accounts can receive very large superannuation earnings tax concessions.
- **Lower-wealth households with people aged 65 and over generally receive more social transfers in kind than higher-wealth households.** Means-tested concession cards for seniors provide lower-wealth households more social transfers in kind than higher-wealth households. Middle-income earners receive the largest benefit from the seniors and pensioners tax offset, as lower-income earners are unable to use the entire value of the offset. Some people with large superannuation balances also receive a significant benefit from the seniors and pensioners tax offset, as tax-free superannuation is excluded from the seniors and pensioners tax offset income test.
- **Retirees with the same level of savings can receive different retirement incomes depending on the composition of those savings.** Different types of retirement savings produce different incomes due to tax variations and the Age Pension means test.

Outline of this section

This section analyses:

- The tax advantage of saving through superannuation across income levels and the size of superannuation contributions and balances
- Income inequality among people aged 65 and over compared with people aged 25-64
- The lifetime Government support the retirement income system provides to people with different income levels
- The size of social transfers in kind and age-based tax concessions received by retirees with different levels of income and wealth
- Whether retirees with similar levels of savings receive similar retirement incomes

Box 3A-2 Stakeholder views on equity of Government support provided through the retirement income system

Stakeholders had divergent views about the equity of Government support through the retirement income system. Many considered the system provides disproportionate levels of Government support to full-time, male, continuously employed and higher-income earners. This was the most common theme raised in submissions made by individuals. One stakeholder noted:

'The poor design of superannuation tax concessions is the greatest weakness of our retirement income system...' (Australian Council of Social Service, 2020, p. 35)

A few stakeholders expressed concern about superannuation accounts with very large balances. Many recommended changes to superannuation tax arrangements to reduce the proportion of Government support provided to higher-income earners. One stakeholder stated:

'Tax concessions for high net worth individuals should be reviewed, with an emphasis on existing superannuation accounts exceeding \$10 million.' (Australian Institute of Superannuation Trustees, 2020, p. 8)

Some stakeholders challenged the way the consultation paper analysed lifetime Government support provided through the retirement income system. These stakeholders considered the analysis overstated the proportion of superannuation tax concessions received by higher-income earners. Most of these stakeholders were not concerned with the current superannuation tax arrangements. One stated:

'...we consider there is a strong case for concluding that the tax system for superannuation is equitable and does not provide unfair benefits to higher-income earners.' (Financial Services Council, 2020, p. 64)

Some stakeholders raised concerns about current deeming rates for the Age Pension means test. One stated:

'It is worth noting that the lower Deeming rate is now, for the first time since 1996, higher than the Reserve Bank Cash Rate.' (Western Australia Self Funded Retirees Inc., 2020, p. 1)

Tax advantage of saving through superannuation

Most people pay less tax when they save through superannuation compared with other savings vehicles. This is because, even after the reforms of the last 10 years, the superannuation tax system has a relatively flat structure, while the individual income tax system is progressive (see 1B. *Design of Australia's retirement income system*).

Superannuation contributions tax

Superannuation contributions tax is applied to superannuation contributions that have not been otherwise taxed. For very high income earners, Division 293 tax means people with annual incomes of \$250,000 and over receive a 17 per cent tax concession on contributions above this threshold, lowering their tax advantage (Chart 3A-1).

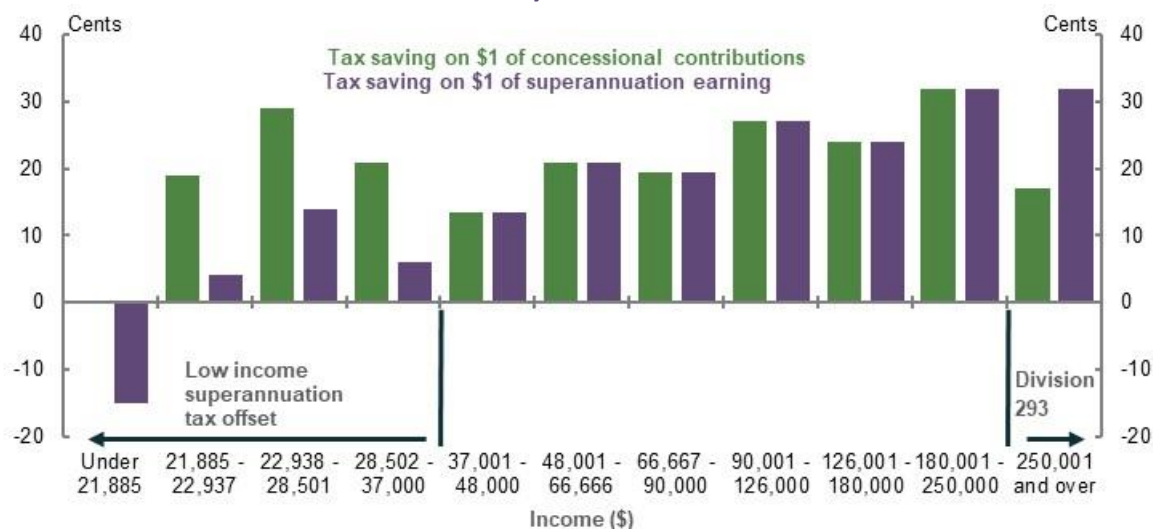
For people whose income is below the effective tax-free threshold of \$21,884,¹¹⁴ the low income superannuation tax offset removes the tax *penalty* on superannuation contributions, ensuring the tax on contributions is zero but does not create a tax *advantage*.

¹¹⁴ For the 2019-20 financial year.

Superannuation earnings tax

Superannuation earnings are taxed at 15 per cent in the pre-retirement phase but are tax-free in the retirement phase. The low income superannuation tax offset and Division 293 tax do not apply to superannuation earnings. This means people with higher annual incomes receive larger tax advantages on superannuation earnings (Chart 3A-1).

Chart 3A-1 Tax saving per dollar of concessional superannuation contributions and earnings, by income



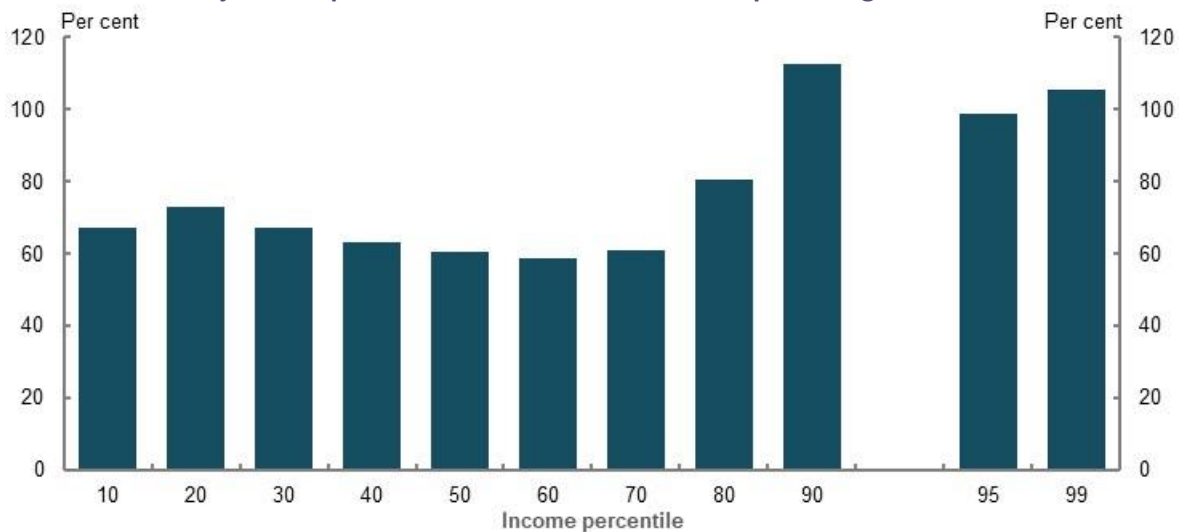
Note: Results for superannuation earnings only apply to assets held in the pre-retirement phase. Applies to the 2019-20 financial year. Tax saving includes the Medicare Levy. Assumes the person is single, has no dependants, is not eligible for the seniors and pensioners tax offset and has private health insurance. Marginal tax rates vary significantly across income levels due to the low income tax offset, low and middle income tax offset, Medicare Levy and Private Health Insurance Rebate. Source: Calculations using 2019-20 income and superannuation tax thresholds.

Over their lifetime, cameo modelling shows higher-income earners receive more superannuation tax concessions than lower-income earners¹¹⁵ as a percentage of superannuation contributions (Chart 3A-2).

Several stakeholders suggested superannuation savings should be taxed more progressively. Some focused on equalising the tax advantage of superannuation contributions. If this is achieved, less superannuation contributions tax concessions would be received by higher-income earners. However, even if the tax advantage was equalised, higher-income earners would continue to receive larger lifetime contributions tax concessions than lower-income earners as, on average, they make larger contributions than lower-income earners.

A few stakeholders also proposed reducing the tax advantage on superannuation earnings for people on higher incomes. But, given the way this tax is administered, options to equalise the tax advantage on superannuation earnings would pose a number of challenges. This is because superannuation funds currently administer superannuation earnings tax, but the ATO holds information about people's marginal tax rates.

¹¹⁵ Lower-income earners are defined as those in the bottom 30 per cent of all earners, higher-income earners in the top 20 per cent and middle-income earners are those in between. Adjusted by the review's deflator to 2019 dollars, lower-income earners have average annual earnings over their working life of up to \$48,000, while higher-income earners have average annual earnings of \$112,900 and above.

Chart 3A-2 Projected superannuation tax concessions as a percentage of lifetime contributions

Note: Values are in 2019-20 dollars, deflated using the review's mixed deflator (see *Appendix 6A. Detailed modelling methods and assumptions*) and results are similar if deflated by wages. Superannuation tax concessions include those on contributions and earnings. Superannuation tax concessions received as a proportion of contributions can be high as, over a lifetime, earnings tax concessions tend to be the larger component as they are received every year and compound over time along with earnings (see Chart 3A-11 for the make-up of lifetime superannuation tax concessions). Superannuation contributions include all compulsory and salary sacrifice contributions made over a lifetime. Source: Cameo modelling undertaken for the review.

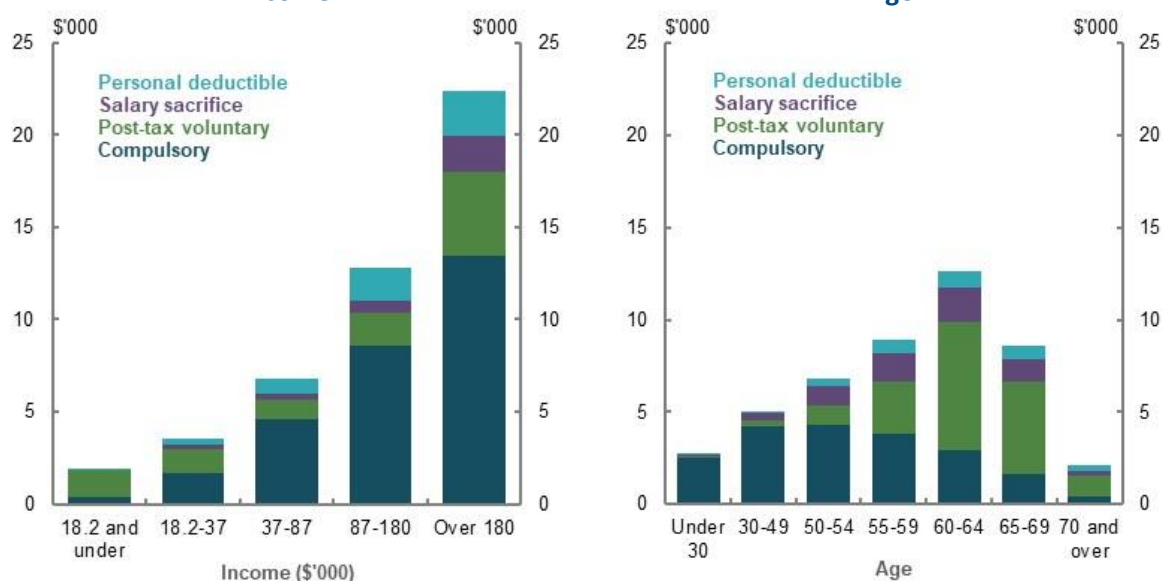
Superannuation contributions

Average annual superannuation contributions

Superannuation contributions vary significantly by income, age, superannuation balance and gender (see *3B. Gender and partnered status*). On average, annual superannuation contributions vary more by income than age. Higher-income earners make larger contributions than lower-income earners (Chart 3A-3). However, even the highest-income earners contribute less than the contributions caps, on average.

Before age 65, older people generally make larger contributions than younger people (Chart 3A-3). Contributions begin decreasing after age 65. However, people who continue to work after age 65 continue to increase their contribution amounts until age 75, when they can no longer make voluntary superannuation contributions (Polidano, et al., 2020, p. 21).

Chart 3A-3 Average annual superannuation contributions



Note: 2017-18 data. Does not include Government co-contributions and spouse contributions. Source: Analysis of ATO individual income tax returns and member contributions statements, 2017-18.

Compulsory superannuation contributions

The size of compulsory superannuation contributions relates directly to a person's ordinary time earnings. In 2017-18, the top 15 per cent of income earners made 42 per cent of the total compulsory contributions.¹¹⁶ Average annual compulsory contributions peak around ages 50-54, within the age bracket where average weekly total cash earnings peak (ABS, 2019h).

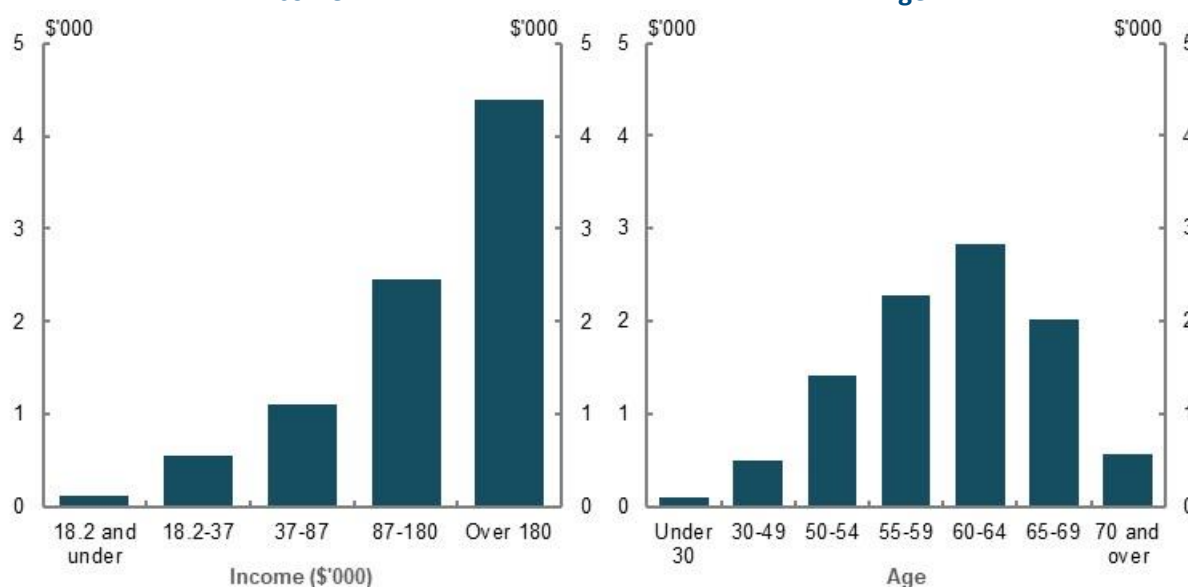
Pre-tax voluntary superannuation contributions

Average pre-tax voluntary superannuation contributions increase with age and peak just before age 65 (Chart 3A-4). In 2017-18, more than 60 per cent of pre-tax voluntary contributions were made by people aged 55 and over.¹¹⁷ Pre-tax voluntary contributions also rise with income and superannuation balances. The role of pre-tax voluntary contributions in the Government support provided through the retirement income system is explored in 4. *Sustainability*.

¹¹⁶ Analysis of ATO individual income tax returns and member contributions statements, 2017-18.

¹¹⁷ Analysis of ATO individual income tax returns and member contributions statements, 2017-18.

Chart 3A-4 Average annual pre-tax voluntary superannuation contributions



Note: 2017-18 data. Pre-tax voluntary superannuation contributions are equal to the sum of personal deductible and salary sacrifice superannuation contributions. Source: Analysis of ATO individual income tax returns and member contributions statements, 2017-18.

Post-tax voluntary superannuation contributions

Average post-tax voluntary contributions differ significantly depending on a person's superannuation balance and age. These contributions are highest for people aged 60-64 and those with a superannuation balance between \$1 million and \$2 million (Chart 3A-5). Contributions fall significantly for people with balances above \$2 million, likely because the 1 July 2017 reforms generally prevent people with a total superannuation balance above \$1.6 million from making post-tax voluntary contributions (see *1B. Design of Australia's retirement income system*). For example, people with balances exceeding \$1.6 million made around \$11 billion in post-tax voluntary contributions in 2016-17, but around \$900 million in 2017-18.¹¹⁸ Despite this, people with superannuation balances over \$500,000 (around the top 5 per cent of balances) still made 46 per cent of post-tax voluntary contributions in 2017-18.¹¹⁹

As post-tax voluntary contributions are typically made at older ages, when people often work reduced hours, income is not the best indicator of whether post-tax voluntary contributions are primarily made by people who were higher-income earners during their working life. Even so, the top 15 per cent of income earners made 28 per cent of post-tax voluntary contributions in 2017-18.¹²⁰

In future, as the superannuation system matures, the proportion of post-tax voluntary contributions made by higher-income earners is expected to reduce. Cameo modelling projects the superannuation balances of the top 5 per cent of income earners would exceed the \$1.6 million (in real dollars) balance limit on making non-concessional contributions during working life, generally preventing post-tax voluntary contributions in the years leading up to retirement.¹²¹

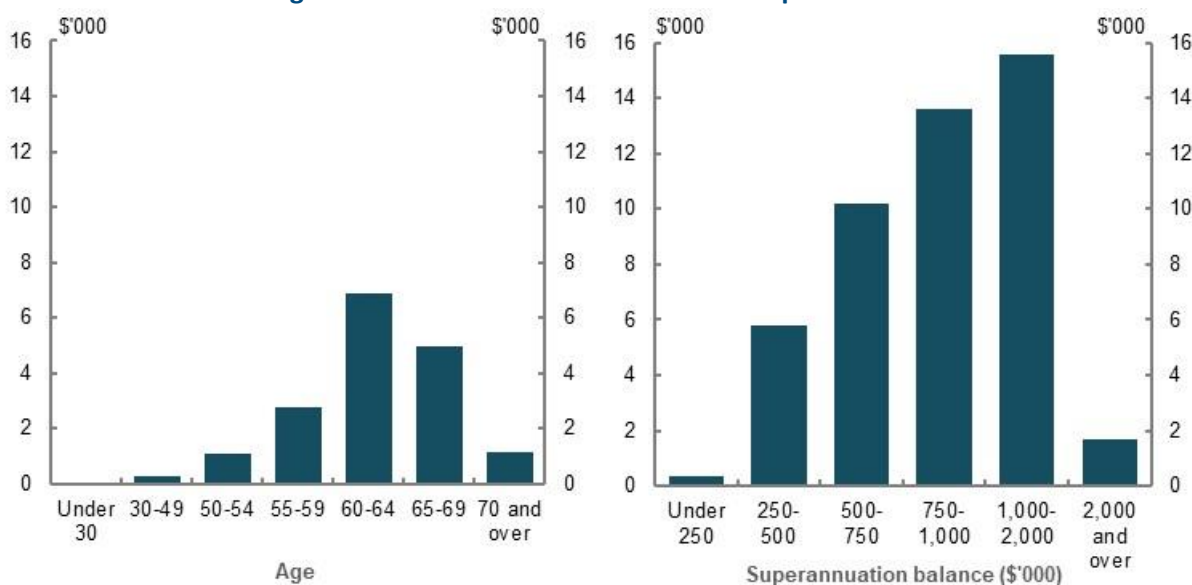
¹¹⁸ Analysis of ATO individual income tax returns and member contributions statements, 2 per cent sample, 2016-17 and 2017-18.

¹¹⁹ Analysis of ATO individual income tax returns and member contributions statements, 2017-18.

¹²⁰ Analysis of ATO individual income tax returns and member contributions statements, 2017-18.

¹²¹ Cameo modelling undertaken for the review.

Chart 3A-5 Average annual post-tax voluntary superannuation contributions



Note: 2017-18 data. Source: Analysis of ATO individual income tax returns and member contributions statements, 2017-18.

Annual caps and contribution flexibility

The annual concessional (compulsory and pre-tax voluntary) contributions cap is \$25,000. The annual non-concessional (post-tax voluntary) contributions cap is \$100,000 (see 1B. *Design of Australia's retirement income system*).

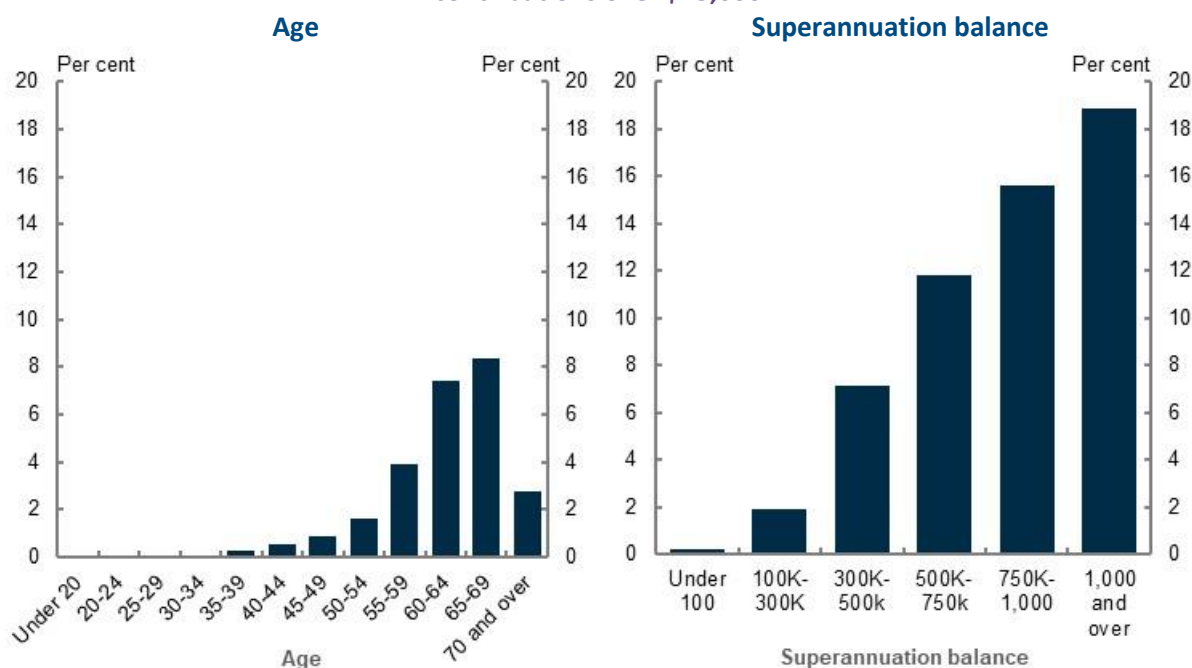
A few stakeholders considered these annual limits may prevent people with variable incomes from building a sufficient superannuation balance at retirement. While this may be an issue for some people, contributions caps are most likely to bind for higher-income earners¹²², for whom income mobility is low (Productivity Commission, 2018b, pp. 95-98). Longitudinal data also suggests most people tend to remain in similar income percentiles, on average, during their entire working life.¹²³

In 2017-18, most people did not make voluntary (pre- and post-tax) contributions of more than \$25,000. Of the just under 2 per cent who did, the vast majority were aged 55 and over or had a superannuation balance of more than \$300,000 (the top 11 per cent of balances) (Chart 3A-6). This suggests **most people do not come close to using the full non-concessional contributions cap**.

¹²² In 2017-18, people making concessional contributions of \$22,500 or more had taxable incomes in the top 3 per cent of contributors.

¹²³ Analysis using data provided by the ATO for the review.

Chart 3A-6 Population making annual voluntary (pre- and post-tax) superannuation contributions over \$25,000



Note: 2017-18 data. Population is limited to people who lodged an income tax return in 2017-18. Source: Analysis of ATO individual income tax returns and member contributions statements, 2 per cent sample, 2017-18.

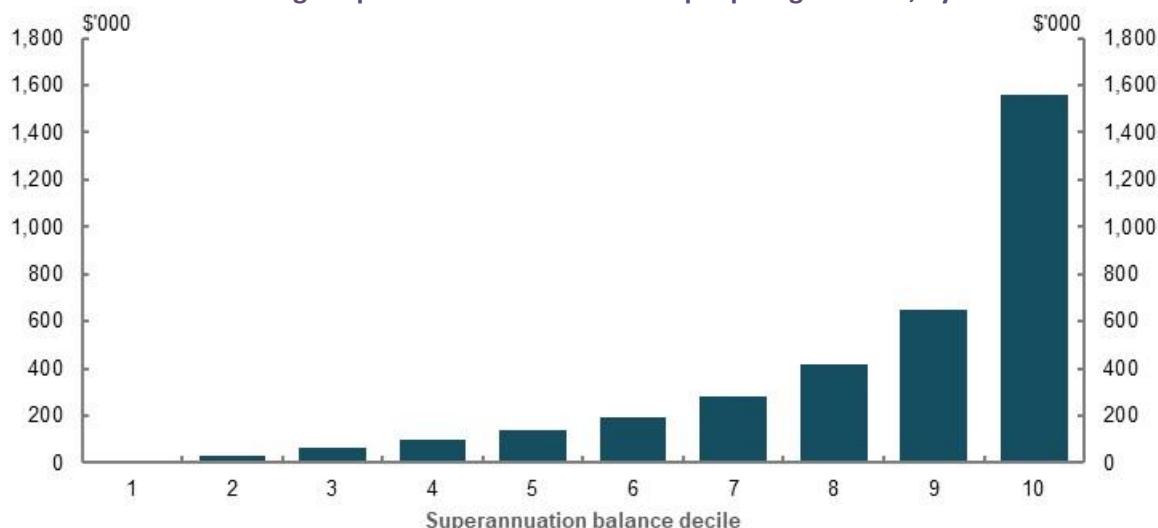
To support those with variable incomes and interrupted careers, from 1 July 2019, people with a superannuation balance of less than \$500,000 have been able to make 'catch-up' concessional superannuation contributions. This allows eligible people to make more than \$25,000 of concessional contributions in a year. Of the people who made concessional contributions of more than \$25,000 in 2017-18, 64 per cent were male and 67 per cent were in the top 16 per cent of income earners.¹²⁴ Higher-income women who take a break from the workforce are also likely to benefit from the ability to make catch-up contributions.

The distribution of superannuation balances

There are large differences in the superannuation balances of people aged 60-64 (Chart 3A-7).

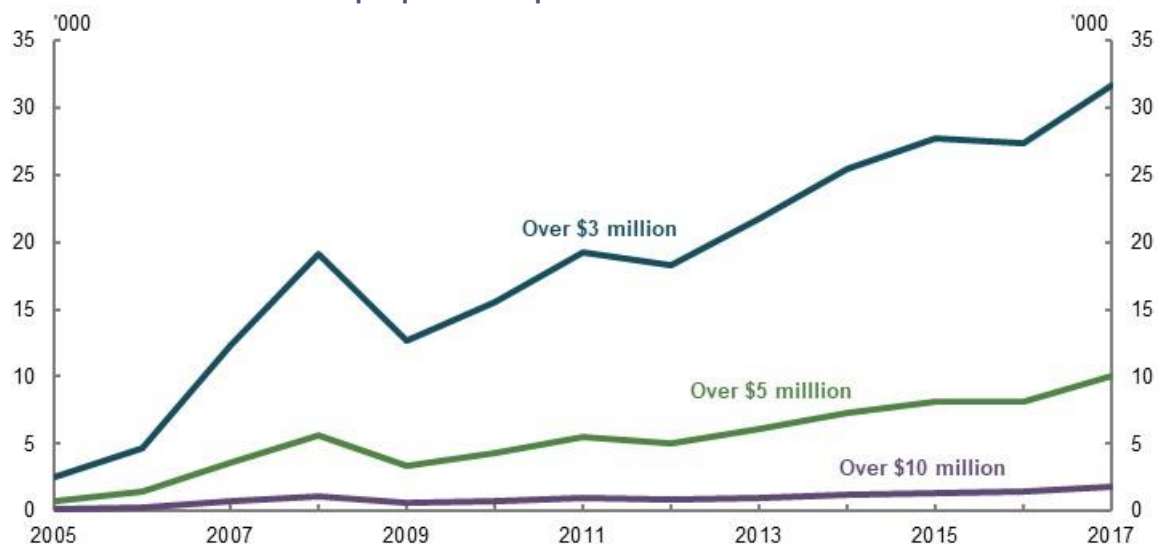
Superannuation contributions caps were more generous or non-existent in the past. This allowed some very large superannuation balances to build up.

¹²⁴ Analysis of ATO individual income tax returns and member contributions statements, 2 per cent sample, 2017-18.

Chart 3A-7 Average superannuation balances for people aged 60-64, by balance decile

Note: June 2017 data. Superannuation balance is the average balance of all people in the decile. Excludes people with zero balances and people who did not lodge an income tax return in 2016-17. Around 10 per cent of people aged 60-64 recorded in the tax file have no superannuation. A significant number of people not captured by the tax file also would have no superannuation. Source: Analysis of ATO individual income tax returns and member contributions statements, 2 per cent sample, 2016-17.

Since 1 July 2017, superannuation balances greater than \$1.6 million cannot be transferred into the retirement phase. This ensures a person with a very large superannuation balance cannot hold all of their assets in the retirement phase, where earnings are tax-free. In addition, people with total superannuation balances above \$1.6 million generally cannot make post-tax voluntary contributions (see 1B. *Design of Australia's retirement income system*). Despite this, balances above \$1.6 million can continue to grow through compulsory and pre-tax voluntary contributions and investment earnings. Between June 2005 and June 2017, the number of people with a superannuation balance larger than \$10 million increased from 151 to 1,839 (Chart 3A-8).

Chart 3A-8 Number of people with superannuation balances above selected thresholds

Note: Thresholds use 2017 dollars. Historical balances have been inflated using average weekly ordinary time earnings to 2017 dollars, to be comparable to the 2017 figures. Source: Analysis using data provided by the ATO for the review.

People with very large superannuation balances can receive very large superannuation earnings tax concessions. In 2018-19, a person with a superannuation balance of \$5 million would have

received, assuming a net earnings rate of 6 per cent, around \$70,000 in earnings tax concessions.¹²⁵ Using the same assumptions, a person with a superannuation balance of \$10 million would have received more than \$165,000 in earnings tax concessions. As at June 2017, there was over \$90 billion in superannuation accounts with balances of over \$5 million. As a person's superannuation balance increases over time due to earnings growth, so will the value of their earnings tax concessions. Provision of tax concessions for very large superannuation balances are not required for retirement income purposes, as they are unlikely to encourage additional savings (see 5A. *Cohesion*). It appears that large balances are held in the superannuation system mainly as a tax minimisation strategy, separate to any retirement income goals.

In June 2018, the average age of a person with a superannuation balance above \$10 million was 69.¹²⁶ Just under 30 per cent (or 576) of these people were aged 65 or younger.¹²⁷ Based on life expectancy projections, around 30 per cent of these existing accounts are still likely to be in the superannuation system in two decades' time.¹²⁸ Additionally, in the short to medium term, the number of people with a very large balance may continue to grow.

The distribution of retirement incomes

Equality of retirement incomes compared to working-life incomes

Income inequality (based on disposable incomes plus imputed rent) among people aged 65 and over is similar to people aged 25-64 (Chart 3A-9). **This is due to welfare payments, particularly the Age Pension, offsetting the greater inequality in private incomes among people aged 65 and over compared to people aged 25-64.** Private income is more inequitable in retirement as:

- Compared to those aged 25-64, people aged 65 and over derive a greater proportion of their private income from their savings than employment. Across the population, savings are less equally distributed than income (ABS, 2019k)
- People with higher lifetime incomes receive more superannuation tax concessions than people with lower lifetime incomes. This results in superannuation tax concessions making up a larger proportion of retirement incomes for higher-income earners than lower-income earners¹²⁹

Welfare payments have a larger effect on income inequality in retirement, compared to their effect during working life, as:

- A greater proportion of people aged 65 and over receive welfare payments than people aged 25-64.¹³⁰ In addition, the Age Pension is higher than some working-age payments, such as JobSeeker Payment (excluding the temporary Coronavirus Supplement). Welfare payments reduce income inequality for both age groups as welfare payments are generally means tested. For example, the Age Pension is projected to make up a higher proportion of the total retirement incomes of lower-income earners than higher-income earners.¹³¹

¹²⁵ Assumes all superannuation assets are held in the accumulation phase, the assets would be taxed at the person's marginal tax rate including the Medicare Levy if they were not held in superannuation and there are no unrealised capital gains. Analysis using (ATO, 2019a).

¹²⁶ Analysis using data provided by the ATO for the review.

¹²⁷ Analysis using data provided by the ATO for the review.

¹²⁸ Analysis using (Australian Government Actuary, 2019), which highlights the average life expectancy of both men and women under age 65 is greater than 20 years.

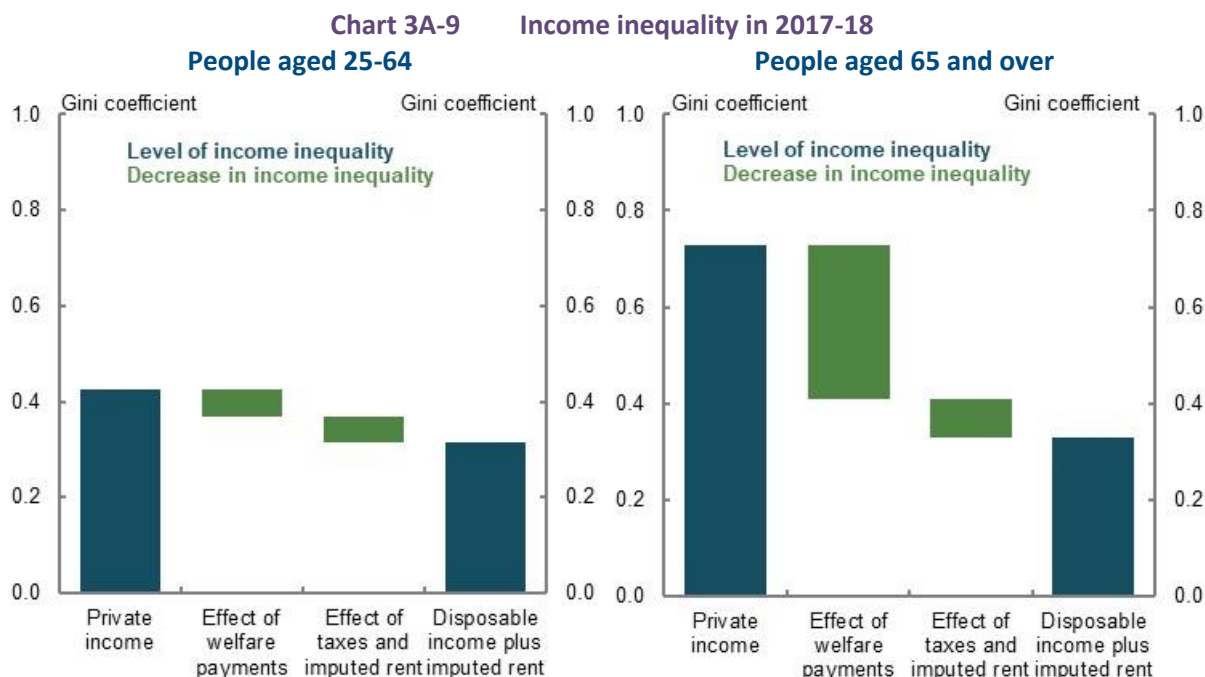
¹²⁹ Cameo modelling undertaken for the review.

¹³⁰ Analysis using (ABS, 2019b; Department of Social Services, 2020a).

¹³¹ Cameo modelling undertaken for the review.

For both age groups, taxes reduce income inequality. This is because individual income taxes are progressive. Imputed rent¹³² also improves income equality for both age groups as:

- The family home is a greater proportion of lower-income than higher-income earners' wealth (ABS, 2019k)
- Lower-income households are more likely to pay subsidised rent or occupy their dwelling rent-free. Imputed rent includes these subsidies



Note: Income inequality is measured by calculating the Gini coefficient. The Gini coefficient is a value between 0 and 1. A value of 0 means that all people have the same incomes (i.e. complete equality), while a value of 1 means all income is received by one person (i.e. complete inequality). Private income refers to income from employment, businesses and investments, such as rent, dividends, royalties and superannuation earnings. Welfare payments include pensions and allowances received by the aged, disabled, unemployed and sick persons, families and children, veterans or their survivors, study allowances for students and all overseas pensions and benefits. Taxes include individual income taxes. Disposable income is equal to private income plus welfare payments less taxes. All income definitions are equivalised for household size. Age of household is the age of the household's reference person. Source: Analysis of ABS Survey of Income and Housing Confidentialised Unit Record File, 2017-18.

For people aged 65 and over, the income inequality due to superannuation tax concessions is more than offset by the Age Pension. For example, without the Age Pension or superannuation tax concessions, a person at the 90th lifetime income percentile would earn more than eight times the retirement income of a person at the 10th lifetime income percentile. Once the Age Pension and superannuation tax concessions are both accounted for, a person at the 90th lifetime income percentile would earn over twice the retirement income of a person at the 10th lifetime income percentile.¹³³

¹³² Imputed rent is the amount that a home owner saves by not having to pay rent for accommodation (see 2A. *Achieving a minimum standard of living in retirement*). It is calculated using ABS methodology, which is explained here:

<<https://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/6503.0~2015-16~Main%20Features~Imputed%20rent~9>>

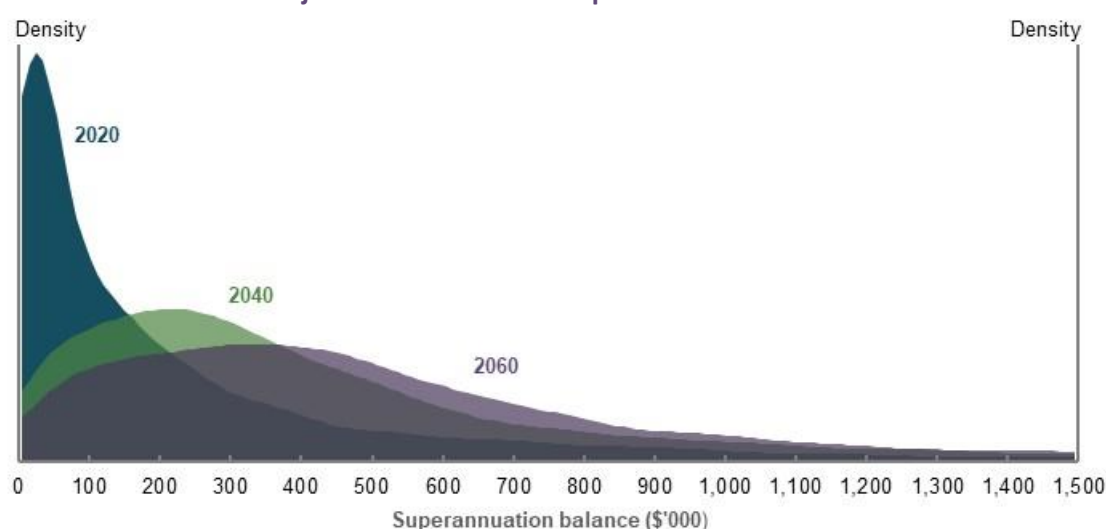
¹³³ Cameo modelling undertaken for the review. Retirement income without Age Pension or superannuation tax concessions reflects differences in working-life income and savings rates.

Incomes would be more equally distributed in Chart 3A-9 if social transfers in kind were included. This is because retirees with lower incomes receive greater social transfers in kind than retirees with higher incomes (see *Other government benefits provided to people aged 65 and over*, below).

Equality of retirement incomes in the future

By 2060, superannuation balances of new retirees are on average projected to be higher than those who retired before them. Future superannuation balances at retirement will also be more equally distributed between retirees compared with those in 2020 (Chart 3A-10). Such a change is projected to decrease the Gini coefficient of superannuation balances at retirement from around 0.7 in 2020 to around 0.5 in 2060 (a lower Gini coefficient represents greater equality).¹³⁴ The Age Pension is also expected to continue to play an important role in reducing inequality.

Chart 3A-10 Projected distribution of superannuation balances at retirement



Note: Values are in 2020 dollars, combined for the three trailing years, and deflated by average weekly earnings. SG rates in the future will increase as per the relevant legislation. This involves the SG rate rising to 12 per cent by July 2025. Source: Treasury estimates for the review using MARIA.

The future impact of voluntary savings on the equality of retirement incomes is unclear. In 2017-18, people with higher income and wealth had larger non-superannuation voluntary savings, on average (ABS, 2019k). Rice Warner modelling, which assumes future savings rates reflect long-term averages and investment returns will be aligned with long-term expectations, projects that retirement incomes will be more equally distributed in future. Specifically, it finds the top 20 per cent of retirees by income will receive just over two times the retirement incomes of the bottom 20 per cent of retirees in 2059, compared with just under four times in 2020.¹³⁵

Lifetime Government support provided through the retirement income system

The previous paragraphs considered Government support as a proportion of total retirement income to help assess the effect Government support has on income inequality. To understand the quantum

¹³⁴ Treasury estimates for the review using MARIA. Estimates combine projected balances of modelled individuals at retirement in the three years up to 2019-20 and 2059-60 reflecting the small samples of modelled individuals retiring in a given year.

¹³⁵ Analysis of Rice Warner estimates for the review.

of support provided to people with different lifetime incomes, Government support should be expressed in dollar terms.

People with lower lifetime incomes generally receive the most Age Pension entitlements. Situations where this may not be the case are discussed later in this section and in *3C. Home ownership status* and *3B. Gender and partnered status*.

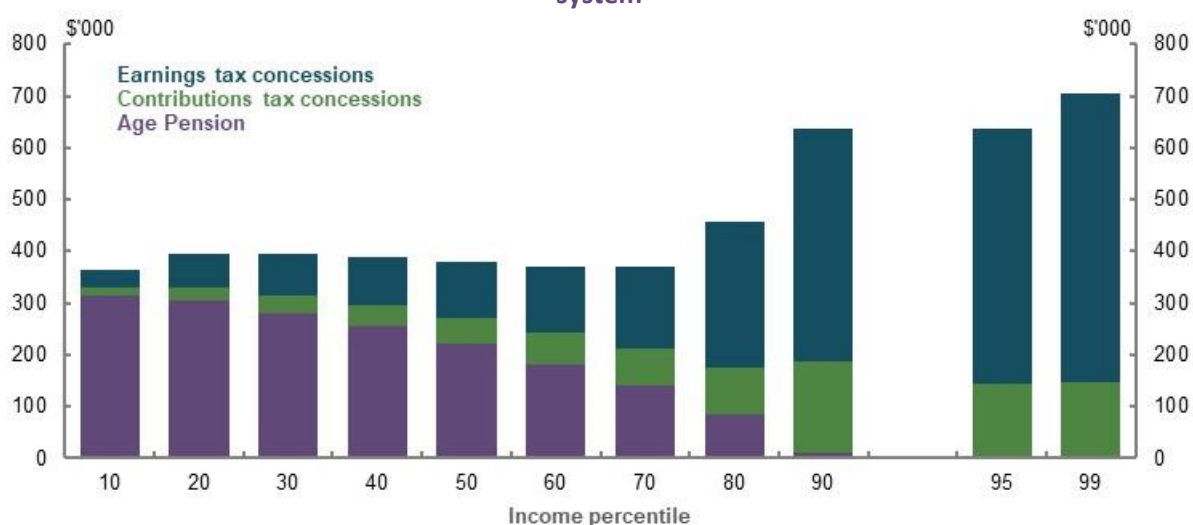
In contrast, superannuation tax concessions increase significantly as lifetime income increases due to higher superannuation contributions and balances and a larger tax advantage. As the SG is an employment-based scheme, full-time and continuously employed people are able to make more contributions and receive more tax concessions. The impact of earnings tax concessions means **higher-income earners receive more lifetime Government support in dollar terms than lower- and middle-income earners** (Chart 3A-11).

Projected lifetime Government support provided through the retirement income system for couples is identified in *3B. Gender and partnered status*. Similar to the analysis for individuals (Chart 3A-11), higher-income couples receive more lifetime Government support in dollar terms than lower- and middle-income couples.

Middle- and higher-income individuals may receive an even greater proportion of Government support than is shown in Chart 3A-11 as they:

- Typically have higher life expectancies than people with lower lifetime income (Lawrence, 1999)
- Make larger post-tax voluntary contributions on average than lower-income earners (Chart 3A-3) — these contributions are not included in the modelling

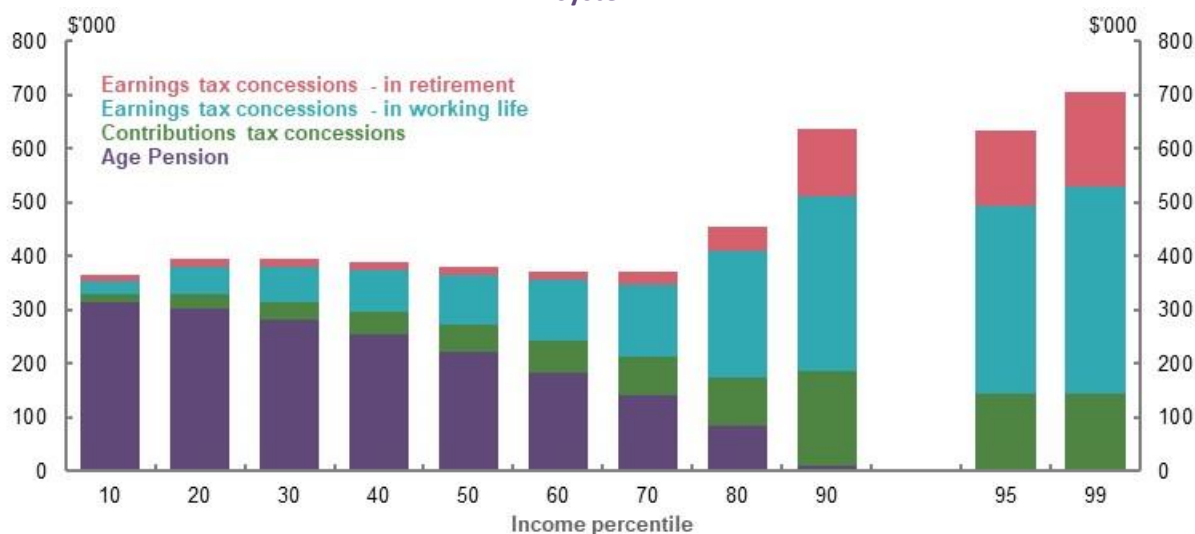
Chart 3A-11 Projected lifetime Government support provided through the retirement income system



Note: Values are in 2019-20 dollars, deflated using the review's GDP deflator and uses review assumptions (see *Appendix 6A. Detailed modelling methods and assumptions*). Middle-income earners receive less support when superannuation is drawn down in line with the minimum legislated rates (see *Annex — stakeholders' issues with lifetime Government support analysis*, below). Source: Cameo modelling undertaken for the review.

Higher-income earners receive substantial earnings tax concessions, including from the exemption from tax for earnings in the retirement phase. Superannuation tax concessions in the retirement phase represent a much higher proportion of lifetime tax concessions for higher-income earners than middle-income earners (Chart 3A-12). The earnings tax exemption is projected to provide the largest boost to retirement incomes for higher-income earners.

Chart 3A-12 Projected lifetime Government support provided from the retirement income system



Note: Values are in 2019-20 dollars, deflated using the review's GDP deflator and uses review assumptions (see *Appendix 6A. Detailed modelling methods and assumptions*). Source: Cameo modelling undertaken for the review.

Methodology for calculating lifetime Government support

Both Chart 3A-11 and Chart 3A-12 are based on the same methodology as the analysis presented in the consultation paper to calculate lifetime Government support. Some stakeholders raised issues with the methodology, arguing that it overstates the size of superannuation tax concessions that higher-income earners receive relative to lower-income earners. A few stakeholders suggested the analysis should recognise that superannuation tax concessions reduce Age Pension expenditure (see *4. Sustainability*).

These issues are discussed in detail in the *Annex — stakeholders' issues with lifetime Government support analysis*. It is still considered that the best way to express lifetime Government support provided through the retirement income system is through the methodology used in Chart 3A-11 and Chart 3A-12. Moreover, even when stakeholders' issues are taken into account, these charts do not change significantly.

Other government benefits provided to people aged 65 and over

Social transfers in kind

Social transfers in kind generally decrease as income and wealth increase (Chart 3A-13).¹³⁶

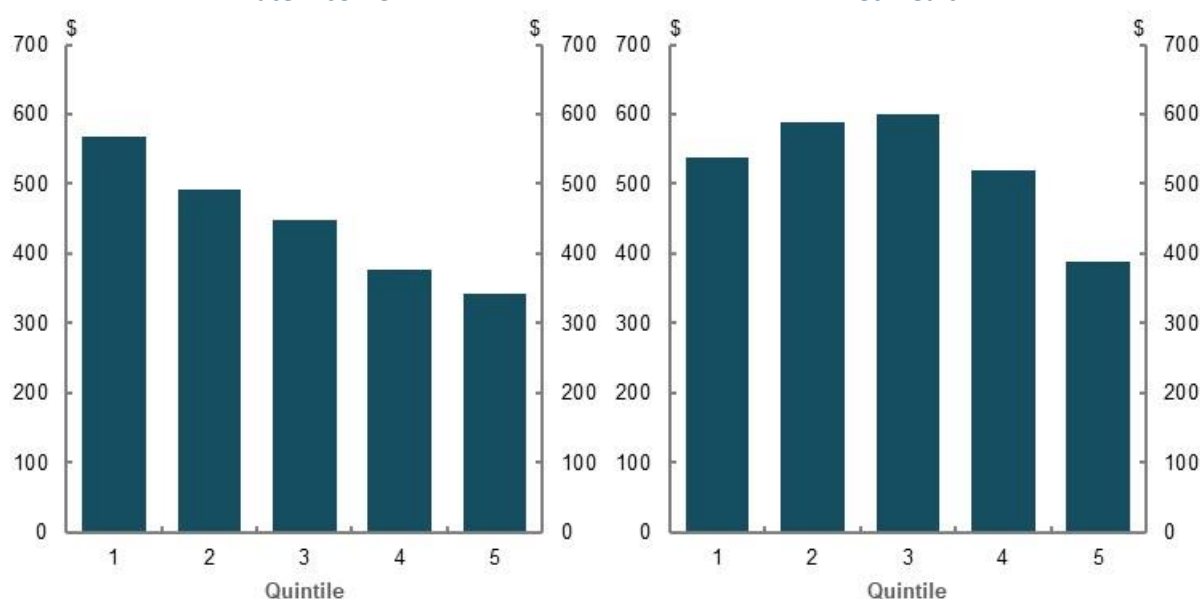
Households in the lower quintiles for income or wealth receive more social transfers in kind than those in the highest quintile for income and wealth. This is because households in lower quintiles are likely to receive the Pensioner Concession Card (see *1B. Design of Australia's retirement income system* for more information about the eligibility criteria and concessions provided by concession cards).

¹³⁶ The analysis focuses on people aged 65 and over as this generally corresponds with the age ranges used by statistical agencies, such as the ABS. It is also roughly equal to the Age Pension eligibility age, which *1A. What is retirement?* defines as the reference point for the 'standard' retirement age.

Households in the highest quintile for income and wealth still receive substantial social transfers in kind because some aspects of both the Medicare Benefits Scheme and Pharmaceutical Benefits Scheme are available to everyone. Some of these households may also benefit from concession cards,¹³⁷ which in June 2019 were held by around 81 per cent of people over Age Pension eligibility age.¹³⁸ Social transfers in kind are likely to be less significant, as a proportion of income, for households in the highest quintile of income or wealth than those in lower quintiles.

Average social transfers in kind received by households vary based on the state or territory of residence. For example, they are 46 per cent higher than the national average in the Northern Territory, and 8 per cent lower in Victoria (ABS, 2018c) (see Chart 6D-1). This may partly explain why social transfers in kind do not always decline as household wealth rises.

Chart 3A-13 Average weekly social transfers in kind for households aged 65 and over
Private income Net wealth



Note: Captures social transfers in kind in 2017-18. Uses 'equivalised' social transfers in kind so results are not biased due to differences in the size of households. Age of household is equal to the age of the household's reference person. Source: Analysis of Survey of Income and Housing, 2017-18.

Concessions for older Australians through the personal income tax system

The seniors and pensioners tax offset results in some older Australians paying less income tax than a working-age Australian on the same income. For example, a single senior Australian eligible for the seniors and pensioners tax offset who earns \$35,000 in 2018-19 would pay \$602 in income tax. Yet, a single working-age Australian not eligible for the seniors and pensioners tax offset who earns the same income would pay \$2,492.¹³⁹

As the seniors and pensioners tax offset is non-refundable, people with low levels of retirement savings — and who receive the maximum rate of Age Pension — cannot use the maximum value of

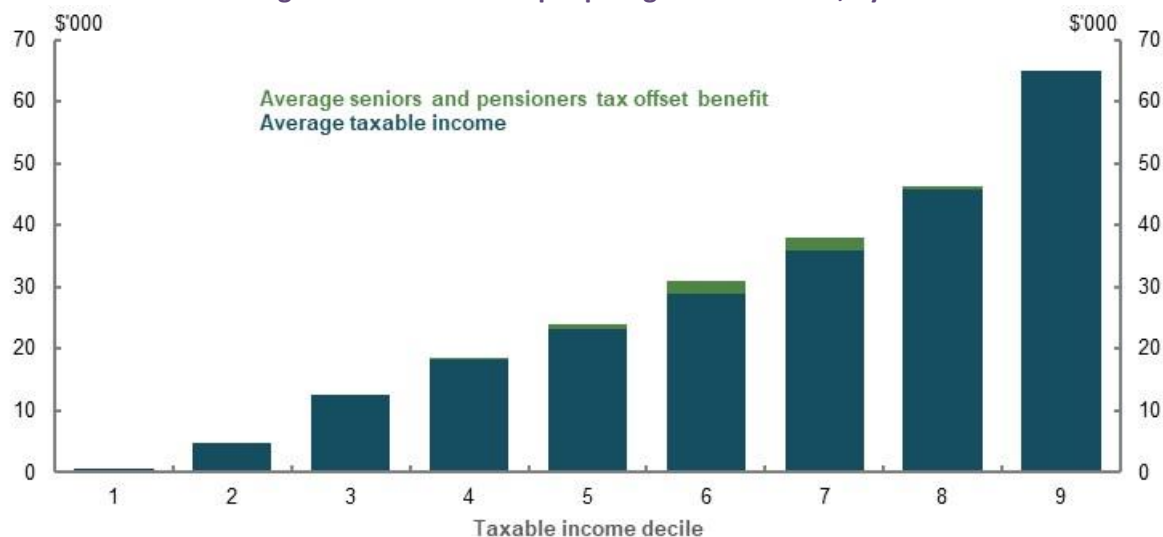
¹³⁷ The most common concession cards for people aged 65 and over are the Pensioner Concession Card and Commonwealth Seniors Health Card (see 1B. *Design of Australia's retirement income system*).

¹³⁸ Calculations using Department of Social Services payment data at 30 June 2019 and ABS population projections for people over Age Pension eligibility age. Includes Department of Veterans' Affairs recipients.

¹³⁹ Calculations using (ATO, 2019a; ATO, 2018). Assumes the person is single and has no dependants. Income tax liability excludes the Medicare Levy.

the offset.¹⁴⁰ As a result, people with higher levels of retirement savings, and who are in the 6th and 7th deciles of the taxable income distribution, receive the largest benefit from the seniors and pensioners tax offset (Chart 3A-14). The total cost of the seniors and pensioners tax offset is estimated in 4. *Sustainability*.

Chart 3A-14 Average taxable income of people aged 65 and over, by taxable income decile



Note: Excludes the tenth decile due to scale. Only captures people who lodged an income tax return in 2013-14. Data provided by the ATO for the review highlights that in 2017-18, around 2.5 million people aged 65 and over did not lodge an income tax return as their income was less than the effective tax-free threshold. As the tax-free threshold is higher due to the seniors and pensioners tax offset, this means many people who benefited from the seniors and pensioners tax offset may not lodge a tax return. Source: Replication of (Daley, et al., 2016), which is derived from taxation statistics 2013-14 individuals' sample file.

Superannuation benefits that are tax-free are excluded from the seniors and pensioners tax offset's income test. This meant just under 30 per cent of people with a superannuation balance of \$2 million and over accessed the seniors and pensioners tax offset in 2017-18 (Chart 3A-15). In 2017-18, the average superannuation balance of people aged 65-69 who lodged a tax return and accessed the seniors and pensioners tax offset was about \$230,000.¹⁴¹ In future, as the superannuation system matures, the average superannuation balance of people accessing the seniors and pensioners tax offset is expected to be higher.

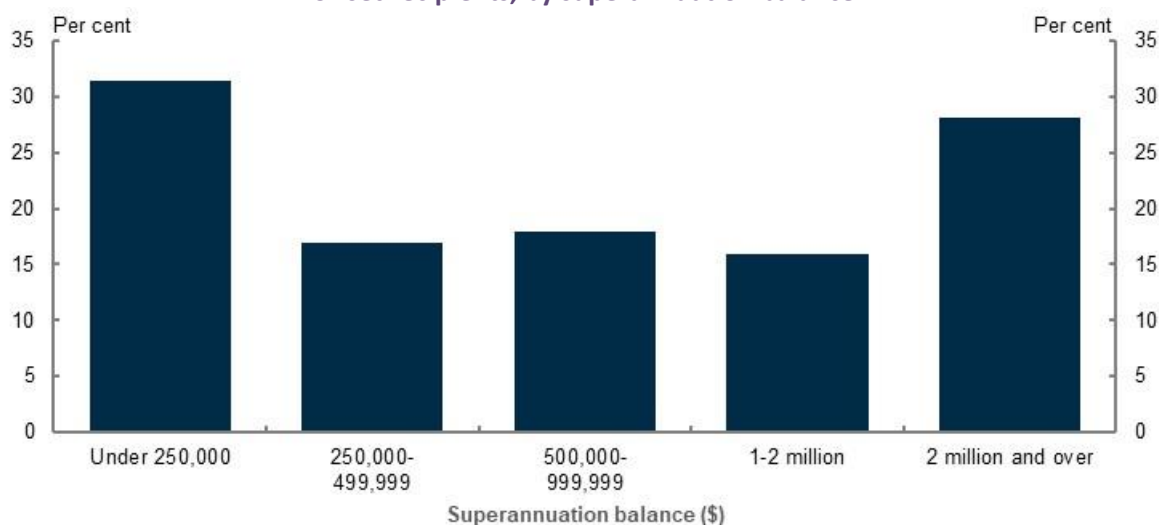
Through the personal income tax system, older Australians also benefit from the Medicare Levy thresholds. These thresholds mean that older Australians who do not pay income tax also do not pay any Medicare Levy (Costello, 2001, p. 4). As older Australians have a higher effective tax-free threshold due to the seniors and pensioners tax offset, they benefit from a higher Medicare Levy threshold.

For example, in 2018-19, single older Australians did not pay the full rate of the Medicare Levy until their taxable income exceeded \$45,069. In comparison, most single working-age Australians paid the full rate of the Medicare Levy once their taxable income exceeded \$28,501.

¹⁴⁰ The seniors and pensioners tax offset only reduces a person's tax liability to zero. Any unused offset amount cannot be refunded.

¹⁴¹ Analysis of ATO individual income tax returns and member contributions statements, 2 per cent sample, 2017-18.

Chart 3A-15 Proportion of people aged 65 and over who received the seniors and pensioners tax offset recipients, by superannuation balance



Note: 2017-18 data. Population is limited to people who lodged a tax return and had a positive superannuation balance in 2017-18. Includes people expected to be eligible for the seniors and pensioners tax offset as they are aged 65 and over, have a rebate income below the threshold amount and have a positive income tax liability after the tax-free threshold and low income tax offset are applied. See (ATO, 2019c) for an explanation of how rebate income is calculated. Source: Analysis of ATO individual income tax returns and member contributions statements, 2 per cent sample and complete sample, 2017-18.

Like the seniors and pensioners tax offset, the income test for the Medicare Levy excludes tax-free superannuation benefits. This means **people with high superannuation balances and incomes do not necessarily pay higher amounts of Medicare Levy than people with low superannuation balances and incomes.**

Do retirees with similar levels of savings receive similar retirement incomes?

Retirees with the same level, but a different composition, of savings can receive different retirement incomes. This is partly because different assets receive different rates of return, and partly a result of different tax treatments and Age Pension means test settings (see *Section 3C. Home ownership status*).

Different tax treatment

Superannuation earnings are taxed at concessional rates. This means the annual tax liabilities of retirees with the same level of savings can vary, depending on how much of their savings is held inside and outside superannuation. This variance is currently only significant for people with savings greater than \$1 million, excluding the family home (Table 3A-1).¹⁴²

¹⁴² People over Age Pension eligibility age have a higher tax-free threshold due to the seniors and pensioners tax offset. This means a single retiree with retirement savings, excluding the family home, of less than \$1 million is unlikely to generate annual earnings significantly above the tax-free threshold, regardless of how their retirement savings are distributed across superannuation and other savings vehicles.

Table 3A-1 Income tax paid by retirement savings and composition of assets

Retirement savings (\$'000)	80 per cent in superannuation and 20 per cent in other assets (\$)	20 per cent in superannuation and 80 per cent in other assets (\$)
200	0	0
500	0	0
1,000	0	7,147
5,000	34,967	93,997
10,000	99,622	218,797

Note: Calculations apply to 2018-19 financial year. Retirement savings are equal to superannuation plus other assets, excluding the family home. Assumes the person is single, is eligible for the seniors and pensioners tax offset, did not receive an Australian Government pension or allowance during the year, nominal investment returns are 6.5 per cent per year, the first \$1.6 million of superannuation assets are held in the tax-free retirement phase and all earnings from other savings vehicles are taxed at the person's marginal tax rate. As the latter assumption may be unrealistic for people with high levels of wealth, the results in this table can be interpreted as an upper boundary for the effect of asset allocation on a person's income tax liability. Source: Calculations using (ATO, 2018; ATO, 2019a).

Age Pension means test

The Age Pension means test separately assesses a person's level of assets and income (see *1B. Design of Australia's retirement income system*). **The operation of the means test can result in people with different levels of assets and/or income receiving the same Age Pension income in some circumstances.** This is because, when the assets test determines a person's Age Pension payment amount, their income level does not affect their Age Pension payment amount. The result can be that someone with a higher annual income can receive the same Age Pension as someone with a lower annual income (Table 3A-2).

Similarly, when the income test determines a person's Age Pension payment amount, the value of a person's assets does not affect their Age Pension payment amount. The result can be that someone with greater assets can receive the same amount of Age Pension as someone with fewer assets. Different types of potential means-test arrangements are discussed in *5A. Cohesion*. The trade-offs involved in merging the means tests are identified in *Appendix 6B. An example to illustrate the trade-offs of merging the means test*.

Table 3A-2 Cameo: Annual Age Pension payment for people with different means

	Person 1	Person 2
Age	67	67
Account-based pension income (\$) (\$500,000 with 5 per cent drawdown)	25,000	25,000
Employment income (\$)	0	20,000
Total income (\$)	25,000	45,000
Age Pension (\$)	6,085	6,085

Note: Values are in 2019-20 dollars. The Age Pension assets test determines the Age Pension payment amount for both person 1 and 2. Source: Calculations based on Age Pension rates and thresholds as at 1 May 2020.

Deeming rules may result in the Age Pension income test assessing a higher or lower amount of income than the person *actually* received in the period. The current lower and upper deeming rates, of 0.25 and 2.25 per cent¹⁴³ respectively, are lower than returns on some market-linked investments, such as superannuation from conservative investment strategies and the ASX 200 dividend yield on average over recent years. Around 68 per cent of age pensioners affected by the upper deeming rate of 2.25 per cent hold some market-linked investments, which generally attract

¹⁴³ As at 1 May 2020.

higher returns than term deposits or bank accounts. This proportion can be expected to increase as the superannuation system matures and becomes the main financial asset held by age pensioners. This may allow some retirees to be deemed to earn a return on their financial investments of between 0.25 per cent and 2.25 per cent, while actually earning much higher rates of return on these assets. Nevertheless, deeming, rather than assessing, the actual income received from financial investments has merits (see *1B. Design of Australia's retirement income system*).

Box 3A-3 Impact of changes to certain policy settings on lifetime Government support provided through the retirement income system

A significant number of submissions raised policy proposals affecting the size of lifetime Government support provided to people with different income and wealth levels. The following summary outlines some implications of some of those proposals.

- **Changes to superannuation tax arrangements.** Higher-income earners receive the majority of lifetime Government support through superannuation tax concessions. Lower-income earners receive the majority of lifetime Government support through the Age Pension. Tightening superannuation tax concessions would therefore affect higher-income earners the most (see *4. Sustainability*).
- **Raising the SG rate.** Higher-income earners make the largest compulsory superannuation contributions and therefore receive more superannuation contributions tax concessions. Additionally, they either do not qualify for, or lose minimal, Age Pension if they retire with higher superannuation balances. Increases in the SG rate would make the distribution of Government support provided by the retirement income system more inequitable (see *2D. Policy scenario: Implications of maintaining the SG rate*).
- **Including tax-free superannuation income in the income test for the seniors and pensioners tax offset and the Medicare Levy.** Such a change would ensure that retirees with large superannuation balances are not able to access these age-based tax breaks.
- **Introduce a merged means test for the Age Pension.** A merged means that replaces the assets test with a capital consumption component in the income test would ensure a person's Age Pension payment is consistently determined on the totality of their means. In some situations, this does not occur under the current dual means tests (see *5B. Policy scenario: Implications of changing Age Pension means test settings*).

Annex — stakeholders' issues with lifetime Government support analysis

The consultation paper presented the review's estimates of the size of lifetime Government support for people with different income levels (see 3A. *Income and wealth distribution*, above). Submissions raised issues about the reliability of these estimates. Issues raised about the total cost of the superannuation tax concessions are discussed in 4. *Sustainability*. This Annex discusses issues raised about the size of lifetime Government support that higher-income earners receive relative to lower-income earners.

Stakeholder suggestions for updating the analysis

- **Calculate the cost of superannuation tax concessions using an expenditure tax benchmark.**
 - While 4. *Sustainability* discusses this alternative benchmark, it concludes the comprehensive income tax benchmark is the most appropriate benchmark for the review. Although adopting an expenditure tax benchmark may reduce the apparent cost of superannuation tax concessions, it is not clear the distribution of those concessions would be different to the analysis presented in 3A. *Income and wealth distribution*.
- **Recognise that voluntary contributions would be saved through other concessional tax savings vehicles in the absence of superannuation tax concessions.**
 - Cameo modelling suggests the earnings tax concessions resulting from voluntary pre-tax contributions are only a small proportion of the lifetime Government support the retirement income system gives to higher-income earners (Chart 3A-16). This is because most of the earnings tax concessions higher-income earners receive come from their compulsory superannuation contributions.
- **Reflect that people move between income deciles during their working lives.**
 - The income profiles generated by the cameo model used for the review were tested against longitudinal income data from ALife. Comparisons show lifetime income is broadly similar between the cross-sectional income profiles used in the cameo model and the longitudinal ALife data (see Appendix 6A. *Detailed modelling methods and assumptions*).
- **Use inflation, wage growth or the Government's borrowing rate, rather than nominal GDP (i.e. 5 per cent per year), as the discount rate for Age Pension expenditure and superannuation tax concessions.**
 - The Government can fund the cost of Age Pension expenditure and superannuation tax concessions through borrowing or future tax receipts. The same factors drive nominal GDP growth and bond rates, and as such are broadly comparable over the long term. Economic theory suggests that in the long run government bond rates will be marginally higher than nominal GDP growth (Romer, 2019)¹⁴⁴ and the IMF uses nominal GDP growth as the lower bound for the discount rate in some applications (Kozac, 2005, p. 18). The 40-year average of the Australian Government 10-year bond is 7.7 per cent compared with 7.3 per cent for average annual nominal GDP growth.¹⁴⁵
 - Public Sector Superannuation Scheme and Commonwealth Superannuation Scheme Long Term Cost Report 2017, prepared for the Commonwealth Government by Mercer,

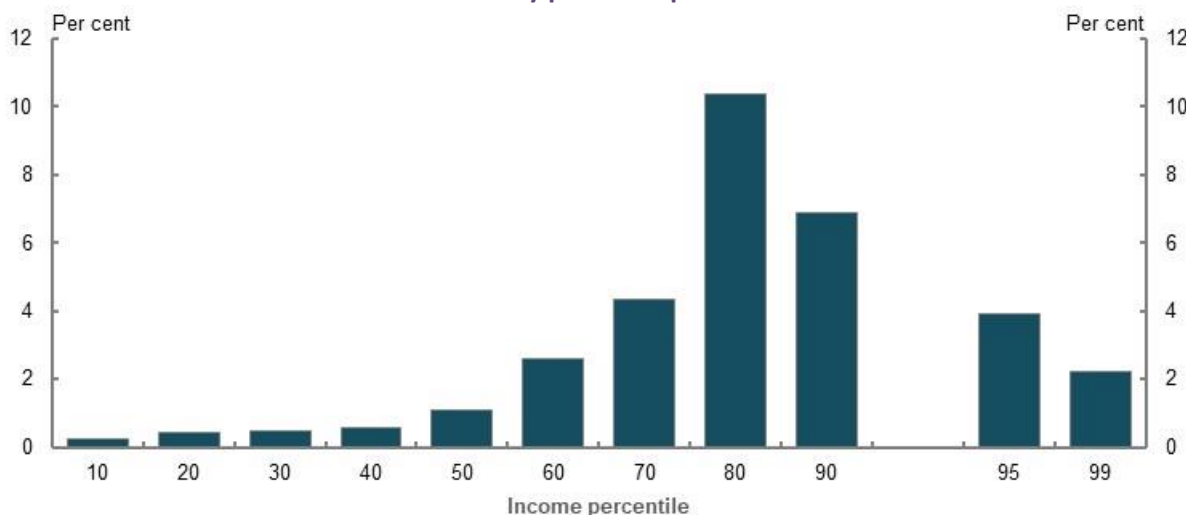
¹⁴⁴ This is a result from the benchmark neoclassical growth model, called the Ramsey-Cass-Koopmans model (see (Romer, 2019) for an exposition of this result).

¹⁴⁵ Calculations using (ABS, 2020c) and (RBA, 2020b). Uses the period of December 1979 to December 2019.

considered the expected return on government bonds over the long term is the appropriate discount rate for funding future benefit payments via borrowings. However, it also suggested expected long-term nominal GDP growth provides a ‘...useful check on the long term bond yield assumption...’ as it represents the earnings of the Government and therefore ‘...sets a reasonable limit on the rate that can be paid on any debt (all other things being equal).’ (Department of Finance, 2018, p. 14)

- It is identified in 1C. *The objective of the system and the roles of the pillars* that delivering adequate outcomes from the system should be cost-effective for taxpayers. Discounting Age Pension expenditure and the cost of superannuation tax concessions by the inflation rate or wages growth would not correctly present the cost of the system to taxpayers.
- **Express superannuation tax concessions as a proportion of superannuation contributions, rather than in dollar terms.**
 - This approach would only aid understanding of the proportion of superannuation balances attributable to public support, not the actual quantum of support provided to people with different means. Expressing lifetime Government support in dollar terms aids understanding of:
 - : The quantum of support provided to people with different means
 - : Whether Government support is allocated to people who already have adequate retirement outcomes
 - : Government’s ability to absorb the costs of the retirement income system
- **Include social transfers in kind provided to retirees.**
 - Chart 3A-13 in 3A. *Income and wealth distribution* highlights that although higher-wealth households generally receive less social transfers in kind than lower-wealth households, they still receive substantial transfers. As a result, including social transfers in kind in the lifetime Government support analysis is unlikely to substantially change the results of the analysis presented in this report.

Chart 3A-16 Projected proportion of lifetime Government support provided through earnings tax concessions on voluntary pre-tax superannuation contributions



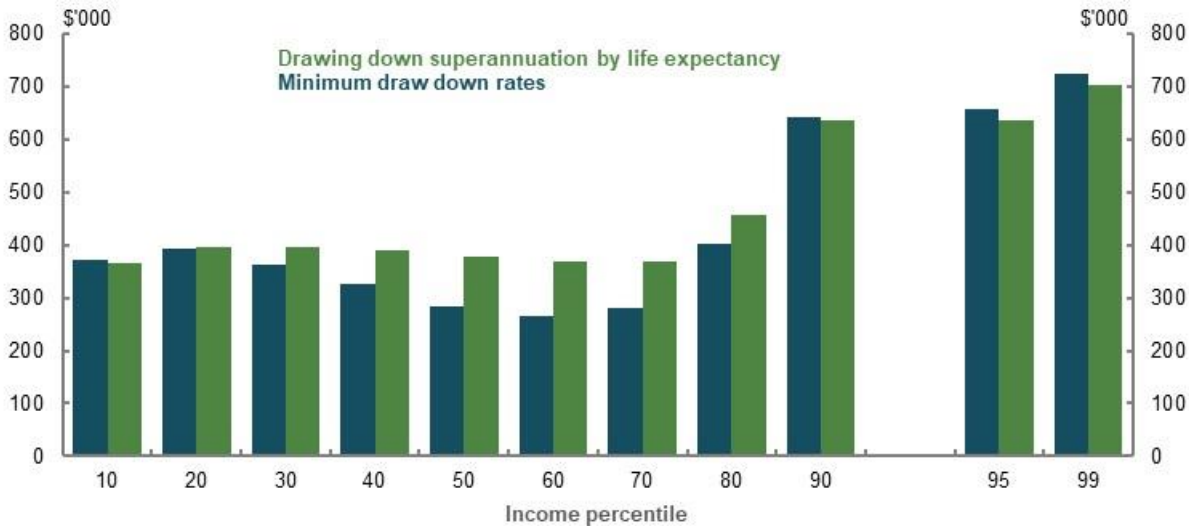
Note: Values are in 2019-20 dollars, deflated using the review’s GDP deflator and uses review assumptions (see *Appendix 6A. Detailed modelling methods and assumptions*). Earnings tax concessions on voluntary pre-tax contributions is estimated by comparing total earnings tax concessions with and without making salary sacrifice contributions. Does not include personal deductible pre-tax voluntary contributions. Source: Cameo modelling undertaken for the review.

Superannuation drawdown rate

The lifetime Government support analysis presented in 3A. *Income and wealth distribution* assumes superannuation savings are drawn down to exhaust people’s superannuation savings at life expectancy. However, many retirees draw down at the minimum drawdown rates (see 5A. *Cohesion*), which are lower than those required to exhaust superannuation savings at life expectancy. Lower drawdown rates increase the amount of superannuation tax concessions obtained in retirement and decrease the Age Pension entitlements for some people. The distribution of lifetime Government support does not significantly change under the minimum drawdown rates, compared with drawing down superannuation to exhaust at life expectancy (Chart 3A-17). This is because:

- Most superannuation tax concessions are earned prior to retirement (see 4. *Sustainability*)
- For middle-income earners, the increase in the amount of superannuation tax concessions received is offset by receiving less Age Pension (see 4. *Sustainability*)

Chart 3A-17 Projected lifetime Government support provided through the retirement income system, by drawdown strategy



Note: Values are in 2019-20 dollars, deflated using the review’s GDP deflator and review assumptions (see *Appendix 6A. Detailed modelling methods and assumptions*). Minimum drawdown rates are the legislated rates for superannuation income streams. Source: Cameo modelling undertaken for the review.

Section 3B. Gender and partnered status

Box 3B-1 Section summary

- **Differences in retirement savings between men and women reflect the accumulated economic disadvantages faced by women in working life.** On average, compared with men, women have lower wages, are more likely to work part-time, take more career breaks, and experience worse financial impacts from divorce. These factors contribute to the gender gap in superannuation balances at retirement.
- **The working-life earnings gap between men and women, rather than retirement income system settings, is the main driver of the gender gap in superannuation balances at retirement.** Some elements of the retirement income system have a small effect on the gender gap in superannuation balances. Fixed fees and insurance premiums, and exclusions from the SG — such as the \$450-a-month threshold and paid parental leave — increase the gap in balances, although their net effect on retirement incomes is small. System features, such as the low income superannuation tax offset for lower-income earners and the Division 293 tax on contributions for very high income earners, marginally reduce the average gender gap in superannuation balances and retirement incomes.
- **Women retire earlier and live longer than men, meaning their savings have to last longer.**
- **In future, the gap between men's and women's superannuation balances and coverage is expected to narrow substantially, but not close.** This is due to the maturing superannuation system, higher voluntary contributions made by women, and the lag effects of previous increases in female labour force participation on superannuation balances at retirement. However, gaps are likely to remain if women continue to have lower workforce participation and earnings than men.
- **Women make more voluntary superannuation contributions than men — both in number and in value.** These contributions are largely made by women with higher superannuation balances, or those whose partners have relatively high balances (compared with the total population). However, as men have greater lifetime earnings than women, they tend to benefit more from superannuation tax concessions.
- **Income inequality between women and men is lower in retirement than in working life, particularly for lower- and middle-income earners.** This is due to the Age Pension, which women are more likely to receive, and for longer, than men.
- **Most people enter retirement as a couple, although this trend is falling.** Women are more likely than men to enter retirement single, and they are more likely to become single in retirement. Women who are coupled generally expect to retire earlier than coupled men.
- **Couples are significantly better off in retirement than single men and women.** Couples in retirement have lower rates of poverty and financial stress, higher rates of home ownership and higher levels of wealth than single people in retirement. Single men are most likely to be asset poor, while single women are more likely to have more of their wealth held in their home compared with single men and couples.

Outline of this section

This section considers both the *relative* differences between men's and women's retirement incomes, as well as the *absolute* poverty and financial stress some women face in retirement.

It analyses factors internal and external to the retirement income system that improve or worsen inequities between men and women:

- **In working life**, such as the gender pay gap, career breaks, SG coverage and voluntary superannuation contributions.
- **In retirement**, such as life expectancy, drawdown behaviour and the Age Pension.

It also analyses retirement trends for, and characteristics of, singles and couples in retirement.

Box 3B-2 Stakeholder views on gender and partnered status equity

Many submissions and stakeholders were concerned about differences between men's and women's retirement outcomes.

Stakeholders noted that women:

- **Face many working-life inequities**, including the gender pay gap, gendered discrimination in the workforce, more part-time work, time out of the workforce to care for others, significant financial impacts from divorce and family and domestic violence, and lower rates of financial literacy
- **Have lower private savings and lower superannuation balances and coverage than men**; in particular, women's superannuation balances are more affected by the \$450-a-month threshold and the exclusion of SG on paid parental leave
- **Rely more on the Age Pension in retirement**, due to their lower savings and longer lives

Most stakeholders noted the inequities experienced by women in retirement are caused by the inequities they face in working life. One submission stated:

'The retirement income system cannot solve the primary reason why women generally retire with lower balances — their lower lifetime earnings overall.'
(Financial Services Council, 2020, p. 10)

Some stakeholders suggested retirement income system settings should be used to ameliorate these working-life differences between men and women — for example, that legislated increases to the SG rate, or a higher SG rate for women than men, could improve outcomes for women.

Some stakeholders stressed the importance of the Age Pension in levelling outcomes between men and women, as it does not depend on working-life earnings. Some stakeholders also noted the significant proportion of retirees who are coupled in retirement, the ability of couples to share resources and the poorer retirement outcomes faced by singles compared to couples.

Gender gaps in retirement outcomes

The gender earnings gap in working life has a significant bearing on the gender gap in superannuation balances at retirement. This, combined with other savings and income sources, such as the Age Pension, affects the gender retirement income gap.

Women experience a gender earnings gap in working life for many reasons, including that women are more likely to:

- Work in lower paid roles
- Work in lower paid industries
- Work part-time or casually
- Take career breaks from paid employment to care for others, including raising children
- Experience discrimination and harassment in the workforce
- Experience family and domestic violence

Box 3B-3 sets out how gender gaps have been calculated.

Box 3B-3 Measuring gender gaps

Gender gaps have been calculated as follows:

$$\text{Gap (\%)} = \frac{\text{Male value} - \text{Female value}}{\text{Male value}} \times 100$$

The 'value' in question can be a variety of indicators, as set out below.

Earnings gap

Most stakeholders defined the gender earnings gap as the gap in full-time adult average weekly ordinary time earnings. In November 2019, this gap was 14 per cent (ABS, 2020d). However, this metric is not the most appropriate to use when considering the impact of earnings differences between men and women on retirement incomes. It does not take into account a person's entire earnings (e.g. it excludes overtime), or the many women who work part-time or casually.

This section uses different measurements of the earnings gap, depending on whether it is analysing the total population or hypothetical individuals.

- **Total population analysis** uses ATO data of annual taxable wages/salaries. ATO data allows for robust distributional analysis across earnings percentiles, as it is drawn from the whole population.
- **Cameo analysis of individuals** uses ABS weekly earnings data. This allows for comparisons of gender earnings gaps between all full-time workers, and between all workers including those working part-time and casually.

Earnings gap analysis does not include those who have no earnings. Women are more likely to have no earnings than men.

Superannuation balances at retirement gap

The media and other stakeholders often report the gender superannuation gap using data on superannuation balances from the ABS Survey of Income and Housing. In contrast, this section uses data from the ATO, which is at a population level, not a sample. ATO data is also collected directly from superannuation funds. It is therefore more accurate than the ABS figures, which are self-reported by individuals.¹⁴⁶

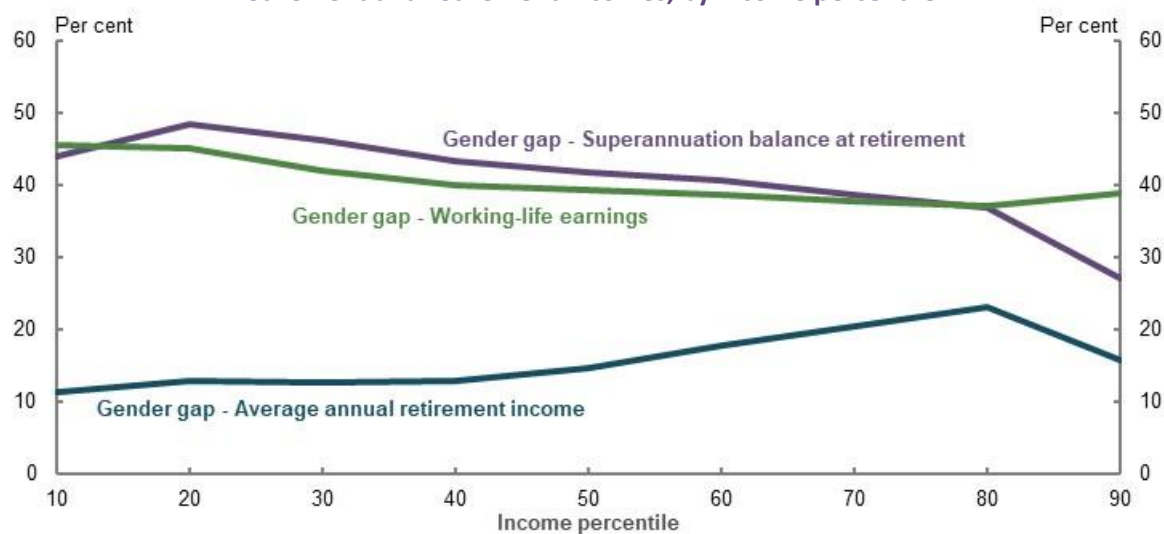
Retirement income gap

When assessing the gender retirement income gap, this section takes into account income from all sources, including the Age Pension, superannuation and other income from work or investments.

Cameo modelling was used to project gender gaps in working-life earnings, superannuation balances at retirement and retirement incomes for individuals with different incomes (Chart 3B-1). This was supplemented by additional modelling of the individual drivers of differences in retirement outcomes between men and women, including full-time and part-time pay gaps and career breaks, in addition to modelling of outcomes for those who are coupled.

¹⁴⁶ A study by the Tax and Transfer Policy Institute found the gender gap in superannuation balances, calculated using ATO data, was 26 per cent in 2014, compared with 41 per cent using HILDA Survey data and 44 per cent using ABS survey data (Polidano, et al., 2020, p. 12). This difference is partly because HILDA and ABS data have a greater number of women with zero superannuation balances. The researchers also hypothesised the difference is likely due to men in surveys being more likely to overestimate their wealth (hence the HILDA and ABS survey results), and that the ATO data captures working-age, short-term residents, who are more likely to be men and have low balances.

Chart 3B-1 Projected gender gaps in working-life earnings, superannuation balances at retirement and retirement incomes, by income percentile



Note: Gender gaps are calculated relative to the relevant figure for men — that is, a 10 per cent gender gap in earnings means that women’s earnings are 90 per cent of men’s earnings. See Box 3B-3 for details. The chart compares the 10th percentile for men to the 10th percentile for women, and so on. Gaps in superannuation balances at retirement and retirement incomes do not factor in the effect of voluntary superannuation contributions not made through salary sacrifice. If included, these would reduce the gaps in balances and retirement incomes between men and women. Calculations are based on values deflated using the review’s mixed deflator. Disaggregation of these gaps can be found in *Appendix 6D. Supplementary equity charts*. Source: Cameo modelling undertaken for the review.

The gender gaps in working-life earnings, superannuation balances at retirement and retirement incomes are a result of drivers in both working life and retirement. These drivers can be further separated into those external to the retirement income system, such as the gender pay gap and divorce, and drivers within the retirement income system’s settings, such as superannuation tax concessions, fees and insurance premiums, and exclusions from the SG.

Working-life drivers of gender gaps outside the retirement income system

Gender pay gap

A key reason for the gender gap in working-life total earnings is the gender pay gap, which can be separated into the effect of:

- Women generally being paid less than men — *the full-time pay gap*
- Women being more likely than men to work part-time — *the total pay gap*

Across all men and women working full-time (excluding part-time and self-employed workers), the gender pay gap is 16.9 per cent. Cameo modelling projects that this results in a 17.4 per cent gender gap in superannuation balances at retirement (Table 3B-1).¹⁴⁷ The difference between the two is largely due to the effect of fees and insurance premiums. The equivalent annual retirement income gender pay gap is lower, at 8.4 per cent, largely due to the levelling effect of the Age Pension.

¹⁴⁷ For assumptions underpinning gender pay gap modelling, see *Appendix 6A. Detailed modelling methods and assumptions*.

Table 3B-1 Projected gaps between men and women

	Working-life earnings gap (per cent)	Superannuation balance at retirement gap (per cent)	Average annual retirement income gap (per cent)
Full-time workers	16.9	17.4	8.4
All workers (including part-time and casual)	31.4	32.6	9.6

Note: Working-life earnings are calculated using total average weekly earnings, seasonally adjusted, November 2019 (ABS, 2020d). Men and women are modelled to receive constant wages in real terms for their entire working life, based on total average weekly earnings. Assumes no non-superannuation savings and no salary sacrifice. Superannuation balance gap is based on values deflated by average weekly earnings. Earnings and income calculations are based on values deflated using the review's mixed deflator. Source: Cameo modelling undertaken for the review.

The gender pay gap for all workers is significantly larger than the full-time pay gap because women are over-represented in part-time and casual work. This leads to a larger gender gap in superannuation balances at retirement. But, the average annual retirement income pay gap for all workers reduces to 9.6 per cent because the Age Pension plays a larger role in the retirement of those with lower working-life incomes, such as part-time and casual workers (see 3A. *Income and wealth distribution*).

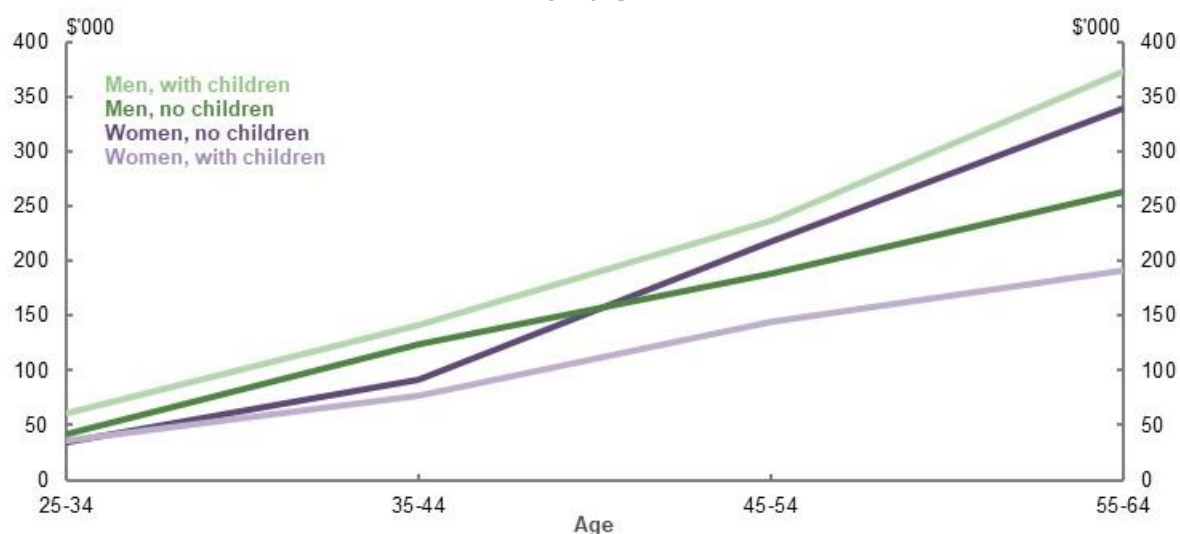
Career breaks

Of those currently retired, women are likely to have been in the labour force for fewer years than men (see 2C. *Maintaining standards of living in retirement*). **Women are more likely to be carers**, with 93.5 per cent of all primary carer's leave taken by women (Workplace Gender Equality Agency, 2019). In 2018-19, among parents of children aged five and under, 64.2 per cent of women were in the labour force, compared to 94.6 per cent of men (ABS, 2019j).

Caring for children reduces women's lifetime earnings. One study showed that women with a child aged two or younger in 2001 experienced an average 77.5 per cent reduction in earnings over the subsequent 15 years, compared with those without children. Men with young children faced no significant earnings penalty (Austen & Mavisakalyan, 2018, p. 502).

The average superannuation balances of men and women significantly diverge when accounting for whether the person has children (Chart 3B-2).

The average superannuation balances of men and women without children are broadly similar until ages 45-54. Lower labour force participation and earnings — taking career breaks and working part-time to care for children — contribute to women with children having lower superannuation balances than women without children. Conversely, men with children have higher average superannuation balances than men without children. One reason for this may be that men with lower incomes are less likely to have children (Hopcroft, 2018).

Chart 3B-2 Average superannuation balances by age, gender and whether a person has children

Note: 2018 data. Balances are for those not retired. These figures are not controlled for other variables like income or socio-economic status. As such, the results above do not represent the isolated effect of having children on a person's superannuation balance (i.e. it cannot be concluded that the gender gap in superannuation balances is caused by having children). Rather, this shows the distribution of average balances by age, gender and whether a person has children. Source: Analysis of HILDA Survey data (Wave 18).

Table 3B-2 models five career break scenarios:¹⁴⁸

1. One child at age 30, taking two years off work before returning to work full-time.
2. One child at age 30, taking two years off work and then working part-time until the child is five years old, before returning to working full-time.
3. Two children at ages 30 and 33, taking two years off work for each child, before returning to work full-time.
4. Two children at ages 30 and 33, taking two years off work for each child and working part-time until the youngest child is five years old, before returning to work full-time.
5. Working part-time from age 55 to retirement (age 67) to care for a parent.

The modelling shows that when women take more time out of the workforce, the gender gaps in superannuation balances and retirement incomes increase. However, the effect on retirement incomes is less pronounced because of the Age Pension.

¹⁴⁸ For assumptions underpinning the career break scenarios, see *Appendix 6A. Detailed modelling methods and assumptions*.

Table 3B-2 **Projected effect of career breaks on gender gaps**

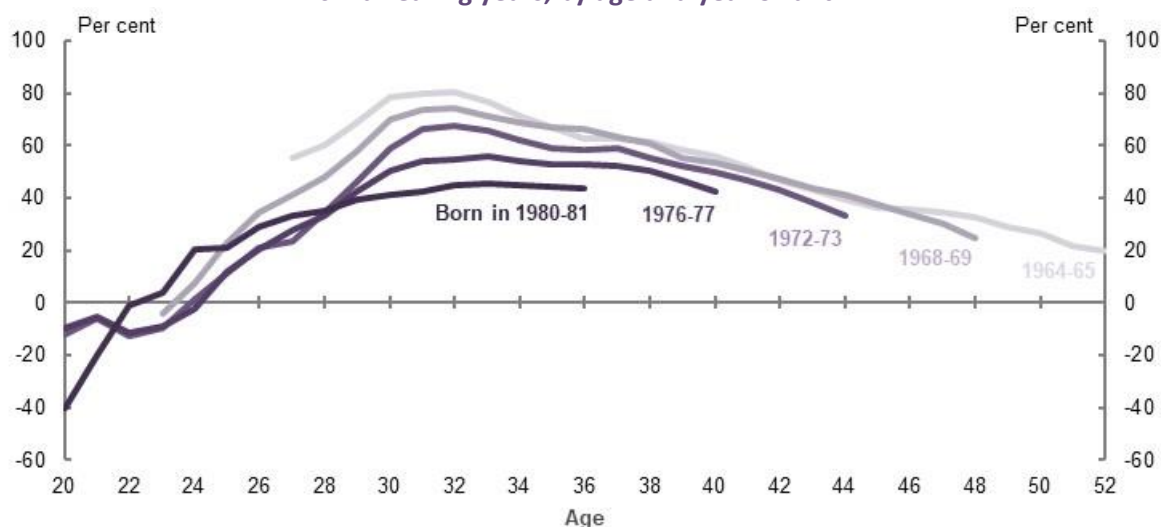
	Working-life earnings gap (per cent)	Superannuation balance at retirement gap (per cent)	Average annual retirement income gap (per cent)
<i>Full-time, no career break</i>	16.9	17.4	8.4
1. One child, no part-time	28.0	29.6	10.3
2. One child, part-time	30.2	32.6	11.1
3. Two children, no part-time	38.5	41.2	13.4
4. Two children, part-time	41.2	44.7	14.5
5. Part-time to care for parent	26.8	25.2	9.5

Note: Gaps compare the outcomes for a woman with a career break with a man who works full-time. Working-life earnings are calculated using total average weekly earnings, seasonally adjusted November 2019 (ABS, 2020d). Men and women are modelled to receive constant wages in real terms, for their entire working life excluding the effect of career breaks. Part-time workers are assumed to have 60 per cent of the earnings of full-time workers. In years off from the workforce, women are assumed not to benefit from wage growth — earnings in the year after a career break are the same in nominal terms as the year prior to the career break, implying a wage decrease in real terms. Wages remain constant relative to average weekly earnings post-career break and do not return to pre-career break levels. Assumes no non-superannuation savings and no salary sacrifice. Superannuation balance gap based on values deflated by average weekly earnings. Earnings and income calculations are based on values deflated using the review's mixed deflator. Source: Cameo modelling undertaken for the review.

Taking a career break early in working life reduces superannuation balances at retirement more than a career break later in working life. Scenario 2 (taking two years off, and working part-time from ages 32-34) and scenario 5 (working part-time from ages 55-67) have similar average annual retirement incomes, even though the woman with the child took almost half the time off work.

The impact of children on the gender earnings gap has gradually diminished over time. For women born in 1980-81, the gender gap in earnings was significantly lower during the typical child-rearing years of late 20s to late 30s, compared with those born in earlier years (Chart 3B-3). Women are spending longer in the workforce, from an average working life of around 24 years in 1980 to around 38 years in 2019 (see 2C. *Maintaining standards of living in retirement*). This increase in women's labour force participation and earnings may mean that, in future, having children or taking career breaks will not have as significant an effect on women's superannuation balances as in the past.

Chart 3B-3 Gender gap in median annual earnings, for those with typical earnings in child-rearing years, by age and year of birth



Note: Chart is created by sorting the population, for each gender and year of birth, into deciles based on cumulative income across ages 27 to 36. For each decile, gender and year of birth, the median income from salary/wages is calculated at each age. Gender gaps are calculated for each age. The chart shows results for the 5th decile. Analysis excludes those with less than three cumulative years of wage/salary income, to remove the effect of temporary migrants. Historic wage/salary income is inflated using average weekly ordinary time earnings. Source: Data provided by the ATO for the review.

Divorce

Since the early 1980s, **rates of divorce have steadily increased among older age groups** (ABS, 2019q). In 2016, around 19 per cent of women and 15.4 per cent of men aged 60-64 were divorced and single (ABS, 2016a), compared with 6.7 and 6.3 per cent of women and men, respectively, of the same age group in 1991 (ABS, 1993).

In 2018, the median age of divorce was 45.9 years for men and 43.2 years for women (ABS, 2019q), up from 35.3 years and 32.7 years, respectively, in 1980 (ABS, 1997, p. 36). This age increase has reduced the amount of time a divorcee has to recover financially before retirement.

Since 2002, superannuation has generally been able to be divided up in family law property settlement decisions.¹⁴⁹ But, significant challenges and complexity exist that hinder fair outcomes when superannuation is split under family law.

A study of property splits of parents separating between 2006 and 2012 found only 34 per cent of splits included superannuation assets (Kaspiew & Lixia, 2016). This is below the rate of superannuation coverage (for those aged 25-64 in 2012, it was at least 81 per cent for men and 70 per cent for women) (ABS, 2019k). Those with superannuation assets included in their property settlement tended to be older and have higher incomes. This suggests, when relationships break down, many people — and particularly those with lower incomes — are not enforcing their entitlement to their former partner's superannuation. This particularly disadvantages women, who generally have lower superannuation than their former partner, particularly if they have children (Brown, 2016, p. 18).

¹⁴⁹ Prior to 2002, superannuation was treated as property in separation settlements of married persons only in the retirement phase. Superannuation in the pre-retirement phase was not treated as property. From 1 March 2009, separation of property was aligned for de facto couples in most states and territories, and included superannuation. De facto couples in South Australia were able to split superannuation assets from 1 July 2010. Legislation is currently before Parliament to allow superannuation splitting for de facto couples in Western Australia (Attorney-General's Department, 2019).

A recent small study of property settlements in Victoria offered insight as to why superannuation is not a part of many property splits:

‘Women’s access to superannuation in property settlements is impacted by many of the issues associated with parties failing to make full and frank disclosure. The legal and administrative complexities associated with obtaining orders over superannuation also inhibit women’s access to it after separation.’ (Women’s Legal Service Victoria, 2018, p. 25)

These factors, and other reasons why superannuation is not included in many property splits, merit further study.

In 2018, the Government announced a measure to increase the visibility of superannuation assets in family law proceedings.¹⁵⁰ This would allow the ATO to provide accurate and timely superannuation data to courts during family law proceedings. This measure is yet to be legislated or implemented.

Divorce reduces both parties’ savings, and hence their retirement incomes, but has a stronger and longer lasting effect on women, especially those with dependent children (Brown, 2016, p. 10).¹⁵¹

For the average divorced man and woman without dependent children, five years after divorce their superannuation was the same level as married couples without children. In contrast, the average superannuation assets of divorced women with dependent children five years after divorce were substantially lower than married women with children. Recently divorced men with dependent children had more superannuation assets, on average, than married men.

Divorced women without dependent children had lower earnings, on average, than married women without dependent children. Divorced men without dependent children saw no impact on their earnings.

Divorce can lead home-owning couples to become renters, as they often cannot afford to maintain existing mortgage payments or buy a new property once single. Nearly a quarter of divorces result in home ownership loss (CEPAR, 2019, p. 9). Divorced people, particularly divorced women approaching retirement, are over-represented among older renters (Dockery, et al., 2015, p. 43). Men with children are slightly more likely to be home owners five years after divorce than women with children (Brown, 2016). Additional research is required to determine conclusively how divorce impacts the assets of men and women.

¹⁵⁰ Announced by former Minister for Women, the Hon Kelly O’Dwyer, as part of the 2018 Women’s Economic Security Statement.

¹⁵¹ Brown’s analysis was limited to women aged 25 to 55. Those with children were defined as those with a child under the age of 16. Analysis of superannuation balances was adjusted for age, socio-economic status, employment status, income status and family structure. Analysis of home ownership did not adjust for any factors.

Box 3B-4 Family and domestic violence and retirement incomes

Family and domestic violence is overwhelmingly perpetrated against women, affecting their economic participation and security, private savings and preparedness for retirement. Family and domestic violence can also be experienced in retirement (Australian Institute of Health and Welfare, 2018a). This is a major reason why women become homeless, particularly in later age (Australian Human Rights Commission, 2019).

For women experiencing physical, sexual or emotional abuse, the average victim incurs costs of around \$27,000 (in 2015 dollars) in the year the violence is experienced. The long-run implications may be larger (PwC, 2015).

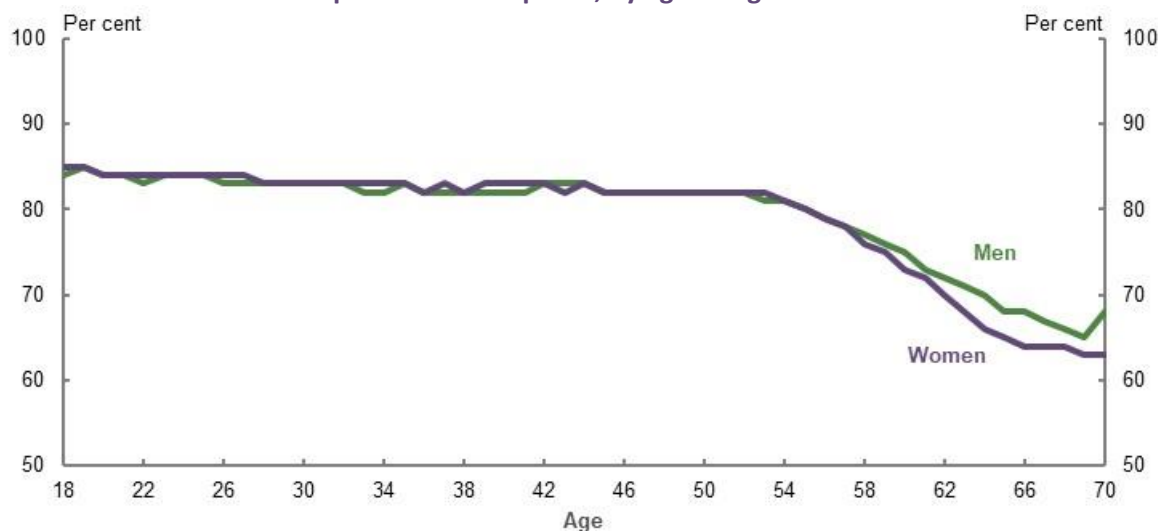
In 2018, the Government announced a measure to allow victims of family and domestic violence to gain early access to part of their superannuation.¹⁵² This measure, which would help victims address the immediate costs of family and domestic violence, is yet to be legislated or implemented.

Financial literacy

In aggregate, women have lower financial literacy than men: 50 per cent of men were able to answer five standard financial literacy questions correctly, compared to 35 per cent of women (Wilkins & Lass, 2018, p. 118). Lower financial literacy is correlated with a range of factors that reduce retirement incomes (see 5A. *Cohesion*).

Despite this, men and women have similar proportions of superannuation invested in growth assets during the pre-retirement phase (Chart 3B-4), as expected in a system with strong defaults. This accords with evidence from the UK and US showing limited differences in investment behaviour by gender in defined contribution schemes (Allport, et al., 2019, p. 5) (Vanguard, 2019, p. 5).

Chart 3B-4 Average proportion of superannuation invested in growth assets in the pre-retirement phase, by age and gender



Source: (Rice Warner, 2019b).

¹⁵² Announced by former Minister for Women, the Hon Kelly O'Dwyer, as part of the 2018 Women's Economic Security Statement.

Working-life drivers of gender gaps inside the retirement income system

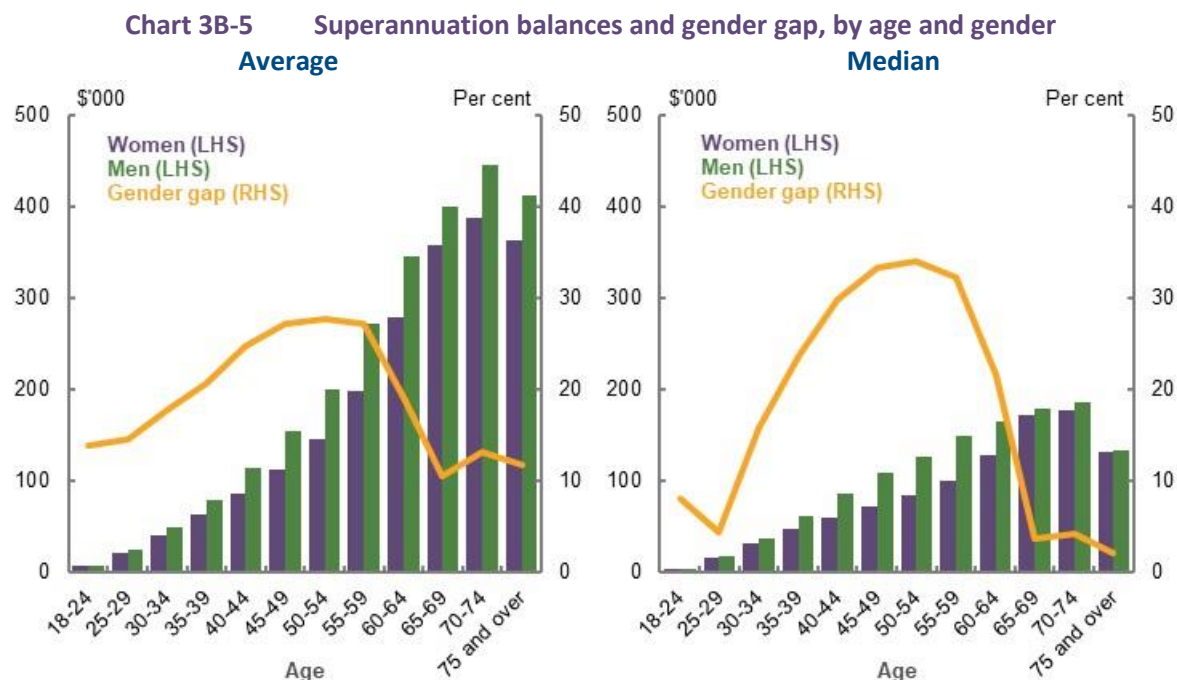
Current and future superannuation balances

In 2017-18, the average balance for those with superannuation at age 60-64 was \$279,167 for women and \$344,718 for men — a gap of 19 per cent. The median balance was \$128,507 for women and \$163,985 for men — a gap of 22 per cent (Chart 3B-5).

The gender gap in superannuation balances, both average and median, increases in the late-20s to mid- to late-50s age group, when women's labour force participation is significantly lower than men's. The gap begins to close sharply from around ages 55-59, likely due to two factors:

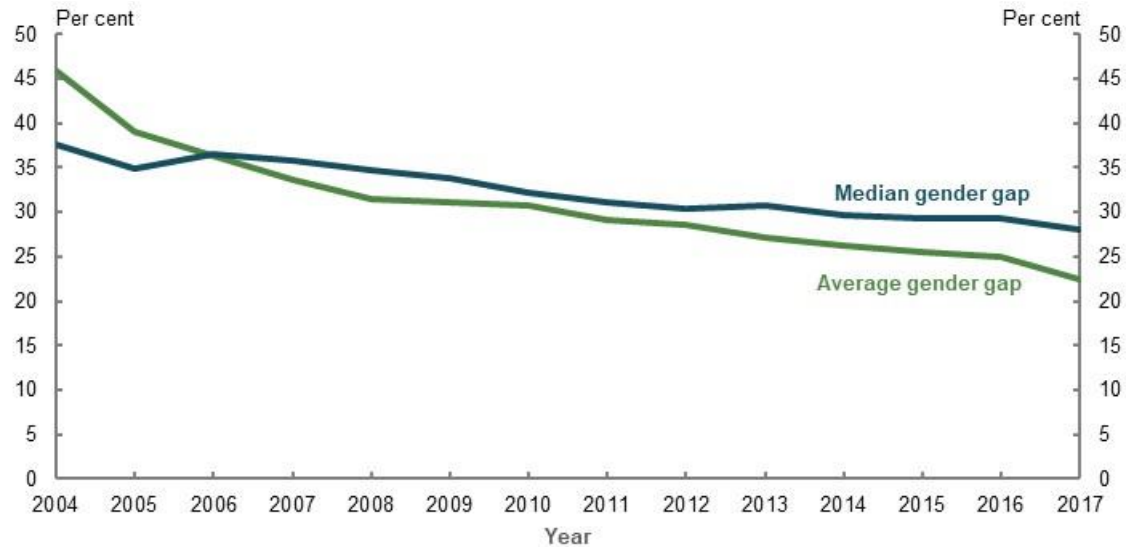
1. **Superannuation coverage decreases with age, particularly for women.** Because average and median superannuation balances do not include people without superannuation, this creates a selection bias. This raises the average and median balances of women at older ages compared with younger ages. If the calculation of the gender gap included those with zero balances, the gap would not close as much. This effect will become less prominent over time as more women retire with superannuation (see *Superannuation coverage*, below).
2. **Women make more voluntary superannuation contributions than men in later age** (see *Voluntary superannuation contributions*, below).

The narrowing of the gender gap at older ages is due to increased balances for single women and for women with a partner with a high superannuation balance (see *Appendix 6D. Supplementary equity charts*).



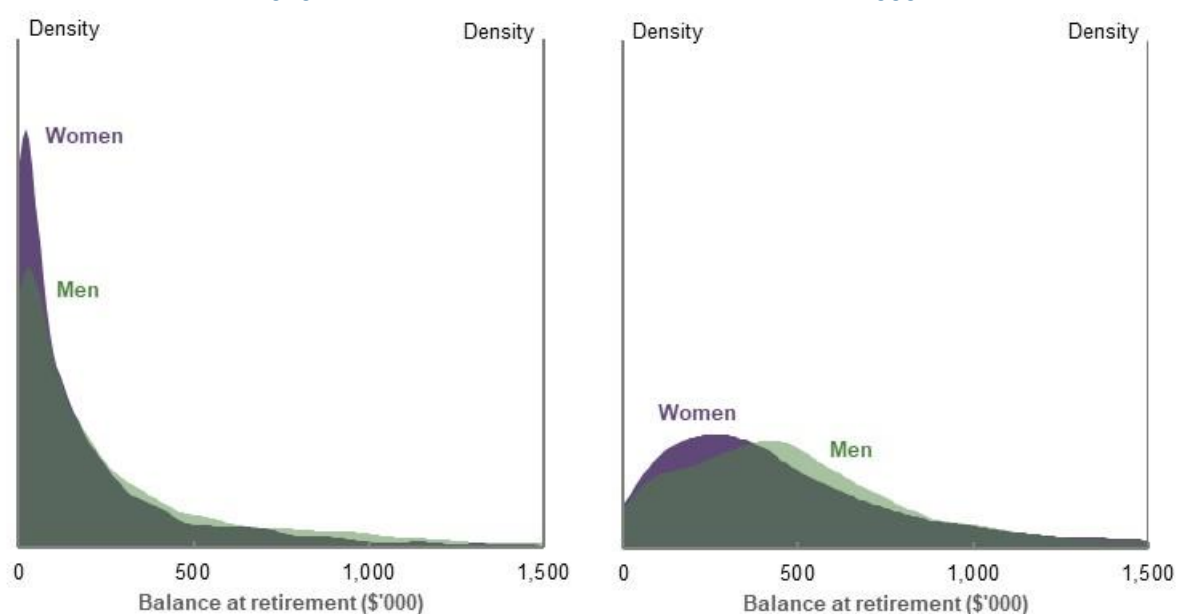
Source: Analysis of ATO individual income tax returns and member contributions statements, 2017-18.

Over the past decade, the gender gap in superannuation balances for those approaching retirement has reduced (Chart 3B-6).

Chart 3B-6 Gender gap in superannuation balances at ages 55-64

Note: Averages and medians are for those with non-zero balances. Source: Data provided by the ATO for the review.

Most men and women retiring now have low superannuation balances (Chart 3B-7). Those with higher balances are more likely to be men. The long 'tail' of men with higher superannuation balances also exacerbates the gender gap in balances at retirement today. This gap is expected to narrow substantially as the superannuation system matures and women benefit from greater labour force participation (see *1D. The changing Australian landscape*). **In future, more women will have superannuation and spend more years contributing to their superannuation**, including through higher voluntary contributions (see *Voluntary superannuation contributions*, below).

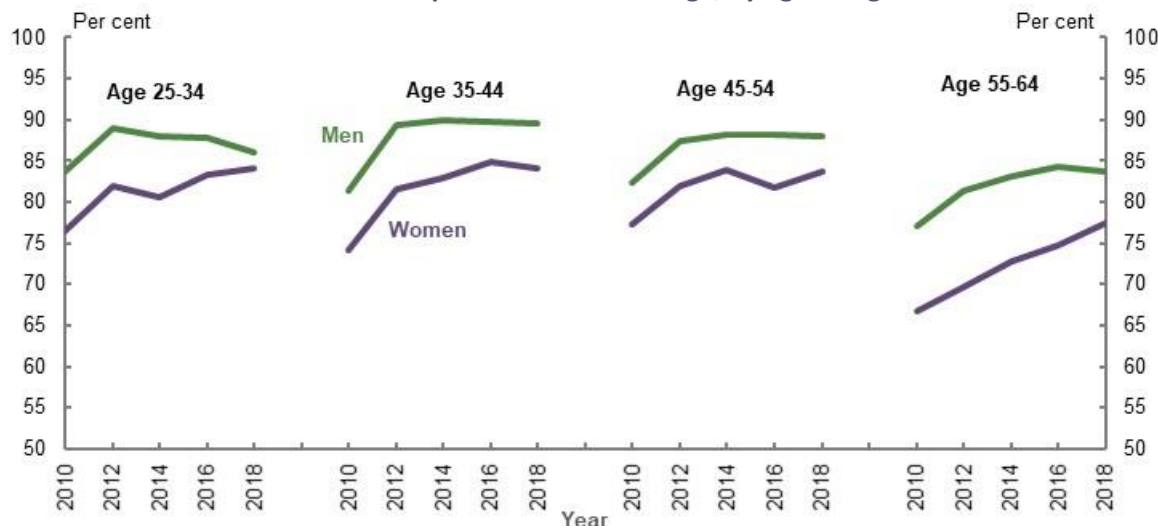
Chart 3B-7 Projected superannuation balances at retirement by gender

Note: Values in 2019-20 dollars, combined for the three trailing years, and deflated by average weekly earnings. Source: Treasury estimates for the review using MARIA.

Superannuation coverage

Over time, women's superannuation coverage has increased with greater labour force participation. The gap between men's and women's coverage has also narrowed (Chart 3B-8), but the gender gap in superannuation coverage at retirement will not close completely while a participation gap persists.

Chart 3B-8 Superannuation coverage, by age and gender



Note: A person is considered to have superannuation coverage if they have a superannuation balance above zero, receive regular income from superannuation, or have received a lump sum superannuation payment in the past two years. Source: (ABS, 2019k).

The \$450-a-month threshold

Employers are not obligated to pay the SG to employees who earn less than \$450 per month. The ATO Single Touch Payroll data for July 2019 suggests women were more likely than men to earn less than \$450 and not receive the SG — around 197,000 women, compared to around 114,000 men (see Table 3D-1 in *3D. SG coverage*). Based on the current SG rate of 9.5 per cent, this implies women did not receive around \$4.7 million in superannuation in July 2019 because of the \$450-a-month threshold, compared to \$2.7 million in superannuation forgone by men.¹⁵³

For both men and women, removing the \$450-a-month threshold has a small effect on average annual retirement incomes (see *3D. SG coverage*).

Superannuation on employer paid parental leave

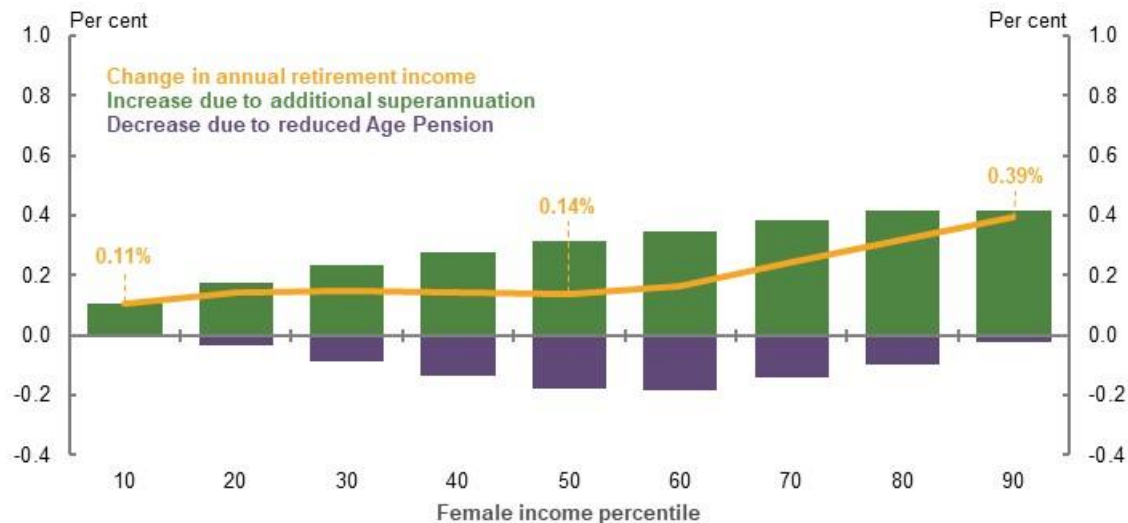
Unlike most other leave entitlements, employers are not required to pay superannuation to those taking paid parental leave. Some stakeholders suggested this should be amended to reduce the impact of child-related career breaks on superannuation balances at retirement.

Around half of employers offer paid parental leave (Workplace Gender Equality Agency, 2019). Those offered paid parental leave are more likely to work full-time and have higher weekly earnings (ABS, 2014). A 2013 evaluation of paid parental leave found more than half of employers who provide paid parental leave or carer's leave also pay superannuation on that leave, especially in the public sector (Martin, et al., 2013, p. 95). Since then, this practice has likely increased as more family-friendly workplace strategies have been implemented.

¹⁵³ Analysis based on ATO Single Touch Payroll data for July 2019 provided to the review. Calculation using an average income of \$250 per month.

For the median female earner, receiving superannuation on the average period of employer paid parental leave (11 weeks in 2019 (Workplace Gender Equality Agency, 2020)) increases her balance at retirement by around 0.8 per cent.¹⁵⁴ This translates into a 0.14 per cent increase in retirement income, after accounting for reduced Age Pension income due to the Age Pension assets test (Chart 3B-9). Even for those not impacted by the assets test, the increases in retirement income are small. Consequently, while it would improve gender equity in SG coverage, **paying superannuation on paid parental leave has a limited impact on closing the retirement income gap** at most earnings percentiles.

Chart 3B-9 Projected effect on women's retirement incomes of receiving superannuation for one term of employer paid parental leave



Note: Assumes one 11-week term of paid parental leave at age 30, based on the woman's salary for the previous year. All other assumptions are consistent with the standard gender cameo model. Women who access paid parental leave multiple times across their life could have greater changes in annual retirement income if superannuation was paid on the leave. Calculations are based on values deflated using the review's mixed deflator. Source: Cameo modelling undertaken for the review.

Superannuation on Government Parental Leave Pay

Government-offered Parental Leave Pay is paid at the minimum wage for up to 18 weeks for people on incomes below \$150,000 a year.¹⁵⁵ Superannuation is not paid on top of Government Parental Leave Pay.

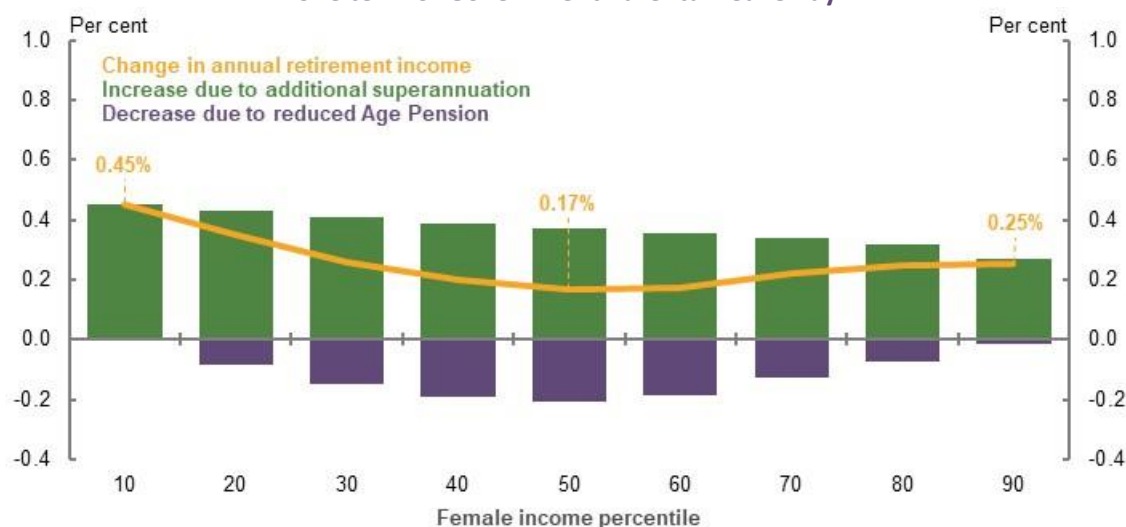
If superannuation was paid on Government Parental Leave Pay, the median female earner would receive an additional 0.17 per cent in annual retirement income (Chart 3B-10). For middle-income earners in particular, the Age Pension assets test reduces the small gains in annual superannuation income. Most Government Parental Leave Pay recipients are in the middle of the income distribution.¹⁵⁶

¹⁵⁴ Cameo modelling undertaken for the review.

¹⁵⁵ As at 1 May 2020.

¹⁵⁶ Department of Social Services payment data, 2016-17.

Chart 3B-10 Projected effect on women's retirement incomes of receiving superannuation for one term of Government Parental Leave Pay



Note: Assumes one 18-week term of Parental Leave Pay at age 30, paid at the minimum wage, provided her salary for the previous year is below the income test threshold (\$150,000, indexed to CPI from 1 July 2021). Minimum wage is indexed to average weekly earnings. All other assumptions are consistent with the standard gender cameo model. Women who access Parental Leave Pay multiple times across their life could have greater changes in annual retirement income if superannuation was paid on the leave. Calculations are based on values deflated using the review's mixed deflator. Source: Cameo modelling undertaken for the review.

In 2018-19, around 178,800 people accessed Government Parental Leave Pay at a cost of \$2.2 billion (Department of Social Services, 2019). If superannuation was paid on these payments, it would cost the Government around \$200 million a year, increasing as the SG rate rises.¹⁵⁷

Carers and the retirement income system

Women are more likely to be primary carers than men, making up:

- 92 per cent of primary carers of children with disability
- 70 per cent of primary carers of parents
- 52 per cent of primary carers of partners (Australian Human Rights Commission, 2013)

One submission noted that carers have lower earnings and lower superannuation balances than non-carers (Carers NSW, 2020). The lifetime earnings of a woman caring for a child with disability are estimated as 25 to 50 per cent lower than a woman with no caring role (Nepal, et al., 2008). Caring for others can also result in involuntary retirement, more so for women (see 3E. *Age of retirement*).

Some stakeholders suggested the superannuation system should explicitly recognise unpaid caring work. One submission noted that the superannuation system *'...neglects the fundamental productive importance of unpaid care work'* and this threatens the sustainability of the system as it *'...may cause some key care roles to not be performed at all, as is the case when people decide that they cannot afford to have children due to the risks this poses to their retirement savings'* (Women in Social and Economic Research, 2020, p. 3).

A number of countries, including the UK, Sweden, Finland and Germany, recognise unpaid caring work in their pension systems through 'carer credits'. Carer credits are used to factor in the time

¹⁵⁷ Review calculation based on an annual cost of \$2.2 billion, and an SG rate of 9.5 per cent, accounting for taxes on contributions.

taken out of the workforce to care for others when determining a person's retirement income benefit.

However, these international retirement income systems operate differently to Australia's. For example, many public pension rates in schemes overseas depend on a person's time in the workforce, and carer credits are used in these calculations. As the Age Pension is non-contributory and does not depend on workforce participation, a carer credit system would need to be adapted to work in the Australian context. A carer credit paid through superannuation would likely interact with the Age Pension, and its effect would be moderated by the means test.

Voluntary superannuation contributions

At most ages, **women are more likely to make voluntary contributions to their superannuation than men** (Chart 3B-11). On average, from age 50, women make larger voluntary contributions than men (Chart 3B-12). This makes voluntary contributions a particularly important part of the retirement income system for women.

Chart 3B-11 Proportion making voluntary superannuation contributions, by age and gender

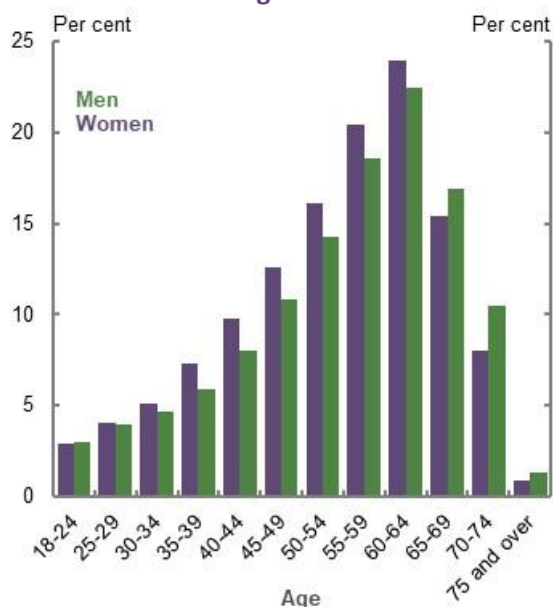
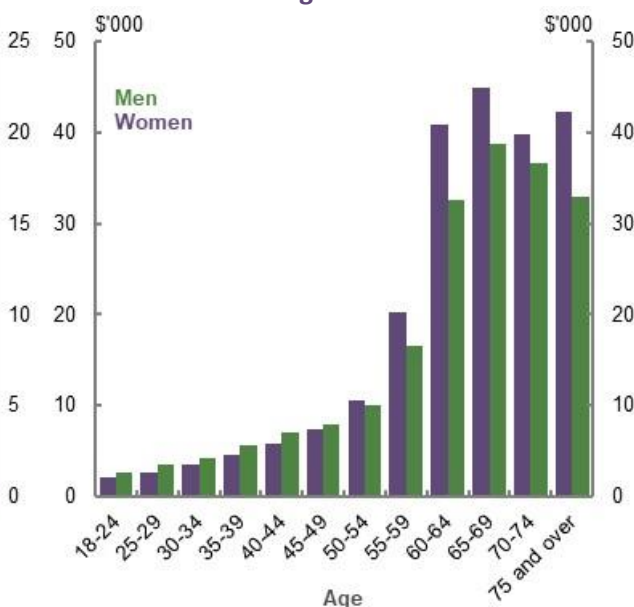


Chart 3B-12 Average voluntary superannuation contribution, by age and gender



Note: Chart 3B-12 shows the average total voluntary contribution amounts for those who made contributions to a superannuation account in 2017-18. 'Voluntary contributions' in these charts does not include salary sacrifice. Source: Analysis of ATO individual income tax returns and member contributions statements, 2017-18.

Voluntary contributions play a role in narrowing the gender gap in superannuation balances at ages 55-64 (Chart 3B-5). On average, women at these ages make significantly larger voluntary contributions to their superannuation than men, helping to counteract their lower contributions through the SG. This trend holds regardless of balance size (see *Appendix 6D. Supplementary equity charts*).

Women and men make voluntary contributions through different methods. Women are more likely to make after-tax contributions. Men are more likely to salary sacrifice or make tax-deductible personal contributions (see *Appendix 6D. Supplementary equity charts* for additional charts breaking down contributions by balance decile and contribution type). This difference may mean that, compared to men, women are missing out on the tax concessions offered to particular types of contributions. Given men are also more likely to be employed, they may have greater access to salary

sacrifice arrangements. Historical superannuation rules may have also prevented women from making deductible personal superannuation contributions (see *1B. Design of Australia's retirement income system*).

In the lead-up to retirement, those partnered with a person with a relatively high superannuation balance (i.e. in balance deciles 6 to 10) are more likely to make voluntary contributions, and make higher value voluntary contributions, than single people or those partnered with a person with a relatively low superannuation balance (i.e. in balance deciles 1 to 5). This is particularly true for lower-balance women who are partnered with a person with a high superannuation balance. At all superannuation balance deciles, single women are more likely to make voluntary superannuation contributions than single men (see *Appendix 6D. Supplementary equity charts* for additional charts breaking down contributions by partnered status, partner's superannuation and gender).

Women benefit more than men from the Government co-contribution for lower- and middle-income earners who voluntarily contribute to their superannuation. In 2018-19, around 244,700 women received co-contributions, compared to around 131,700 men.¹⁵⁸

Superannuation tax concessions

The generally flat tax rate on superannuation concessions and earnings benefits higher-income earners the most. Given men's earnings are, on average, greater than women's, men are expected to receive more superannuation tax concessions across their lives than women (Chart 3B-13).

Chart 3B-13 Projected lifetime Government support provided through the retirement income system, by gender and earnings percentile



Note: Values are in 2019-20 dollars, deflated using the review's GDP deflator. Source: Cameo modelling undertaken for the review.

In 2019, women were estimated to receive around 40 per cent of all superannuation tax concessions.¹⁵⁹ The proportion of tax concessions received by women depends on women's incomes and superannuation balances. Under current system settings, men and women will not receive equal concessions until they have similar incomes, time in the workforce and superannuation balances.

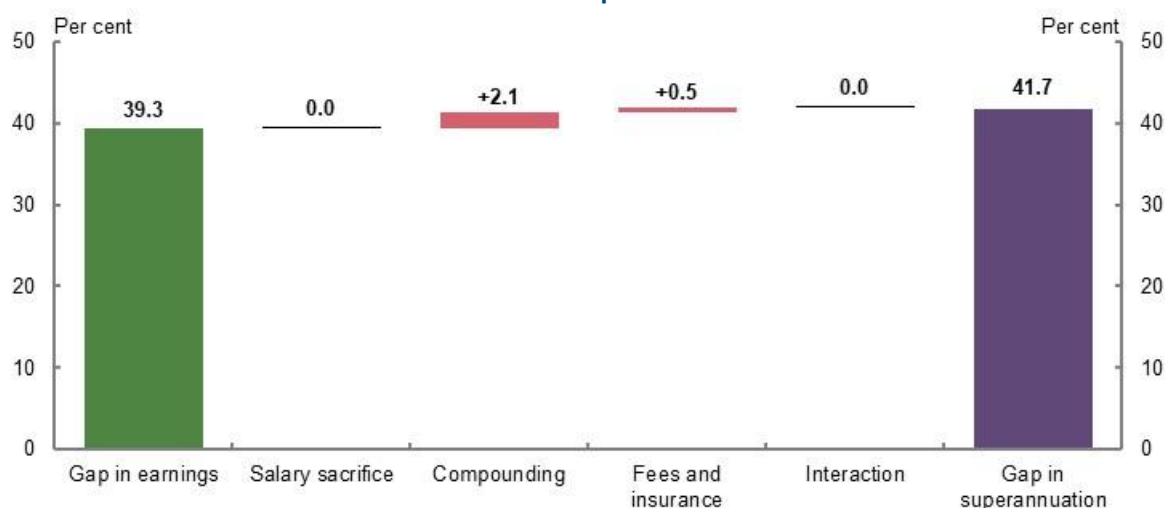
¹⁵⁸ Data provided by the ATO for the review.

¹⁵⁹ Analysis of Rice Warner estimates for the review. This estimate aligns with previous estimates by Industry Super Australia (2020).

Cameo modelling of working-life factors that drive gender gaps

The earnings gap is the main cause of the gender gap in superannuation balances at retirement. Some features of the superannuation system can either increase or decrease the gap, but their effect is minor (Chart 3B-14 and *Appendix 6D. Supplementary equity charts*).

Chart 3B-14 Factors affecting how the gender earnings gap translates into a gender gap in superannuation balances at retirement
50th income percentile



Note: This chart shows the impact of removing individual factors on the gender gap in superannuation balances at retirement (e.g. comparing a world where the fees and insurance costs do not exist to standard gender cameo model specifications) for the 50th income percentile. Removing all the factors listed results in a gender gap in superannuation balances at retirement equal to the gender gap in working-life earnings. 'Compounding' isolates the impact of real investment returns on superannuation balance accumulation during working life. The 'interaction' field indicates the impact of the interaction between elements (e.g. the interaction between removing fees and compounding returns, which is not captured in removing only fees or only compounding returns). This analysis does not include voluntary contributions other than salary sacrifice. Including these contributions would likely reduce the gender gap in superannuation balances at retirement. Calculations are based on values deflated using the review's mixed deflator. Results for the 10th, 30th, 70th and 90th income percentiles are in *Appendix 6D. Supplementary equity charts*. Source: Cameo modelling undertaken for the review.

- **Compounding returns** increase the gender gap in superannuation balances at retirement. Compounding returns make early working-life contributions more significant, where the gender gap is greatest. Men's longer working lives, on average, also mean they benefit more from compounding.
- **Fees and insurance premiums** slightly increase the gender gap in superannuation balances at retirement, especially at lower income levels. Fees and insurance premiums have a fixed component, eroding lower superannuation balances (which are more likely to be women's) more than higher superannuation balances (which are more likely to be men's).¹⁶⁰
- At higher incomes, women **salary sacrifice** a greater proportion of their incomes than men, reducing the gender gap in superannuation balances at retirement. This effect is not seen at lower incomes.
- The **low income superannuation tax offset** reduces the gender gap in superannuation balances at retirement at lower income percentiles. Women, on average, receive the low income

¹⁶⁰ Premiums can vary by gender. This modelling assumes fees and premiums are the same for men and women. The effect of fees and premiums on balances was covered by the Productivity Commission in their 2018 report *Superannuation: Assessing Efficiency and Competitiveness*.

superannuation tax offset for more of their working lives than men (see *1B. Design of Australia's retirement income system*).

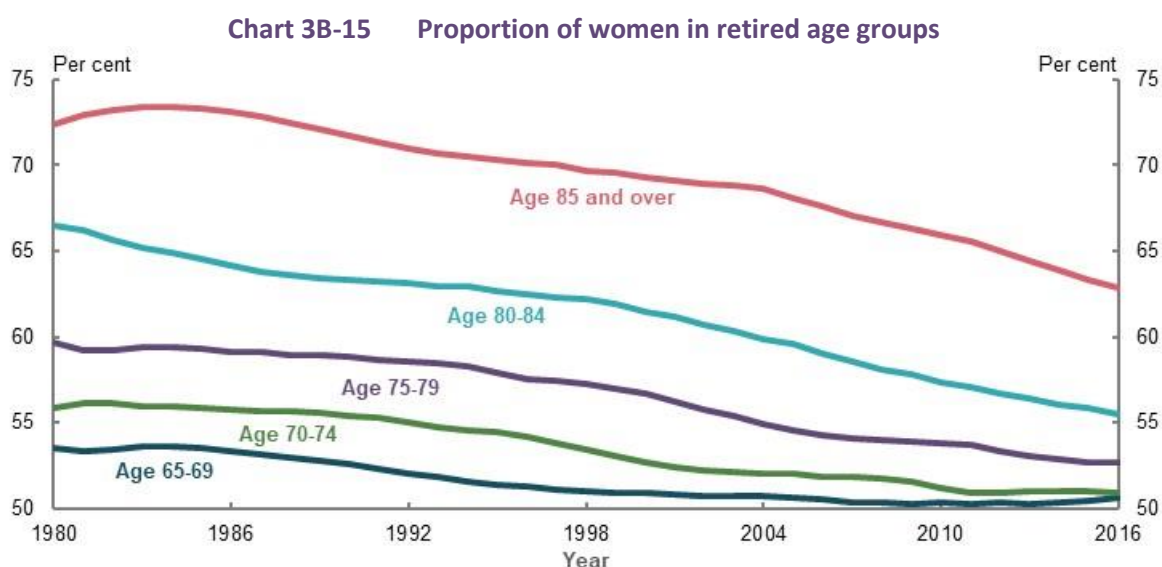
- The **Division 293 tax** reduces the gender gap in superannuation balances at retirement for those with very high incomes. Men are more likely to be subject to the Division 293 tax (see *1B. Design of Australia's retirement income system*).

Causes of gender gaps in retirement

The causes of gender gaps in retirement occur both outside and inside the retirement income system.

Life expectancy differences

Historically, differences in life expectancy mean more women have been in retirement than men, although this trend is declining (Chart 3B-15).



Source: Analysis of (ABS, 2019c).

Increased longevity means women's retirement savings need to last longer than men's, reducing their relative retirement income (Table 3B-3). The Age Pension helps reduce the impact of higher life expectancy, particularly for women with lower superannuation balances at retirement. The effect of longer life expectancy is more pronounced for higher-wealth women as more of their retirement income is funded by their superannuation.

Table 3B-3 Projected retirement income effect of women living two years longer than men

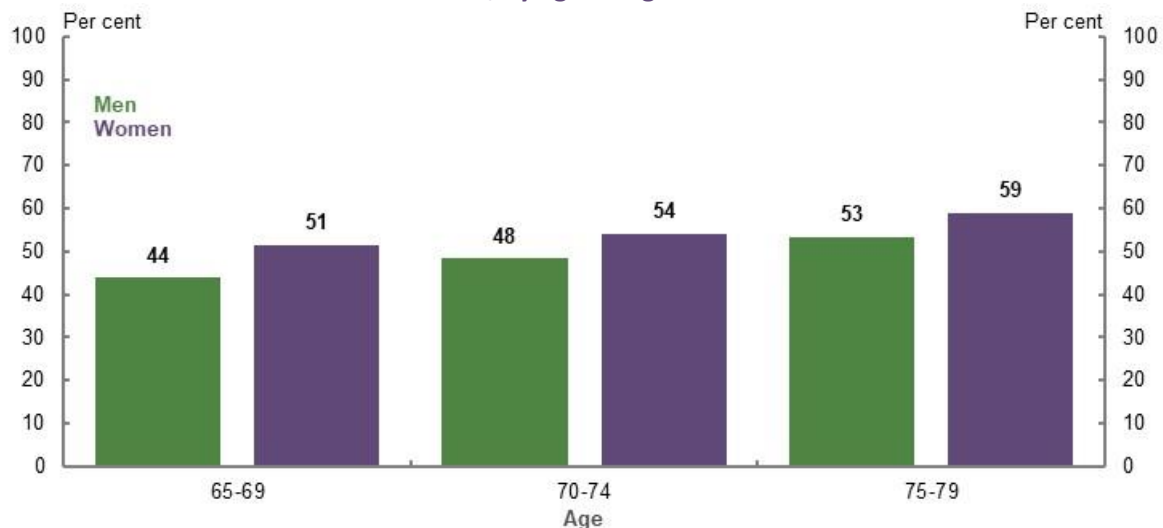
Superannuation balance at retirement (\$)	Gender gap in average annual retirement income (per cent)
200,000	0.6
400,000	2.1
600,000	3.4
800,000	4.0

Note: Values are in 2019-20 dollars. Superannuation balances are deflated by average weekly earnings. Retirement incomes are deflated using the review's mixed deflator. Results reflect outcomes under an annuitised drawdown method that exhausts all superannuation assets by death, for a person retiring in 2060 at age 67. Assumes no purchase of a longevity product. Men are projected to live for 24 years in retirement; women are projected to live for 26 years in retirement. For the purposes of this cameo, non-superannuation wealth has not been included. Source: Cameo modelling undertaken for the review.

Drawdown behaviour

Women are more likely than men to draw down their superannuation at the minimum rate in an account-based pension (Chart 3B-16). This effect is small but statistically significant (Balnozan, 2018, pp. 87-88), although the cause is unknown. Potentially, slower drawdown could reflect gender-specific factors, such as being more financially conservative (Charness & Gneezy, 2012), having lower financial literacy (as discussed above) or women self-managing their longer life expectancies.

Chart 3B-16 Proportion of people drawing down from account-based pensions at the minimum rate, by age and gender

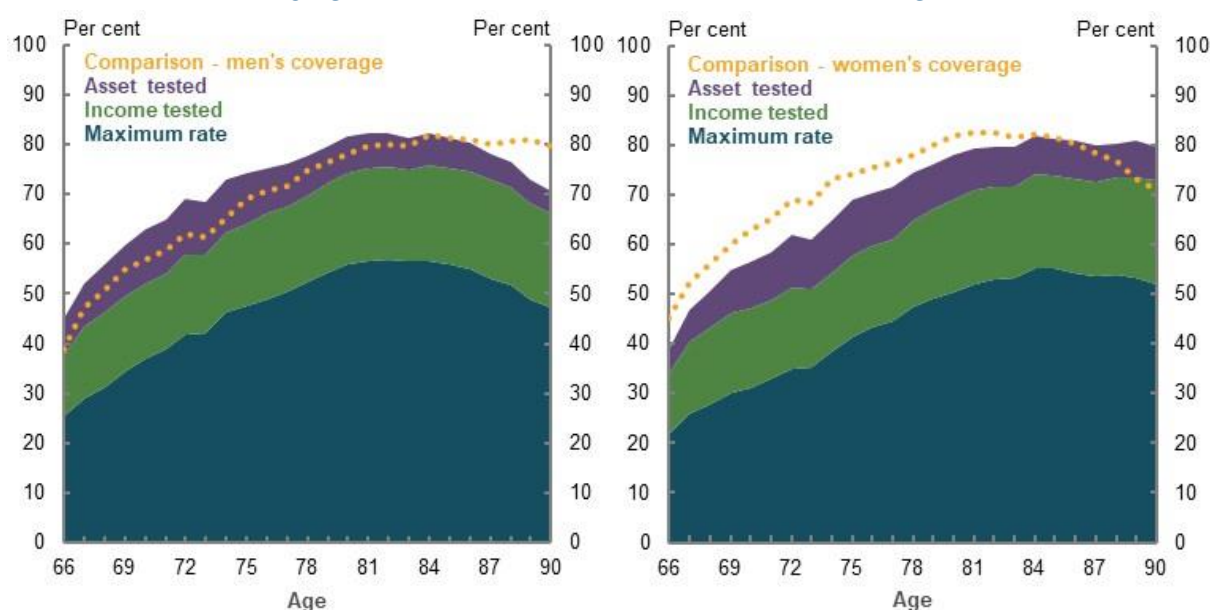


Note: 2019 data. Source: (Rice Warner, 2019b).

Age Pension

Women are more likely than men to receive the Age Pension, particularly early in retirement, and are more likely to receive the maximum rate of Age Pension (Chart 3B-17). The gap in Age Pension coverage closes around age 85, with men more likely than women to receive the Age Pension in later life. This may be due to a significant number of widows not being eligible for income support once they inherit their partner's assets (see *Becoming single in retirement*, below). It may also reflect the significant number of women over age 85 who receive Department of Veterans' Affairs war widow pensions, and are not recorded in the Department of Social Services' data (DVA, 2020).

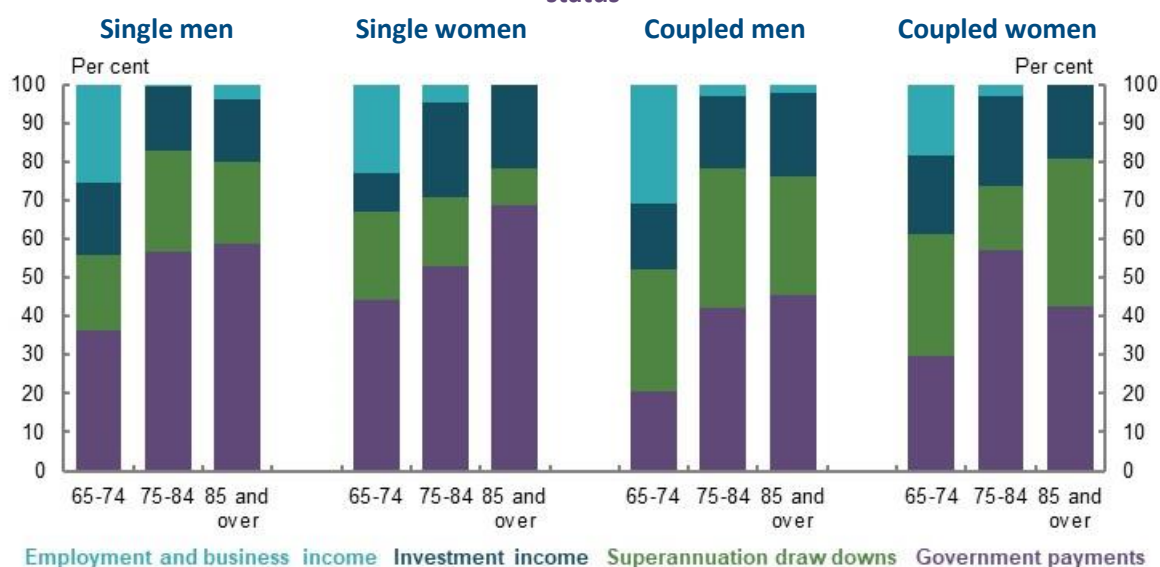
Chart 3B-17 Age Pension coverage, by gender and age



Source: Department of Social Services payment data, 30 June 2019, (ABS, 2018g).

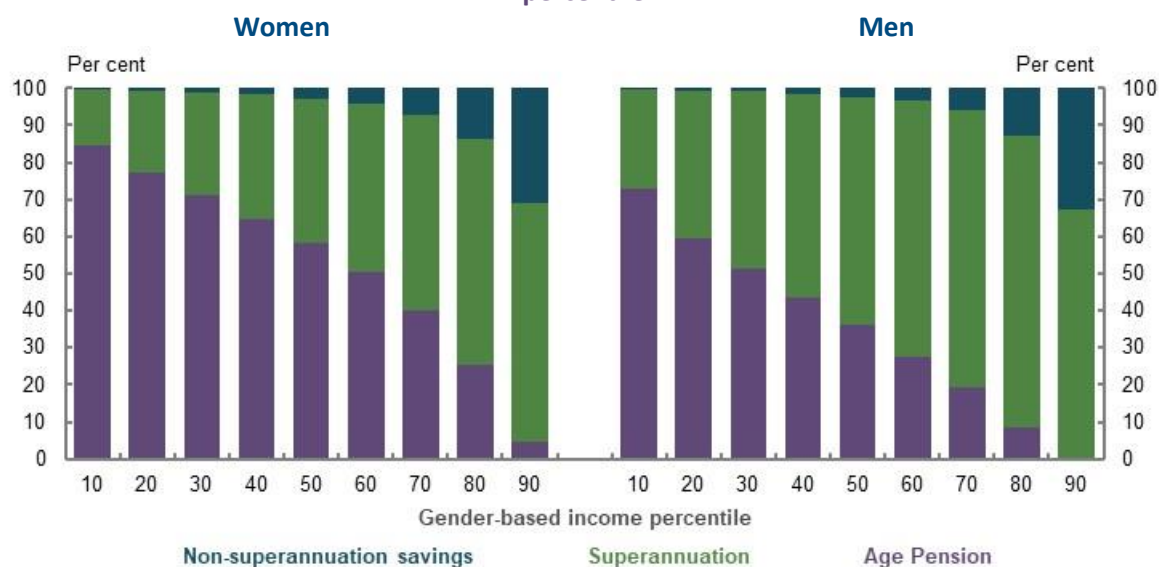
For current retirees, the Age Pension makes up a higher proportion of the incomes of women than men (Chart 3B-18).

Chart 3B-18 Average proportional source of income in retirement, by age, gender and partnered status



Note: Data is from 2017-18. 'Government' income includes all welfare payments (including non-income support payments, such as Family Tax Benefit (FTB)) but does not include social transfers in kind. Sample sizes are small for older cohorts, and results should be used with caution. Calculations are based on values deflated using the review's mixed deflator. Source: Analysis of (ABS, 2019s).

As the superannuation system matures and balances grow, fewer men and women will likely qualify for the Age Pension, particularly earlier in retirement. However, with their lower working-life earnings and greater longevity, women are projected to continue to derive more of their income in retirement from the Age Pension than men (Chart 3B-19).

Chart 3B-19 Proportional source of projected total retirement income, by gender and earnings percentile

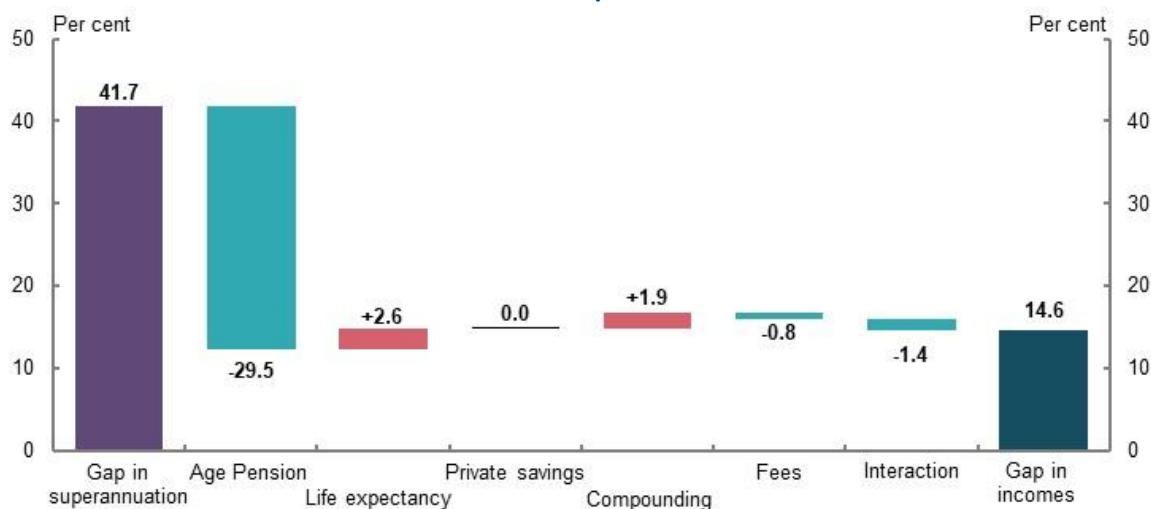
Note: Calculations are based on values deflated using the review's mixed deflator. Source: Cameo modelling undertaken for the review.

Cameo modelling of retirement factors that cause gender gaps

Other than at higher-income levels, **the gender gap in average retirement incomes is significantly smaller than both the gender gaps in working-life earnings and in superannuation balances at retirement** (Chart 3B-20). This is primarily due to the Age Pension, which helps offset inequities experienced in working life.

- The **Age Pension** reduces the gender gap in average retirement incomes because:
 - With lower superannuation balances, women receive higher rates of Age Pension under the means test compared to men at the same earnings percentile.
 - Even when men and women are receiving the same rate of Age Pension, it provides a base income that makes differences in private income less significant.
- **Higher life expectancies** for women reduce the average retirement incomes of women relative to men, particularly for those with high balances who receive less, or no, Age Pension.
- **Compounding returns** increase the gender gap in retirement incomes, as women tend to have lower superannuation balances from which to benefit from compounding.
- **Fees** reduce the gender gap in retirement incomes, as men, on average, have higher balances in retirement. This means they pay higher fees than women, as most fees in retirement are a proportion of the superannuation balance (Productivity Commission, 2018a, p. 168).
- At very high incomes, the **transfer balance cap** reduces the gender gap in retirement incomes, as higher-balance men have more of their savings subject to tax than higher-balance women (see 1B. *Design of Australia's retirement income system*).

Chart 3B-20 Factors that affect how the gender gap in superannuation balances at retirement translates into the gender gap in retirement incomes
50th income percentile

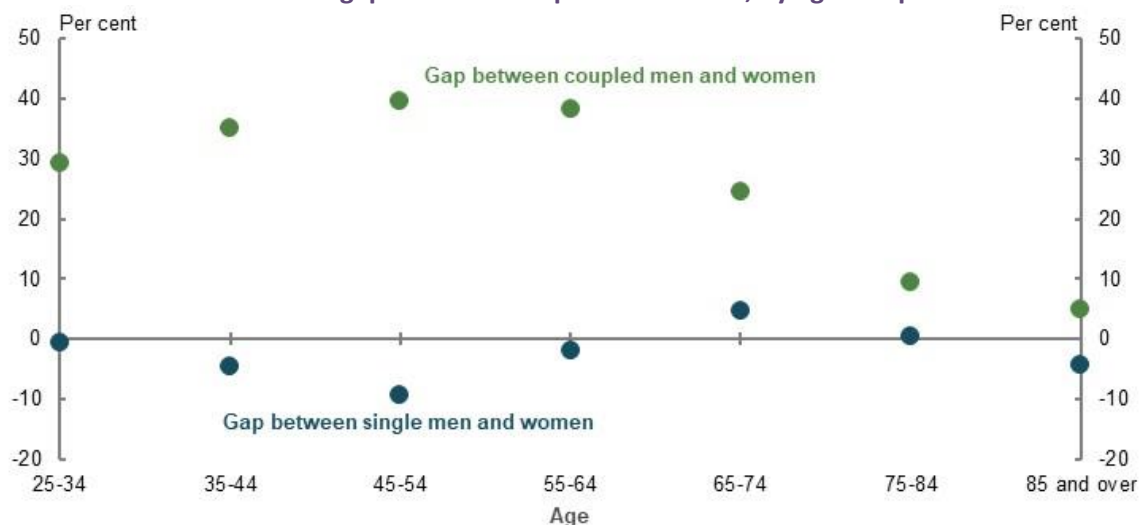


Note: Chart shows the impact of removing individual factors on the gender gap in retirement incomes (e.g. comparing a world where fees in retirement do not exist to standard gender cameo model specifications) for the 50th income percentile. Removing all the factors listed results in a gender gap in retirement incomes equal to the gender gap in superannuation balances at retirement. 'Compounding' isolates the impact of real investment returns on superannuation balance during retirement. 'Life expectancy' isolates the effect of different life expectancies for men and women on retirement income by assuming both genders have the same life expectancy of 92. 'Private savings' refers to non-superannuation wealth. The 'interaction' field indicates the impact of the interaction between elements (e.g. the interaction between removing fees and compounding returns, which is not captured in removing only fees or only compounding returns). The interaction field is larger in this chart than in Chart 3B-14, given the significant interaction each factor has with Age Pension receipt. This analysis does not include voluntary contributions other than salary sacrifice. Including these contributions would likely reduce the gender gap in superannuation balances at retirement. Calculations are based on values deflated using the review's mixed deflator. Results for the 10th, 30th, 70th and 90th income percentiles are in *Appendix 6D. Supplementary equity charts*. Source: Cameo modelling undertaken for the review.

Empirical analysis of the gender gap in retirement incomes

Pre-retirement, the gender gap in disposable income is more prevalent for coupled women than single women (Chart 3B-21). For those in retirement, the disposable income gap between median coupled men and women is significantly less.

Chart 3B-21 Gender gap in median disposable income, by age and partnered status



Note: Data from 2017-18. A negative gender gap means women have more disposable income than men. Source: Analysis of ABS Survey of Income and Housing Confidentialised Unit Record File, 2017-18.

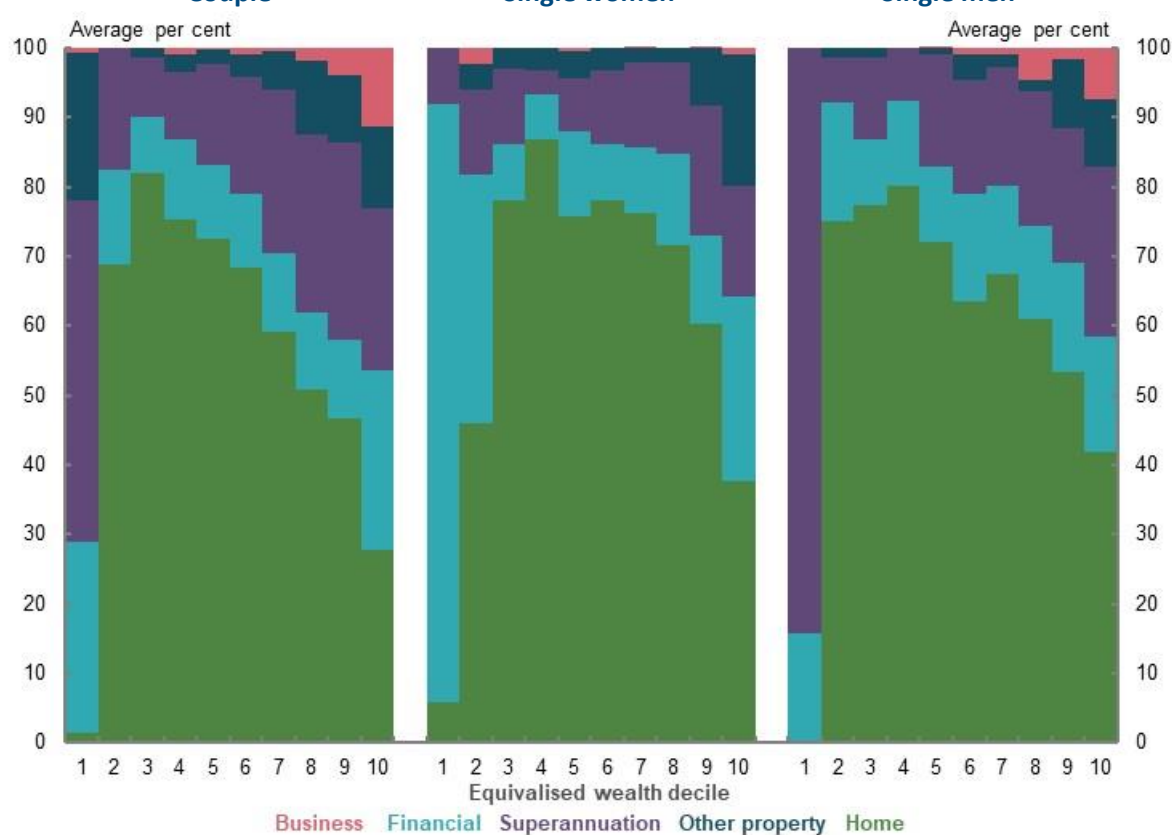
Retirement trends and characteristics by partnered status

Distribution of assets for singles and couples

In retirement, a greater proportion of single people, particularly men, are asset poor compared to couples. The lowest wealth decile has a higher number and proportion of single men and women compared to couples.¹⁶¹ However, in absolute terms, asset-poor, single women outnumber asset-poor, single men, as there are a greater total number of single women in retirement (see *Becoming single in retirement*, below).

Across most of the wealth distribution, single women in retirement are more likely to have a higher proportion of their wealth in housing and less in superannuation than single men or couples (Chart 3B-22).

Chart 3B-22 Composition of retirees' assets by partnered status, gender and wealth decile



Note: 2017-18 data. This chart shows, for example, retired couples in the 2nd wealth decile held, on average, 69 per cent of their wealth in housing, 14 per cent in financial assets and 17 per cent in superannuation. Equivalised means that the results are adjusted for household size. Negative net asset values not included for presentational purposes. Source: Analysis of ABS Survey of Income and Housing Confidentialised Unit Record File, 2017-18.

Entering retirement as a couple

Most people enter retirement as a couple, although the rate has been falling since 1991. In 2016, 62 per cent of women and 67 per cent of men entered retirement married (ABS, 2016a).

Women tend to retire one to three years earlier than men (see 1A. *What is retirement?*). This difference is largely due to coupled women retiring with their older partner. Partnered women tend

¹⁶¹ Analysis of (ABS, 2019s).

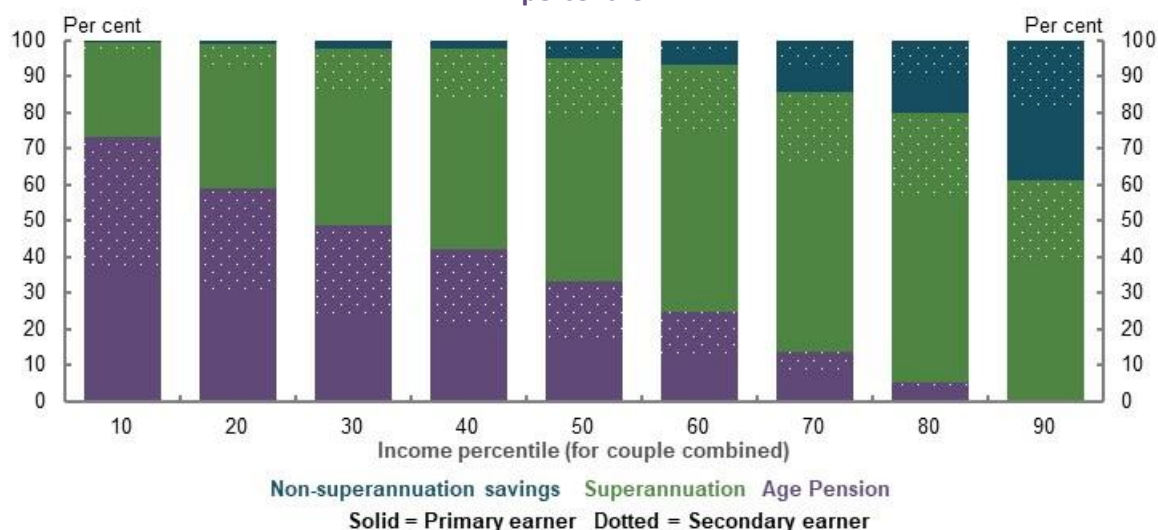
to marry men two years older than them (ABS, 2019q) and *expect to retire* 1.5 years earlier than partnered men (ABS, 2020n).¹⁶² Conversely, single women *expect to retire* marginally later than single men.

Sources of income in retirement for couples

People who are partnered in retirement can share resources. **Women rely more on their partner for income in retirement**, with 14 per cent of those retired reporting ‘partner’s income’ as their main income source for meeting living costs, compared to 6 per cent of men (ABS, 2020n).

Cameo modelling projects that, in future, around two-thirds of a couple’s income in retirement will come from the primary earner’s superannuation, savings or Age Pension payments, and one-third from the secondary earner’s (Chart 3B-23). The proportion contributed by the primary earner generally increases as working-life earnings increase. The proportion of retirement income contributed by the secondary earner increases over the course of a couple’s retirement as the couple exhausts their superannuation and receives more Age Pension.

Chart 3B-23 Proportional source of projected total retirement income for couples by income percentile



Note: Calculations are based on values deflated using the review’s mixed deflator. Classification as ‘primary earner’ is based on income distribution within the couple, and includes both male and female primary earners. Source: Cameo modelling undertaken for the review.

Lifetime Government support provided through the retirement income system for couples

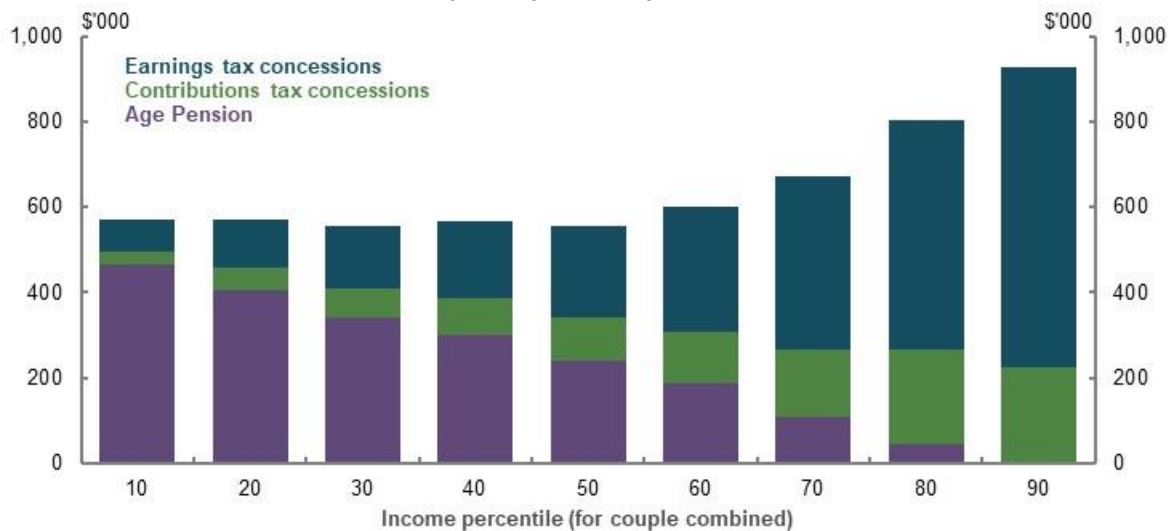
As with individuals, the distribution of lifetime Government support differs for couples across the income distribution (Chart 3B-24) (see *Section 3A. Income and wealth distribution* for analysis of individuals). The gap between lower- and higher-income couples is less than double the gap between lower- and higher-income individuals because:

- **Lower-income couples receive more Age Pension than lower-income individuals**, as the couple combined rate of Age Pension is higher than the singles rate of Age Pension.

¹⁶² This statistic relates to the age that people *expect to retire*, which is different from the age they *actually* retire.

- **Higher-income couples receive less than double the superannuation tax concessions than higher-income individuals**, likely due to some higher-income earners partnering with a lower-income earner.¹⁶³

Chart 3B-24 Projected lifetime Government support from the retirement income system for couples, by income percentile

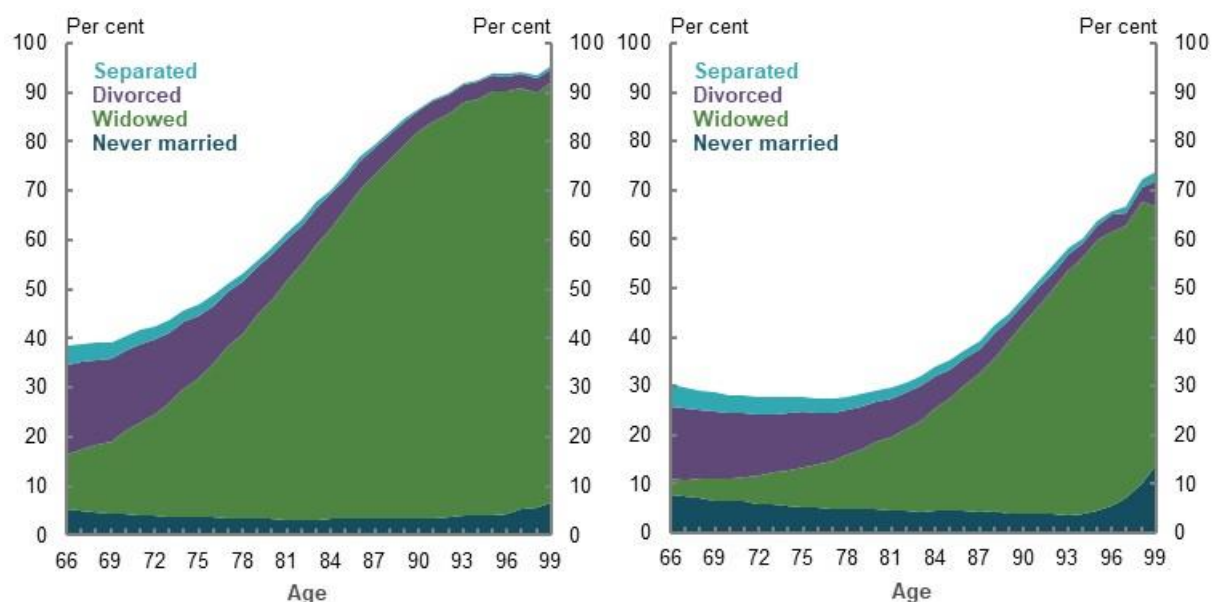


Note: Values are in 2019-20 dollars, deflated using the review's GDP deflator. Income percentiles are based on the incomes of couples only. Source: Cameo modelling undertaken for the review.

Becoming single in retirement

Women are more likely to become single during retirement (Chart 3B-25). This means income support for singles in retirement, such as the single rate of the Age Pension, are more important for women than men.

Chart 3B-25 Proportion of single people in retirement by marital status, age and gender



Note: 2016 data. Source: Analysis of (ABS, 2016a).

¹⁶³ Differences in the incomes of individuals and couples may also drive the differences between Chart 3B-24 and the analysis in *Section 3A. Income and wealth distribution*. For example, the 10th percentile of individuals may have a different income to the 10th percentile of couples.

The larger proportion of women widowed may also mean the inheritance of a partner's wealth is a larger part of the average woman's retirement than the average man's.

The profile of single women and single men changes significantly over retirement. Early in retirement, single women are predominantly divorcees, while single men are mainly divorcees or those never married. Later in retirement, single men and single women are predominantly widowed.

Not all singles are the same

The way a person becomes single impacts their retirement outcomes (Table 3B-4).

- **Retirement income** — Those never married, and divorced single men, have higher median incomes than other cohorts of single retirees.
- **Wealth** — Those separated generally have significantly lower wealth. Whereas, those widowed, and women who have never married, generally have higher wealth. For those aged 65 and over, the median single-woman household has higher wealth than the median single-man household. Members of a couple have higher median incomes and wealth than any single group.

Table 3B-4 Median annual household disposable income and net wealth, aged 65 and over, by gender and partnered status

Cohort	Disposable income (\$)	Net wealth (\$)
Couple (combined)	38,600	655,700
Single women	28,900	460,000
<i>Separated</i>	31,600	205,000
<i>Divorced</i>	28,900	396,000
<i>Widowed</i>	28,100	477,500
<i>Never married</i>	32,100	530,700
Single men	33,700	404,300
<i>Separated</i>	27,400	311,000
<i>Divorced</i>	32,900	359,200
<i>Widowed</i>	28,900	552,500
<i>Never married</i>	34,000	372,500

Note: Figures are in 2018 dollars and are rounded to nearest \$100. Net wealth includes housing. Includes households with any member aged 65 and over. Results are equivalised (i.e. adjusted for household size). Source: Analysis of HILDA Survey data (Wave 18).

Poverty and financial stress

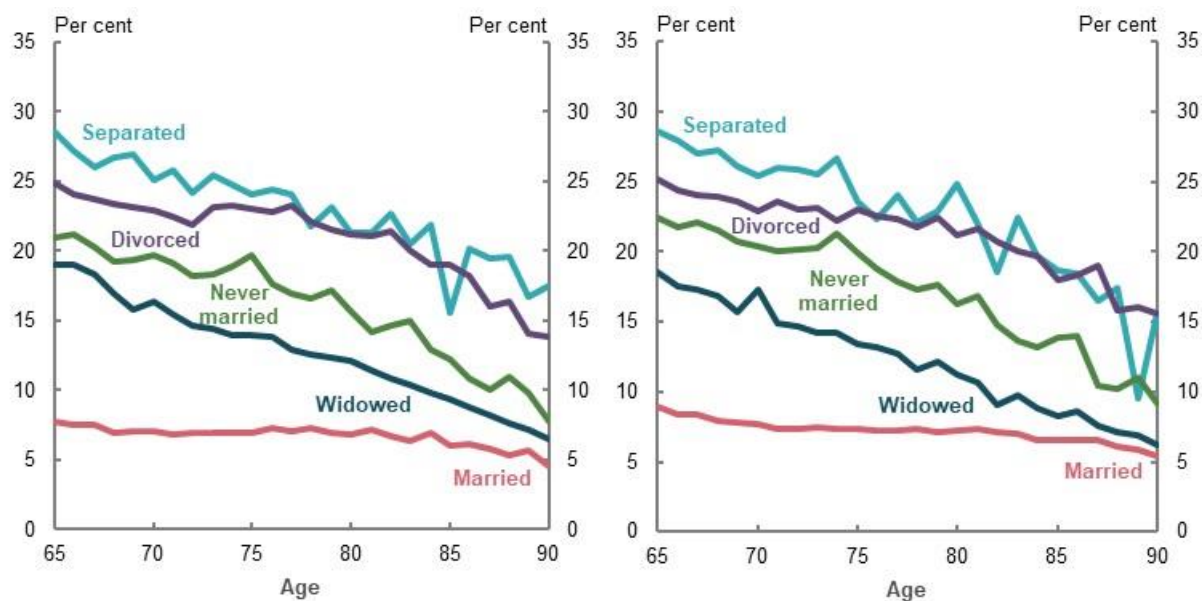
Single retirees are far more likely to experience disadvantage than couples. Singles are more likely to be in poverty and financial stress than couples. Around 23 per cent of retired single women and 25 per cent of retired single men are in poverty, while around 12 per cent of both single men and women are in financial stress in retirement. Around 10 per cent of coupled retirees are in poverty, and 9 per cent are in financial stress (see 2A. *Achieving a minimum standard of living in retirement*). Because there are more women in retirement, there are a greater absolute number of single women than single men in poverty and financial stress in retirement.

Renting in retirement

Similar proportions of men and women rent in retirement. Because there are more women than men in retirement, an absolute greater number of women are renters and more women rent in later retirement (ABS, 2016a).

Single people are far more likely than married people to rent in retirement, particularly at younger ages. People who are separated or divorced are the most likely group of singles to rent in retirement (Chart 3B-26). **Single renters, both men and women, are at particular risk of poverty and financial stress in retirement** (see 2A. *Achieving a minimum standard of living in retirement*).

Chart 3B-26 Proportion renting in retirement, by age and marital status
Women **Men**



Note: 2016 data. Given the small size of the separated and divorced cohorts, particularly at older ages, these charts should be used with caution. Source: Analysis of (ABS, 2016a).

More single women receive the Commonwealth Rent Assistance supplement in retirement than single men (see 1B. *Design of Australia's retirement income system*), particularly at older ages.¹⁶⁴ Homelessness among older women is also an area of increasing concern (see 3C. *Home ownership status*).

¹⁶⁴ Department of Social Services payment data, 28 June 2019.

Box 3B-5 Impact of changes to certain policy settings on women's retirement outcomes

A significant number of submissions raised policy proposals to improve retirement outcomes for women. The following summary outlines some implications of some of the proposed policy changes.

- **Remove the \$450-a-month threshold and pay superannuation on paid parental leave and Parental Leave Pay.** These changes would marginally improve retirement income equality between men and women. These exclusions predominantly disadvantage women. However, the additional superannuation savings gained from removing these exclusions would not offset the impact of the significant working-life earnings gap between men and women (see 3D. *SG coverage*).
- **Increase the incentive for additional voluntary 'catch-up' superannuation contributions later in working life.** Such a change would mostly benefit women with higher superannuation balances or those whose partner has higher superannuation balances. Single women with lower balances are the least likely group of women to make voluntary contributions and the least likely to benefit from incentives to voluntarily contribute to superannuation.
- **Increase the SG rate.** This would not reduce the gender gap in superannuation balances and would boost retirement incomes slightly more for men than women. A higher SG rate would come at the expense of working-life income, reducing the already lower working-life earnings of women relative to men. A higher rate would amplify the effect of the earnings gap on retirement outcomes, as men would benefit from the higher compulsory contributions more than women (see 2D. *Policy scenario: Implications of maintaining the SG rate*).
- **Boost lower-income earners' superannuation without trading off working-life income.** Changes that achieve this outcome would help reduce the gender gap in superannuation balances. Women are over-represented at lower incomes. Policy settings that support lower-income earners to boost their superannuation balances without trading off working-life income include the low income superannuation tax offset (lower tax) and the Government superannuation co-contribution for lower- to middle-income earners (up to \$500 boost). These measures benefit more women than men.
- **Reduce superannuation tax concessions for very high income earners.** This would reduce the degree to which the working-life earnings gender gap translates into the gap in superannuation balances. Because men are, on average, higher earners than women, superannuation tax concessions benefit men more than women. The Division 293 tax marginally decreases the gender gap in superannuation balances at retirement. If superannuation taxation was more progressive, it would further reduce the superannuation balances of very high income earners. This would reduce the gender gap in superannuation balances (see 3A. *Income and wealth distribution*).
- **Increase the rate of the Age Pension and provide additional assistance to renters on the Age Pension.** These changes would reduce the retirement income gap between men and women, as more women receive the Age Pension and are renters. The Age Pension is an important equaliser in retirement outcomes between men and women, as it is not influenced by the working-life gender earnings gap. Although, the Age Pension rate is set such that all older Australians, both men and women, achieve a minimum standard of living in Australia. Since more women rent in retirement, increased support for lower-income retirees who rent would help reduce the retirement income gender gap (see 2B. *Policy scenario: Implications of increasing Commonwealth Rent Assistance*).
- **Improve the visibility of superannuation assets in family law property settlements.** Not all parties to a family law dispute are forthcoming about their, potentially multiple, superannuation accounts. The process of discovering a former partner's superannuation assets can be costly and time-consuming. Simplifying this process would deliver better superannuation splitting outcomes, particularly for vulnerable women. The measure announced by the Government in 2018, but yet to be legislated, would deliver fairer and more equitable outcomes for those going through a divorce.

Section 3C. Home ownership status

Box 3C-1 Section summary

- **The treatment of housing in the Age Pension assets test provides more support to home owners compared to non-home owners.** The exemption of the principal residence in the assets test particularly benefits age pensioners with high-value homes. Around 15 per cent of retirees on the Age Pension own homes worth more than \$1 million.
- **The larger free areas in the assets test for non-home owners benefits only a small share of retirees who are renting.** About 6 per cent of non-home owner Age Pension recipients have a level of total assets above the home owner thresholds and below the non-home owner thresholds and could benefit from this preferential treatment.
- **Even the limited number of renters who benefit from the higher assets test free areas and hold their wealth in forms other than a home are still at a disadvantage relative to home owners.** Compared to a home owner with identical total wealth, a renter receives about \$4,000 less Age Pension per year.
- **Compared with the Age Pension, Commonwealth Rent Assistance is more targeted to lower-wealth households.** About 20 per cent of Age Pension expenditure goes to the top two wealth quintiles, while close to 90 per cent of Commonwealth Rent Assistance expenditure goes to the bottom wealth quintile.

Outline of this section

This section considers the effects of the Age Pension assets test on retirees who are home owners compared to non-home owners. It analyses how the preferential treatment of the principal residence (i.e. family home) benefits home owners and leads to inequity in the retirement income system. It also examines how the Age Pension is distributed among retirees compared to Commonwealth Rent Assistance.

Box 3C-2 Stakeholder views on retirement income equity for home owners and renters

A number of stakeholders raised issues about over-investment in housing and housing being used for estate planning. Several submissions focused on the exemption of the principal residence from the Age Pension assets test.

Some submissions suggested the principal residence should be partially assessed in the assets test when the value exceeds a certain threshold.

One stakeholder reported that a poll of its constituents found an even split on the prospect of including some value of the home in means testing.

‘While there is little support for inclusion of the full value of the residence in the means test, views on whether some or all of the value above median house prices (overall or geographically moderated) should be taken into account. In two successive surveys of our constituency for Federal Elections we have found support and opposition to that proposition fairly evenly divided in the forty plus percent’s, with the rest undecided.’
(COTA, 2020, pp. 37-38)

Several submissions said there should be no change to principal residence exemptions, noting the non-financial benefits to retirees from home ownership.

Home ownership and equity in retirement outcomes

Many older Australians are home owners. About 76 per cent of people aged 65 and over are home owners,^{165,166} with 12 per cent renters and the remaining 11 per cent in other tenure arrangements, such as living rent-free with family and friends or in residential care (ABS, 2016a). Around 0.2 per cent of people aged over 65 are homeless; a lower rate than younger age groups (ABS, 2018b).

Factors contributing to high home ownership rates among older Australians include:

- From a retirement income perspective, the family home is a unique investment vehicle that both pre-funds most housing needs in retirement and is an asset that can be drawn on in retirement.
- Preferential treatment in the tax and retirement income system have made home ownership a desirable savings vehicle (see 5A. *Cohesion*).

Home owners and renters have large differences in their income and wealth accumulation in working life (see 2A. *Achieving a minimum standard of living in retirement*). While working, home owners generally have higher incomes than renters. They typically have higher educational attainment and longer employment history, in part due to the requirements for downpayment and ongoing servicing of mortgages (Kohler & Rossiter, 2005). Home ownership also serves as a savings commitment device.

Working-life differences result in different retirement outcomes for home owners and renters. Although home owners and renters have approximately the same income in retirement due to Government payments to lower-income households, home owners have lower housing expenditure and therefore higher disposable incomes. Home owners are less likely to face financial stress and poverty in retirement (see 2A. *Achieving a minimum standard of living in retirement*).

Apart from working-life differences, some government policies affect home owners and renters differently. The Age Pension assets test treats retirees in similar economic circumstances differently based on their home ownership status (see *Age Pension and the assets test*, below).

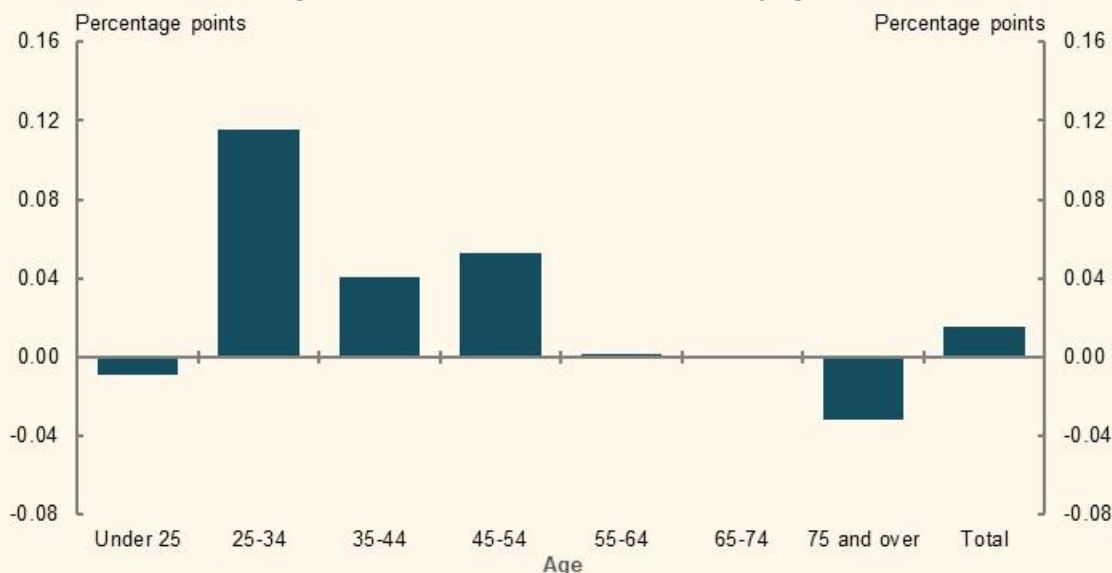
¹⁶⁵ Home ownership rate reported here is measured at the individual level by the Census. It is lower than the home ownership rate measured at the household level by the Survey of Income and Housing (see 1D. *The changing Australian landscape*). This is due to differences in the design of the Census and the Survey of Income and Housing.

¹⁶⁶ Around 12 per cent of home owner households in retirement have mortgages (ABS, 2019n).

Box 3C-3 Homelessness

Stakeholders were concerned about the increase in homelessness among older people. Particular attention has been drawn to women aged 65 and over, who were the fastest growing homeless group, increasing by around 30 per cent between the 2011 and 2016 Census. This increase is largely a product of population ageing. The likelihood of homelessness for older Australians has not changed significantly, as measured in the Census, over the past 15 years (Chart 3C-1).

Chart 3C-1 Change in the likelihood of homelessness by age, from 2001 to 2016



Source: Analysis of (ABS, 2018b).

The measure of homelessness from the Census may not capture all forms of insecure housing. The Australian Human Rights Commission (2019, p. 8) noted that older women and men experience homelessness differently, suggesting some data may underestimate how many older women are homeless. One study found the increased number of older women accessing homelessness services over five years to 2017-18 exceeded population growth (Australian Institute of Health and Welfare, 2018b).

The likelihood of homelessness declines with age (ABS, 2018b). Many of the major risk factors such as poverty, unemployment or lack of affordable housing are less prevalent among retirees, who have higher home ownership rates, greater representation in public housing¹⁶⁷ and access to the Age Pension. As noted in 2A. *Achieving a minimum standard of living in retirement*, a significant proportion of renters in retirement are facing financial stress due to high housing costs. Worsening housing affordability may present a risk factor for increased homelessness among retirees.

Age Pension and the assets test

Concessional treatment for the principal residence

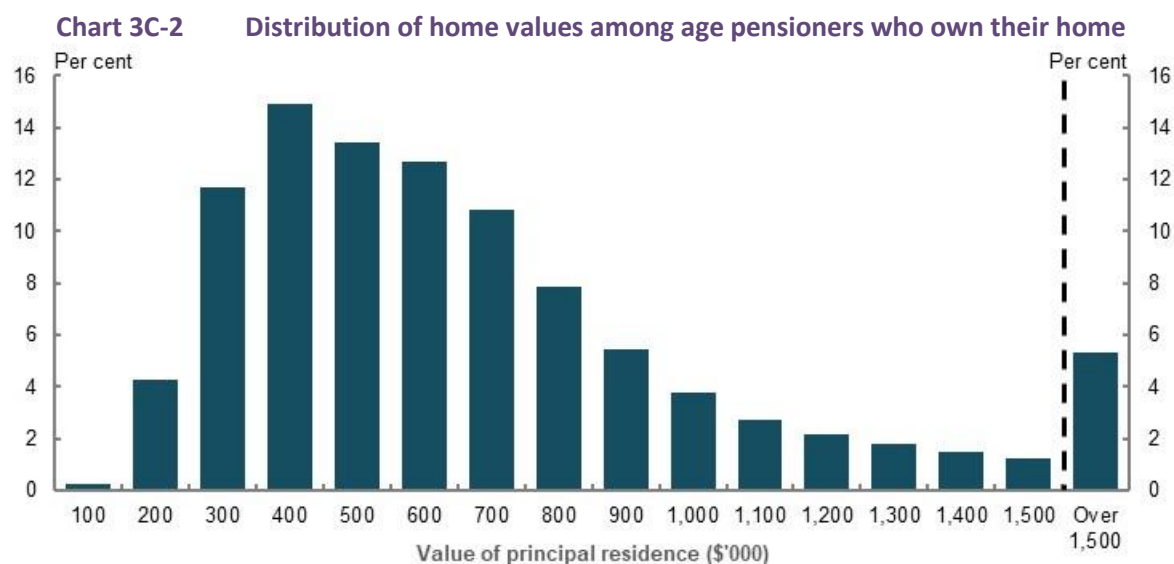
A person's principal residence is exempt from the Age Pension assets test while non-home owners are allowed a higher assets test free area to qualify for the maximum rate of the Age Pension (Table 3C-1). This implies that the effective value of the principal residence for the assets test is currently \$210,500. In contrast, the estimated median value of an age pensioner's principal residence in 2019 was \$560,000.

¹⁶⁷ Analysis of (ABS, 2019n).

Table 3C-1 Assets test free areas for a maximum-rate Age Pension

	Single (\$)	Couple (\$)
Home owner	263,250	394,500
Non-home owner	473,750	605,000
Difference (effective value of the home)	210,500	210,500

Source: Age Pension rates and thresholds as at 1 May 2020.



Note: Horizontal axis labels indicate home values up to that amount (e.g. \$200,000 includes homes over \$100,000 up to \$200,000). Source: Department of Social Services analysis of payment data, June 2018.

Higher assets test free areas for non-home owners

The higher assets test free areas for renters benefit only a small proportion of retirees who do not own a home. About 36,000 non-home owner Age Pension recipients (around 6 per cent of this group) have a level of total assets above the home owner assets test free areas and below the non-home owner assets test free areas (Department of Social Services, 2020a). If these retirees are assets tested, they may benefit from this preferential treatment to qualify for a full-rate Age Pension. Around 16,000 non-home owner Age Pension recipients (less than 3 per cent of this group) have total assets above the assets test free areas but below the assets test cut-offs. These retirees may benefit from this preferential treatment to qualify for a part-rate Age Pension.¹⁶⁸

Of those non-home owners who receive a part-rate Age Pension, the majority (94 per cent) are affected by the income test.¹⁶⁹ As the income test is not adjusted by home ownership status, these retirees do not benefit from the higher assets test free areas.

Equity implications of the Age Pension assets test

Even the limited number of renters who benefit from the higher assets test free areas and hold their wealth in forms other than a home are still at a disadvantage relative to home owners (Table 3C-2). Compared to home owners with identical total wealth, renters receive less Age Pension per person

¹⁶⁸ A maturing superannuation system will see the average balances for retirees (in 2019 present value) approaching \$500,000 by 2060. As such, the higher assets test free areas are expected to benefit more renters in the future.

¹⁶⁹ Department of Social Services payments data at June 2019.

per year despite the Commonwealth Rent Assistance supplement (about \$4,000 less in this example). This creates an inequity between home owners and renters in similar economic circumstances.

Table 3C-2 Annual Age Pension payment of a home owner and a renter with identical total wealth

	Home asset (\$)	Income-generating assets (\$)	Total wealth (\$)	Base Age Pension (\$)	Commonwealth Rent Assistance (\$)	Total Age Pension (\$)
Home owner 1	560,000	210,000	770,000	18,506	0	18,506
Home owner 2	360,000	410,000	770,000	17,865	0	17,865
Renter	0	770,000	770,000	12,072	1,711	13,783

Note: Values are in 2019-20 dollars for an individual that is part of a couple. Asset values are representative of a typical coupled Age Pension recipient based on payment data from Department of Social Services. The renter is eligible for the maximum rate of Commonwealth Rent Assistance. Source: Calculation based on pension rates and thresholds as at 1 May 2020.

Some stakeholders suggested home ownership rates will fall in future among older Australians (Ong ViforJ, 2020, p. 2; Coates, 2020) although the extent of this is uncertain (see *1D. The changing Australian landscape*). If home ownership rates do fall, an increasing proportion of retirees will be impacted by the inequity in the Age Pension payment between home owners and renters. As the superannuation system matures, increasingly more renters will have larger superannuation balances. This will lower their Age Pension payments as a result of the assets test. Meanwhile, the exemption of the principal residence will continue to benefit home owners.

Cameo modelling illustrates the retirement outcome of lower-income people starting work today who become a renter in a scenario of falling home ownership rates (Table 3C-3). Compared to a home owner with the same superannuation balance, it depicts two renters: Renter 1 who saves an amount equivalent to buying a modest home, and Renter 2 who saves less.

Table 3C-3 Projected annual retirement incomes for a home owner versus a renter over 25 years of retirement

	Family home (\$)	Other financial assets at retirement (\$)	Superannuation balance at retirement (\$)	Average retirement income (\$)	Income after housing costs (\$)	Average Age Pension (\$)
Home owner	350,000	0	222,300	36,400	34,400	25,900
Renter 1	0	350,000	222,300	42,700	30,500	20,700
Renter 2	0	233,300	222,300	42,300	30,200	25,100

Note: Values are in 2019-20 dollars, rounded to the nearest \$100. Values are deflated using the review's mixed deflator. Housing costs in retirement are assumed to remain proportional to income. Housing costs are calculated by age and tenure type at 28.5 per cent for renters and 5.5 per cent for renters and home owners respectively. See *Housing costs in Appendix 6A: Detailed modelling methods and assumptions* for details. Age Pension amounts include Commonwealth Rent Assistance. \$350,000 is the approximate mode of Age Pension home owners' value of home. The relative value of Commonwealth Rent Assistance to the renter's housing costs is assumed to decline because Commonwealth Rent Assistance is indexed to CPI, the growth of which is consistently lower than that of market rents. All three people are single for the purpose of Age Pension receipt and at the 20th income percentile. Renter 1 has savings in other assets that are equivalent to the value of a family home. Renter 2 has reduced savings due to the lack of investment opportunities or a reduced incentive to save in the absence of a savings commitment device. The home owner is assumed to have no assets outside of superannuation other than the family home. Source: Cameo modelling undertaken for the review.

While both renters have higher incomes in retirement due to receiving income from their non-housing assets, their disposable incomes after housing costs and the Commonwealth Rent Assistance supplement are lower than the home owner. In particular, the renters receive less Age Pension from the Government over their 25-year retirement than the home owner.

This results in an inequity in retirement outcomes. The home owner who has more means is less self-reliant in retirement and draws on more Government support than renters with the same superannuation balance.

Box 3C-4 Exemption of the principal residence from the Age Pension assets test

A number of submissions referred to the exemption of the principal residence in the Age Pension assets test. Several called for its removal or adjustment due to the inequities it causes. Other stakeholders argued for it not to be changed due to the disruption and potential income poverty that would result if it was removed.

Factors to be considered regarding the exemption of the principal residence include:

- **Over-investment in housing.** Exempting the principal residence may incentivise people to put too much money into their home (Productivity Commission, 2015a), which may not be optimal for the person or the nation. Little evidence is available to determine the effect of this incentive, partly reflecting that other incentives are also at play. There are other reasons effecting people's housing investment decisions during working life, including exemptions from capital gains tax and the non-monetary factors driving home ownership.

The incentive to invest in housing at retirement could become more significant in future as the superannuation system matures and balances at retirement increase. Those renting or with mortgage debt at retirement could be incentivised to convert their superannuation funds into housing to maximise their Age Pension payment.

- **Constraining 'right-sizing' and equity release.** Selling or downsizing the family home in retirement to convert home equity into financial assets can reduce a retiree's Age Pension payment due to the assets test. This can deter retirees who may want to move to more suitable accommodation and/or release equity from their home to increase their income. The significance of this disincentive is not clear. Retirees report the impact on Age Pension has a limited effect on their decision to downsize (Productivity Commission, 2015a). Retirees also face significant transaction costs to right-size, such as moving costs and stamp duty.

At present, the majority of age pensioners are home owners, so removing the assets test exemption for housing could have a significant impact on the adequacy of retirement outcomes.

Maintaining the exemption, but including a high-value cap, could reduce inequitable outcomes. It would have a limited effect on Age Pension expenditure and would reduce incentives to invest in housing among those affected. Studies found that even setting a cap at the median home value would not affect the majority of age pensioners whose pension is determined by the income test, rather than the assets test (Productivity Commission, 2015a). This reflects that most age pensioners currently have few assets outside their principal residence.

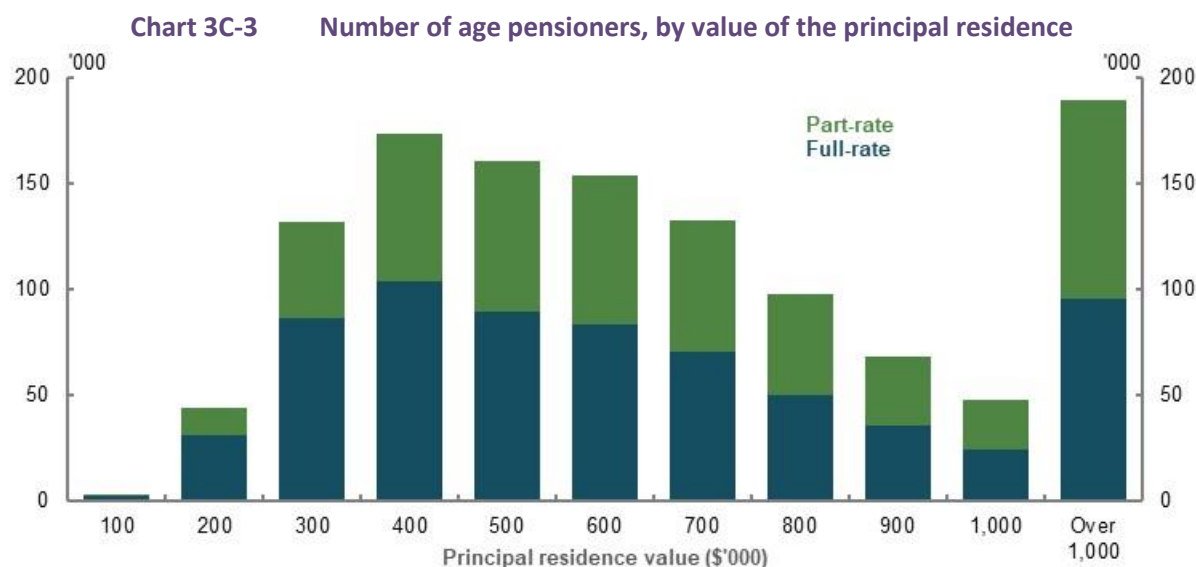
Including the full value of the home in the Age Pension assets test would remove the inequities between renters and home owners and remove the incentive to invest in housing due to the exemption. However, it would have significant adequacy impacts on retirees. Channels to mitigate this impact include changes to the rate of Age Pension or providing increased access to equity release (e.g. the Pension Loans Scheme).

The inequity of maintaining the assets exemption will change over time. The possible decline in home ownership among older people will mean more enter retirement as renters. As the superannuation system matures, future renters are expected to enter retirement with more assets and will be more likely to have their Age Pension entitlement determined by the assets test. If this occurs, the unequal distribution of Government support shown in Table 3C-3 will increase under the existing assets test exemption.

Distribution of Age Pension expenditure

For most Australians, the principal residence is their primary savings asset (see *1B. Design of Australia's retirement income system*).

Many current retirees spent the majority of their working life without compulsory superannuation. As a result, despite having significant housing wealth, many home-owning retirees have little voluntary savings or superannuation when they retire.¹⁷⁰ Given the exemption of the principal residence reduces their assets assessable under the Age Pension assets test, a large number of home owners are relying on the Age Pension (Chart 3C-3).

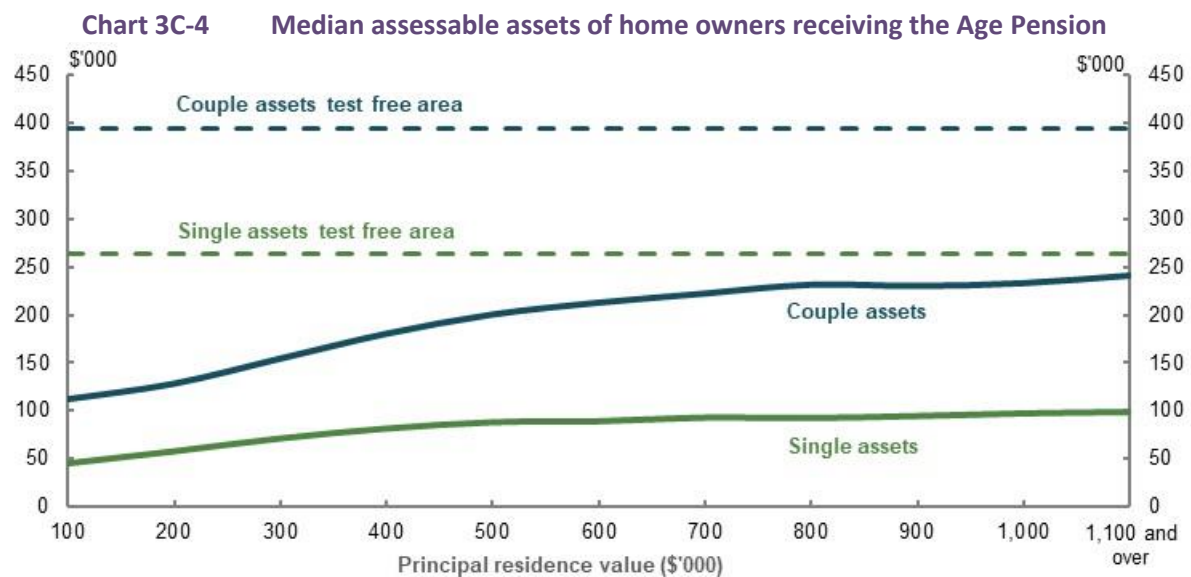


Note: Horizontal axis labels indicate home values up to that amount (i.e. \$200,000 includes homes worth more than \$100,000 up to \$200,000). 'Full-rate' indicates a person receiving a full-rate Age Pension; 'part-rate' means a person is either asset- or income-tested. Source: Department of Social Services analysis of payment data, June 2018.

Around 63 per cent of home owners receiving the Age Pension have assessable assets below the full-rate threshold.¹⁷¹ The median value of assessable assets does not seem to vary proportionately with the value of the retiree's principal residence (Chart 3C-4).

¹⁷⁰ These retirees are sometimes referred to as 'asset rich but income poor'.

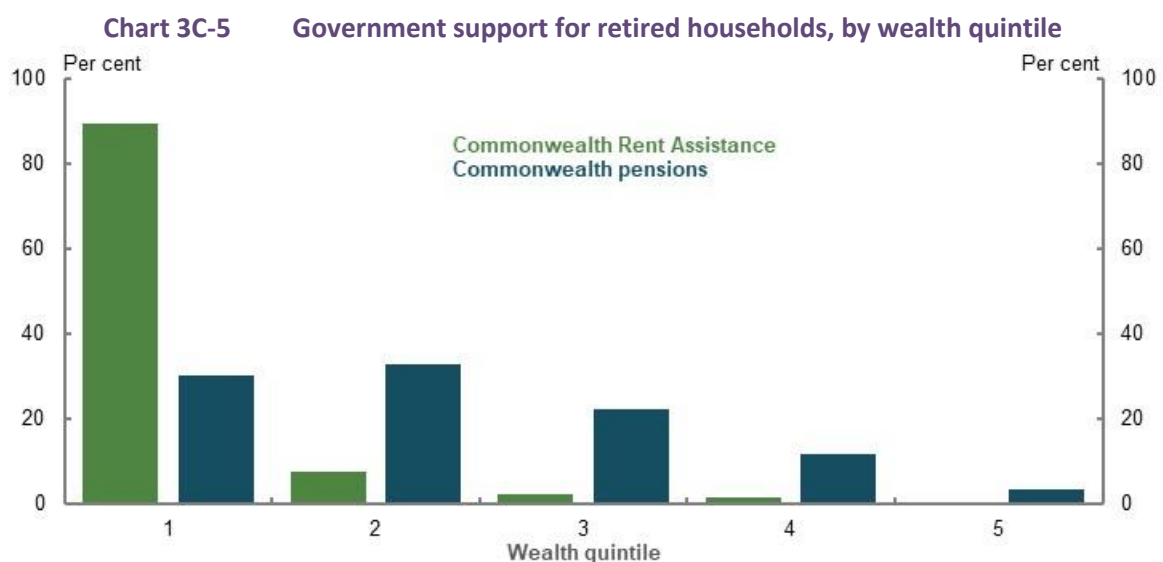
¹⁷¹ Department of Social Services analysis of payment data, June 2019.



Note: Total assessable assets include all assets recorded for the purpose of the Age Pension assets test. Source: Department of Social Services analysis of payment data, June 2018.

Because equity in the principal residence represents the largest share of net wealth for Australians aged 65 and over on average and is exempted from the Age Pension assets test, **the distribution of Age Pension expenditure is less skewed to lower-wealth quintiles than Commonwealth Rent Assistance expenditure.**

In 2017-18, about 20 per cent of Age Pension expenditure went to the top two wealth quintiles (Chart 3C-5). In contrast, in 2017-18, about 90 per cent of the Commonwealth Rent Assistance expenditure went to the bottom wealth quintile, reflecting that renting retirees tend to have lower after-housing disposable income and wealth.



Note: Commonwealth pension expenditure includes all pension payments (e.g. Age Pension, Disability Support Pension, Carer Payment and Veterans' pensions). The Age Pension represents the majority of the expenditure. Source: Analysis of ABS Survey of Income and Housing Confidentialised Unit Record File, 2017-18.

Box 3C-5 Impact of changes to certain policy settings on the retirement outcomes of home owners and renters

Several submissions proposed policy changes to narrow the gaps in retirement outcomes between home owners and renters. The following summary outlines some implications of some of those proposals.

- **Include the principal residence in the Age Pension assets test.** Age pensioners with housing assets would no longer receive the Age Pension or receive less Age Pension. This would encourage people to release home equity to fund their retirement and reduce the cost of the Age Pension. This would also help ensure the Age Pension is acting as a safety net for those in need (Cowan & Taylor, 2015). Depending on how the home was included in the Age Pension assets test it could have significant adequacy impacts on retirees.
- **Increase Commonwealth Rent Assistance.** Increasing rent assistance would benefit retirees who are most likely to be in financial stress and poverty (see 2A. *Achieving a minimum standard of living in retirement*). However, even large increases to Commonwealth Rent Assistance would not be sufficient to significantly improve retirement outcomes for renters. This reflects the depth of poverty the majority of renters face and that Commonwealth Rent Assistance, even if it increased by 40 per cent, is a fraction of the additional housing costs faced by retiree renters. Commonwealth Rent Assistance is limited in its ability to deliver adequacy outcomes for renters comparable to those achieved by home owners. More holistic consideration of how to provide income support for renters in retirement is required (see 2B. *Policy scenario: Implications of increasing Commonwealth Rent Assistance*).

Section 3D. SG coverage

Box 3D-1 Section summary

- **Coverage of the SG has remained high, but not universal, at around 90 per cent of employees since compulsory superannuation was introduced in 1992.** Around 17 per cent of the workforce are self-employed and not covered by the SG.
- **The \$450-a-month threshold exemption from the SG is inequitable for those missing out on the SG but has a small effect on their retirement incomes.** This exemption affects around 300,000 employees per month, particularly young, lower-income, female and part-time workers. The exemption means affected workers receive less remuneration for the same hour of work as unaffected colleagues, although not receiving SG has only a small impact on their retirement incomes. The policy rationale for the \$450-a-month threshold has diminished since payroll systems were digitised.
- **Employees who are paid overtime receive less SG per dollar earned than those not doing overtime.** Overtime pay is not included in the definition of earnings that receive the SG. For most employees, overtime represents a small percentage of their total pay. However, in industries such as mining, manufacturing and construction, overtime pay is more common. For employees in these industries, the forgone SG on overtime significantly reduces both their potential superannuation balances at retirement and their retirement incomes.
- **In 2016-17, \$2.3 billion of SG was unpaid, typically for lower-income employees, particularly in the accommodation and food services, and construction industries.** The impact is worse for younger employees due to missing out on the benefits of compounding. SG underpayment is most common in businesses with annual turnover of less than \$2 million. Employers' efforts to improve compliance have helped to narrow the SG payment gap in recent years. Reforms such as the rollout of Single Touch Payroll are improving ATO oversight of SG compliance, helping to identify non-compliance more quickly.
- **Because the self-employed are not covered by the SG they generally have lower superannuation balances than employees. They may, however, have other assets, such as their business, which results in similar wealth profiles approaching retirement.** The self-employed are not required to contribute to their superannuation. Only about a quarter of self-employed people make voluntary contributions in a given year. However, small business owners benefit from capital gains tax concessions, allowing them to put the proceeds of selling their business into superannuation.
- **'Sham contracting' may see some employees misclassified as contractors and missing out on the SG.** Employers may avoid paying the SG by misclassifying employees as contractors. These workers receive lower total remuneration compared with a similar employee receiving the SG. They may be financially constrained from voluntary saving for retirement, resulting in poorer retirement outcomes.
- **Superannuation balances of gig economy workers may be lower than an equivalent employee due to forgone SG.** However, the difference is likely to be small as gig economy work is generally not the primary source of income for most people. Data is inconclusive on the growth of the gig economy.

Outline of this section

This section considers:

- Which workers are and are not covered by the SG and the impact on their retirement incomes.
- The prevalence and impact of an employee not receiving the SG they are owed by their employer (the 'SG gap').
- Retirement outcomes of self-employed people who are not covered by the SG.

Box 3D-2 Stakeholder views on retirement income equity for those who are and are not covered by the SG

A few submissions identified the differential coverage of superannuation between workers as an inequity. In particular, stakeholders drew attention to:

- **Those earning under \$450 per month**, noting this exemption disproportionately affects women and results in lower superannuation balances
- **Those required to work regular overtime**, arguing this results in them effectively receiving a lower SG rate
- **Those receiving Government payments under the Community Development Program (CDP) and Parental Leave Pay**, arguing these payments should attract the SG given their connection with employment. One submission noted:

*‘CDP workers are no different to any other Australian worker and should be afforded the same rights and protections as other Australians in the workforce.’
(Australian Institute of Superannuation Trustees, 2020, p. 59)*

- **The impact of unpaid superannuation.** One submission noted:

‘Unpaid super is the easiest form of wage theft to get away with and one of the most prevalent.’ (Australian Council of Trade Unions, 2020, p. 49)

Stakeholders also expressed concern over the rise of the gig economy, noting that, although it provides work flexibility, its growth has implications for the level of SG coverage. Most stakeholders on this topic suggested expanding SG coverage. For example, one submission stated:

‘Going forward, universal coverage for all workers should be a goal of the SG system whether people are employees, self-employed or participate as part of the growing gig economy.’ (Actuaries Institute, 2020, p. 16)

Coverage of employees by the SG

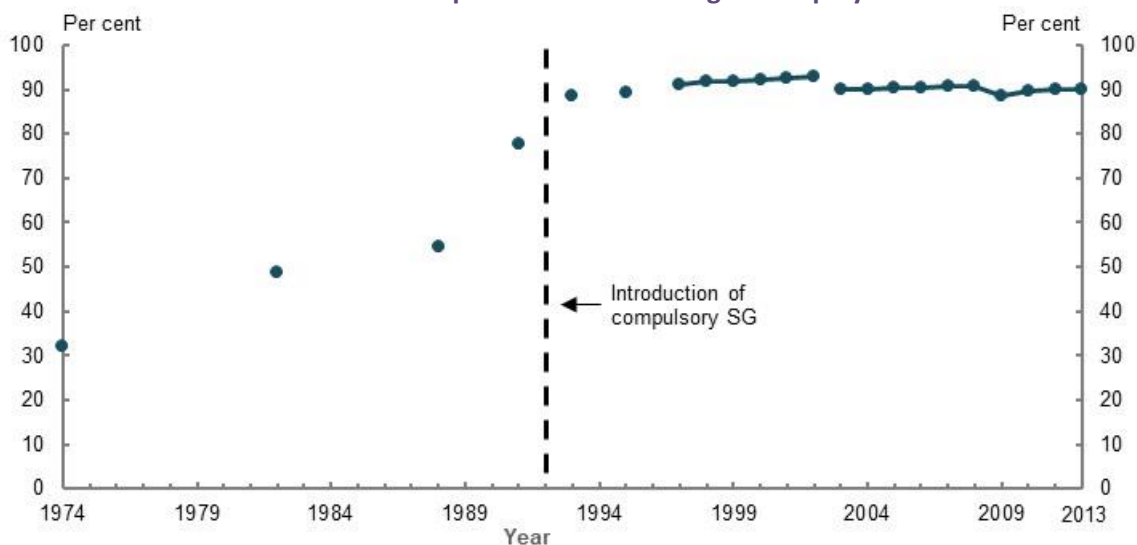
The SG is a mandatory entitlement for most employees. Although its coverage lacks a standard measure, a range of indicators suggest the rate of coverage has remained broadly stable since its introduction. In 2013, when the ABS last surveyed SG coverage, about 90 per cent of employees received superannuation from their then employer (Chart 3D-1), with male and female employees having equal coverage. The SG coverage rate for full-time employees was 94 per cent; for part-time employees it was 80 per cent (ABS, 2014).

Taxation statistics for 2017-18 show 91 per cent of those on a salary in that year received a superannuation contribution from an employer. This fell to 86 per cent when including all people who reported income from work (i.e. salary and wages or business income).¹⁷²

Some employees receive more than the legislated SG rate based on their employment agreement. Employees with defined benefit schemes may receive notional employer contributions that are broadly equivalent to the SG rate.

¹⁷² Coverage here means received any amount of SG during the year. For example, a self-employed person may earn some income as an employee.

Chart 3D-1 Superannuation coverage of employees



Note: Data is from different surveys and may not be directly comparable, but the trend can be observed. Source: Analysis of (ABS, 1994), (ABS, 2003), and (ABS, 2014).

In future, Single Touch Payroll reporting should allow the rate of SG coverage to be measured more accurately.

Employee exemptions from the SG

The main exemption categories from the SG are those employees:

- **Earning less than \$450 before tax in a calendar month from a single employer (the ‘\$450-a-month threshold’).** This is the most significant employee exemption from the SG, affecting around 300,000 employees in July 2019¹⁷³
- **Under 18 years old and working no more than 30 hours a week**
- **Working as a private or domestic worker and no more than 30 hours a week.** The 30-hour threshold aims to ensure workers, such as full-time housekeepers or nannies, receive the SG. Although difficult to measure, the domestic or private nature work exemption likely affects relatively few employees. Often, people working part-time in private work may not attract the SG because they are operating as contractors or being paid in cash

Other employee exemptions from the SG include: non-residents being paid for work done outside Australia; those temporarily working in Australia and covered by a bilateral superannuation agreement with another country; and members of the Defence Reserves.

The \$450-a-month threshold

The \$450-a-month threshold exempts an employer from paying the SG to employees earning below the threshold in a month. The original purpose of the \$450-a-month threshold was to reduce employers’ administrative burden to comply with the SG for their casual and temporary employees (Senate Economics References Committee, 2017).

The threshold has not increased since its introduction in 1992, when it was set at one month of the annual tax-free threshold of \$5,400. Then, it represented approximately 50 hours per month at the national minimum wage, compared with 23 hours in 2020 (Bray, 2013) (Fair Work Commission,

¹⁷³ Data provided by the ATO for the review.

2019b). In future, with wage rises, fewer people will earn less than \$450 per month and be affected by the threshold.

A 2017 Senate Inquiry recommended removing the exemption on the basis that the original rationale had become irrelevant in light of technological advances (Senate Economics References Committee, 2017). Relevant changes include:

- Digitising payroll systems, which have simplified the process of complying with the SG
- The Small Business Superannuation Clearing House, which provides a free service to small businesses to distribute payments to employees' superannuation funds
- Single Touch Payroll, which automates tax and superannuation reporting to the ATO

The Senate Inquiry also considered the adverse effects of the exemption felt by '*... particular categories of employees, such as women and employees who work in multiple, low paid jobs*' as reason for its removal (Senate Economics References Committee, 2017).

Another concern was that paying these employees superannuation would result in accounts with small balances being eroded by fees and insurance premiums (The Treasury, 2019). However, recent policy changes have reduced the impact of fees and insurance on low superannuation balance accounts. For example, in 2019 a 3 per cent cap on administration and investment fees by superannuation funds was introduced for accounts with balances below \$6,000. From 1 April 2020, new members of superannuation funds who are younger than 25, or have balances of less than \$6,000, must opt in to insurance coverage within the fund.

Effects on employees

Annual data makes it difficult to estimate the number of people affected by the \$450-a-month threshold (i.e. they were not paid the SG) and how many months their earnings fall below the threshold in a year. Previous estimates included:

- 400,000 employees per year, with \$50 million of the SG forgone in 2014-15 (The Treasury, 2019)
- 365,000 employees per year, with \$125 million of the SG forgone in 2017 (ASFA, 2019)

More recent ATO data from Single Touch Payroll reporting enables a more accurate estimate of the SG forgone in a month. Single Touch Payroll data for the month of July 2019 shows about 3 per cent of employees — or around 300,000 people — were affected by the \$450-a-month threshold. Notably, around 30 per cent of those earning under \$450 in that month were paid the SG by their employer (Table 3D-1).

The data also shows a significantly greater number of employees are affected by the threshold across the course of a whole year, but many are only impacted a few months of the year.¹⁷⁴ The review has estimated the SG forgone is about \$90 million per year — within the bounds of previous estimates.¹⁷⁵

Of affected employees in July 2019, 63 per cent were women (Table 3D-1) (see 3B. *Gender and partnered status*).

¹⁷⁴ Analysis based on ATO Single Touch Payroll data for July 2019 provided to the review. As Single Touch Payroll is still being rolled out, a reliable annual estimate cannot yet be determined.

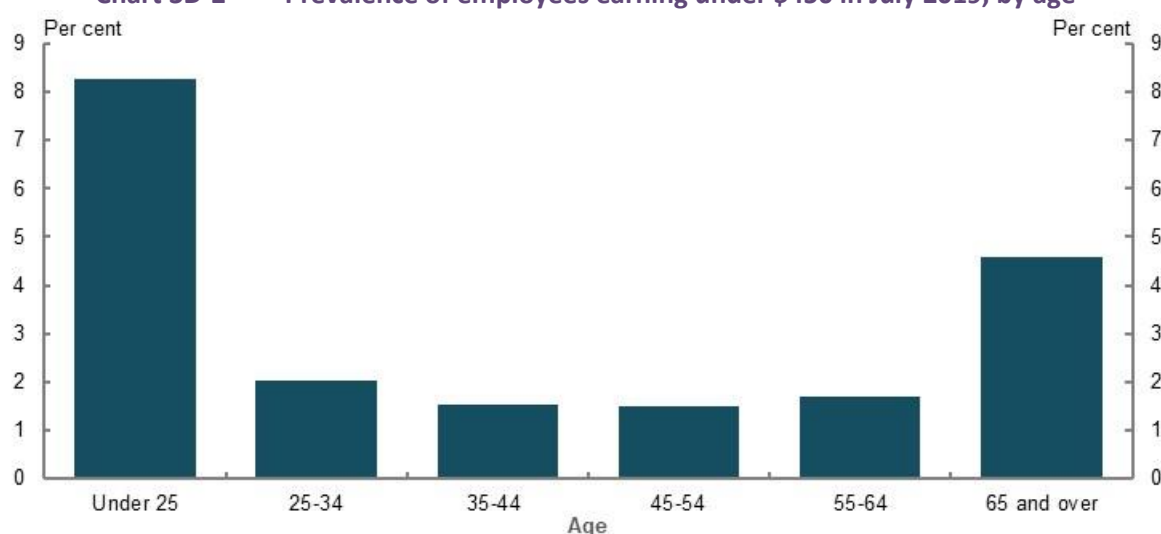
¹⁷⁵ The annual estimate of SG forgone is based on the average number of employees per month affected by the \$450-a-month threshold multiplied by their average wage of \$250 with 9.5 per cent SG rate. These are preliminary figures as Single Touch Payroll reporting is not yet universal. In future, longer term Single Touch Payroll reporting will allow for more accurate estimates of the number of people affected by the \$450-a-month threshold and the SG forgone in a given year.

Table 3D-1 Number of employees earning under \$450 in July 2019

	Received the SG	Did not receive the SG
Female	82,000	197,000
Male	52,000	114,000
Total	134,000	311,000
Proportion of total employees (per cent)	1.3	3.0

Note: Based on earnings per job. Single Touch Payroll reporting is not yet used by all employers and there is significant uncertainty around these estimates. Source: Estimates based on ATO Single Touch Payroll data for July 2019, provided to the review.

Younger employees, who are more likely to work part-time and in casual employment, are more likely to be affected by the threshold (Chart 3D-2).

Chart 3D-2 Prevalence of employees earning under \$450 in July 2019, by age

Note: Estimate is based on only one representative month. Single Touch Payroll reporting is not yet used by all employers and there is significant uncertainty around these estimates. Source: Analysis based on ATO Single Touch Payroll data for July 2019 provided to the review; (ABS, 2019c), (ABS, 2020f).

Cameo modelling illustrates the retirement income effects of the \$450-a-month threshold for two employee scenarios (Table 3D-2).

- Scenario 1:** A student who earns \$9,000 per year and works casually, depending on their availability, resulting in the \$450-a-month threshold applying to their wage for six months of the year. They work in this manner for five years before taking up full-time work at a median salary.

The threshold has a small impact on their superannuation balance at retirement and on their retirement income. The overall time spent with earnings under \$450 per month is intermittent and only makes up a small part of their total working-life earnings.
- Scenario 2:** A person who works multiple jobs part-time for their entire career, earning income at the 30th percentile. They have one job that does not pay the SG due to the \$450-a-month threshold for half (20 years) of their working life.

This much less common scenario results in a greater, but still small, reduction in the person's superannuation balance at retirement and in their annual retirement income.

Table 3D-2 Projected effect of the \$450-a-month threshold on retirement incomes

	Superannuation balance at retirement (\$)	Average annual retirement income (\$)	Replacement rate (percentage point)
Scenario 1	-2,700 (-0.7% decrease)	-100 (-0.2% decrease)	-0.1
Scenario 2	-12,000 (-4.0% decrease)	-300 (-0.8% decrease)	-0.9

Note: Values are in 2019-20 dollars using the review's mixed deflator rounded to the nearest \$100. Individual in Scenario 1 does not salary sacrifice during five years working part-time. Source: Cameo modelling undertaken for the review.

Employees earning under \$450 per month are likely to be earning an award wage,¹⁷⁶ so their hourly pay is not generally increased to compensate for the SG forgone. This results in those employees receiving less total remuneration than an identical employee who works enough hours to be over the \$450-a-month threshold.

Ordinary time earnings

The salary base for the SG is a legacy from occupational superannuation arrangements that existed before compulsory superannuation was introduced (Parliament of Australia, 2004). The SG is paid on a percentage of ordinary time earnings, which includes most wage definitions such as over-award payments, shift loadings and allowances (ATO, 2020f). The major exclusion category from ordinary time earnings is overtime pay.

The difference between total cash earnings and ordinary time earnings for full-time employees averages around 5 per cent (ABS, 2019h). This gap is not consistent across all industries. Non-ordinary time earnings (e.g. overtime pay) represents a significant proportion of earnings for about 20 per cent of employees (Superannuation Guarantee Cross Agency Working Group, 2017), particularly those in mining, manufacturing and construction (ABS, 2019h). For employees who receive overtime, it typically makes up around 12.5 per cent of their earnings, on which they do not receive the SG.¹⁷⁷

Cameo analysis shows that a person receiving 12.5 per cent of earnings as overtime, instead of ordinary time earnings, results in them having a substantially lower superannuation balance at retirement and a lower retirement income (Table 3D-3).

Table 3D-3 Projected effect on retirement incomes of receiving 12.5 per cent of earnings as overtime payments instead of as ordinary time earnings

	Superannuation balance at retirement (\$)	Average annual retirement income (\$)	Replacement rate (percentage point)
Median income earner	-53,100 (12% decrease)	-1,200 (3% decrease)	-2.5

Note: Values are in 2019-20 dollars using the review's mixed deflator and rounded to the nearest \$100. Source: Cameo modelling undertaken for the review.

Other payments exempt from the SG

A few submissions suggested Government Parental Leave Pay, employer paid parental leave and the Community Development Program should attract the SG due to their connection to employment (see 3B. *Gender and partnered status* and 3F. *Aboriginal and Torres Strait Islander people*).

¹⁷⁶ This means earning an hourly wage at the legal minimum as determined by the National Minimum Wage or an industry or occupational award agreement. At May 2018, around 20 per cent of all employees were paid at an award wage (ABS, 2019h).

¹⁷⁷ Analysis of Survey of Income and Housing, 2017-18 (ABS, 2019s).

Unpaid SG (the ‘SG gap’)

The SG gap is a measurement of the total amount of the SG owed to employees that has not been paid by their employer. The ATO has measured the gap ‘top-down’, using economy-wide data to provide a national figure. In the most recent estimate (2016-17 financial year), the net gap (i.e. after accounting for the amount of SG repaid due to ATO audits) was \$2.3 billion or 3.9 per cent of the total SG employees earned for the year (Table 3D-4).

The top-down measurement does not indicate the number of employees affected or the average amount of superannuation lost per person. It is most useful for analysing the trend in the gap.¹⁷⁸ Over six years, the net SG gap has fallen from 6.5 per cent to 3.9 per cent of the total SG, as employers’ voluntary compliance has improved.

Table 3D-4 Estimate of the SG gap

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Gross gap (\$millions)	3,592	3,135	3,329	3,319	3,221	2,875
Gross gap (per cent of total SG)	7.6	6.4	6.3	6.0	5.6	4.9
ATO compliance activities and voluntary disclosures (\$millions)	500	523	504	452	476	577
Net gap (\$millions)	3,092	2,612	2,824	2,867	2,745	2,298
Net gap (per cent of total SG)	6.5	5.3	5.3	5.1	4.8	3.9

Source: (ATO, 2020e).

Industry Super Australia (ISA) has produced a ‘bottom-up’ measurement of the SG gap at \$5.9 billion for 2016-17 (Industry Super Australia, 2019). The methodology has limitations due to using a 2 per cent sample of individuals’ tax returns (Superannuation Guarantee Cross Agency Working Group, 2017). Significantly, it identifies many employees under defined benefit schemes as being underpaid SG, which potentially overstates the gap. When the ATO examined the ISA approach using the full dataset, it estimated the impact of defined benefit amounts to around \$2.5 billion, reducing the gap to around \$3.4 billion.¹⁷⁹

Who is affected by unpaid SG?

Data from ATO compliance activity suggests employees more likely to have unpaid SG are:

- Working for **businesses with annual turnover of less than \$2 million**, which account for most cases of SG underpayment
- Working in the **accommodation and food services, and construction industries**, which are over-represented in SG non-compliance relative to their proportion of total employment
- On **lower incomes**
- Working for **insolvent businesses**, which are responsible for about half of superannuation debt (Superannuation Guarantee Cross Agency Working Group, 2017), especially those engaging in ‘phoenix activity’.¹⁸⁰

¹⁷⁸ The International Monetary Fund and the OECD consider top-down methods to be best practice in estimating theoretical tax collections (ATO, 2020e).

¹⁷⁹ Analysis provided by the ATO for the review. The 2 per cent sample of individuals’ tax returns is a dataset provided to researchers. The ATO’s full dataset allows the identification of defined benefit recipients.

¹⁸⁰ When a new company is created to continue a business that has been deliberately liquidated to avoid paying its debts and employee entitlements.

Since the SG is not required to be paid at the same time as wages, employees may find it difficult to monitor if they are being paid the SG to which they are entitled. The average length of unpaid SG is 18 months¹⁸¹ and non-payment is twice as likely as underpayment (Superannuation Guarantee Cross Agency Working Group, 2017).

Under superannuation law, unpaid SG becomes a debt — the SG charge — to the Commonwealth. If employees believe they have unpaid superannuation, they can apply to the ATO, which can use its compliance powers to pursue the debt.¹⁸²

One submission advocated for the private right to pursue unpaid superannuation:

‘Individual workers should have a legal avenue for recovery of unpaid super, as already exists for recovery of unpaid or underpaid wages. The Government should empower workers and their representatives, such as their superannuation fund, to take action against employers for the non-payment of the superannuation guarantee or superannuation contributions.’ (Cbus, 2020, p. 13)

Impact on retirement incomes of unpaid SG

Cameo modelling shows that a lower-income, younger employee who is not paid the SG for two years experiences a larger decrease in their superannuation balance and retirement income than an older worker who is not paid the SG for the same period. This is because the younger employee misses out on the benefits of compounding returns (Table 3D-5).

Table 3D-5 Projected effect of unpaid SG for a lower-income earner

	Superannuation balance at retirement (\$)	Average annual retirement income (\$)	Replacement rate (percentage point)
Early in career (age 30)	-17,500 (-6% decrease)	-500 (-1% decrease)	-1.3
Later in career (age 60)	-13,000 (-4% decrease)	-300 (-1% decrease)	-0.9

Note: Values are in 2019-20 dollars using the review’s mixed deflator and rounded to the nearest \$100. Modelling assumes no SG or salary sacrifice contributions are paid in relevant years. Employees are at the 30th income percentile. Source: Cameo modelling undertaken for the review.

Another consequence of unpaid superannuation can be the employee unknowingly losing disability or income protection insurance. Insurance cover provided through superannuation can lapse if contributions are not regular (Senate Economics References Committee, 2017).

Policy related to unpaid superannuation

Historically, the ATO relied on employee notifications of unpaid superannuation and could not monitor SG compliance in a timely way (Senate Economics References Committee, 2017, pp. 83-84). However, recent developments are improving transparency of SG compliance and helping to identify non-compliance more quickly. This includes:

- Single Touch Payroll requiring employers to automatically report tax and SG information to the ATO when they pay their employees’ salaries and wages
- Superannuation funds reporting contributions data more regularly to the ATO
- myGov allowing people to see employer contributions to their superannuation fund and the related pay period

¹⁸¹ Data provided by the ATO for the review.

¹⁸² An employee can also pursue unpaid SG by an employer if the superannuation entitlement is included in their contract or enterprise agreement (Senate Economics References Committee, 2017, p. 64).

- Allowing the ATO to disclose to employees when they have identified unpaid SG
- Fixing a loophole in SG legislation where an employer could use an employee's salary sacrificed amounts to reduce their SG liability
- Increased penalties for non-compliance
- A temporary amnesty from penalties to encourage employers to correct past SG non-payment

Retirement outcomes for self-employed people

In 2019, around 2.2 million people, or 17 per cent of workers, were self-employed in their main job (ABS, 2019f). A self-employed person does not have to make contributions on their behalf to a superannuation fund. Similarly, employers do not have to pay the SG to independent contractors. The SG has not been applied to self-employed people since its inception due to concerns about restricting capital and liquidity management for small businesses.

Several submissions were concerned that the lack of compulsory superannuation can lead to poorer retirement outcomes for the self-employed. Evidence to support this concern is difficult to assess as self-employed people have diverse characteristics and circumstances, as illustrated in these generalised scenarios:

- A **small business owner** with business assets and who uses these assets as a retirement 'nest egg'. This is facilitated by tax concessions for moving business assets into superannuation (see below). However, the owner takes on risk by not diversifying their retirement assets.
- A **high-skilled sole trader/independent contractor** who does not have significant business assets to sell at retirement but receives remuneration that they consider compensates them for the entitlements (e.g. the SG) they miss out on by not being an employee. This person may make voluntary contributions to superannuation or build up other assets.
- A **dependent contractor** who is misclassified as an independent contractor so they do not receive the SG, but has working arrangements more akin to an employee. They may lack the bargaining power to receive higher payments to compensate for the lack of SG compared with a similar employee. This may represent a 'sham contracting' arrangement, used by employers to save on wage costs (see below).

Data limitations also prevent comprehensive and conclusive analysis of self-employed people's retirement outcomes, partly because 'self-employed' is not an identifier in retirement data.

Characteristics of self-employed people

Self-employment is more common among men and older people (ABS, 2019f). A Productivity Commission report found that self-employed (independent) contractors are more likely to be male, older and in higher skilled occupations. Whereas, dependent contractors are more likely to be younger and working in lower skilled jobs (Waite & Will, 2001, p. 53).

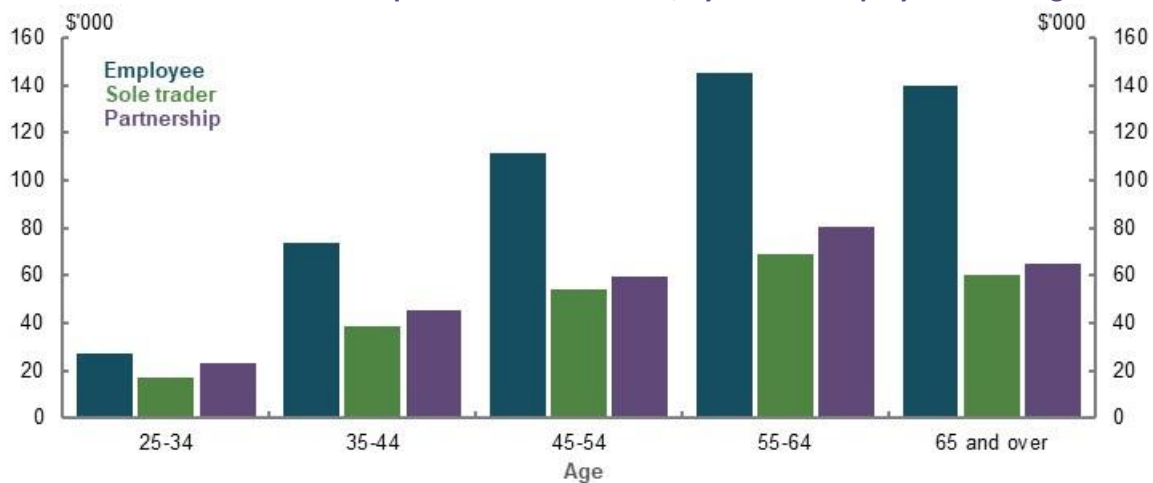
In 2019, around 12 per cent of workers aged 25-34 were self-employed, increasing to a quarter of workers aged 55-64 (ABS, 2019f). Studies found that older workers may prefer more flexible forms of work, including self-employment, as part of transitioning out of the labour force (Shomos, et al., 2013b).

Superannuation and total wealth

Self-employed people generally have lower superannuation balances than employees (Chart 3D-3). However, employees and self-employed people have similar total levels of wealth, on average, with

the typical household using the family home as the primary savings vehicle (Chart 3D-4 and Chart 3D-5). Tax concessions available to small business owners may incentivise them to hold wealth in the form of their business assets until closer to retirement.

Chart 3D-3 Median superannuation balances, by form of employment and age



Note: Balances from 2017-18 taxation data. 'Employee' indicates those who solely earned salary and wage income. 'Sole trader' and 'partnership' income includes any person who earned income from running a non-primary production business as an individual or in a partnership. Source: Data provided by the ATO for the review.

Chart 3D-4 Total wealth of households aged 55-64, by form of employment and household (25th to 75th percentile)

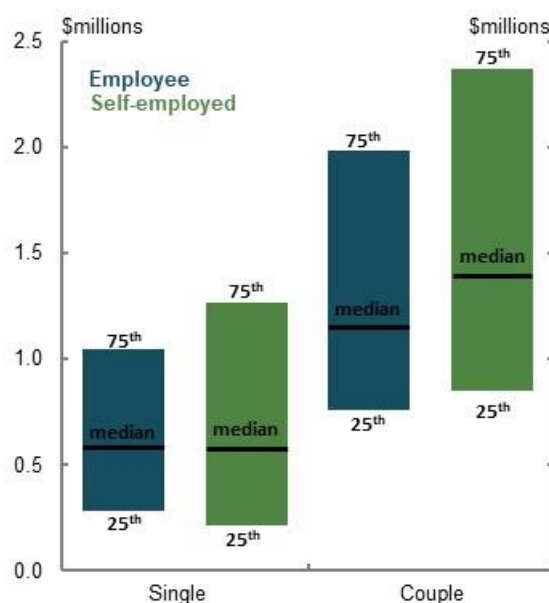
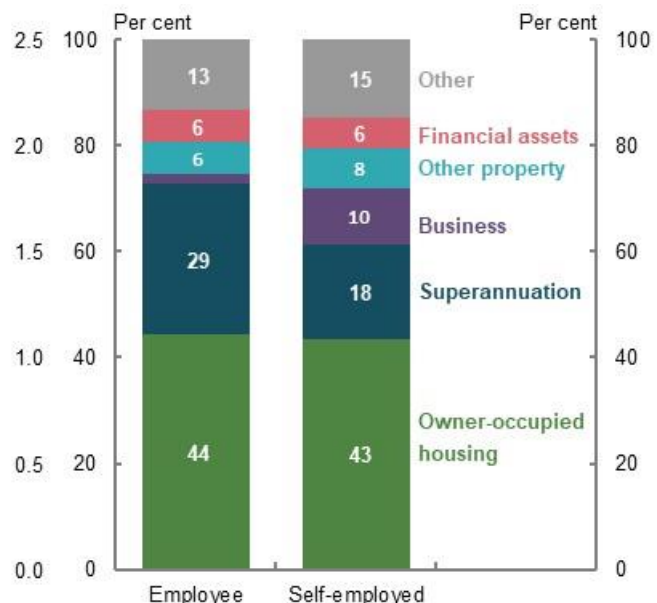


Chart 3D-5 Breakdown of average wealth of households aged 55-64 by form of employment



Note: Age is based on age of the household reference person. The top and bottom decile of households by wealth has been removed as outliers from Chart 3D-5 to make the average more representative. Form of employment indicates the primary source of income of the household. The wealth of older self-employed people may be higher on average due to survivorship bias, as those with profitable small businesses may be more likely to operate them into older age. Source: Analysis of ABS Survey of Income and Housing Confidentialised Unit Record File, 2017-18.

Contributions to superannuation by self-employed people

Self-employed people have opportunities beyond those of employees to fund their retirement. For example, as well as making tax-deductible personal superannuation contributions, they have the options of setting up their business assets, such as the commercial property, within a self-managed superannuation fund; and accessing significant capital gains tax concessions from selling business assets and putting the proceeds into superannuation.

Voluntary superannuation contributions

Self-employed people have access to the same superannuation tax concessions as employees. However, this has not always been the case, which may have suppressed use of superannuation by the self-employed (see *1B. Design of Australia's retirement income system*).

A small proportion of self-employed people make voluntary superannuation contributions. Between 2013-14 and 2017-18, about a quarter of those with business income made voluntary contributions in a given year and 40 per cent made a contribution at any point over the five years. Of those who made contributions, the average total contribution over five years was about \$80,000 for sole traders and \$100,000 for those in a partnership.¹⁸³ One superannuation fund noted that some of their self-employed members said they regretted not making voluntary superannuation contributions while working (Cbus, 2020).

Small business owners and capital gains tax concessions

The ability to use a small business for retirement planning will depend significantly on having realisable assets. Two types of capital gains tax concessions are available for businesses with net assets up to \$6 million or turnover up to \$2 million:

- **The '15-year' exemption.** This provides a full capital gains tax exemption when someone disposes of assets held for at least 15 years when the disposal happens in connection with the retirement of a person aged 55 or over.
- **The 'retirement' exemption.** This exempts up to \$500,000 in assets from capital gains tax and, if the person is aged under 55, it must be contributed to superannuation.

Proceeds from selling business assets under these two exemptions can be contributed to superannuation without paying any tax (capital gains tax or 15 per cent contributions tax) and without regard for the standard annual contributions caps. Contributions under these exemptions have a separate lifetime cap. In 2020-21, this is \$1.565 million, indexed annually to wages. These exemptions are not available to any other group.

The total value of capital gains claimed against these concessions was \$3.8 billion in 2016-17, resulting in \$1.7 billion being contributed to superannuation. More money was contributed to superannuation under the 15-year exemption compared to the retirement exemption (Table 3D-6). The predominant use of the 15-year CGT exemption was for the sale of business property (70 per cent), followed by 'goodwill' (13 per cent).¹⁸⁴

The policy rationale for these capital gains tax exemptions was to improve retirement outcomes for small business owners who invest funds in their business and treat it as their retirement 'nest egg' (The Board of Taxation, 2019). The Board of Taxation (2019) considered the concessions may represent a reward for risk-taking. However, the concessions may incentivise over-investment in a

¹⁸³ Data provided by the ATO for the review.

¹⁸⁴ 2016-17 data provided by the ATO for the review.

person's small business, which carries a risk of failure,¹⁸⁵ rather than making more regular contributions to superannuation and diversifying risk.

Table 3D-6 Annual superannuation contributions using the capital gains tax business exemptions

	Fund type	Number of individuals	Average contribution (\$)	Median contribution (\$)
Retirement exemption	APRA	1,720	122,219	73,529
	SMSF	3,685	180,626	121,729
15-year exemption	APRA	434	587,259	450,225
	SMSF	1,122	546,517	450,000

Note: Contributions made during the 2016-17 financial year. An individual may make use of both exemptions in a year. Source: Analysis of ATO individual income tax returns and member contributions statements, 2016-17.

Dependent contractors and sham contracting

Independent contractors do not receive the SG. However, superannuation law extends the definition of employee to include 'dependent contractors' who are hired 'wholly or principally for their labour' so they receive the SG. Despite this protection, some employers may misclassify workers as independent contractors to avoid paying them entitlements, including the SG. This is referred to as '**sham contracting**'.¹⁸⁶

The effect of sham contracting falls more heavily on lower skilled workers (Legal Aid Commission of NSW, 2017, p. 11). A worker may be willing to, or unknowingly accept lower remuneration than they could receive as an employee, if they have more limited employment options.

By its nature, sham contracting is difficult to quantify (The Treasury, 2017b). A 2012 Fair Work Building and Construction report indicated that possibly 5 per cent of the workforce in the building and construction industry (or 13 per cent of contractors in the industry) were misclassified as contractors (Fair Work Building and Construction, 2012).

Protections in the *Fair Work Act 2009* apply penalties for sham contracting. The 2019-20 Budget included a measure to establish a sham contracting unit under the Fair Work Ombudsman and increase penalties for sham contracting.

However, business groups have claimed that employee–contractor definitions are too complex and even employers acting in good faith may inadvertently misclassify employees. One complication is that the definition of a contractor can vary between different regulatory schemes. For example, a person could be legally defined as a contractor for tax withholding purposes and an employee for SG purposes.

Cameo modelling shows the retirement outcomes for a lower-income earner who transitions every 10 years between roles classified as an employee and as a dependent contractor who does not receive SG, for their entire working life (Table 3D-7). Due to the forgone SG and not receiving higher wages as compensation, the person has a substantially lower superannuation balance and retirement income compared with an equivalent employee receiving the SG for their entire working life.

¹⁸⁵ The rate of failure of small businesses is lower than often thought, looking at rates of closures or exits (House Standing Committee on Economics, Finance and Public Administration, 2005, pp. 98-99). The Productivity Commission measured the failure rate of unincorporated businesses from 1991-92 to 1999-2000 at just 0.36 per cent of businesses per year (Bickerdyke, et al., 2000, p. 39). Failure rates of business are tied to the business cycle and will increase during downturns, such as the COVID-19 Pandemic.

¹⁸⁶ Sham contracting is an illegal method of employment under section 357 of the *Fair Work Act 2009*. Not all workers considered in this section necessarily represent sham contracting.

Table 3D-7 Projected effect on retirement outcomes of intermittent contracting

	Superannuation balance at retirement (\$)	Average annual retirement income (\$)	Replacement rate (percentage point)
30 th percentile income earner	-138,200 (49% decrease)	-4,700 (12% decrease)	-13.3

Note: Values are in 2019-20 dollars using the review's mixed deflator and rounded to the nearest \$100. This scenario assumes an individual works for 40 years between ages 27-67. The first 10 are as an employee, alternating every 10 years between employee and dependent contractor work. Full SG is paid during periods as an employee. To isolate the effect of contract work on retirement outcomes, the individual does not salary sacrifice either as an intermittent contractor or full-time employee. All other model specifications align with standard review assumptions. Source: Cameo modelling undertaken for the review.

Gig economy and the changing nature of work

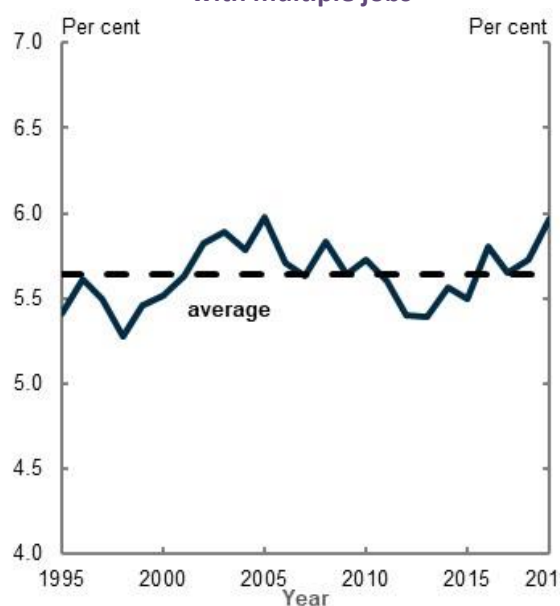
Several stakeholders expressed concern about the effects of the 'gig economy' on accumulating superannuation. Gig economy workers are generally classified as contractors and do not attract the SG. The status of gig economy workers being in a true versus sham contracting arrangement has been contested. The Senate Education and Employment References Committee (2016, p. 104) stated:

'Having looked at sham contracting ... the committee can only conclude that 'gig economy' is just a more discrete and sanitised way for companies to abrogate their obligations by requiring workers to be contractors.'

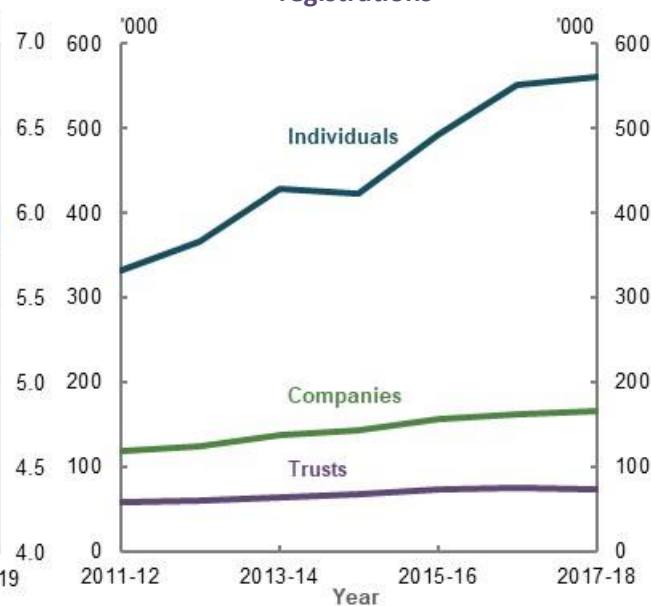
Australia lacks official statistics on the size of the gig economy, partly due to the difficulty of defining gig workers and the nascent nature of the industry. Anecdotal evidence points to a rising gig economy, but the limited data available is not conclusive. Available data includes the following points:

- The level of independent contractors has fallen in recent years (ABS, 2019f). However, gig economy workers will not be captured in this data if it is not their main job. Even in the US, where the gig economy is more advanced, gig economy work appears to rarely be used as a primary income source (Federal Reserve, 2019).
- The number of multiple job holders has been increasing in recent years but is not unusually high (Chart 3D-6).
- Several studies suggest the gig economy represents less than 1 per cent of all Australian workers.¹⁸⁷ In contrast, a large increase in people registering for Australian Business Numbers (Chart 3D-7) may be partially due to those seeking work on a digital platform.
- Some gig economy work may be substituting for other self-employment. For example, taxi drivers shifting to 'ride share' platforms (Lab & Wooden, 2019, p. 11) — although neither are generally covered by the SG.

¹⁸⁷ One study estimated about 80,000 worked on a gig economy platform more than once a month in 2016 (Minifie, 2016). Another study estimated 150,000 people were in the gig economy workforce in 2018, increasing from 100,000 estimated in 2017 (ASFA, 2018b).

Chart 3D-6 Proportion of the labour force with multiple jobs

Source: Analysis of (ABS, 2020f).

Chart 3D-7 New Australian Business Number registrations

Source: (The Treasury, 2017b).

Preliminary results from a study commissioned by the Victorian Government found:

- Gig economy workers are most likely to be aged 18-34 and two-thirds are male
- The most common work was transport and food delivery
- Gig work is more common among students, people living with disability, temporary residents and the unemployed (Victorian Government, 2020, p. 18)

To the extent gig economy work is used as a second job for supplementary income, or by people who may otherwise have encountered difficulties in finding work, the effect on retirement incomes of forgoing the SG is expected to be small. Even so, the superannuation balances of gig economy workers will generally be lower than an equivalent employee.

The role of the superannuation system in delivering retirement outcomes is expected to continue to be challenged by ongoing technological disruptions to the nature of work.

Mandating the SG for the self-employed

Internationally, self-employed people are often required to contribute to retirement schemes. Most OECD countries require self-employed people to make some contribution to an earnings-related pension scheme. However, only 10 countries mandate an equivalent level of contributions from self-employed people to that of employees (OECD, 2019b, p. 82). This demonstrates the difficulty in harmonising employment schemes between employees and self-employed people.

Mandating contributions for self-employed Australians to boost their superannuation savings, as some stakeholders advocated, would present the following issues.

- **The obligation to pay superannuation falling on individuals (not employers) and affecting incentives to contract.** This could reduce incentives to engage in sham contracting as many contractors who realise they are liable to pay additional superannuation will negotiate for equivalent income as an employee. However, this is less likely to be an option for lower skilled contractors with weak bargaining power, or those who lack other job opportunities.

- **Determining the ‘contribution base’ for self-employed people.** Finding the equivalent ordinary time earnings would be challenging as self-employed workers generally do not have an equivalent gross wage. They may have significant operating costs, and income from self-employment may also be split between labour and capital shares.
- **Cash flow issues for small businesses who may have otherwise reinvested the SG amount back into the business.** Australia’s Future Tax System Review (2009) argued the SG should not be extended to self-employed people because ‘... *the diverse and varying risks and circumstances of business and entrepreneurship argue for allowing full flexibility in their saving and investment decisions*’.
- **A separate SG rate may be needed for equivalence.** Paying superannuation contributions from after-tax income requires a larger contribution to match equivalent employer contributions, which are paid on an employee’s before-tax income.

Box 3D-3 Impact of changes to certain policy settings on the retirement outcomes of those who are and are not covered by the SG

A significant number of submissions raised policy proposals affecting SG coverage. The following summary outlines some implications of some of the proposed policy changes.

- **Removing SG employee exemptions.** Removing the \$450-a-month threshold would not materially improve retirement outcomes, but it would improve equity in the retirement income system. This would increase hourly remuneration for impacted workers, who are generally young, low-income and female. The change would be unlikely to affect the wage rates of these employees as their total wages represent less than 0.1 per cent of the national wage bill and they are predominantly on award wages.¹⁸⁸ Removing the threshold would likely remove incentives to restrict employees’ monthly hours.
- **Expand the earnings base that attracts the SG.** Such a change would equalise the SG received per dollar of earnings between employees, regardless of their working arrangements. This would boost the superannuation balances and retirement incomes of about 20 per cent of employees, particularly those in mining, manufacturing and construction jobs, who typically receive a greater proportion of their earnings as overtime. This may have significant labour market impacts in sectors where overtime represents a large share of remuneration.
- **Continue to narrow the SG compliance gap.** Facilitating employees and the ATO to identify underpayment more quickly would help people get the SG to which they are entitled. Unpaid SG has a larger effect on superannuation balances when it occurs early in working lives due to people missing out on the benefits of compounding. Improved employer compliance with the SG would particularly benefit lower-income workers and those in certain industries, such as construction, and accommodation and food services.
- **Pay the SG at the same time as wages.** This would make it easier for employees to monitor SG compliance but it may create cash flow issues for employers. It would effectively reduce the terms of payment on SG liabilities from up to four months to potentially one week.
- **Require the self-employed to make compulsory superannuation contributions.** Such a change would boost their superannuation balances and diversify the retirement savings of the self-employed, but it would create new compliance burdens and risks. It would be harder for the self-employed to invest in their business and may affect their other saving behaviour. Other challenges include determining the equivalent contribution base for the self-employed and whether the compulsory rate is set at an equivalent level to employees.
- **Better enforce sham contracting laws or expand coverage of the SG for vulnerable ‘dependent contractors’.** This would improve the retirement outcomes of people subject to sham contracting and would equalise total remuneration between dependent contractors and employees.

¹⁸⁸ Review calculation based on (ABS, 2020c).

Section 3E. Age of retirement

Box 3E-1 Section summary

- **Despite declining rates over the past few decades, a significant number of people still retire involuntarily.** The high prevalence of involuntary retirement means many Australians retire abruptly and with fewer savings than planned. This runs counter to policies that seek to encourage older workforce participation. People who retire at younger ages tend to do so involuntarily. The most common reason for involuntary retirement is own ill health, followed by job-related issues and caring responsibilities. Involuntary retirement may increase due to the financial and labour market effects of the COVID-19 Pandemic.
- **Involuntary retirement is more common among people with lower wealth and lower education levels, and in certain occupations.** On average, people with higher education levels and in higher skilled occupations remain in the workforce until later ages. More highly educated people are also more likely to work part-time in the years preceding retirement. Although around the same proportion of blue- and white-collar workers retire before age 65, blue-collar workers are more likely to retire involuntarily than white-collar workers.
- **People aged 55 and over have experienced unemployment or underemployment at similar rates to people aged 25-54, but for longer periods.** This reduces their ability to save for retirement and may increase reliance on the Age Pension.
- **Although early retirement (i.e. retirement before Age Pension eligibility age) leads to lower superannuation balances, retirement incomes and replacement rates, Government pensions and allowances, especially the Age Pension, provide a safety net.** When retiring 5 or 10 years before Age Pension eligibility age, replacement rates of lower- and middle-income earners remain within or above the benchmark replacement rate of 65-75 per cent. However, early retirees may receive much lower income before preservation age compared with the remainder of their retirement. Payment rate differences between JobSeeker Payment¹⁸⁹ (formerly Newstart Allowance), Disability Support Pension and Carer Payment mean people who retire early due to job-related reasons may have lower retirement incomes than those who retire early due to own ill health or caring responsibilities.
- **Retiring beyond Age Pension eligibility age, for those who can, is an effective way to increase retirement incomes and replacement rates.** This increase is primarily due to investment returns, the benefits of compounding and fewer years in retirement rather than additional SG contributions. Late retirement benefits higher-income earners the most, generating more SG in dollar terms, more earnings on their larger superannuation balances and the least, if any, reduction in Age Pension.

Outline of this section

This section considers how the age and degree of choice in the timing of retirement significantly affects retirement outcomes. It focuses on:

- The reasons for retirement, how they differ across subsets of the population and the support available for people who retire before Age Pension eligibility age ('early retirement').
- The effect involuntary and early retirement has on retirement incomes.
- The effect retirement after Age Pension eligibility age ('late retirement') has on retirement incomes.

¹⁸⁹ This analysis is based on the standard rate of JobSeeker Payment, which does not include the temporary Coronavirus Supplement.

Box 3E-2 Stakeholder views on early, late, voluntary and involuntary retirement

Many stakeholders noted the large number of people who are involuntarily retired and receive JobSeeker Payment (formerly Newstart Allowance) until they reach Age Pension eligibility age. They expressed concern with the adequacy of JobSeeker Payment. One submission stated:

'...55% of people relying on Newstart Allowance are living in poverty. In the context of retirement planning it needs to [be] taken into consideration that a quarter of Newstart recipients (184,000 people) are aged 55 years or older.' (Mission Australia, 2020, p. 4)

Another submission said:

'While on the surface this is a problem of Newstart and not the Retirement Incomes System, clearly government policy settings in Newstart are having an impact on retirement savings. Due to the inadequacy of Newstart as a payment to live on (or ineligibility to even access Newstart payments), early and involuntary retirement means that too many older Australians not only miss the opportunity to further contribute to their retirement savings due to their exclusion from the workforce, but are required to prematurely spend their existing savings in order to meet the cost of even basic living standards.' (Fix Pension Poverty campaign, 2020, p. 7)

Stakeholders had mixed views on the preservation and Age Pension eligibility ages. Some noted these universal ages disadvantage those who retire early and involuntarily. Others argued that higher ages deliver fiscal benefits and encourage older workforce participation. One stakeholder stated:

'Some systems in other countries have industry-based retirement ages, reflecting the reality that blue-collar workers typically retire earlier than white-collar workers. There is merit in exploring the potential application of this approach in Australia.' (Cbus, 2020, p. 19).

Box 3E-3 How 'Newstart Allowance' became 'JobSeeker Payment'

On 20 March 2020, JobSeeker Payment replaced Newstart Allowance as the main working-age payment for those aged 22 to Age Pension eligibility age with capacity to work now or in the near future. JobSeeker Payment has the same basic qualification, payment arrangements and means-testing rules as Newstart Allowance (Department of Social Services, 2020d).

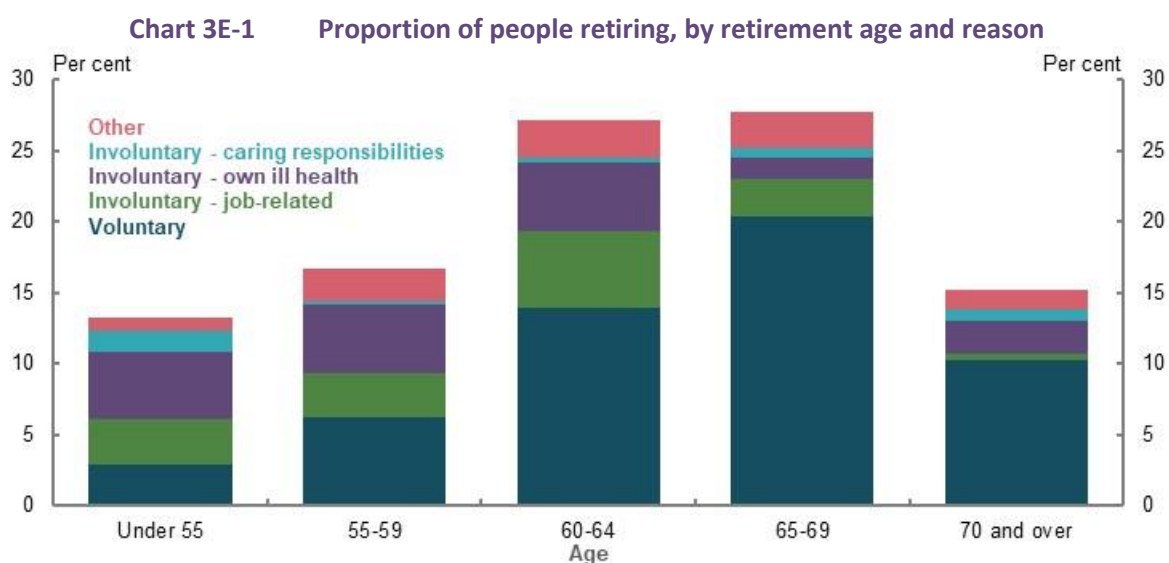
From 27 April 2020, JobSeeker Payment included a temporary Coronavirus Supplement of \$550 per fortnight. The combined payment rate of the JobSeeker Payment and Coronavirus Supplement is higher than the Disability Support Pension, Carer Payment and Age Pension. As the Coronavirus Supplement is temporary, the review's analysis and modelling uses the standard rate of JobSeeker Payment.¹⁹⁰

¹⁹⁰ Standard rate as at 26 April 2020.

Prevalence of voluntary and involuntary retirement

The length of working life, the age at which people retire and the degree of choice over when people withdraw from the workforce all have a bearing on individual retirement outcomes.

People who stop work at younger ages are more likely to do so involuntarily. The ABS and HILDA Surveys¹⁹¹ both measure the main reason for retiring. The HILDA Survey found 42 per cent of people retired involuntarily between 2012 and 2015.¹⁹² The ABS survey found 37 per cent of people retired involuntarily between July 2013 and June 2019, with 28 per cent retiring involuntarily before age 65 and 8 per cent retiring involuntarily after this age (ABS, 2020p) (Chart 3E-1). Both surveys found own ill health was the most common reason for involuntary retirement, followed by job-related issues and caring responsibilities.



Note: Proportion is of people who retired between July 2013 and June 2019. Assumes the age of retirement is equal to the age of ceasing last job. The reasons for involuntary retirement are split into own ill health, job-related and caring responsibilities. Own ill health is from 'own sickness, injury or disability' response. Job-related is from 'retrenched/dismissed/no work available', 'own business closed down for economic reasons', and 'unsatisfactory work arrangements' responses. Caring responsibilities is from 'to care for children/pregnancy' and 'to care for ill/disabled/elderly' responses. Given the small sample size of the two response options that make up the 'caring responsibilities' category, these figures should be used with caution. Source: Analysis of (ABS, 2020p).

The surveys differed over the common reasons for voluntary retirement:

- HILDA Survey top reasons:¹⁹³ 'fed up with working/work stresses, demands', 'to have more personal/leisure time' and 'could afford to retire/had enough income'.
- ABS survey top reason:¹⁹⁴ 'reached retirement age/eligible for superannuation/pension'.

These divergent results may be due to differences in the way the surveys were worded. The ABS did not offer 'could afford to retire' as a response option. Whereas, the HILDA Survey offered both 'could

¹⁹¹ Some subtle differences exist between the two surveys. The ABS survey measures the main reason for ceasing last job, while the HILDA Survey measures the main reason for retiring. The HILDA Survey also allows people to self-assess when they retired. This may mean the point of retirement is not when the person ceases their last job. The ABS survey does not account for people who have retired being able to re-enter the workforce after completing this survey.

¹⁹² Analysis of HILDA Survey data (Waves 12-15).

¹⁹³ (The University of Melbourne, 2018).

¹⁹⁴ (ABS, 2020n).

afford to retire’ and ‘became eligible for the old age pension’. Given someone may consider they can afford to retire when they become eligible for the Age Pension, these overlapping choices may have split the results.

Although involuntary retirement has gradually decreased over time, its incidence remains high.

The ABS survey found around 46 per cent of retirements were involuntary between August 1984 and June 2005 — 9 percentage points higher than between July 2013 and June 2019 (ABS, 2020p; ABS, 2006b). Similarly, the HILDA Survey found the incidence of involuntary retirement was 17 percentage points higher, at 59 per cent of retirements, between 2001 and 2003 than between 2012 and 2015.¹⁹⁵ This more recent trend could be due to a stronger labour market, employers becoming more willing to employ older workers, increased share of the workforce in white-collar occupations (ABS, 2011b) and/or improved health over the period. The Australian Institute of Health and Welfare found the number of expected years living without disability increased for men and women between 2003 and 2015 (Australian Institute of Health and Welfare, 2017).

The proportion of people retiring involuntarily may increase as a result of the economic and financial impact of the COVID-19 Pandemic. An increase in unemployment and more competitive labour market conditions may drive more people to retire earlier than planned. This was seen in the years following the GFC, when the HILDA Survey found the proportion of people retiring involuntarily increased.¹⁹⁶

The fall in the value of retirement savings will also likely mean some people who would have otherwise retired voluntarily will now work longer to improve their financial position.

Retirement age and reason for retirement among cohorts

Some people are more likely to retire early and for different reasons, depending on their gender, wealth, education level and occupation.¹⁹⁷

Gender

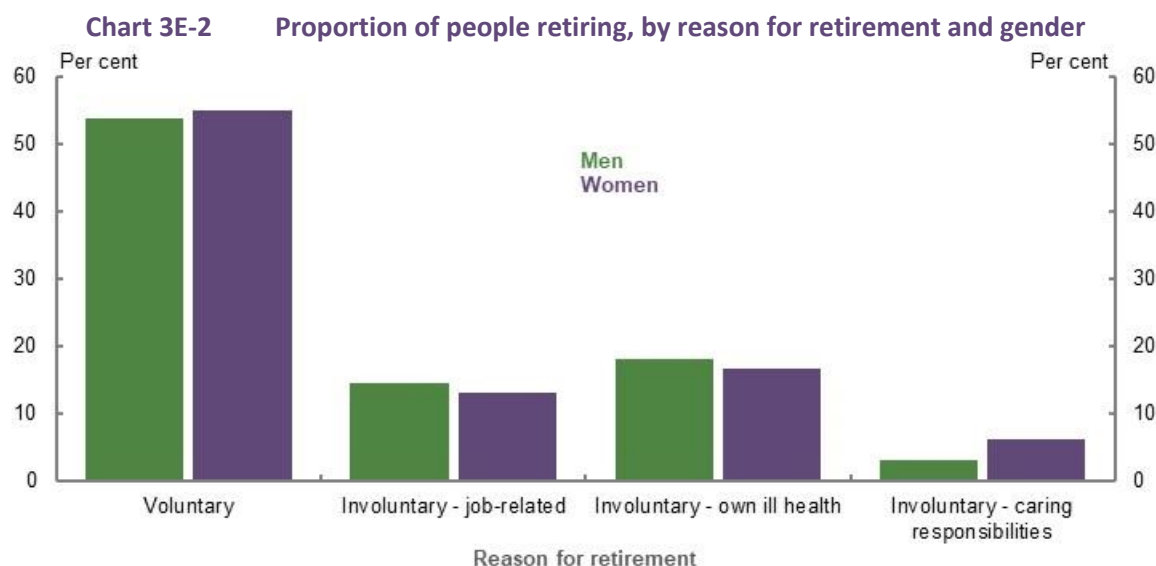
Data shows in recent years around the same proportion of men and women retired involuntarily (Chart 3E-2). A similar proportion of men and women retired involuntarily due to own ill health and job-related issues. Women were slightly more likely to retire involuntarily due to caring responsibilities. Of those men and women who retired voluntarily, the most common reason for both groups was being able to access their superannuation or the Age Pension. Additionally, relatively more women retired to have a holiday/pursue leisure activities or to coincide with their partner’s retirement than men (ABS, 2020p).

Women tend to retire one to three years earlier than men, on average (see 1A. *What is retirement?*).

¹⁹⁵ Analysis of HILDA Survey data (Waves 1, 2, 3, 12, 13, 14 and 15).

¹⁹⁶ Analysis of HILDA Survey data (Waves 1-11).

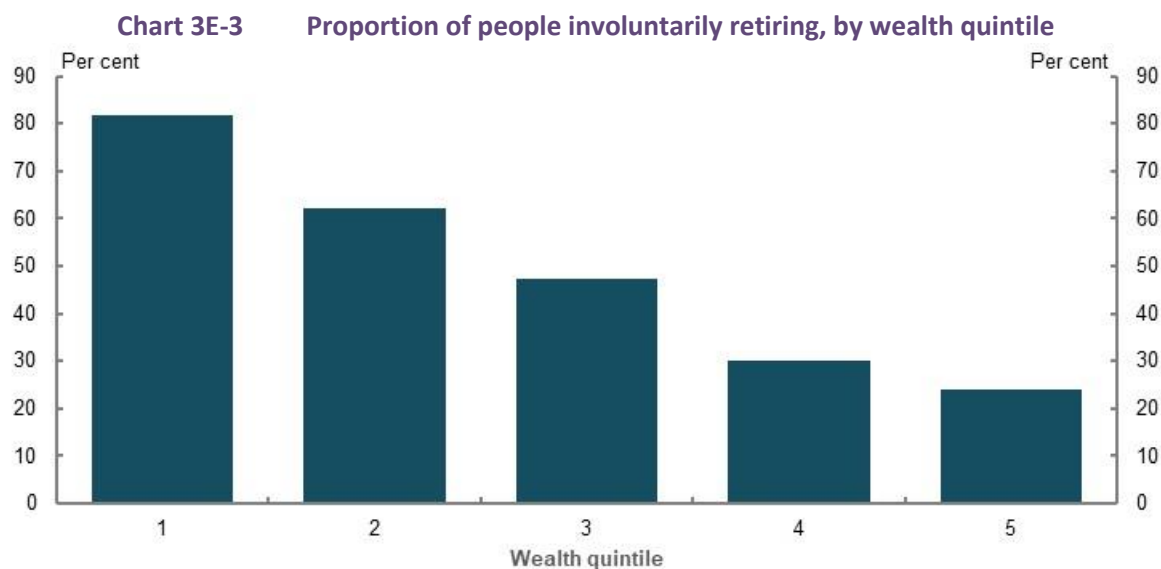
¹⁹⁷ These are not the only factors associated with early and/or involuntary retirement. For example, the Australian Centre for Financial Studies (2014) found that people with poor English language proficiency are more likely to retire before age 60.



Note: Proportion is of people who retired between July 2013 and June 2019. Does not include people who selected 'other' reason for retirement and therefore does not sum to 100. Around 10 per cent of men and women selected 'other' reason for retirement. Given the small sample size of the two response options that make up the 'caring responsibilities' category, these figures should be used with caution. Source: Analysis of (ABS, 2020p).

Wealth

People with higher wealth are significantly less likely to retire involuntarily (Chart 3E-3).¹⁹⁸ This suggests that, if the preservation or Age Pension eligibility ages were to increase, it would more likely affect people with lower wealth. Higher-wealth people are also more likely to be able to respond to incentives for older workforce participation.



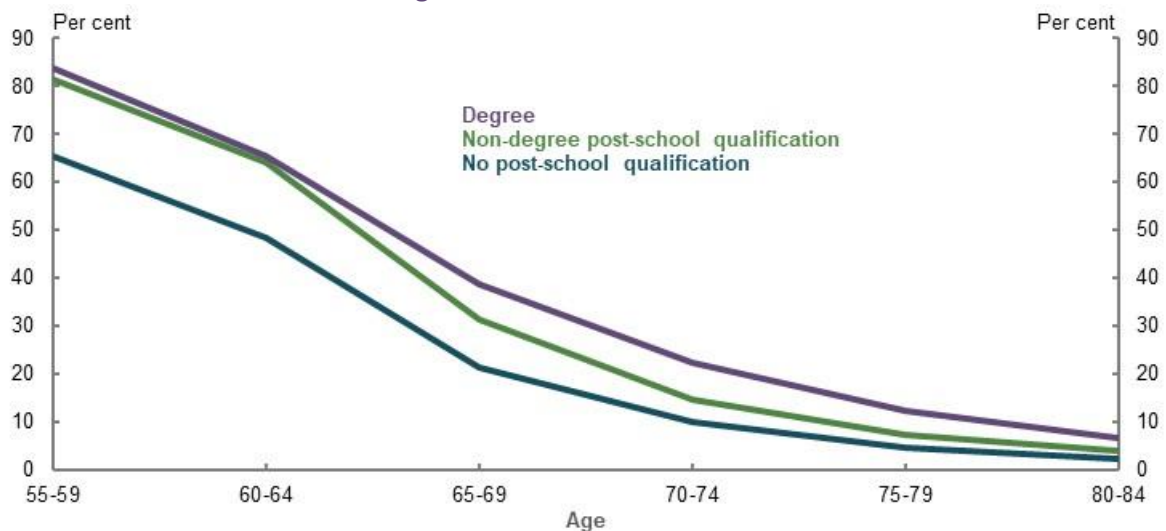
Note: Proportion is of people who retired in 2011 and 2015. These are the two most recent surveys that asked the question of the reason for retirement. Wealth quintiles are calculated using the survey's 2010 and 2014 wealth modules. People's wealth quintile in 2011 and 2015 are equal to their wealth quintile in 2010 and 2014, respectively. Source: Analysis of HILDA Survey data (Waves 10, 11, 14 and 15).

¹⁹⁸ Wealth over the five years before retirement is a better proxy for lifetime income and socio-economic status than income leading into retirement. Part-time work pre-retirement is more common among people with high income and wealth, who are able to reduce their working hours and still maintain their lifestyle (Warren, 2015).

Education

People with higher education levels remain in the labour force until later ages, on average (Chart 3E-4).¹⁹⁹ They are also more likely to work part-time if they are employed past age 65, compared to people with no post-school qualification.²⁰⁰ However, as people with a university degree are likely to have entered the labour force at a later age, their working life may not be any longer than people with no post-school qualification.²⁰¹

Chart 3E-4 Proportion of people in the labour force, by age and level of highest educational attainment



Note: 2016 data. Degree includes postgraduate degree, graduate diploma and graduate certificate and bachelor degree. Non-degree post-school qualification includes advanced diploma and certificate 3 and 4. No post-school qualification includes year 12 or equivalent, secondary education — years 10 and above, secondary education — years 9 and below, and certificate 1 and 2. Source: Analysis of (ABS, 2016a).

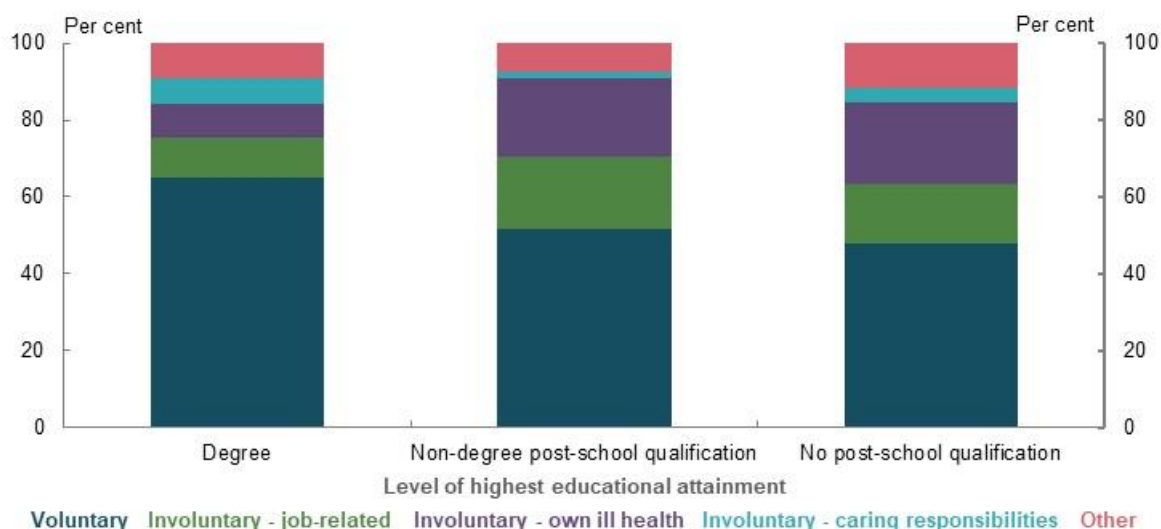
A greater proportion of people with university degrees retire voluntarily than people with non-degree post-school qualifications, and no post-school qualification. People without a degree are more likely to retire involuntarily due to job-related issues or own ill health (Chart 3E-5).

¹⁹⁹ Between July 2013 and June 2019, 61 per cent of people with no post-school qualification retired by age 65 compared with 46 per cent of people with a degree (see *Appendix 6D. Supplementary equity charts*).

²⁰⁰ Calculations using (ABS, 2016a).

²⁰¹ According to the 2016 Census, people between ages 15 and 30 attending an educational institution were less likely to be in the labour force and in full-time work.

Chart 3E-5 Proportion of people retiring, by level of highest educational attainment and reason for retirement



Note: Proportion is of people who retired between July 2013 and June 2019. Degree and non-degree post-school qualification includes the same categories as in Chart 3E-4. No post-school qualification includes year 12 or equivalent, year 11, year 10, certificate 1 and 2, year 9 and below and no educational attainment. While the chart uses a relatively small sample size and therefore some categories have high relative standard errors, the results are consistent with earlier surveys. Source: Analysis of (ABS, 2020p).

Occupation

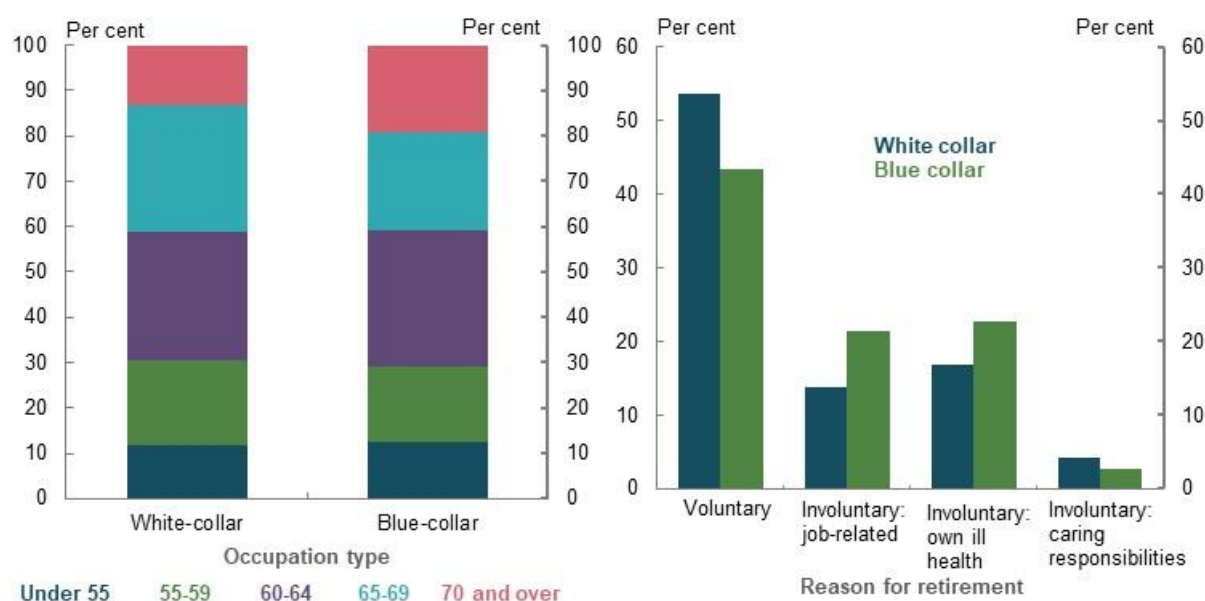
On average, blue- and white-collar²⁰² workers have similar retirement ages (ABS, 2020n). Around the same proportion of blue- and white-collar workers retire before age 65 (Chart 3E-6). The proportion of blue- and white-collar workers retiring before age 65 has significantly decreased over time, especially among blue-collar workers (ABS, 2020p).²⁰³ Even so, on average, blue-collar workers may have longer working lives than white-collar workers. One superannuation fund noted how its members — mostly blue-collar workers — typically started their working lives earlier than the general population (Cbus, 2020).

A greater proportion of white-collar workers retire voluntarily than blue-collar workers, who are more likely to experience health issues (Chart 3E-6). One stakeholder pointed to how the blue-collar occupations of technicians and trade workers, machinery operators, and drivers and labourers comprise around 30 per cent of the workforce, yet almost 60 per cent of WorkCover injury and illness claims (Cbus, 2020). This suggests any increases to preservation or Age Pension eligibility ages would more acutely affect some blue-collar workers, who have less choice in when they retire. Government pensions and allowances, and the early release of superannuation benefits, can help mitigate the adverse effect of retiring involuntarily before either the preservation age or Age Pension eligibility age.

²⁰² The ABS definition of 'blue collar' and 'white collar' is used (ABS, 2011c). Under this definition, blue collar includes 'technicians and trades workers', 'machinery operators and drivers', and 'labourers', while white collar includes 'managers', 'professionals', 'community and personal service workers', 'clerical and administrative workers', and 'sales workers'.

²⁰³ For example, among people who retired between July 2003 and June 2008, 83 per cent of blue-collar workers and 75 per cent of white-collar workers retired before age 65. Whereas, among people who retired between July 2013 and June 2019, just under 60 per cent of both blue- and white-collar workers retired before age 65. Analysis of (ABS, 2020p).

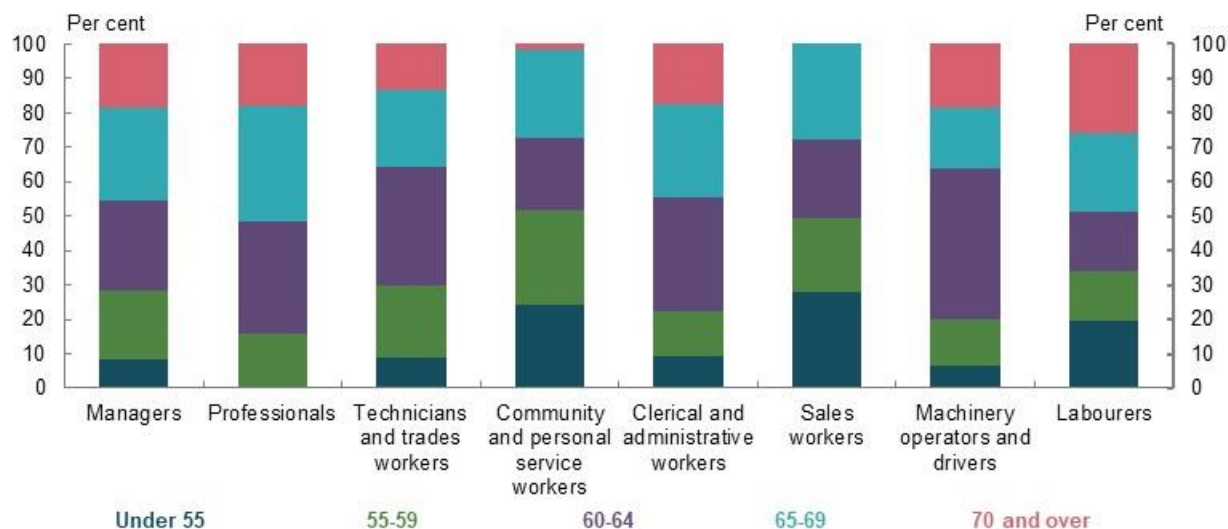
Chart 3E-6 Retirement characteristics of blue-collar and white-collar workers
Retirement age **Reason for retirement**



Note: Proportion is of people who retired between July 2013 and June 2019. Right-hand side chart does not include people who selected 'other' reason for retiring and therefore does not sum to 100. Around 10 per cent of white- and blue-collar workers selected 'other' reason for retiring. While the charts use a relatively small sample size and therefore some categories have high relative standard errors, the results are consistent with earlier surveys. Source: Analysis of (ABS, 2020p).

Consistent with previous research (Australian Centre for Financial Studies, 2014, p. 19), recent data confirms that occupations predisposed to early retirement are not necessarily those typically associated with manual labour. **There appears to be some correlation between the level of occupational skill and retirement age.** For example, recent ABS data shows the occupation where retirement before age 65 is least common — 'professionals' — is a higher skilled occupation. In contrast, 'sales workers' are more likely to retire before age 65 and tend to be classified as a lower skilled occupation. However, the level of skill may not always influence the age of retirement, as the lower skilled occupation of 'labourers' has some of the lowest rates of retirement before age 65 among recent retirees (Chart 3E-7).²⁰⁴

²⁰⁴ Analysis of (ABS, 2020p; ABS, 2019a). Australian and New Zealand Standard Classification of Occupations is used to assign skill levels to occupations. Under this classification, 'managers' and 'professionals' are the highest skilled occupations, while 'labourers' and 'sales workers' are the lowest skilled occupations.

Chart 3E-7 Proportion of people retiring, by occupation of last job and age of retirement

Note: Proportion is of people who retired between July 2013 and June 2019. While the chart uses a relatively small sample size and therefore some categories have high relative standard errors, the correlation between the level of occupational skill and retirement age are consistent with earlier surveys. Source: Analysis of (ABS, 2020p).

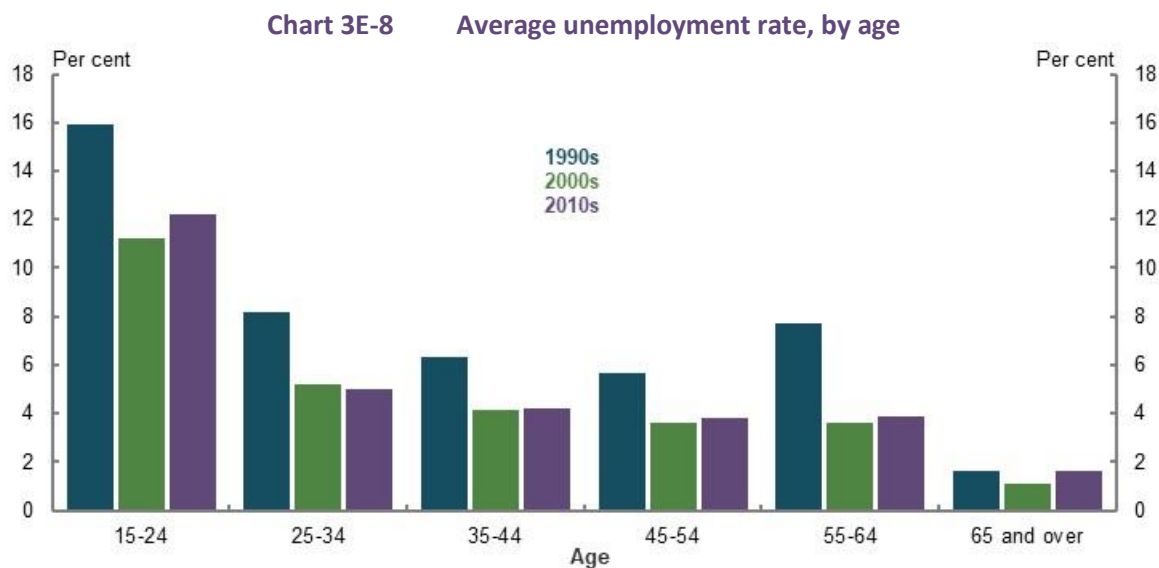
Unemployment, underemployment and discouraged job seekers

Many stakeholders suggested that unemployment and underemployment among Australians aged 55 and over make it harder for them to accumulate retirement savings.

ABS data over a long period shows people aged 55-64 have experienced unemployment (Chart 3E-8), underemployment or have been 'discouraged job seekers' at rates broadly similar to other working-age Australians aged 25-54. However, people aged 55 and over experience unemployment and underemployment for longer periods than younger age groups. Between 2010 and 2019, for people aged 55 and over who were unemployed, the average typical length of time searching for a job was 22 weeks compared with 16 weeks for people aged 25-54 (ABS, 2020g). Notably, these statistics may understate unemployment in older workers as this age group may be more likely than younger people to exit the labour market. If pre-retirees stop looking for work, due to their own ill health, caring responsibilities or simply giving up on finding employment, they will not be counted in these statistics.

The data in Chart 3E-8 also does not account for the impact of the COVID-19 Pandemic, and it is too early to know its full effect on unemployment and underemployment. Data to May 2020 shows the unemployment and underemployment rates among Australians aged 55 and over have increased compared with January 2020. However, these increases are generally smaller compared with younger age groups (ABS, 2020k).

See 3B. *Gender and partnered status* for the effect of career breaks later in life and 2C. *Maintaining standards of living in retirement* for the effect of shorter working lives.



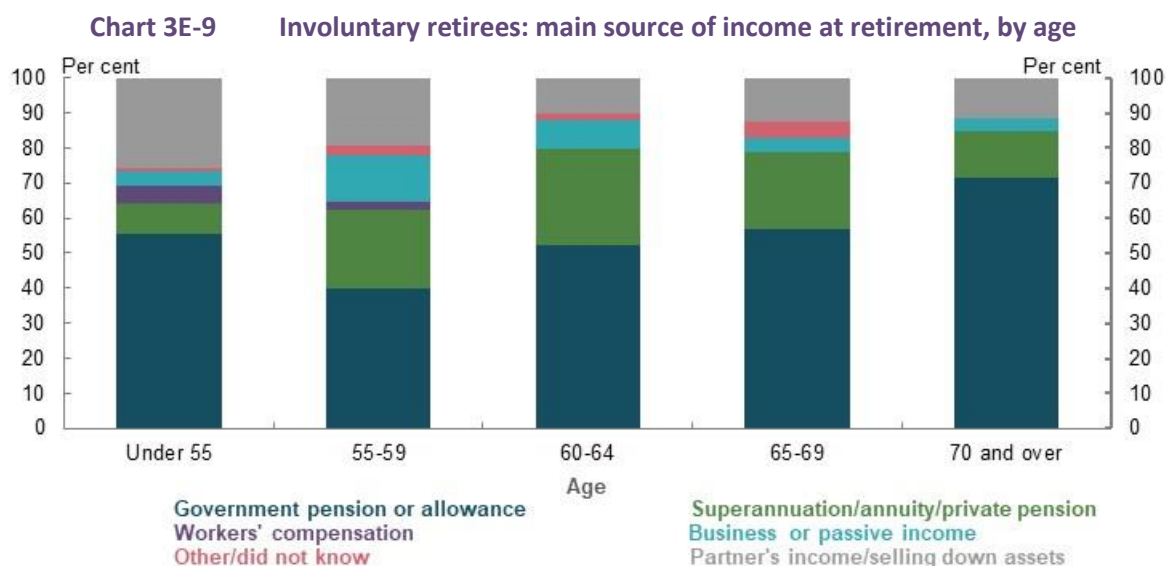
Note: Uses the average of all monthly unemployment rates in the relevant decade. Source: Analysis of (ABS, 2020h).

Support available to people who retire early

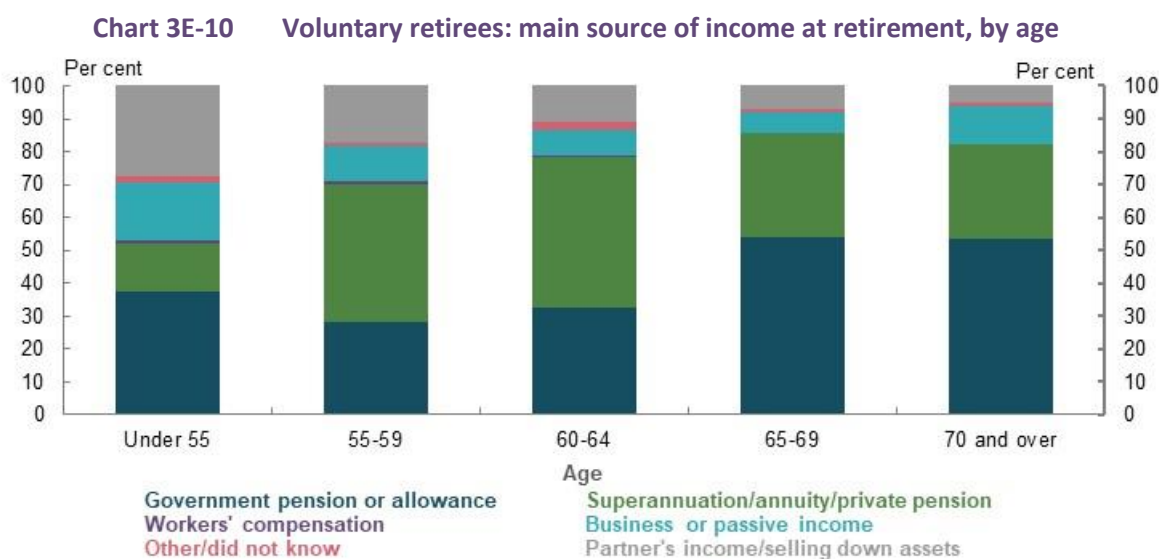
Source of income at the point of retirement

The main source of income at the point of retirement differs between people who retire voluntarily and involuntarily. People who retire involuntarily are relatively more likely to rely on a Government pension or allowance (Chart 3E-9). Whereas, people who retire voluntarily are relatively more likely to rely on superannuation (Chart 3E-10).

People's main source of retirement income also differs based on what age they retire (Chart 3E-9 and Chart 3E-10) and their gender. Some benefits, such as superannuation and the Age Pension, are not available until the person reaches a certain age. More men than women rely on superannuation as their main source of income at retirement (ABS, 2020n). More than 30 per cent of women who retire before age 65 have no personal income at the point of retirement compared to less than 10 per cent of men (ABS, 2020p).



Note for Chart 3E-9 and Chart 3E-10: Includes people who involuntarily retired between July 1998 and June 2019. Captures people who retired over a longer time period than the charts on the previous few pages to account for data limitations. 'Partner's income/Selling down assets' uses the ABS category 'no personal income', which 'includes persons living off savings, assets and partner's income'. While the charts use a relatively small sample size and therefore some categories have high relative standard errors, the results are consistent with earlier surveys. Source: Analysis of (ABS, 2020p).



Note: See Chart 3E-9. Source: Analysis of (ABS, 2020p).

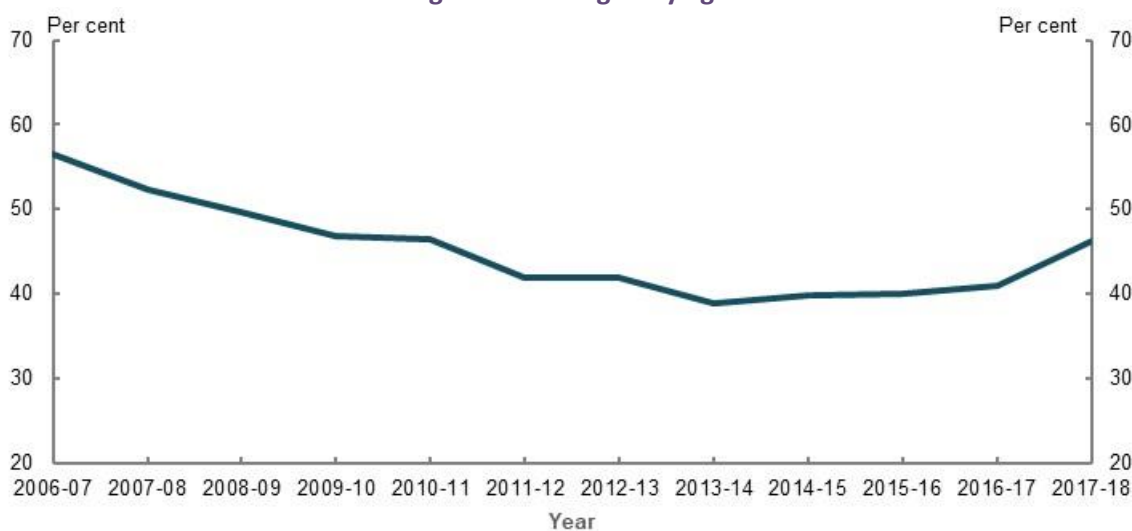
Government pensions or allowances

Many people receive income support payments in the years leading up to the Age Pension eligibility age.

In September 2019, the most common Government pensions and allowances received by those aged 55-64 were the Disability Support Pension (265,090 people), JobSeeker Payment (171,098 people) and Carer Payment (79,418 people) (Department of Social Services, 2020a). Some people also received the Service Pension, administered by the Department of Veterans' Affairs, which is payable from age 60. Many people continue to receive these income support payments until they qualify for the Age Pension, with some choosing to continue to receive them instead of the Age Pension.

The proportion of income support recipients²⁰⁵ who received payments in *each* of the five years before Age Pension eligibility age gradually declined up until 2013-14, but has since been increasing (Chart 3E-11). The proportion increased markedly in 2017-18. This was partly due to changes to the assets test taper rate on 1 January 2017 that prevented a number of people with higher assets from qualifying for the Age Pension. Disability Support Pension was by far the most common income support payment received in *each* of these five years to 2017-18 (Chart 3E-12). In future, it may be less common due to tightened eligibility criteria introduced in 2012. The most recent data shows one-third of those who reached Age Pension eligibility age and received an income support payment in 2017-18 did not receive an income support payment in *any* of the previous five years.²⁰⁶

Chart 3E-11 Proportion of people who were long-term income support recipients at Age Pension eligibility age

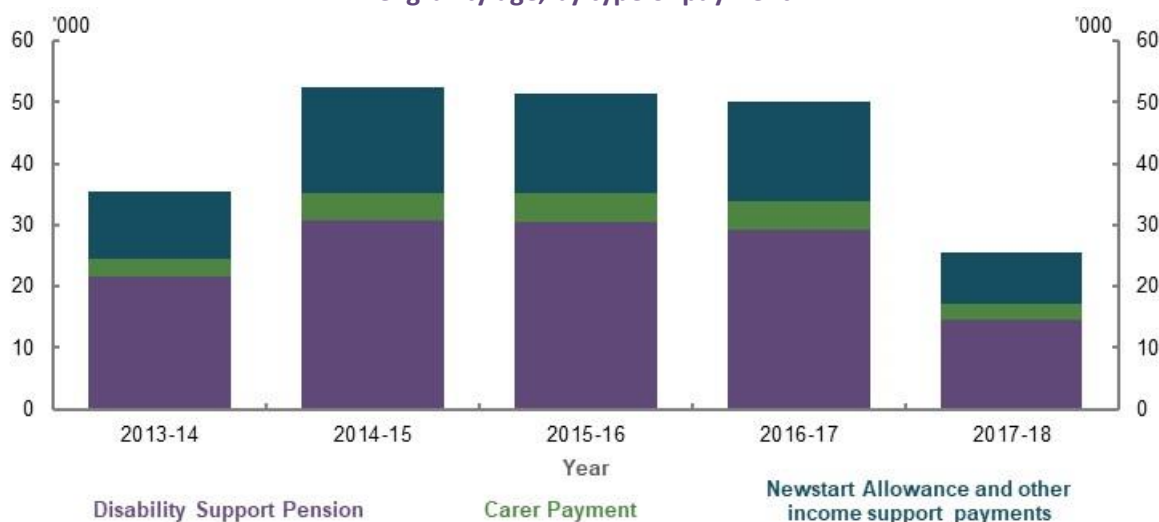


Note: Proportion is calculated as the 'number of income support recipients at Age Pension eligibility age who received payments in each of the five years prior' divided by the 'total number of people who reached Age Pension eligibility age in the financial year and received an income support payment in the same year'. Income support payments include Disability Support Pension, JobSeeker Payment, Carer Payment, ABSTUDY — studying, AUSTUDY, Youth Allowance — Student, ABSTUDY — Apprentice, AUSTUDY — Apprentice, Sickness Allowance, Special Benefit, Youth Allowance — Apprentice, Youth Allowance — Other, Parenting Payment — Partnered and single, Widow B Pension, Wife Pension — Age, Wife Pension — Disability Support Pension. Source: Department of Social Services Priority Investment Approach data, 2017-18.

²⁰⁵ Population is limited to those who received an income support payment in the year they reached Age Pension eligibility age.

²⁰⁶ The one-third is calculated by dividing by the total number of people who reached Age Pension eligibility age and received an income support payment in 2017-18. Department of Social Services Priority Investment Approach data, 2017-18.

Chart 3E-12 Number of people who were long-term income support recipients at Age Pension eligibility age, by type of payment



Note: In this chart, long-term income support recipients are people at Age Pension eligibility age who received payments in each of the five years prior and received an income support payment in the year they reached Age Pension eligibility age. Newstart Allowance became JobSeeker Payment on 20 March 2020. The number of people who reached Age Pension eligibility age was lower in 2013-14 and in 2017-18 than other years as the Age Pension eligibility age increased by six months on 1 July 2013 (for women only) and 1 July 2017 (for women and men). Source: Department of Social Services Priority Investment Approach data, 2017-18.

Box 3E-4 Government pensions or allowances available to early retirees

Pensions and allowances available

People have different, and sometimes multiple, reasons for retiring. For simplicity, the age a person ceases paid employment is assumed to be their age of retirement. However, this does not always correspond with the actual age a person ceases looking for work — or the age at which they consider themselves retired.

The income support payments available to people who retire before the age of 65 depend on their reason for retirement. In general terms:

- **Disability Support Pension** is available to eligible people who retire early due to a permanent physical, intellectual or psychiatric condition²⁰⁷
- **Carer Payment** is available to eligible people who retire early due to caring for someone who has a severe disability, illness or an adult who is frail aged
- **JobSeeker Payment** is available to eligible people who retire early due to job-related issues and continue to seek work²⁰⁸

In September 2019, just under 20 per cent of the Australian population aged 55-64 received one of these three payments (Department of Social Services, 2020a). However, not all who received one of these three payments have necessarily retired. Some recipients are required to look for work and may undertake work again in future.

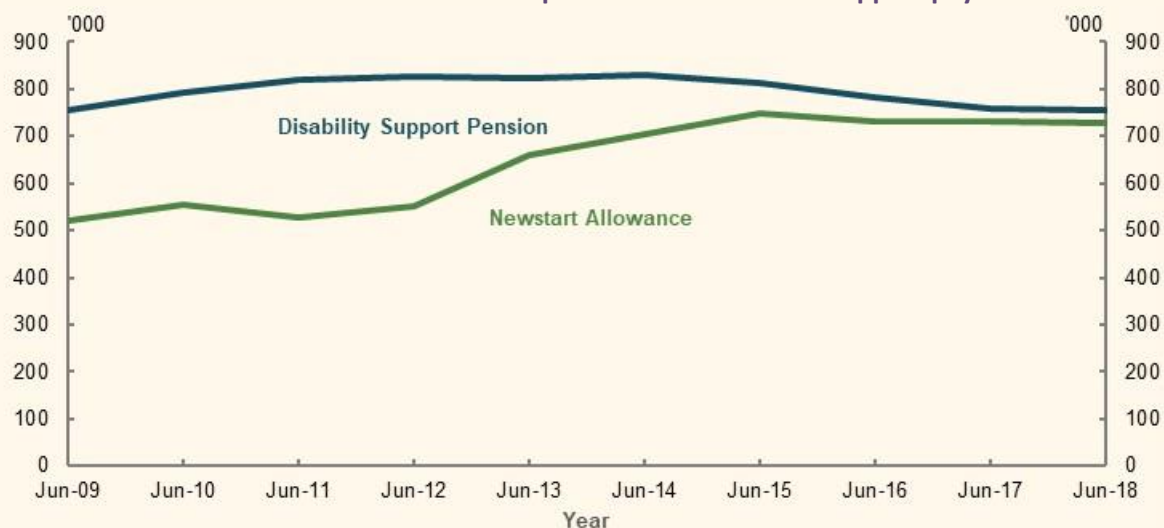
The tighter eligibility criteria for Disability Support Pension means some people who cease their last job due to their own ill health may not be eligible for this payment. The stricter criteria likely accounts for the fall in the proportion of people aged 55-64 on Disability Support Pension, from 12 to 9 per cent between 2009 and

²⁰⁷ Not all Disability Support Pension recipients will have necessarily retired due to their own ill health.

²⁰⁸ To receive JobSeeker Payment, early retirees need to be able to complete 30 hours per fortnight of suitable paid work, self-employment or approved voluntary work.

2017. This largely coincides with an increase in the number of people on Newstart Allowance (now JobSeeker Payment) (Chart 3E-13).

Chart 3E-13 Total number of recipients of select income support payments



Note: Includes recipients of all ages. Source: Analysis of Department of Social Services Demographics June 2014, 2015, 2016, 2017 and 2018 (Department of Social Services, 2020c) and (Department of Social Services, 2014).

Monetary benefits

The Age Pension, Disability Support Pension and Carer Payment are classified as a *pension* and are therefore paid at the same rate and subject to the same means test settings. Carer Payment recipients receive extra support in the form of Carer Allowance and Carer Supplement — assistance that may also be available to recipients of other payments with caring responsibilities. In contrast, JobSeeker Payment is an *allowance*. The standard rate of JobSeeker Payment is around 60-73 per cent of the standard rate of Age Pension, Disability Support Pension and Carer Payment, depending on a person's relationship status and family situation.

Recipients of Disability Support Pension or Carer Payment can have higher levels of income or assets and still qualify for these payments, compared with those on JobSeeker Payment. This means an early retiree receiving the Disability Support Pension or Carer Payment may have a higher retirement income than an early retiree who receives JobSeeker Payment (Chart 3E-16, Chart 3E-17 and Chart 3E-18).

Age Pension, Disability Support Pension and Carer Payment are indexed to the higher of the CPI and Pensioner and Beneficiary Living Cost Index, and benchmarked to male total average weekly earnings. Whereas, JobSeeker Payment is only indexed to CPI. The effect of these different indexation arrangements compound over time. For example, assuming no change in the base rate of payment, by 2050, the single rate of JobSeeker Payment rate will be around 45 per cent of the single rate of Age Pension, Disability Support Pension and Carer Payment (compared with 60 per cent in 2020).²⁰⁹

Many stakeholders raised concerns about the proportion of older Australians receiving JobSeeker Payment who experience poverty or financial stress before they qualify for the Age Pension. For example, one stakeholder cited research by Davidson et al. (2018) that 55 per cent of households relying on JobSeeker Payment in 2015-16 were living in poverty.

In 2017-18, the average net worth of a household receiving an income support payment where the reference person was aged 55-64 was just under \$250,000, with three-quarters of this wealth held in the family home. Average financial assets, excluding superannuation, were just over \$20,000 (ABS, 2019k). This suggests many people aged 55-64 on income support payment do not have significant liquid assets to top up their Government pension or allowance income, unless they use a reverse mortgage or home equity release product.

²⁰⁹ Cameo modelling undertaken for the review.

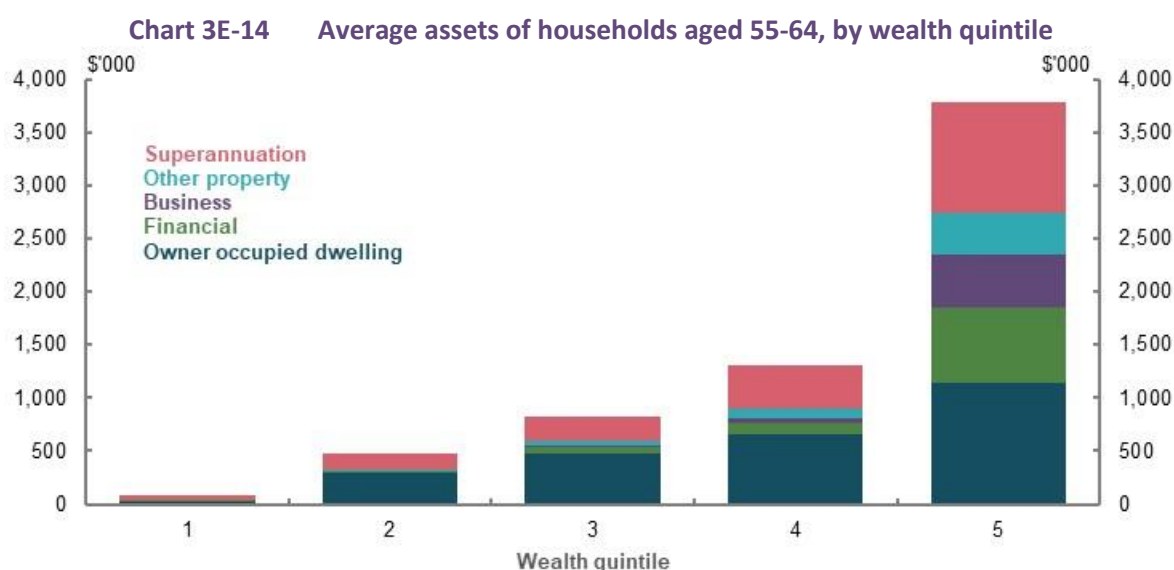
JobSeeker Payment/Newstart Allowance is paid at a lower rate than pensions because it is provided on the basis that recipients are willing and able to work, and have greater capacity to supplement their income through paid employment. Whereas, Age Pension, Disability Support Pension and Carer Payment are paid to recipients who are not able or not expected to work (Australia's Future Tax System Review, 2008). Yet, only 42 per cent of people who became unemployed at age 60 and began receiving Newstart Allowance in 2017-18 are projected to move off income support payments for one or more years before reaching Age Pension eligibility age.²¹⁰ This suggests many people who retire early and involuntarily will continuously rely on the welfare system until reaching Age Pension eligibility age. As the superannuation system matures, superannuation may become a more important source of income for involuntary retirees.

Early release of superannuation benefits

For some people who meet the eligibility requirements, accessing superannuation through the early release regime provides a means to access funds to deal with financial emergencies before they reach preservation age (see 2C. *Maintaining standards of living in retirement*).

Other income sources available to people who retire early

In addition to Government pensions and allowances and superannuation benefits, other income sources may be available to people who retire early. In 2017-18, the average net wealth (excluding superannuation and the family home) of a household whose reference person was aged 55-64 was just over \$550,000 (ABS, 2019k). Many households in this age range have a much lower net wealth than the average (Chart 3E-14). Some early retirees (other than those receiving income support payments) may have other non-superannuation and non-owner-occupied housing assets to draw on before they reach preservation age or Age Pension eligibility age.



Note: Uses 2017-18 data. Age of household is the age of the household's reference person. Does not include other assets, such as vehicles, home contents, silent partnerships and assets not covered elsewhere. Quintiles are based on net wealth. Source: Analysis of ABS Survey of Income and Housing Confidentialised Unit Record File, 2017-18.

²¹⁰ Modelling using the Priority Investment Approach to Welfare Actuarial Model. This model takes the starting population and projects forward what welfare payments each person in that starting population are likely to receive in future years. Not all people who become unemployed at age 60 will receive the JobSeeker Payment due to the income and assets tests and the liquid assets waiting period.

Some early retirees also have access to total and permanent disability (TPD) insurance and income protection insurance, workers' compensation schemes or other compensation schemes (e.g. third-party motor vehicle insurance). In 2016 and 2017, a total of 6,143 successful TPD claims were finalised across all life insurers for people aged 56-65 (0.22 per cent of those aged 56-65).²¹¹ For these claims, the average sum insured for people aged 56-60 was \$84,826, and \$54,833 for those aged 61-65. This decline reflects that TPD policies tend to pay based on years remaining in the workforce. Workers' compensation is the main source of income at retirement for some people who retire involuntarily and for very few who retire voluntarily (Chart 3E-9 and Chart 3E-10).

Box 3E-5 Preservation and Age Pension eligibility ages

Universality of the Age Pension eligibility age and preservation age

Australia's preservation and Age Pension eligibility ages apply to the entire population. This is in contrast with many other OECD countries, which have variable access ages (OECD, 2019b). For example, the Netherlands Government recently announced that workers in physically demanding jobs will be able to access their retirement savings three years before the standard retirement age (Wijk & Preesman, 2019).

Universality means people entering the workforce at younger ages will typically work for more years before reaching preservation age or Age Pension eligibility age, compared with those who enter the workforce at later ages. On average, those who begin full-time employment at younger ages tend to be less educated people.

A few stakeholders suggested people in certain industries or occupations — where they may be more exposed to health or incapacity risks — should be able to access their superannuation or the Age Pension earlier than the rest of the Australian population. Although blue-collar workers are more likely to retire involuntarily due to own ill health, early and involuntary retirement is not isolated to certain industries or occupations. And not everyone in the same industry has the same experience. The physical and psychological demands of a job are hard to categorise.

Another consideration is people change occupations/industries throughout their working lives. Allowing people in select industries or occupations to access their superannuation or the Age Pension earlier than the rest of the population may lead to inconsistent outcomes between similar people.

Increasing the preservation and Age Pension eligibility ages

According to the OECD (2019b, p. 27), only 15 of the 36 OECD countries will have a retirement age of 67 or higher in future. Australia does not have a mandated retirement age. The Age Pension eligibility age is increasing to 67 on 1 July 2023 and the superannuation preservation age is increasing to 60 on 1 July 2024.

Increasing the preservation age

The Productivity Commission (2015b) modelled the effect of a gradual increase in the preservation age to 65. Its modelling suggested:²¹²

- *'... there will be a modest increase in the participation rate of older workers (of around 2 percentage points in 2055) — mainly among those with higher wealth at or near retirement;*

²¹¹ Analysis using data provided by ASIC for the review and (ABS, 2018g). Data is based on the same seven insurers included in the following report: <<https://asic.gov.au/regulatory-resources/find-a-document/reports/rep-633-holes-in-the-safety-net-a-review-of-tpd-insurance-claims/>>

²¹² This modelling assumed the Age Pension eligibility age would increase to 70 in future. As the Government decided the Age Pension eligibility age would no longer increase beyond age 67, the increase to older workforce participation and fiscal benefits of increasing the preservation age may be lower than the Productivity Commission calculated. This is because some people may retire earlier to draw down their superannuation savings before reaching the Age Pension eligibility age.

- *households that delay their retirement are likely to do so by around two years and will have superannuation balances around 10 per cent larger in real terms when they retire;*
- *there will be an indicative annual fiscal improvement of around \$7 billion (in 2015 prices) in 2055 — mainly due to tax revenue increases from wealthier households; and*
- *changing the preservation age will have little, if any, impact on the workforce participation of individuals who retire involuntarily — almost one-half of men and over one-third of women who retire between the ages of 60 and 64.* (Productivity Commission, 2015b, p. 2)

Increasing the Age Pension eligibility age

Empirical research found increasing the Age Pension eligibility age in Australia from 60 to 65 for women reduced retirement probability each year by approximately 10 per cent (Atalay & Barrett, 2012). The Productivity Commission modelled gradually increasing the Age Pension eligibility age from 67 to 70 (Productivity Commission, 2013a). It found this could:

- *‘... increase participation rates for people in the relevant ages by around 3-10 per cent, taking account of the fact that some people would be unable to work (and would transfer to the Disability Support Pension), some would be already working, and others with sufficient privately funded superannuation would largely not be affected by a change in the publicly provided pension;*
- *yield ongoing fiscal savings of around 0.15 per cent of GDP per annum in the late 2030s after accounting for some increase in Disability Support Pension recipients (and then falling to 0.1 per cent of GDP in the long run). Over the full period from 2025-26 to 2059-60, the accumulated (undiscounted) savings would be around \$150 billion in constant 2011-12 prices.’* (Productivity Commission, 2013a, p. 15)

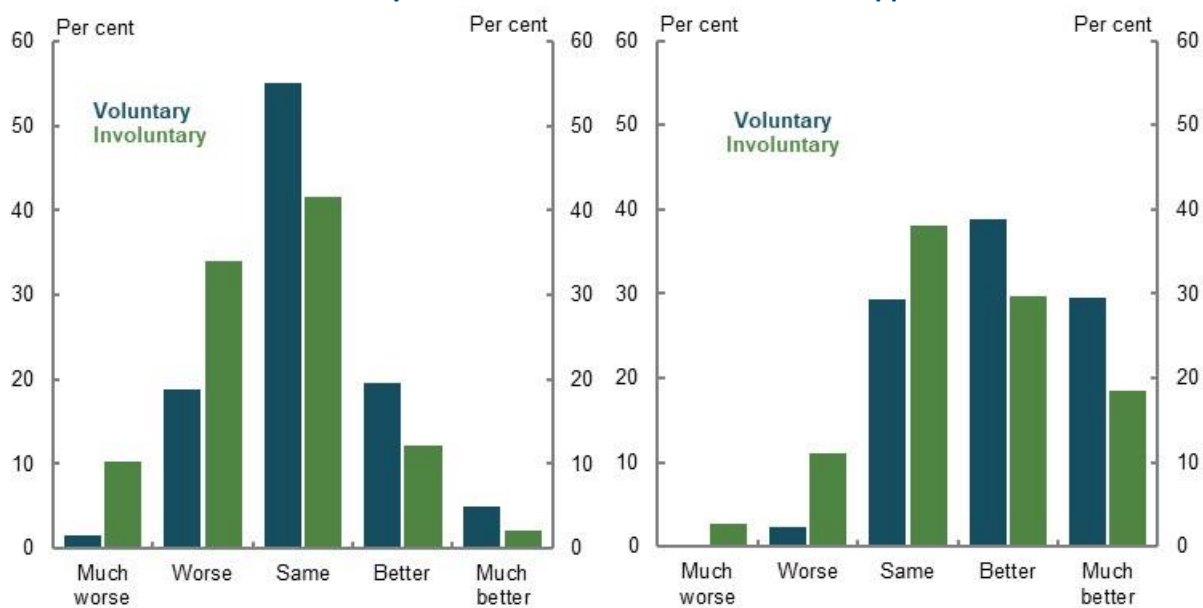
The effect of early and/or involuntary retirement on retirement incomes

Effect of involuntary retirement

Involuntary retirement results in people retiring before they planned and likely with fewer private savings than they planned. Studies show households that experience involuntary retirement have greater falls in expenditure at retirement than those retiring according to a long-term plan (e.g. Smith (2006) and Barrett and Brzozowski (2012)).

Involuntary retirement can have a detrimental impact on people’s sense of financial security in retirement compared to working life (Chart 3E-15). Surveys found people who are forced to retire early due to job loss or their own ill health, and have less income in retirement than expected, reported marked declines in their subjective wellbeing in retirement (Barrett & Kecmanovic, 2013). Another survey found 21 per cent of involuntary retirees stated they were ‘comfortable’ in retirement, compared to 36 per cent of those who retired voluntarily (Susan Bell Research, 2020, p. 3). Yet, most retirees, voluntary and involuntary, report being as happy or happier in retirement than in working life (Chart 3E-15).

Chart 3E-15 Financial security and happiness in retirement compared to working life



Note: Includes people who retired between 1990 and 2015. Source: Analysis of HILDA Survey data (Waves 3, 7, 11 and 15).

Effect of early retirement

Early retirement leads to lower aggregate working-life income and, consequently, lower superannuation balances at the point of retirement, lower replacement rates²¹³ and lower average annual retirement income across all years of retirement. Key factors influencing this outcome include:

- Retirement age** — Comparing those who enter the workforce at the same age, the earlier a person retires, the lower their superannuation balance, retirement income and replacement rate. If a person with superannuation retires before superannuation preservation age, their income may be significantly lower before than after preservation age (see *Appendix 6D. Supplementary equity charts*). For these people, replacement rates calculated based on *all* years of retirement understate this drop in income they experience before preservation age (Chart 3E-16, Chart 3E-17 and Chart 3E-18). In contrast, those early retirees with little superannuation may experience lower average income for longer, until they can access the Age Pension.
- Reason for retirement** — People who retire early due to job-related issues may have lower replacement rates than people who retire early due to own ill health or caring responsibilities. This is because the maximum single rate of JobSeeker Payment is much lower than the single rate of Age Pension, while Disability Support Pension and Carer Payment provide the same income as the Age Pension (for both singles and couples). The difference in payment rates between the Age Pension and JobSeeker Payment substantially increases some people's income when they move from JobSeeker Payment to the Age Pension.
- Income level** — Early retirement reduces the replacement rates of all income earners. However, Government pensions and allowances, especially the Age Pension, significantly offset the adverse effect on replacement rates of those retiring with few private savings. Early retirement affects the

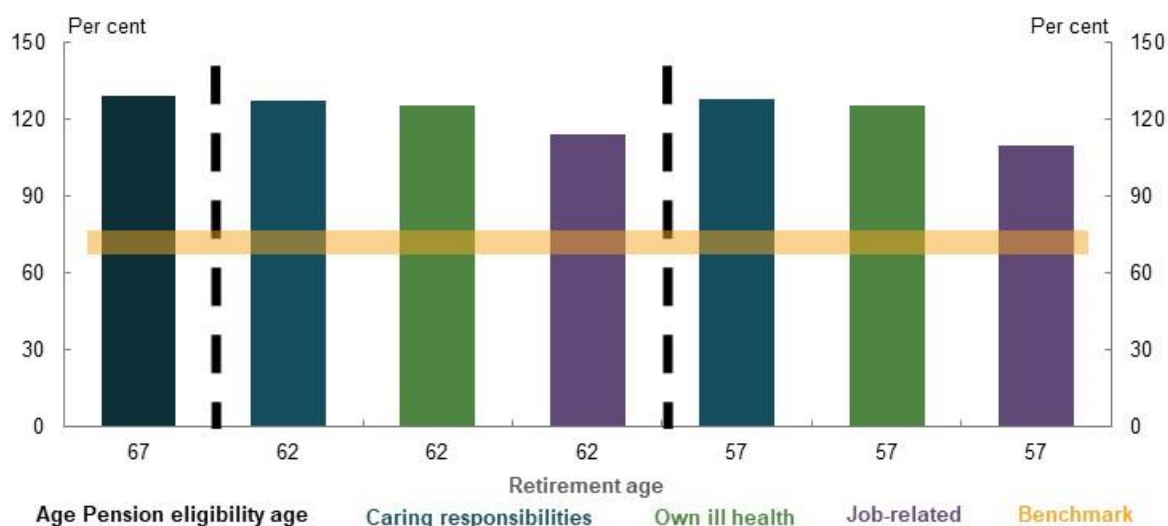
²¹³ For people who retire before and after Age Pension eligibility age, retirement income begins at the age of retirement. Replacement rates are calculated using average retirement income for that individual over all years of retirement, divided by average working-life income earned by someone in the same income percentile who retires at age 67. The latter assumption means the age of retirement does not affect the denominator in the replacement rate calculation.

retirement incomes of people at the higher end of the income distribution the most as they forgo more in wages and receive the least, if any, increase in Age Pension by retiring early compared with lower- and middle-income earners.

Chart 3E-16, Chart 3E-17 and Chart 3E-18 show the projected replacement rates for lower-, middle- and higher-income home owners who begin work at age 27, retire either 5 or 10 years before Age Pension eligibility age and receive either JobSeeker Payment, Disability Support Pension or Carer Payment if eligible in the years between retirement and age 67.²¹⁴

A replacement rate of 65-75 per cent generally allows people to maintain their living standards in retirement (see 2C. *Maintaining standards of living in retirement*). The modelling shows replacement rates of lower- and middle-income earners remain within or above the benchmark replacement rate. For higher-income earners, replacement rates are projected to fall below the benchmark. However, a person on a higher-income who retires at age 57 or 62 will, respectively, have an average retirement income more than 85 or 100 per cent higher than the maximum rate of Age Pension.

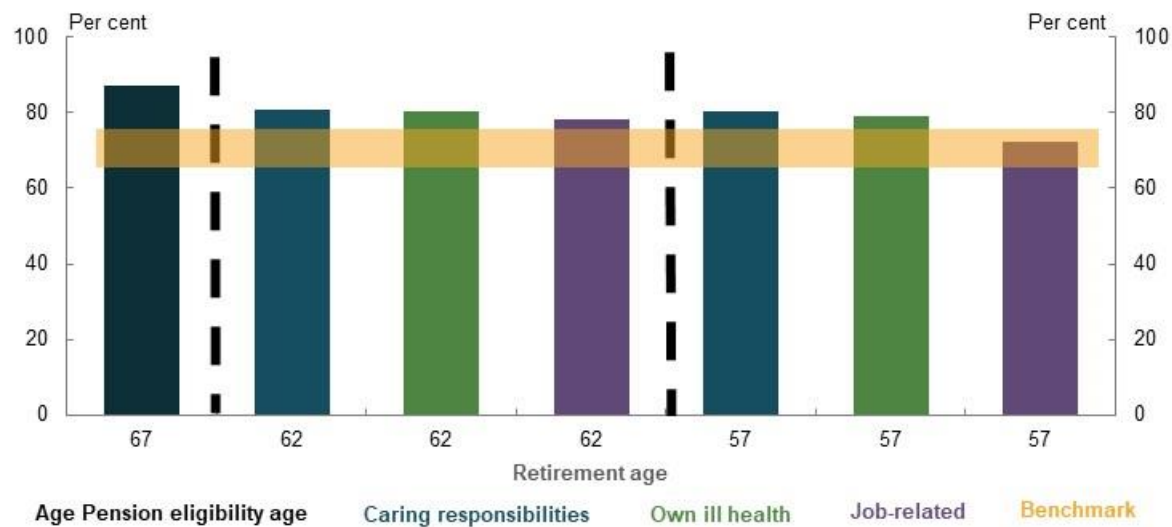
Chart 3E-16 Lower-income earner: projected replacement rates, by retirement age and reason
20th percentile



Note for Chart 3E-16, Chart 3E-17 and Chart 3E-18: Values are in 2019-20 dollars, deflated using the review's mixed deflator. For consistency, the working life of the person who retires at age 67 is used as the replacement rate denominator for all retirement ages. People who retire due to caring responsibilities receive Carer Payment until age 67, if eligible. People who retire due to own ill health receive Disability Support Pension until age 67, if eligible. People who retire due to job-related issues receive the standard rate of JobSeeker Payment until age 67, if eligible. The cameo assumes that before age 60 (superannuation preservation age), retired people do not take actions to boost their income until they reach preservation age (such as using early release of superannuation). People who retire before age 67 draw down the equivalent of the higher of the maximum Age Pension less any JobSeeker, Disability Support Pension or Carer Payment they receive, or minimum legislated rates between preservation age and age 67. Source: Cameo modelling undertaken for the review.

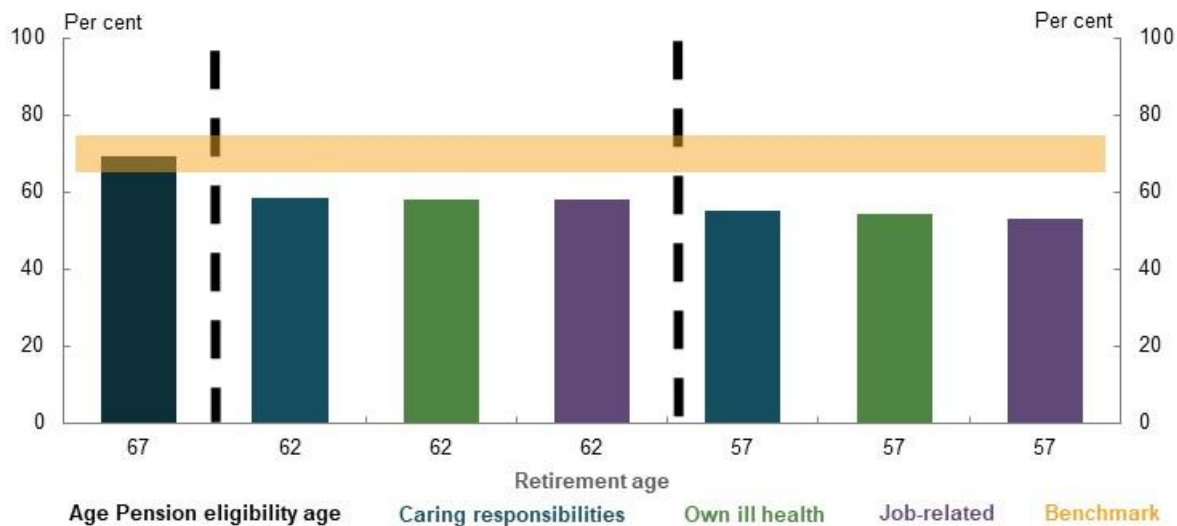
²¹⁴ This cameo modelling assumes that all social security income from the point of retirement is counted as retirement income. Notably, some stakeholders pointed out that people in receipt of JobSeeker Payment, Carer Payment or Disability Support Pension are not necessarily retired. Some recipients (including those on the Age Pension) are attached to the labour force through either undertaking work or looking for work, while others face a range of barriers to workforce participation and have never had the opportunity to work.

Chart 3E-17 Middle-income earner: projected replacement rates, by retirement age and reason
50th percentile



Note: See Chart 3E-16. Source: Cameo modelling undertaken for the review.

Chart 3E-18 Higher-income earner: projected replacement rates, by retirement age and reason
80th percentile



Note: See Chart 3E-16. Source: Cameo modelling undertaken for the review.

An SG rate to increase retirement incomes of early, involuntary retirees

Some stakeholders proposed increasing the SG rate to mitigate the risk that early, involuntary retirement will lead to inadequate retirement income. This has limitations, including:

- **The exact increase in the SG rate required to mitigate the risk of early, involuntary retirement varies based on a person’s characteristics.** The SG rate required to compensate for retiring 5 or 10 years earlier is between 14 and 26 per cent,²¹⁵ depending on their age of, and reason for, retirement and income percentile (Table 3E-1).

²¹⁵ Assumes the SG rate applies for the person’s entire working life.

- **Setting the SG rate high enough to compensate for the possibility of early, involuntary retirement would result in many people saving more than is required for an adequate retirement income.** The current system already delivers replacement rates within or above the 65-75 per cent benchmark used by the review for a wide range of scenarios, including when lower- and middle-income earners retire 5 or 10 years before Age Pension eligibility age (Chart 3E-16 and Chart 3E-17). For people retiring at age 67, increasing the SG rate to 16 per cent would result in a lower-income earner achieving a replacement rate of 136 per cent and a middle-income earner achieving a replacement rate of 94 per cent.²¹⁶ Under this higher SG rate, both lower- and middle-income earners would significantly over-save for retirement. Lower-income groups would suffer most from trading off working-life income for an SG increase, as they already experience high levels of financial stress in their working life.
- **The SG is universal and the rate should be set accordingly.** Universal policy settings that try to cater for every possible scenario risk damaging the wellbeing of a large proportion of society to protect a smaller group of people.

Table 3E-1 Projected SG rates required for an early, involuntary retiree to achieve the same retirement income as someone who retires at age 67

Retirement age and reason	Lower-income earner (per cent)	Middle-income earner (per cent)	Higher-income earner (per cent)
Retire at 57			
Job-related	26	22	20.5
Own ill health	16	20	20
Caring responsibilities	15	19.5	20
Retire at 62			
Job-related	19	17.5	16.5
Own ill health	15	17.5	16.5
Caring responsibilities	14	17	16

Note: Values are in 2019-20 dollars, deflated using the review's mixed deflator. Lower-income earner is the 20th income percentile, middle-income earner is the 50th income percentile and a higher-income earner is the 80th income percentile. The SG rate received by the person who retires at age 67 is consistent with the relevant legislation, which will see the SG rate rising to 12 per cent by July 2025. SG rate is either a whole number or to half a percentage point. For all SG rates, salary sacrifice contributions under the currently legislated SG rates are used. Assumes the concessional contributions cap also rises with the SG rate, so higher-income earners do not incur excess contributions tax under higher SG rates. Source: Cameo modelling undertaken for the review.

The effect of late retirement on retirement outcomes

If a worker delays retiring, they increase their retirement income by:

- Receiving additional SG contributions — assuming they are covered by the SG
- Receiving additional accumulated growth through compound returns on their private savings
- Drawing down on their private savings for a shorter period of time once they retire — because they spend less time in retirement relative to someone who retires earlier

Delaying retirement also has non-financial effects, including on the person's health, social connections and leisure time. Measures to encourage people to work past Age Pension eligibility age are explored in 5A. *Cohesion*.

Working an additional three years to age 70 increases the replacement rates of those who are able to do so. Replacement rates and retirement incomes increase by similar amounts when the person

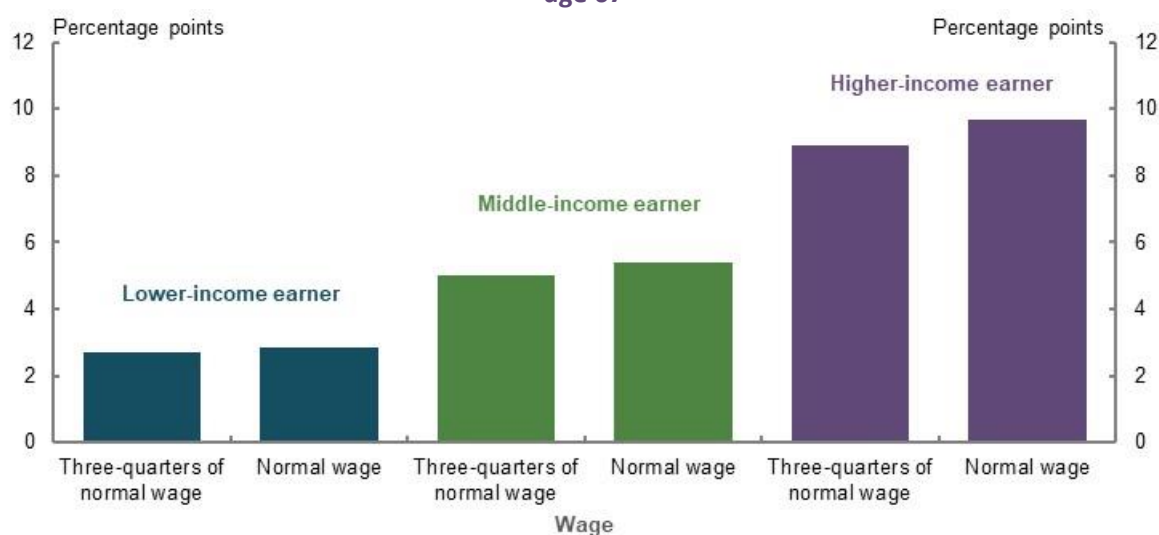
²¹⁶ Cameo modelling undertaken for the review.

continues to earn a wage, based on their position in the income distribution between ages 67-70, versus when they earn 25 per cent less than this wage during this time (Chart 3E-19). This suggests higher replacement rates and retirement incomes are primarily due to investment returns and a reduced length of retirement, rather than additional SG contributions.

Higher-income earners receive a larger increase in their retirement income and replacement rates when they retire later compared with lower- and middle-income earners. During these additional years of work, higher-income earners:

- Receive higher wages (relative to lower- and middle-income earners) and therefore have higher SG contributions
- Receive more compound interest from higher SG contributions and larger superannuation balances
- Generally experience a smaller reduction in Age Pension income, where they qualify, relative to lower- and middle- income earners

Chart 3E-19 Projected increase in replacement rates when retiring at age 70 compared with age 67



Note: Values are in 2019-20 dollars, deflated using the review's mixed deflator. Three-quarters of normal wage assumes an individual earns 75 per cent of the average wage for their age and income percentile between the ages of 67-70. Normal wage uses average wages according central case specifications. *Appendix 6A. Detailed modelling methods and assumptions* includes a detailed explanation of the wage data using this methodology. Assumes people who retire at age 70 do not access superannuation and other savings until age 70 but they do receive the Age Pension from age 67 if eligible. For consistency, the working life of the person who retires at age 67 is used as the replacement rate denominator for all retirement ages. See *Appendix 6D. Supplementary equity charts* for projected superannuation balances and retirement incomes of people retiring at age 70. Source: Cameo modelling undertaken for the review.

Box 3E-6 Impact of changes to certain policy settings on the retirement outcomes of early and late retirees

A number of submissions raised policy proposals to improve retirement outcomes for early and late retirees. The following summary outlines some implications of some of those proposals.

- **No increase in the superannuation preservation age or Age Pension eligibility age.** Increases in these ages would adversely affect a significant number of people who retire involuntarily before preservation or Age Pension eligibility ages. People with lower wealth and blue-collar workers, who are more likely to retire involuntarily, would be disadvantaged by higher access ages. Eligibility for a Government pension or allowance would help mitigate this. Conversely, as people with higher wealth and white-collar workers are more likely to be able to choose when they retire, they are less likely to be affected by such policy changes. Higher-income earners would receive the largest increase in replacement rates from a later retirement age.
- **Increase the standard payment rate and change the indexation of JobSeeker Payment.** This would help ensure equity for early and involuntary retirees with similar financial resources. If the standard rate and indexation of JobSeeker Payment were similar to Disability Support Pension and Carer Payment, people who retire early due to job-related reasons would have similar replacement rates and retirement incomes to those who retire early due to caring responsibilities and own ill health. Any change to the payment rate and indexation method of JobSeeker Payment should also consider the broader policy objectives of working-age payments, as many recipients of this payment may re-enter the workforce in future.
- **Setting the SG rate to compensate for the possibility of early, involuntary retirement.** This would result in many people saving more than they require for an adequate retirement income. A higher SG rate would come at the expense of working-life income. The income support system provides a more targeted way of accounting for involuntary, early retirement (see *2D. Policy scenario: Implications of maintaining the SG rate*).

Section 3F. Aboriginal and Torres Strait Islander people

Box 3F-1 Section summary

- **Lower life expectancies for Aboriginal and Torres Strait Islander people result in shorter retirements and unspent retirement savings.** Many are unlikely to reach superannuation preservation age, while those reaching retirement have less time to spend their superannuation and spend less time on the Age Pension, compared with the total population.
- **Working-life disadvantages for Aboriginal and Torres Strait Islander people result in significantly lower superannuation balances and coverage, lower private savings and lower levels of home ownership than the total population.** Like many in the population, Aboriginal and Torres Strait Islander people are often unaware they have superannuation and have multiple superannuation accounts.
- **In retirement, the Age Pension and other income support payments significantly reduce income inequality between Aboriginal and Torres Strait Islander and non-Indigenous people, compared with working life.** Aboriginal and Torres Strait Islander people are more likely to receive the Age Pension at the maximum rate than non-Indigenous people.
- **Low Aboriginal and Torres Strait Islander engagement with the retirement income system is due to a retirement income system not designed for their needs.** Access issues include physical distance to, and exclusion from, financial services; identification challenges; and superannuation laws that do not acknowledge kinship structures. Issues with engagement are compounded by mistrust in the system due to historical injustices, and lower levels of financial literacy.
- **Retirement outcomes for Aboriginal and Torres Strait Islander people may improve as their life expectancy improves.** An emerging generation of Aboriginal and Torres Strait Islander people have capacity to save for their retirement and will need support to engage with the retirement income system. But, without increases in labour force participation and wages, retirement outcomes of Aboriginal and Torres Strait Islander people will continue to lag behind the total population.
- **Limited and poor-quality data prevent comprehensive analysis of Aboriginal and Torres Strait Islander people's retirement outcomes.** Analysis is limited to averages or generalisations.

Outline of this section

This section focuses on two issues in relation to Aboriginal and Torres Strait Islander retirement outcomes:

1. The role of retirement income system policy settings, including how they interact with the various disadvantages Aboriginal and Torres Strait Islander people experience.
2. The difficulties some Aboriginal and Torres Strait Islander people face in engaging with the retirement income system.

Box 3F-2 Stakeholder views on retirement income equity for Aboriginal and Torres Strait Islander people

A few submissions, and discussions with representatives of First Nations Foundation and ASIC's Indigenous Outreach Program, identified disadvantages faced by Aboriginal and Torres Strait Islander people in retirement.

Stakeholders noted that Aboriginal and Torres Strait Islander people:

- **Continue to be impacted in retirement by many working-life inequities;** in particular, lower rates of home ownership, lower wages, lower rates of labour force participation, lower rates of financial literacy, higher rates of disability and involuntary retirement, and lower life expectancies. For example, lower life expectancies mean policy settings, such as the Age Pension eligibility age and the superannuation preservation age, may exacerbate inequity in retirement.
- **Have limited private savings and lower superannuation balances and coverage than the wider population,** including more people likely earning below the \$450-a-month threshold or taking part in the Community Development Program, which do not attract the SG.
- **Face issues in engaging with the retirement income system,** exacerbated by factors such as remoteness, language differences, mistrust in the system stemming from historical injustices, challenges in proving identity, lower rates of financial literacy and a system that does not recognise kinship structures.

Stakeholders noted the challenges in providing quantitative evidence, given the limited superannuation and savings data available on Aboriginal and Torres Strait Islander people. Some cited anecdotal evidence of Aboriginal and Torres Strait Islander disadvantage in retirement.

Differences in life expectancies

Compared with the total Australian population, Aboriginal and Torres Strait Islander people have lower life expectancies at birth (Table 3F-1). At age 60, the difference in life expectancies is smaller but still significant. Aboriginal and Torres Strait Islander life expectancy is particularly low in remote and very remote areas, where many people are not expected to live long enough to receive the Age Pension.

Table 3F-1 Life expectancy at birth and at age 60, by Indigenous status and remoteness

	Life expectancy at birth (years)		Life expectancy at 60 (years)	
	Men	Women	Men	Women
All people — Australia	80.5	84.6	23.8	26.8
Aboriginal and Torres Strait Islander — Australia	71.6	75.6	19.2	20.9
Aboriginal and Torres Strait Islander — Major cities	72.1	76.5	19.5	21.2
Aboriginal and Torres Strait Islander — Inner and outer regional	70.0	74.8	18.0	20.1
Aboriginal and Torres Strait Islander — Remote and very remote	65.9	69.6	16.1	17.9

Note: Data from 2015-17 life tables. The figures by remoteness indicator cannot be directly compared with those for the whole population or the Australian Aboriginal and Torres Strait Islander population, but are comparable with each other (i.e. major cities can be compared to inner and outer regional and remote and very remote). Source: (ABS, 2018d) (ABS, 2018e).

The life expectancy gap at birth has closed slightly over the past decade. Between 2005-07 and 2015-17, the gap decreased from 11.8 years to 8.9 years for men, and from 10.8 years to 9 years for women (ABS, 2018d) (ABS, 2018e). At this rate of progress, the gap is likely to persist well into the latter half of this century.

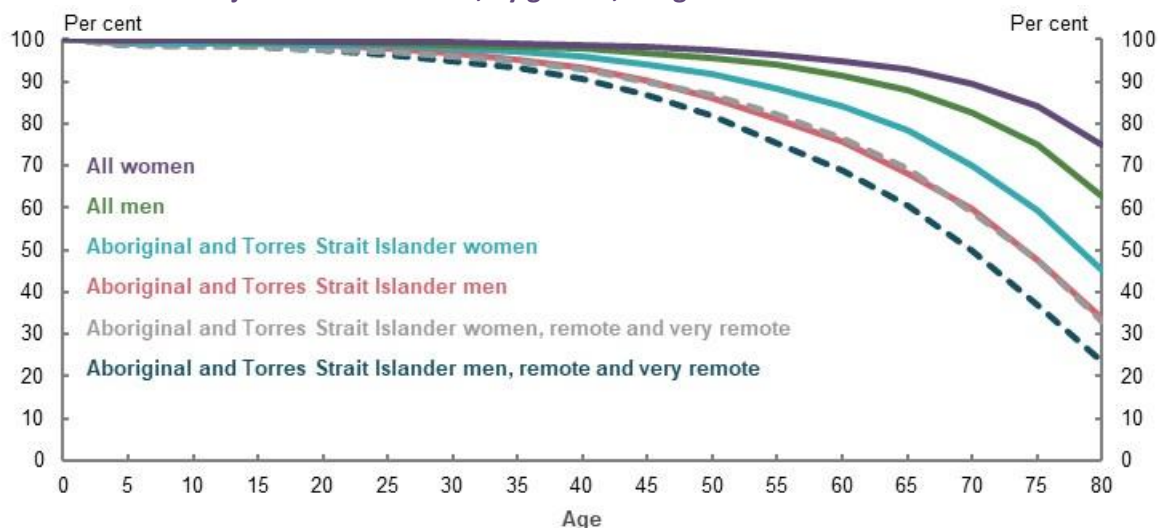
Survival rates for Aboriginal and Torres Strait Islander people and the total population start to diverge significantly during working life. This divergence grows with age. At the 2016 Census, Aboriginal and Torres Strait Islander people made up around 3.3 per cent of the total population, but only 0.9 per cent of the population aged 65 and over (ABS, 2019i).

Of Aboriginal and Torres Strait Islander men born in 2016, 1 in 4 are not expected to reach age 60 (Chart 3F-1). This compares with 1 in 10 men across the total population. For Aboriginal and Torres

Strait Islander women born in 2016, 3 in 20 are not expected to reach age 60, compared with 1 in 20 women across the total population.

On 1 July 2024, the superannuation preservation age will rise to 60 for all those born after 30 June 1964, including Aboriginal and Torres Strait Islander people. Given their lower survival rates, Aboriginal and Torres Strait Islander people are more likely than the general population to die before they can access their compulsory superannuation. Many of the Aboriginal and Torres Strait Islander participants in recent survey research viewed superannuation more as an inheritance, rather than a source of retirement income, as they had low expectations that they will live long enough to use it (Dockery, 2020, p. 40).

Chart 3F-1 Projected survival rates, by gender, Indigenous status and remoteness indicator



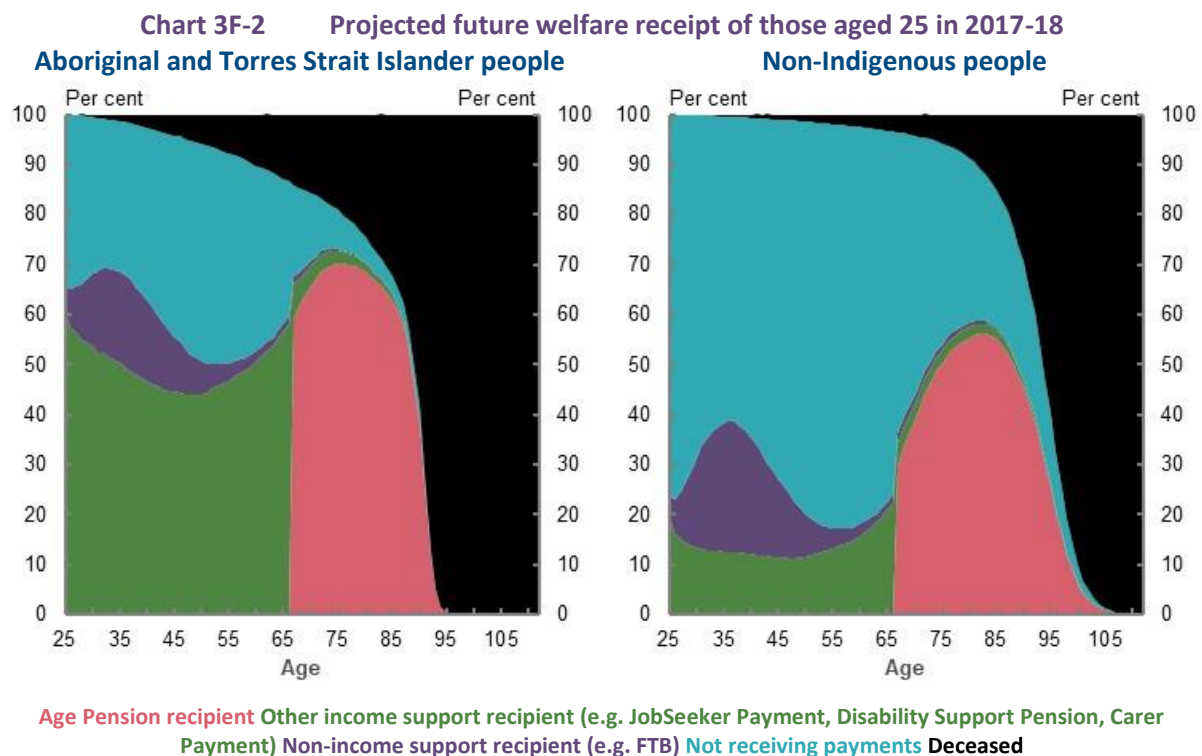
Note: Data from 2015-17 life tables. The figures by remoteness indicator cannot be directly compared with those for the whole population or the Australian Aboriginal and Torres Strait Islander population, but are comparable with each other. This chart does not factor in future improvements in life expectancy. It should be used to illustrate differences between populations only, not to estimate future populations. Source: (ABS, 2018d) (ABS, 2018e).

Many stakeholders suggested a lower superannuation preservation age for Aboriginal and Torres Strait Islander people, given that their lower life expectancies can result in shorter retirements and unspent superannuation savings. Differences in Aboriginal and Torres Strait Islander life expectancy are recognised elsewhere in Australian Government policy. Aboriginal and Torres Strait Islander people can access aged care from age 50, compared with age 65 for the rest of the population.

Given compounding returns deliver the greatest growth in superannuation members' balances in the later stages of working life, a lower superannuation access age for Aboriginal and Torres Strait Islander people could result in lower relative retirement incomes if members choose to withdraw their superannuation savings earlier than the rest of the population (Boyle, 2018a). An alternative approach may be to change the early release of superannuation rules to give Aboriginal and Torres Strait Islander people greater flexibility to access a portion of their superannuation before preservation age.

Lower life expectancies also mean that Aboriginal and Torres Strait Islander people generally spend fewer years on the Age Pension compared with non-Indigenous people (Chart 3F-2).

Lowering the preservation age (or Age Pension eligibility age) for Aboriginal and Torres Strait Islander people would not address the underlying issue of lower life expectancy. It would simply deal with a symptom of the larger problem.



Note: This chart shows the proportion of the starting population (people aged 25 in 2017-18) projected to receive welfare payments (e.g. Age Pension, Disability Support Pension), not on welfare payments, or deceased, at a given age in the future. It is based on modelling from the Priority Investment Approach to Welfare. The Priority Investment Approach to Welfare does not model superannuation balances. However, the model reflects projections of future trends in superannuation and other savings, life expectancy improvements, labour force participation and levels of home ownership, and uses these estimates to project future Age Pension utilisation. Source: Priority Investment Approach to Welfare Actuarial Modelling.

Translation of working-life economic disadvantage into retirement

Working-life income

Aboriginal and Torres Strait Islander people have lower working-life incomes than the total population (Table 3F-2), mainly due to lower rates of labour force participation and earnings gaps.

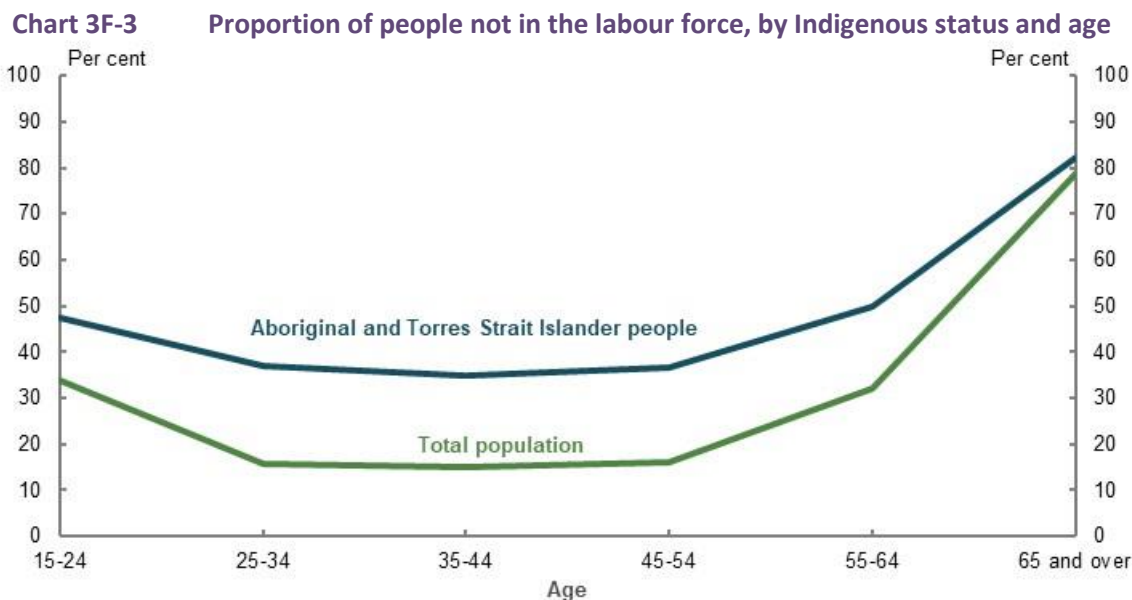
Table 3F-2 Median earnings and incomes of Aboriginal and Torres Strait Islander people compared with the total population

	Aboriginal and Torres Strait Islander people (\$)	Total population (\$)	Gap (per cent)
Median weekly incomes (All persons aged 15 and over)	441	662	33.4
Median weekly earnings (Employed, aged 15 and over)	845	1,012	16.6

Note: 2016 data. Source: Analysis of (ABS, 2016a).

In 2016, non-Indigenous people were 1.4 times more likely than Aboriginal and Torres Strait Islander people to be employed (ABS, 2018a). Aboriginal and Torres Strait Islander employment rates have not significantly increased in the past decade, other than for those aged 65 and over, where

employment rates approach those of the total population (ABS, 2006a; ABS, 2011a; ABS, 2016a). In aggregate, Aboriginal and Torres Strait Islander people are also far less likely to be in the labour force than the total population, reducing their average working-life income (Chart 3F-3). Labour force participation rates and earnings for Aboriginal and Torres Strait Islander women are particularly low (ABS, 2016a). Without increases in labour force participation, the relative gap in incomes between Aboriginal and Torres Strait Islander people and the total population is likely to persist.



Note: 2016 data. Source: Analysis of (ABS, 2016a).

A large proportion of Aboriginal and Torres Strait Islander people receive income support as they approach retirement. Of those Aboriginal and Torres Strait Islander people reaching Age Pension eligibility age between 2013-14 and 2017-18, 52 per cent had received an income support payment in each of the 10 years prior to reaching Age Pension eligibility age. For non-Indigenous people, the figure was 28 per cent.²¹⁷ High rates of income support receipt in the years leading up to retirement for Aboriginal and Torres Strait Islanders are projected to continue (Chart 3F-2).

A significant proportion of Aboriginal and Torres Strait Islander people receive the Disability Support Pension prior to retirement. Of those over Age Pension eligibility age receiving income support on 30 June 2019, 40 per cent received the Disability Support Pension immediately prior to Age Pension eligibility age.²¹⁸

This means a significantly higher proportion of Aboriginal and Torres Strait Islander people reach Age Pension eligibility age with disability, caring for others or unemployed, and with limited other means to support themselves, compared with the total population. Aboriginal and Torres Strait Islander people are over-represented in the number of people who retire involuntarily. This adversely impacts their retirement incomes (see *3E. Age of retirement*).

Superannuation

Superannuation makes a limited contribution to the retirement incomes of most Aboriginal and Torres Strait Islander people. In 2018, for those not retired, the median superannuation balance of Aboriginal and Torres Strait Islander men was 59 per cent lower than that of all men (Table 3F-3). For women, the comparable figure was 50 per cent lower.

²¹⁷ Department of Social Services Priority Investment Approach data, 2017-18.

²¹⁸ Department of Social Services payment data, 30 June 2019.

These figures do not capture those without superannuation. Aboriginal and Torres Strait Islander people are more likely to have no superannuation than the total population, as shown by lower rates of superannuation coverage (Table 3F-3). A significant proportion of Aboriginal and Torres Strait Islander people undertake part-time work and have very low incomes (ABS, 2016a), making them susceptible to falling under the \$450-a-month threshold for the SG and not accruing superannuation (see 3D. SG coverage).

Aboriginal and Torres Strait Islander people are also over-represented in the Community Development Program, which does not pay superannuation. The Community Development Program is a remote-area employment and community scheme with around 30,000 participants, the majority of whom are Aboriginal or Torres Strait Islander people (National Indigenous Australians Agency, 2020) (Senate Finance and Public Administration Committees, 2017, p. 5). Participants in the scheme are receiving an income support payment, such as the JobSeeker Payment. However, the program requires 20 hours of ‘work-like activities’ by recipients to receive their payment. Similar work activities outside of the program would ordinarily attract superannuation.

Table 3F-3 Median superannuation balances and proportion with superannuation, by gender and Indigenous status

	Aboriginal and Torres Strait Islander men	All men	Aboriginal and Torres Strait Islander women	All women
Median superannuation balances (\$)	25,000	60,635	19,000	38,000
Proportion with superannuation (per cent)	74.0	85.8	58.6	83.7

Note: 2018 data. The HILDA Survey does not include households in remote Aboriginal communities (Dockery, 2020). As such, these results likely overstate the coverage and balances of the Aboriginal and Torres Strait Islander population. Source: Analysis of HILDA Survey data (Wave 18) of those not retired, provided by the Association of Superannuation Funds of Australia.

The issue of lower superannuation balances is compounded by the fact Aboriginal and Torres Strait Islander people often:

- **Are unaware they have superannuation.** At 1 January 2020, through its initiative ‘Big Super Day Out’, First Nations Foundation had reconnected 1,636 Aboriginal and Torres Strait Islander people to a total of \$24 million in superannuation they did not know they had accrued (First Nations Foundation, 2020).
- **Do not know they have multiple superannuation accounts.** First Nations Foundation also noted many Aboriginal and Torres Strait Islander people have multiple superannuation accounts, with multiple fees eroding balances. This is supported by limited survey research of Aboriginal and Torres Strait Islander people (Dockery, 2020, p. 38). Recent reforms should help improve this through low balance account consolidation and fee caps. First Nations Foundation hypothesised the community sector, in which many Aboriginal and Torres Strait Islander people work, is quite transitory. Frequent job changes may be leading to superannuation account proliferation (Dockery, 2020, p. 54). The ATO and ASIC also noted many Aboriginal and Torres Strait Islander people unknowingly had more than one superannuation account (ATO, 2019g). ASIC suggested the higher number of multiple accounts is likely due to lower financial literacy, sporadic and casual employment, and the higher incidences of Aboriginal and Torres Strait Islander people having multiple names.

Data is not available to determine whether the number of superannuation accounts per Aboriginal and Torres Strait Islander person exceeds the total population average, as most superannuation funds do not record the Indigenous status of their members (see *Issues accessing the retirement income system*, below).

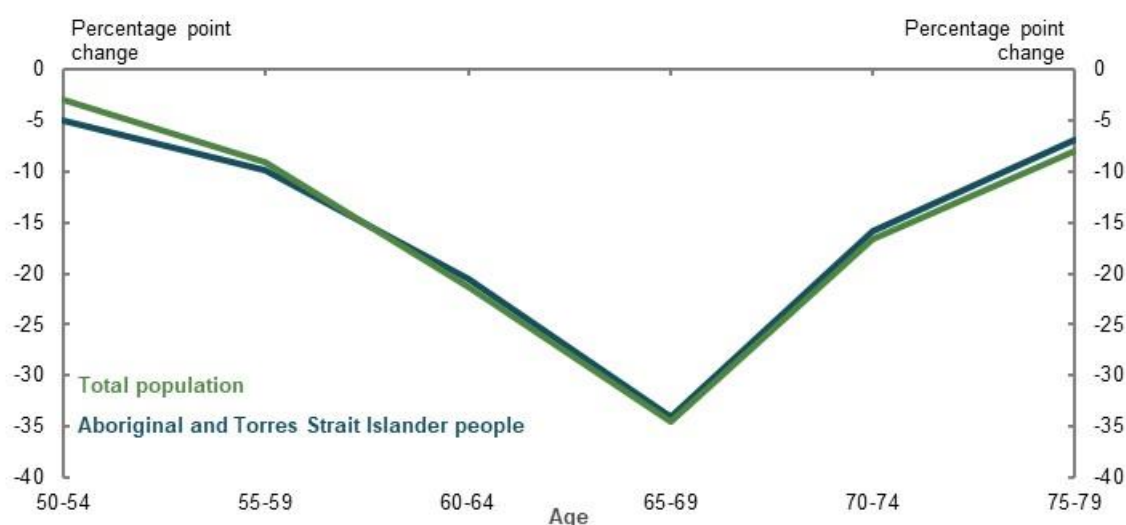
Retirement ages

The greatest reduction in workforce participation occurs at ages 65-69 for both Aboriginal and Torres Strait Islander people and the total population (Chart 3F-4), despite Aboriginal and Torres Strait Islander people having lower life expectancies. One factor may be the strong role the Age Pension eligibility age plays in influencing when people retire (see 5A. *Cohesion*).

But the data may not tell the full story. First, fewer Aboriginal and Torres Strait Islander people are in the labour force, creating a smaller base from which to measure their departure. This makes it difficult to identify strong retirement trends.

Second, in contrast to the ABS data, First Nations Foundation noted that, in their experience, Aboriginal and Torres Strait Islander people are not likely to retire at a given age. Instead, community responsibilities require that they continue working full- or part-time while receiving the Age Pension.

Chart 3F-4 Change in labour force participation rate from the age 45-49 baseline, by age and Indigenous status



Note: 2016 data. This chart takes the proportion of people in the labour force at age 45-49 as a baseline, and then measures the percentage point reduction in labour force participation rate from this baseline at future ages (i.e. of the 100 per cent of people in the labour force across the total population at age 45-49, 3 percentage points left the labour force at ages 50-54, a further 9 percentage points left at ages 55-59, and so on). The results may be impacted by the relatively small sample size of Aboriginal and Torres Strait Islander people in the labour force at later ages. Source: Analysis of (ABS, 2016a).

Income support in retirement

Determining the actual proportion of Aboriginal and Torres Strait Islander people who receive income support over Age Pension eligibility age is challenging. Coverage rates are determined by comparing Department of Social Services payment statistics with Census data. However, the tiny population of Aboriginal and Torres Strait Islander people over Age Pension eligibility age means small differences in the number of people identifying as Aboriginal and/or Torres Strait Islander across the two datasets can create large differences in the coverage rate, resulting in misleading data.

For example, at 30 June 2016, Department of Social Services data suggests that 56.7 per cent of Aboriginal and Torres Strait Islander people received income support over Age Pension eligibility age (Table 3F-4) compared with 71.6 per cent of the total population.²¹⁹ This seems unlikely given previous findings of disadvantage for Aboriginal and Torres Strait Islander people. Data on the means

²¹⁹ Analysis of Department of Social Services payment data, 30 June 2016; (ABS, 2016a), (ABS, 2019i).

test status of recipients shows they are more likely to be maximum-rate recipients than the total population (Table 3F-5).

Table 3F-4 Number of Aboriginal and Torres Strait Islander people over Age Pension eligibility age on income support payments

	30 June 2016	30 June 2019
Age Pension	18,206	21,667
Carer Payment	478	671
Disability Support Pension	591	835
Other payments	12	10
Total receiving payments	19,287	23,183
Total population at Census	34,012	n/a

Note: Age Pension eligibility age was 65 on 30 June 2016 and 65.5 on 30 June 2019. Those receiving the Disability Support Pension prior to Age Pension eligibility age can continue to receive the Disability Support Pension over Age Pension eligibility age (see 1B. *Design of Australia's retirement income system* for details). Source: Department of Social Services payment data, 30 June 2016 and 30 June 2019; (ABS, 2019i).

Table 3F-5 Means test status of people over Age Pension eligibility age receiving income support, by Indigenous status

	Aboriginal and Torres Strait Islander people (per cent)	Total population (per cent)
Full rate	85.2	61.9
Income-tested	11.0	24.9
Assets-tested	3.4	13.0

Note: Figures may not sum to 100 per cent due to rounding and the exclusion of undetermined/manual rate recipients. Due to the relatively high proportion of Aboriginal and Torres Strait Islander people who receive payments other than the Age Pension over Age Pension eligibility age, the proportions in this table for Aboriginal and Torres Strait Islander people include all types of income support payments received over Age Pension eligibility age. Total population figure only includes Age Pension recipients. Source: Department of Social Services payment data, 30 June 2019.

It appears that a significant number of people who identified as Aboriginal and/or Torres Strait Islander in the Census did not do so when applying for income support, especially those in major cities and regional areas (Table 3F-6). First Nations Foundation suggested this could be due to distrust or misunderstanding of how Centrelink uses data on Indigenous status.

Table 3F-6 Number of people identifying as Aboriginal and/or Torres Strait Islander of Age Pension age, by dataset

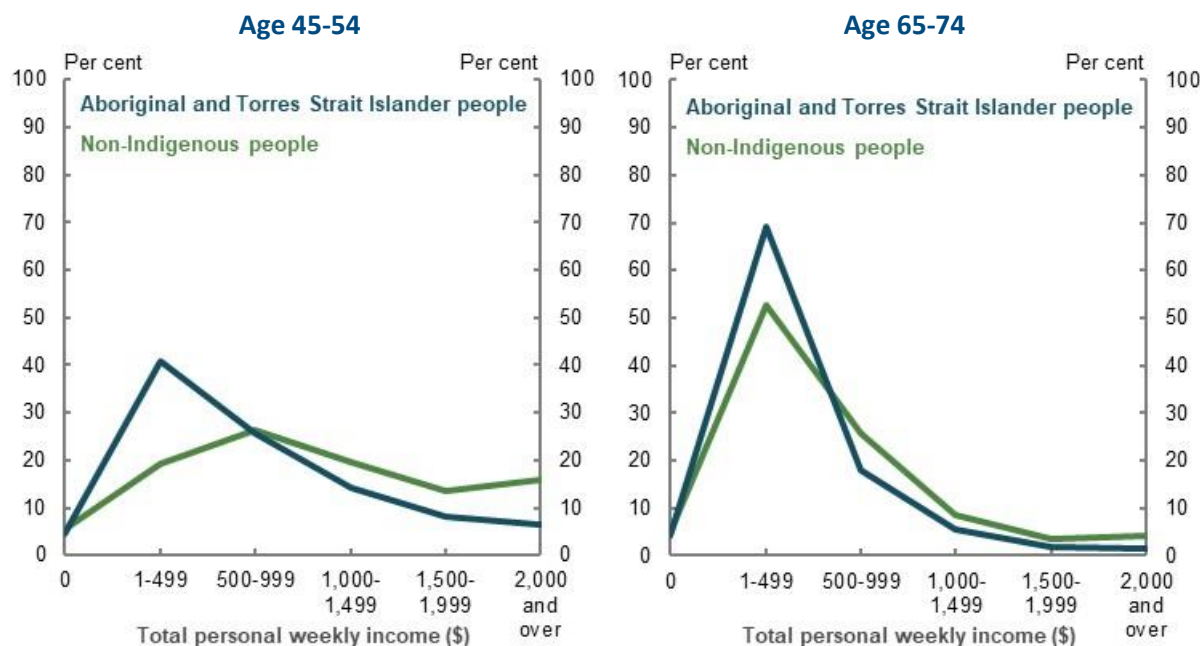
	ABS	Department of Social Services	Income support coverage (Department of Social Services divided by ABS) (per cent)
Major cities	11,717	5,544	47.3
Inner regional	8,427	4,170	49.5
Outer regional	7,794	4,766	61.1
Remote	2,637	1,825	69.2
Very remote	3,437	2,889	84.1
Total	34,012	19,287	56.7

Note: Categories may not sum to total due to observations with unknown remoteness status. Source: Department of Social Services payment data, 30 June 2016; Analysis of (ABS, 2019i).

Retirement income

Aboriginal and Torres Strait Islander people experience markedly lower working-life incomes than non-Indigenous people (Chart 3F-5). In retirement, however, income distributions are significantly more aligned, with a peak in both populations at \$1-\$499 a week. This coincides with the maximum rate of Age Pension, which, in August 2016, was \$437 a week for singles and \$329 a week for members of a couple (Services Australia, 2019). This aligns with other analysis that shows the disparity in incomes between Aboriginal and Torres Strait Islander people and non-Indigenous people narrows in retirement (Dockery, 2020, pp. 20-23).

Chart 3F-5 Proportion of people at personal weekly income ranges, by age and Indigenous status



Note: 2016 data, and self-reported. Source: Analysis of (ABS, 2016a).

Cameo modelling produces similar findings. The modelling compares the total retirement income for an Aboriginal and Torres Strait Islander earner to the total population, looking at two variables: the wage gap and life expectancy differences (Table 3F-7).

The cameo modelling shows a 16.6 per cent gap in wages (Table 3F-2) would result in a 25.5 per cent gap in superannuation balances at retirement between the median Aboriginal and Torres Strait Islander earner and the median earner in the total population (Table 3F-7). The gap in superannuation balances at retirement is larger than the gap in wages because of fees, compounding and the assumption that Aboriginal and Torres Strait Islander people are not making salary sacrifice contributions to their superannuation or accumulating private wealth.

The Age Pension improves retirement income equality between Aboriginal and Torres Strait Islander people and the total population. Cameo modelling suggests that, with continuous employment, the median Aboriginal and Torres Strait Islander person is expected to have an average annual retirement income 5.5 per cent lower than the median earner in the total population. A higher proportion of the retirement income of the median Aboriginal and Torres Strait Islander person is expected to come from the Age Pension.

This gap would change if life expectancy for Aboriginal and Torres Strait Islander people improved to match the life expectancy of the general population.

Table 3F-7 Projected outcomes for the median Aboriginal and Torres Strait Islander earner and total population

	Average annual retirement income	Superannuation balance at retirement
Aboriginal and Torres Strait Islander people (\$)	39,900	336,600
Total population (\$)	42,100	452,000
Gap (per cent)	5.5	25.5

	Years on Age Pension, by rate			Source of retirement income (per cent)		
	Max	Part	Nil	Age Pension	Superannuation	Voluntary savings
Aboriginal and Torres Strait Islander people	9	11	0	56	44	0
Total population	10	14	1	47	50	3

Note: Outcomes are for the median earner (i.e. the 50th percentile). Values are in 2019-20 dollars, rounded to the nearest \$100. Superannuation balance is deflated by average weekly earnings, retirement income deflated using the review's mixed deflator. This modelling imputes a 16.6 per cent gap in wages, as identified in Table 3F-2, and an expected age of death of 87 for Aboriginal and Torres Strait Islander people compared with 92 for the total population (Table 3F-1). This reflects the approximately five-year difference in life expectancy between the total population and Aboriginal and Torres Strait Islander population at age 65. The modelling assumes that the Aboriginal and Torres Strait Islander earner does not make salary sacrifice contributions to their superannuation, and have no other private wealth at retirement. All other variables have been held constant. See *Appendix 6A. Detailed modelling methods and assumptions*. Source: Cameo modelling undertaken for the review.

Private savings, including home ownership

Private savings

Aboriginal and Torres Strait Islander people are less likely than those in the total population to have significant private savings outside superannuation to support their retirement. Although data is limited, some surveys have found Aboriginal and Torres Strait Islander people overall have lower savings than the total population (Chart 3F-6). Aboriginal and Torres Strait Islander people are also less likely to engage in regular savings behaviour (Weier, et al., 2019) (Gerrans, et al., 2009).

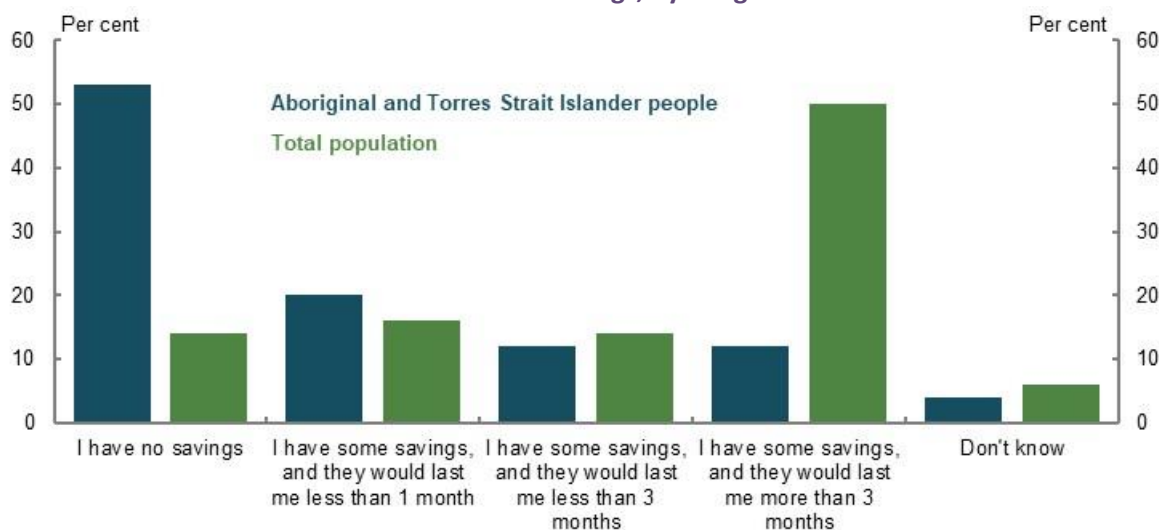
For those in retirement, First Nations Foundation noted that the current generation of Aboriginal and Torres Strait Islander retirees had very little private savings. One estimate suggested that around 24 per cent of Aboriginal and Torres Strait Islander retirees aged 65-74 in 2018 experienced financial stress, compared with 8 per cent of non-Indigenous retirees (Dockery, 2020, p. 28).

Higher rates of material deprivation²²⁰ for Aboriginal and Torres Strait Islander people also indicate that many do not have significant private savings. Of Aboriginal and Torres Strait Islander people in 2016, 40.3 per cent were deprived of two or more essentials, and 21.5 per cent were deprived of three or more essentials. For the total population, the figures were 11.6 per cent and 6.6 per cent, respectively (Wilkins, 2016, p. 87).

²²⁰ Material deprivation '...exists when people do not have and cannot afford to buy items or undertake activities that are widely regarded in society as things everyone should have', such as warm clothes and bedding, a telephone, or dental treatment when needed (Wilkins, 2016, p. 83).

Compared with older people in the total population, few older Aboriginal and Torres Strait Islander people own their own homes. Non-home owners rarely retire with significant private savings (see 2C. *Maintaining standards of living in retirement*).

Chart 3F-6 Private savings, by Indigenous status



Note: Survey data from 2018. Survey question was 'How much money do you have put away?' Source: (Weier, et al., 2019).

Home ownership

Aboriginal and Torres Strait Islander people in retirement are less likely to be home owners and more likely to face the challenges of renting (see 2A: *Achieving a minimum standard of living in retirement*). At the 2016 Census, 45 per cent of Aboriginal and Torres Strait Islanders aged 65 and over owned their own home, compared with 71 per cent of the total population aged 65 and over (Table 3F-8). Around 41 per cent of Aboriginal and Torres Strait Islander people aged 65 and over were renting, almost 4 times the incidence across the total population. More than half of those renting did so through public housing.

Table 3F-8 Proportion aged 65 and over, by housing tenure and Indigenous status

	Aboriginal and Torres Strait Islander (per cent)	Total population (per cent)
Owner without a mortgage	35.2	61.0
Owner with a mortgage	10.2	10.1
Renter	41.0	11.8
Public housing	22.7	3.2
Other	1.2	1.9
Not stated/Not applicable	12.4	15.2

Note: 2016 data. Source: Analysis of (ABS, 2016a).

At 30 June 2019, 32 per cent of Aboriginal and Torres Strait Islander people on income support over Age Pension eligibility age were home owners, compared with 73 per cent of the total age pensioner population.²²¹

Older Aboriginal and Torres Strait Islander people are also more likely to be homeless than older non-Indigenous people. At the 2016 Census, 3.3 per cent of those identifying as Aboriginal and/or Torres Strait Islander aged 65 and over were homeless or marginally housed, compared with

²²¹ Department of Social Services payment data, 30 June 2019.

0.4 per cent of the total population. Older Aboriginal and Torres Strait Islander homelessness is most prominent in remote or very remote areas (ABS, 2016a).

Financial literacy

Aboriginal and Torres Strait Islander people generally have lower financial literacy levels than the total population (Wilkins & Lass, 2018, p. 120), making engagement with the retirement income system harder. In a study by ANZ, Aboriginal and Torres Strait Islander people scored slightly lower on planning ahead, staying informed and ‘financial control’ (making debt repayments and saving) (ANZ, 2015, p. 11).

Reconciliation Australia (2007, p. 26) suggested that the factors contributing to lower financial literacy for Aboriginal and Torres Strait Islander people are broad, but include:

- Lower educational attainment levels
- Poorer health
- Remoteness
- Cultural barriers
- Language barriers (see below)
- The complexity of product information
- Low awareness of financial literacy programs
- Limited provision of face-to-face training

Lower financial literacy is correlated with a range of factors that lower retirement incomes (see 5A. *Cohesion*).

Language barriers can impede engagement with, and understanding of, financial products and superannuation. One in 10 Aboriginal and Torres Strait Islander people communicate in an Indigenous language at home (Boyle, 2018b, p. 30). Of Indigenous language speakers, 16.6 per cent reported they do not speak English well or at all (KPMG, 2016).

First Nations Foundation observed an emerging generation of Aboriginal and Torres Strait Islander people who, for the first time, have incomes that allow for discretionary saving and spending. But they noted that these young people have limited inherited experience in financial management, saving or superannuation, whereas the broader population is more likely to learn these skills from family members. Improving the financial literacy of this emerging generation will be critical to growing retirement income outcomes for Aboriginal and Torres Strait Islander people.

Issues accessing the retirement income system

Physical access to, and exclusion from, services

Aboriginal and Torres Strait Islander people are nearly three times more likely to be severely or fully excluded from financial services (Connolly, et al., 2012, p. 26).²²²

Superannuation funds are no exception. The industry has been structured to deliver superannuation services through centralised call centres, websites and administration centres, which can make access difficult for Aboriginal and Torres Strait Islander people in regional and remote areas. Very few

²²² Financial exclusion exists where people lack access to appropriate and affordable financial services and products (Connolly, et al., 2012).

superannuation funds provide the option of face-to-face communication, despite Aboriginal and Torres Strait Islander people preferring face-to-face communication (Gordon & Boyle, 2015, p. 11) (Indigenous Superannuation Working Group, 2015, p. 12).

The superannuation industry's focus on delivering services online or via post, and its use of complex technical jargon, may also impede Aboriginal and Torres Strait Islander engagement with superannuation. For example, when a member calls their superannuation fund, they are usually greeted by an automated message using language that is difficult to understand for those with limited knowledge of financial products (Gordon & Boyle, 2015, p. 11) or English language barriers. Similarly, ASIC estimates Aboriginal and Torres Strait Islander people have higher rates of lost superannuation than most people, *'...because someone becomes a lost member when their fund has tried to communicate with them twice and the letter... has been returned to sender'* (Boyle, 2018a). If the communication methods used by superannuation funds do not cater to Aboriginal and Torres Strait Islander people in rural communities, their superannuation may be transferred to the ATO as lost superannuation.

Access to Centrelink may also be more difficult for Aboriginal and Torres Strait Islander people in remote areas. In 2014, 14.3 per cent of Aboriginal and Torres Strait Islander people living in remote areas had problems accessing Centrelink, and 10.9 per cent had problems accessing banks and financial institutions (ABS, 2016b). For all people living in outer regional and remote areas, the proportions were lower, at 9.2 per cent and 5.8 per cent, respectively (ABS, 2015a).

A range of initiatives aim to improve Aboriginal and Torres Strait Islander people's engagement with the retirement income system:

- The ATO's helpline for Aboriginal and Torres Strait Islander people provides specialised tax and superannuation support. The helpline received 25,034 calls in 2019, an increase on previous years (ATO, 2020b).
- ASIC's Indigenous Help Line provides assistance, information and referrals in a culturally sensitive way, receiving around 100 to 150 calls a year.²²³
- The ATO and Centrelink take part in the Big Super Day Out, coordinated by First Nations Foundation, to provide a one-stop shop for engagement with the retirement income system.
- Services Australia's Indigenous Customer Service Officers and Indigenous Service Officers help Aboriginal and Torres Strait Islander people and communities understand Centrelink services, and advise people of their rights and obligations.
- Centrelink has servicing teams that improve access to payments in remote areas.
- Centrelink's Indigenous Call Centre provides assistance to Aboriginal and Torres Strait Islander people about their payments and services.

A few superannuation funds have tailored their provision of services to Aboriginal and Torres Strait Islander people. For example, QSuper is proactively working with the ATO and community organisations to reunite people in postcodes with significant Aboriginal and Torres Strait Islander populations with their superannuation (Boyle, 2018a, p. 3758). However, this is the exception rather than the rule. In 2013, only four funds surveyed by the Indigenous Superannuation Working Group had developed specific initiatives for engaging with their Aboriginal and Torres Strait Islander members, with only one producing tailored communication materials (Gordon & Boyle, 2015, p. 11).

²²³ Information provided to the review by ASIC.

Challenges in proving identity

Impediments to **identity verification** can prevent people from accessing their superannuation benefits, claiming insurance or tracking down lost superannuation. Challenges in identifying Aboriginal and Torres Strait Islander people for superannuation purposes include:

- They are more likely to adopt a more fluid approach to identity and use of names
- Births may not have been recorded or may not be accurate (particularly for older people)
- Registration of events like marriage and death may be inconsistent or inaccurate (Indigenous Superannuation Working Group, 2015) (Boyle, 2018b, p. 24)

If a person does have a set of compliant identity documents, for those living in a remote location the added steps of having these documents copied and certified can be difficult (Boyle, 2018b, p. 25). Even with help, the time required for many Aboriginal and Torres Strait Islander people to prove their identity is immense (Edwards, 2018, p. 3726). When ASIC undertook outreach efforts to provide superannuation support to Aboriginal and Torres Strait Islander communities, they found that *'...more than half of those who received assistance could not comply with standard identification procedures.'* (Boyle, 2018b, p. 30)

In 2016, the Australian Transaction Reports and Analysis Centre (AUSTRAC) gave financial institutions, including superannuation funds, guidance for identifying customers without conventional forms of identification (Boyle, 2018b, p. 25). This aimed to promote a more flexible approach to identifying Aboriginal and Torres Strait Islander people, as well as others who may struggle to prove their identity, such as transgender people and migrants (AUSTRAC, 2020).

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Financial Services Royal Commission) found AUSTRAC guidance had not been well implemented (Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, 2019).

ASIC suggested one reason may be because financial institutions cannot identify Aboriginal and Torres Strait Islander people to determine whether the guidance should be used, *'...particularly through phone-based customer support that can be scripted or heavily optioned.'* (Boyle, 2018b, p. 25) The Financial Services Royal Commission recommended amending the voluntary 2019 Banking Code to encourage the use of the AUSTRAC guidance. However, superannuation funds are not subject to the Banking Code.

Data collection

Superannuation funds are not required to record whether their members identify as Aboriginal and/or Torres Strait Islander, limiting funds' ability to cater to the needs of their Indigenous members. A 2013 survey of superannuation funds found only two funds collected information on Indigenous status (Indigenous Superannuation Working Group, 2015, p. 6). The Superannuation Consumers' Centre and CHOICE have raised concerns about identification. They suggested recording identity could reduce the access and affordability of insurance within superannuation for Aboriginal and Torres Strait Islander people (CHOICE & Superannuation Consumers' Centre, 2018).

Mistrust due to historical injustices

First Nations Foundation noted **some Aboriginal and Torres Strait Islander people viewed superannuation as wage garnishing, as opposed to mandatory savings**. This is in the historical context of state and territory governments garnishing wages from Aboriginal and Torres Strait Islander people. Those who view the superannuation system as garnished wages never expect to see their savings again.

ASIC noted mistrust of the retirement income system is compounded by other access challenges. When Aboriginal and Torres Strait Islander people see their relatives pass away before being able to access their superannuation benefits, or encounter challenges in proving their identity so they cannot access their own superannuation, it confirms their perceptions that superannuation is the same as stolen wages (Boyle, 2018a, p. 3761).

Payment of superannuation death benefits

ASIC identified issues for those in rural areas, particularly Aboriginal and Torres Strait Islander people, in determining whether a deceased relative had superannuation. Before disclosing whether a person had any superannuation, the ATO requires evidence of authority to enquire about an estate, such as a will or letters of administration. Providing these documents can be a costly process, particularly for people in rural areas who must travel significant distances to obtain them. ASIC estimated it can be a minimum of several thousand dollars to determine whether a deceased relative has superannuation. If the person does not have superannuation, this process can be for nothing (Boyle, 2018a, p. 3756).

Superannuation law does not adequately allow for death benefits to be paid according to Aboriginal and Torres Strait Islander kinship structures. Superannuation monies do not automatically form part of a deceased person's estate. Instead, superannuation trustees are responsible for distributing death benefits.

The Financial Services Royal Commission heard evidence that some **Aboriginal and Torres Strait Islander people face difficulties accessing death benefits** for these reasons and recommended the Government investigate reforms (Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, 2019, p. 254). The Government consulted with stakeholders on this issue in 2019, and is considering submissions received in response to the consultation.

Box 3F-3 Impacts of changes to certain policy settings on Aboriginal and Torres Strait Islander people's retirement outcomes

A number of submissions raised policy proposals affecting Aboriginal and Torres Strait Islander people in retirement. The following summary outlines some implications of some of those proposals.

- **Lower the superannuation preservation age for Aboriginal and Torres Strait Islander people.** A high proportion of Aboriginal and Torres Strait Islander people die before accessing their superannuation. If the preservation age was lowered for Aboriginal and Torres Strait Islander people, the probability of this occurring would reduce. However, if a lower preservation age was limited to Aboriginal and Torres Strait Islander people, it may also result in those with similar life expectancy to the total population accessing their superannuation earlier, to the detriment of their retirement incomes. Other mechanisms, such as recognising Indigeneity in the rules around early release of superannuation, may be more targeted.
- **Remove exclusions to the SG.** Removing some of the exclusions to the SG, such as the \$450-a-month threshold, would not materially improve retirement outcomes for Aboriginal and Torres Strait Islander people, but would improve equity in the retirement income system (see 3D. SG coverage). The \$450-a-month threshold for SG payments, and the lack of SG payments for Community Development Program participants, disproportionately affect Aboriginal and Torres Strait Islander people.
- **Increase support for Aboriginal and Torres Strait Islander people who rent.** Without an increase in Aboriginal and Torres Strait Islander people's labour force participation, superannuation and private savings will continue to be minor contributors to their retirement incomes. The Age Pension will be the main source of their retirement income. Given the high proportion of Aboriginal and Torres Strait Islander renters in retirement, additional support for renters would improve the retirement income adequacy of Aboriginal and Torres Strait Islander people who rent.
- **Increase the SG rate.** This would have limited impact on the retirement outcomes of Aboriginal and Torres Strait Islander people and come at the expense of working-life income. Given the substantially lower proportion of Aboriginal and Torres Strait Islander people in the labour force, the rate of the SG would only affect retirement incomes for a few. Those in the labour force are likely over-represented in the lower half of the income distribution where replacement rates are very high due to the support of the Age Pension. Any increase in the SG would reduce the already lower working-life earnings of Aboriginal and Torres Strait Islander people (see 2D. Policy scenario: Implications of maintaining the SG rate).
- **Improve data collection on the Indigenous status of superannuants.** This would improve analysis of Aboriginal and Torres Strait Islander retirement outcomes. Safeguards would need to be put in place to make sure the insurance coverage and premiums for Indigenous members were not adversely affected as a result of the data.

Section 3G. People with disability

Box 3G-1 Section summary

- **People with disability retire with less superannuation and wealth than those without disability due to lower working-life participation and earnings.** On average, the more severe a person's disability, the lower their superannuation balance. People who acquire a disability later in life are more likely to have higher savings than those who become disabled earlier.
- **The Age Pension helps improve retirement income equality compared with working life between people with and without disability.**
- **The median retiree with a severe disability spends less on goods and services than the median retiree without disability.** Although people with a severe disability have higher medical costs, most costs are covered by the Government, particularly for those with a Pensioner Concession Card.
- **Overall, retirees with disability have similar rates of poverty and financial stress as the total retired population.** People with disability experience significantly less financial stress in retirement than in working life. However, retirees with disability are more likely to rent than the total population.
- **The Age Pension means test exemption for people who are blind mainly benefits those who become blind in retirement but have had the same opportunities as others to accumulate retirement savings.** Were the exemption not in place, a significant number of people who are currently exempt from the means test would have a reduced rate of, or not be eligible for, the Age Pension, due to their high assets or income.
- **People covered by the National Disability Insurance Scheme in retirement may receive more financial support, and have lower out-of-pocket costs, than people in similar circumstances covered by the aged care system.**

Outline of this section

This section considers the effect of disability on the way people accumulate superannuation or wealth and whether they have sufficient income in retirement. It also analyses how retirement income system settings affect incomes for retirees with disability.

Box 3G-2 Stakeholder views on equity for people with disability

A few submissions suggested people with disability are more likely to:

- **Be unemployed and have lower earnings in working life**, which limits their ability to build up savings and superannuation
- **Rent**, both in working life and in retirement
- **Be in poverty and financial stress**, both in working life and in retirement

Stakeholders noted that people with disability may face additional challenges in retirement, such as difficulty accessing services or additional disability-related expenses, including housing modifications. They suggested these challenges can compound working-life inequities.

Box 3G-3 Defining disability

Disability is a limitation, restriction or impairment that has lasted, or is likely to last, for at least six months or more and restricts everyday activities.

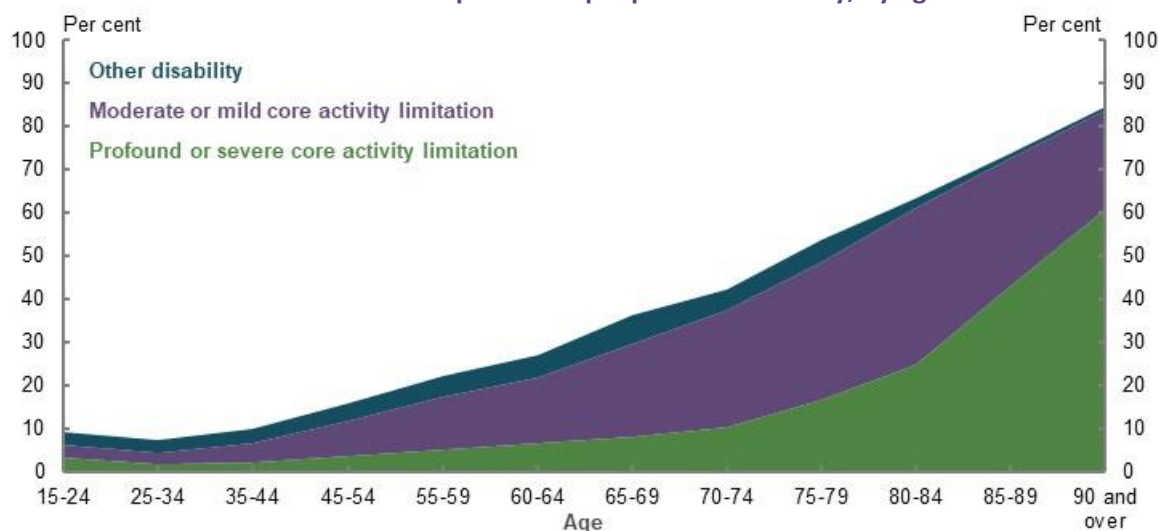
- **‘Profound or severe core activity limitation’** sometimes or always needing help with one or more activities of self-care, mobility or communication.
- **‘Moderate or mild core activity limitation’** having difficulty with self-care or communication, or limitations with mobility, walking or using public transport.

Prevalence of disabilities

A significant proportion of the population will be affected by disability at some point in their life. Acquiring disability pre-retirement can reduce a person’s ability to save or prepare for retirement.

The proportion of people with disability increases with age (Chart 3G-1). In 2018, around 4.4 million Australians had a disability, representing 17.7 per cent of all Australians. Of these people, around 1.9 million were aged 65 and over, representing 44.5 per cent of this group (ABS, 2019g). A woman aged 65 can expect to spend 55 per cent of her remaining life with a disability. For a man aged 65, the comparable figure is 53 per cent (Australian Institute of Health and Welfare, 2017).²²⁴

Chart 3G-1 Proportion of people with disability, by age



Note: 2018 data. Source: (ABS, 2019g).

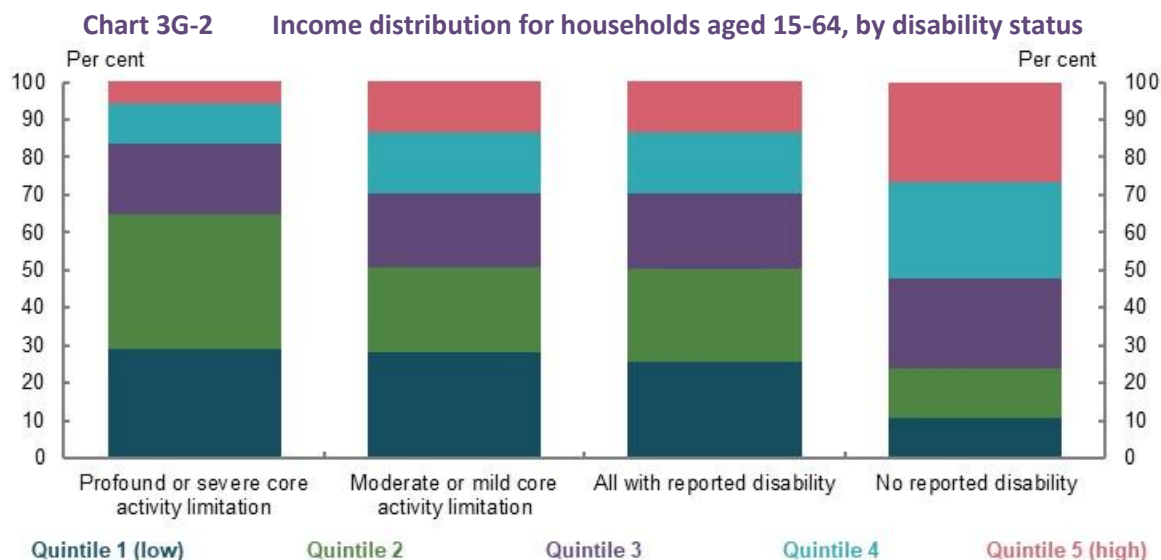
Translation of working-life disadvantages into retirement

Working-life income

People with disability are **more likely to have lower labour force participation, have lower earnings, work part-time and receive income support payments prior to retirement.** In 2018, the median weekly income of people aged 15-64 with disability was \$505, compared with \$1,016 for people with

²²⁴ These estimates are for the whole population, including those already with disability at age 65. The expected years spent without disability for those reaching age 65 disability-free would be above these whole-of-population averages.

no reported disability (ABS, 2019g). The more severe the disability, the more likely the person is to have a lower income (Chart 3G-2).



Note: 2018 data. Quintiles are based on equivalised gross household income. Equivalised means that the results are adjusted for household size. Source: (ABS, 2019g).

Government pensions or allowances are the main source of income for around 38 per cent of people with disability aged 15-64, increasing to 59 per cent for people with a profound or severe core activity limitation. This compares with 7 per cent for people without disability (ABS, 2019g).

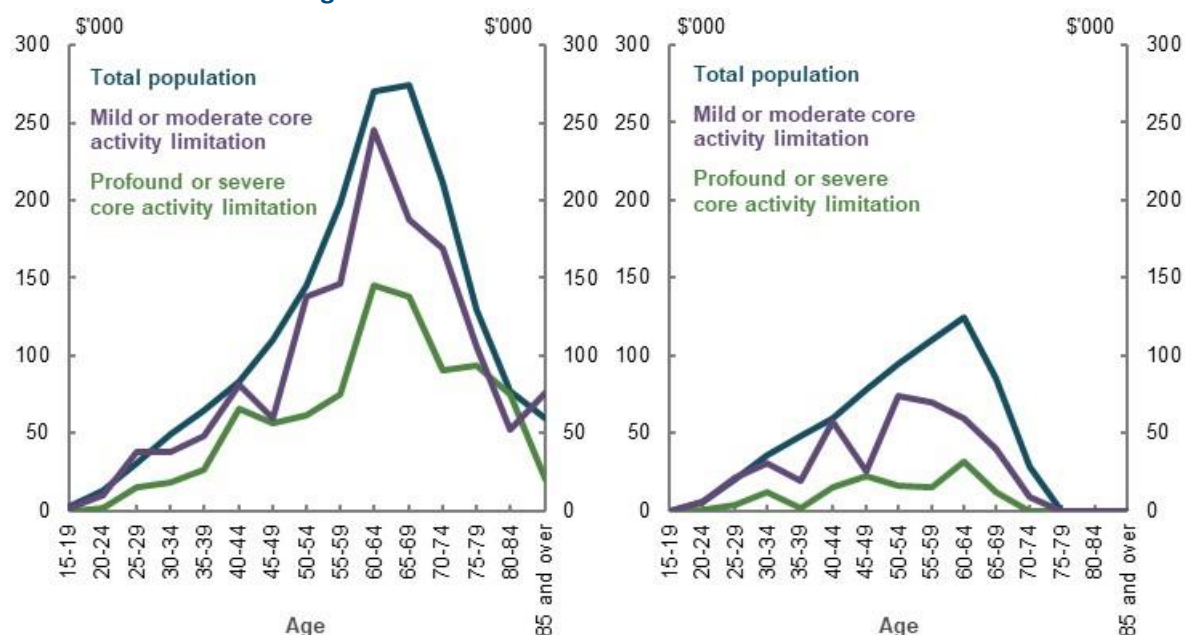
Fewer people with disability are in the labour force: 53 per cent compared with 84 per cent of people without disability (ABS, 2019g). People with disability who are employed are more likely to work part-time: 41 per cent of people with disability, and 52 per cent of people with a profound or severe core activity limitation, compared with 32 per cent of people employed without disability (ABS, 2019g).

People may also retire involuntarily before Age Pension eligibility age due to ill health (see 3E. *Age of retirement*).

Superannuation balances

Lower labour force participation and lower working-life earnings make it harder for people with disability to grow their superannuation. Generally, the more severe a person's disability, the lower their superannuation balance (Chart 3G-3). The size of the superannuation balance of a person with disability depends on when they become disabled. People who become disabled later in life have sufficient time in the workforce to build up their superannuation.

Chart 3G-3 Household superannuation balance, by age and disability status (2017-18)
Average **Median**



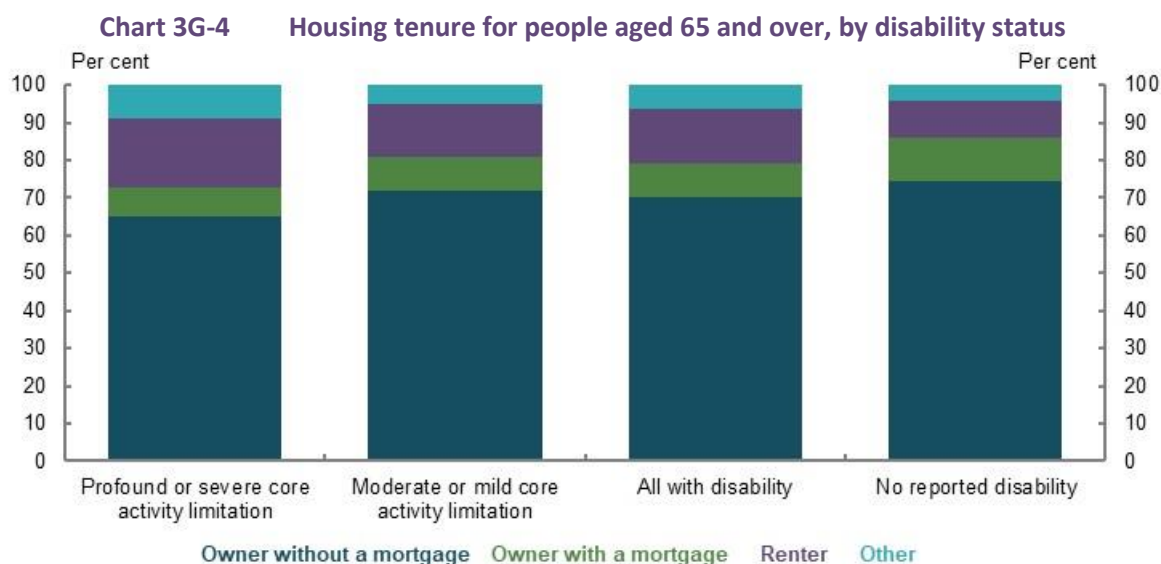
Note: Superannuation balances are in 2017-18 dollars. Results are equivalised. Equivalised means that the results are adjusted for household size. Calculations include those with zero balances. Age is determined by the reference person for the household. The significant difference in the median and average superannuation balances for people with disability shows that there are significant outliers in these cohorts, as suggested by the distributions in Chart 3G-2. Source: Analysis of ABS Survey of Income and Housing Confidentialised Unit Record File, 2017-18.

Private savings and home ownership

People with disability in retirement have lower average wealth, and lower home ownership rates, compared with the total retired population. On average, people with disability in retirement have lower value homes and less wealth in financial assets, investment properties and superannuation. People with a mild or moderate core activity limitation have 82 per cent of the average equivalised household wealth held by the total population. For people with a profound or severe core activity limitation, the comparable figure is 72 per cent.²²⁵

People with disability aged 65 and over, particularly people with a profound or severe core activity limitation, are more likely to rent than the total retired population (Chart 3G-4) (see 2A. *Achieving a minimum standard of living in retirement* for analysis of the retirement outcomes for renters).

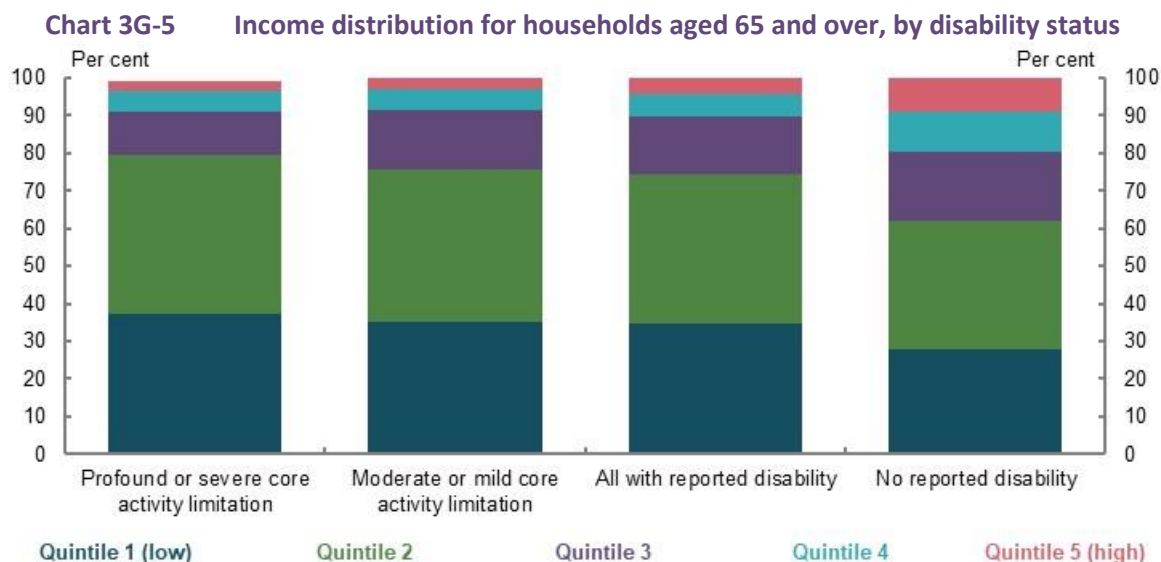
²²⁵ Analysis of ABS Survey of Income and Housing Confidentialised Unit Record File, 2017-18.



Note: 2018 data. Source: (ABS, 2019g).

Income inequality in retirement compared to working life

Compared with working life (Chart 3G-2), **income inequality between people with and without disability reduces in retirement due to the Age Pension.**²²⁶ Although people with disability aged 65 and over are likely to have lower incomes than people with no disability, the difference is smaller than in working life (Chart 3G-5). In 2018, the median weekly household income of people aged 65 and over with disability was \$448, compared with \$479 for people with no reported disability 65 and over. Government payments were the main source of income for 68 per cent of people with disability aged 65 and over, compared with 47 per cent of people with no disability (ABS, 2019g).



Note: 2018 data. Quintiles are based on equivalised gross household income. Equivalised means that the results are adjusted for household size. Source: (ABS, 2019g).

As superannuation becomes a growing proportion of retirement income for people without disability, this narrowing in income inequality in retirement may diminish.

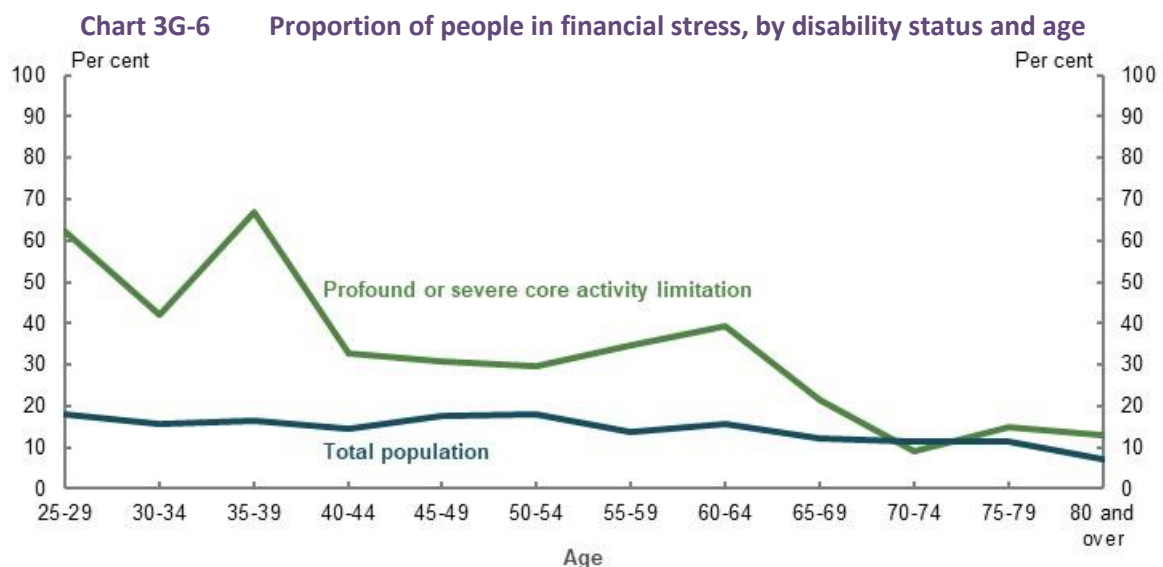
²²⁶ Some people who receive the Disability Support Pension prior to Age Pension age choose to remain on this payment rather than transferring to the Age Pension. The Disability Support Pension payment rate for this cohort is the same as the Age Pension.

Poverty and financial stress

Rates of poverty and financial stress

Poverty and financial stress rates for people with disability in retirement (14 per cent and 11 per cent in poverty and financial stress, respectively) are very similar to average poverty rates for the total retired population (see 2A. *Achieving a minimum standard of living in retirement*). People with a profound or severe core activity limitation in retirement have marginally higher rates of financial stress than the total population, at around 15 per cent.²²⁷ However, those with a profound or severe core activity limitation experience lower rates of financial stress in retirement, compared to in working life (Chart 3G-6).

Renters with a profound or severe core activity limitation in retirement have higher rates of financial stress, but lower rates of income poverty, than the total renting population. The lower rates of income poverty may be explained by the larger proportion of people with a profound or severe core activity limitation who have rent-free living arrangements, or who rent through public housing (13 per cent, compared to 6 per cent for the total retiree population) (ABS, 2019g).



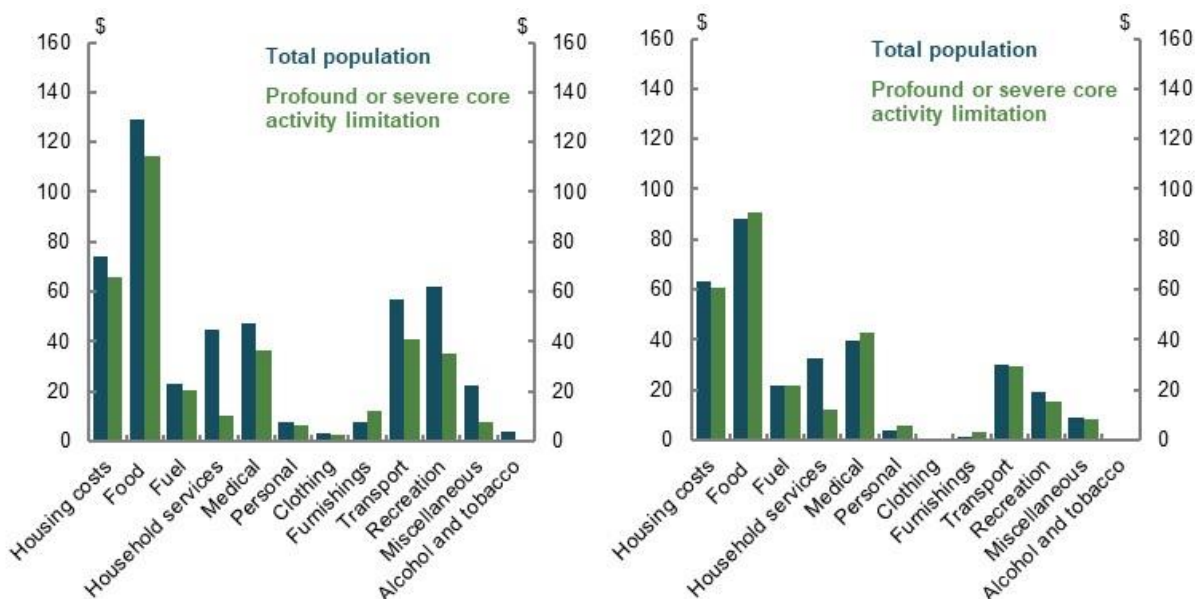
Note: 2015-16 data. Households with a profound and severe core activity limitation are determined by the status of the reference person for the household. Total population includes those with and without disability. Source: Analysis of ABS Household Expenditure Survey Confidentialised Unit Record File, 2015-16.

Expenditure in retirement

The median person aged 65 and over with disability has lower overall expenses than the median person aged 65 and over in the total population. In 2015-16, the median expense on goods and services for households with a person with a profound or severe core activity limitation aged 65-69 was \$490 per week, compared with \$706 per week for the total population. For those aged 80 and over, the median expense on goods and services for households with a person with a profound or severe core activity limitation was \$402 per week, compared with \$428 per week for the total population (Chart 3G-7).

²²⁷ Given the significant proportion of people with mild or moderate core activity limitations in retirement, comparisons between the total population and these groups are not overly instructive. This section therefore focuses analysis on those with profound or severe core activity limitations.

Chart 3G-7 Median weekly expenses on goods and services, by age and disability status
Age 65-69 **Age 80 and over**



Note: 2015-16 data. Expenditure has been inflated to 2019 dollars by CPI. Households with a profound and severe core activity limitation are determined by the status of the reference person for the household. Total population includes people with and without disability. Source: Analysis of ABS Household Expenditure Survey Confidentialised Unit Record File, 2015-16.

The median person aged 65 and over with a profound or severe core activity limitation also spends less on goods and services, as a proportion of their income, compared with the total population aged 65 and over (Table 3G-1). The acquisition of disabilities at older ages may explain part of why older retirees, in aggregate, spend less than younger retirees.

Table 3G-1 Median weekly expenses compared to median weekly disposable income, by age and disability status

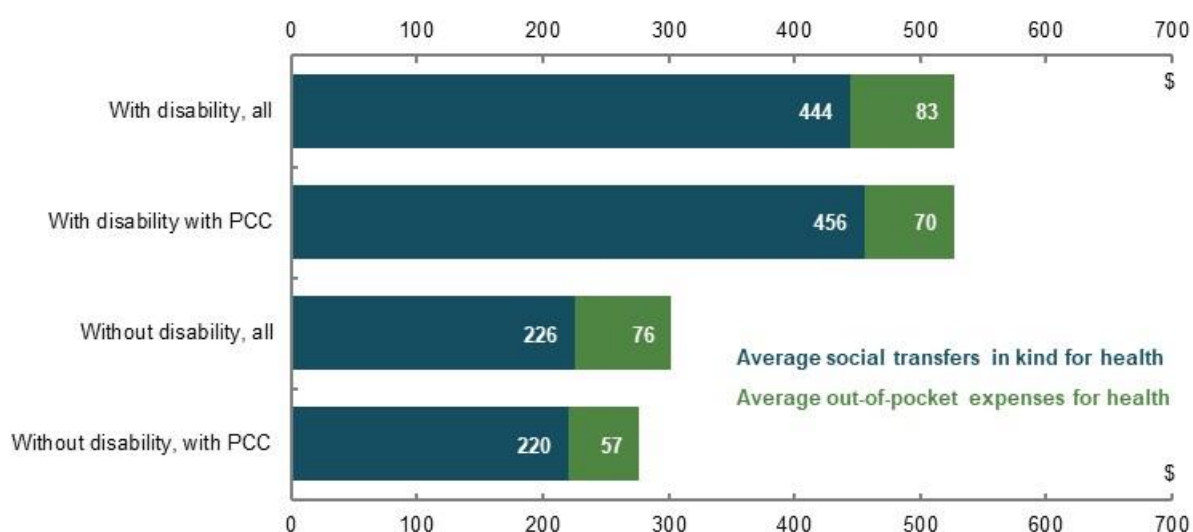
Age (years)	Profound or severe core activity limitation			Total population		
	Expenditure (\$)	Disposable income (\$)	Proportion of income spent (per cent)	Expenditure (\$)	Disposable income (\$)	Proportion of income spent (per cent)
65-69	490	626	78	706	693	102
70-74	449	631	71	618	664	93
75-79	394	573	69	518	553	94
80 and over	402	637	63	428	532	80

Note: 2015-16 data. Expenditure and income have been inflated to 2019 dollars by CPI. Households with a profound or severe core activity limitation are determined by the status of the reference person for the household. Total population includes people with and without disability. Source: Analysis of ABS Household Expenditure Survey Confidentialised Unit Record File, 2015-16.

Health expenditure

Of households with a person aged 65 or over, those that include someone with disability spend more of their income on health expenses than those households without a disabled person. However, most of these expenses are met by social transfers in kind from Commonwealth and state and territory governments (Chart 3G-8 and Chart 3G-9). Households with a Pensioner Concession Card have lower out-of-pocket costs for items, such as Pharmaceutical Benefits Scheme medicines, than households without a Pensioner Concession Card (see *1B. Design of Australia's retirement income system*).

Chart 3G-8 Average weekly health expenses and social transfers in kind for households aged 65 and over

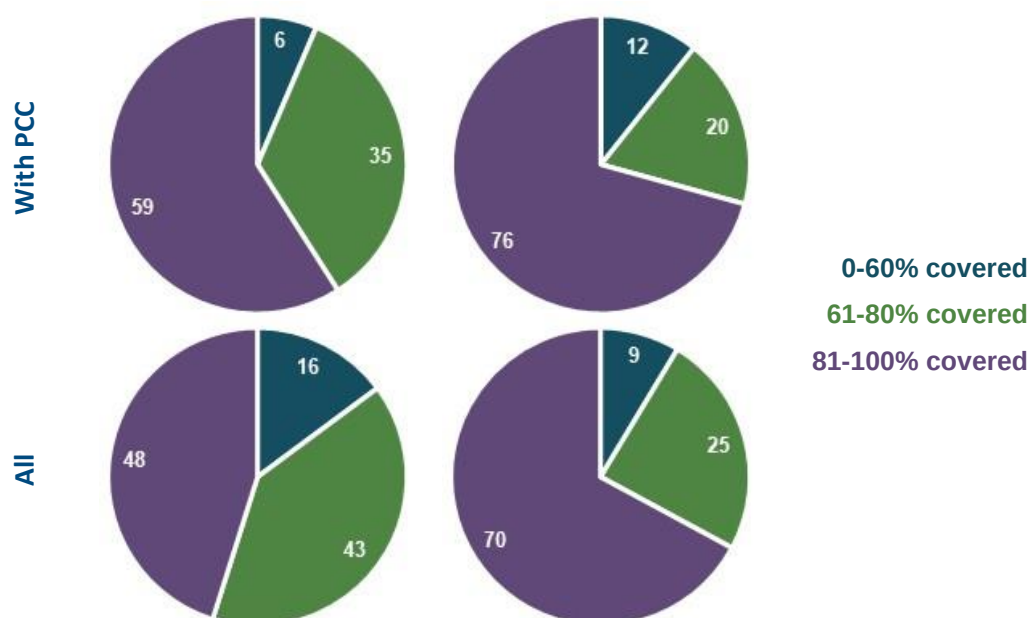


Note: 2015-16 data. Expenditure has been inflated to 2019 dollars by CPI. PCC stands for Pensioner Concession Card. Age is for the reference person of the household. Source: Analysis of ABS Household Expenditure Survey Confidentialised Unit Record File, 2015-16.

People with disability are more likely than people without disability to have more than 80 per cent of their health expenditure met by social transfers in kind. The proportion of health expenses met by social transfers in kind is even higher for households with a Pensioner Concession Card (Chart 3G-9).

Chart 3G-9 Proportion of total health expenditure covered by social transfers in kind for households with a person aged 65 and over

Without disability With disability



Note: 2015-16 data. PCC stands for Pensioner Concession Card. This chart shows, for a group of people, the average proportion of their health expenditure that was covered by social transfers in kind. For example, for those with disability who held a Pensioner Concession Card, 76 per cent of people had more than 80 per cent of their health expenditure covered by social transfers in kind. Households are limited to those with someone in the household aged 65 and over. Source: Analysis of ABS Household Expenditure Survey Confidentialised Unit Record File, 2015-16.

Disability-specific retirement income system settings

Age Pension means test exemption for people who are blind

People who are blind are not means tested for the Age Pension or Disability Support Pension. In 1954, the means test for people who are blind was removed as part of a broader aim to remove all means testing from the Age Pension, which lasted into the 1970s (Herscovitch & Stanton, 2008). A previous rationale for the means test exemption for people who are blind was that it ‘... *helps meet the extra costs of blindness in communication, mobility, transport and daily living*’ (National Federation of Blind Citizens of Australia, 1996). However, with technological advancements and greater support to reduce out-of-pocket costs for people who are blind, such as through the National Disability Insurance Scheme or aged care, this rationale may have diminished.

As people are more likely to become blind at older ages, the Age Pension means test exemption for people who are blind is received by a significant number of people who become blind later in life and have accumulated significant assets for their retirement. At 31 March 2019, of the 10,600 age pensioners who received this exemption, 65 per cent were first recorded as blind aged 65 and over, and 44 per cent were first recorded as blind aged 75 and over.²²⁸ Around one-quarter of those who received the exemption received a part-rate of Age Pension before they became blind. The proportion of people with significant wealth who become blind later in life is expected to increase as the superannuation system matures.

National Disability Insurance Scheme and aged care

People with disability aged 65 and over can only receive National Disability Insurance Scheme funding if they were receiving funding before age 65. People who acquire a disability from age 65 receive support through the aged care system. The two schemes are different in that:

- Funding amounts under the National Disability Insurance Scheme are not capped
- The National Disability Insurance Scheme is not means tested and has no fees (Buckmaster, 2016), unlike aged care home packages
- National Disability Insurance Scheme recipients may have a higher level of control over how funds are spent and which providers they can choose

These variations can result in retirees receiving different levels of financial support based on when they acquire their disability. Where this financial support is inadequate to deal with the disability, people may need to draw down their retirement savings more quickly to make up the shortfall.

Early release of superannuation benefits

People with disability may be eligible to release their superannuation benefits before superannuation preservation age on compassionate grounds to meet the costs associated with medical treatment or transport, or modifications to a home or vehicle due to severe disability. For most people, limited early release of superannuation is projected to have a small effect on their eventual retirement income (see 2C. *Maintaining standards of living in retirement*).

²²⁸ Department of Social Services payment data, 31 March 2019. ‘First recorded as blind’ refers to the date Centrelink recorded the person as blind.

Box 3G-4 Impacts of policy settings on the retirement outcomes of people with disability

A few submissions raised policy proposals affecting the retirement outcomes of people with disability. The following summary outlines the implication of one of those proposals.

- **Increase support for retirees with disability who rent.** Given their lower labour force participation, particularly among people with a more severe disability, income support will comprise a large part of the retirement incomes of those with disability. The Age Pension rate is an important factor in determining whether people with disability have adequate retirement incomes. Since a higher proportion of people with disability rent in retirement, increasing support for retirees who rent would improve retirement outcomes for many people with disability (see *2B. Policy scenario: Implications of increasing Commonwealth Rent Assistance*).

Section 3H. Intergenerational equity

Box 3H-1 Section summary

- **The Age Pension is taxpayer-funded, which means working-age people pay for retirees' Age Pension benefits.** This forms a fundamental part of the 'generational bargain': working-age people expect the generation after them to fund the Age Pension in the same way they did for current retirees.
- **The structure of Australia's superannuation system broadly supports intergenerational equity by encouraging people to rely on their own savings rather than on future generations to fund their retirement.** The primarily defined contribution structure of Australia's superannuation system, combined with other voluntary savings, encourages people to fund their own retirement by saving during their working life. Retirees can receive superannuation earnings tax concessions, which are taxpayer-funded and increase the size of the generational bargain. Nevertheless, superannuation lowers the burden on working-age people to support retirees.
- **For each working-age person, the cost of the Age Pension and superannuation earnings tax concessions retirees receive is projected to continue to increase over the next 40 years in dollar terms. But, depending on real wage growth, the cost may be broadly similar as a proportion of wages in 40 years' time.** For each working-age person, the maturing superannuation system will decrease the cost of the Age Pension but increase the cost of superannuation earnings tax concessions retirees receive. In contrast, the decline in the ratio of working-age people to retirees, coupled with continued benchmarking of the Age Pension to wage improvements, will increase the cost of the Age Pension per working-age person. Real wage growth will be needed to ensure the Age Pension and earnings tax concessions retirees receive do not place a growing burden on working-age people.
- **Different generations have different opportunities to accumulate retirement savings and generate retirement incomes due to forces inside and outside the retirement income system.** Current older Australians have benefited from higher superannuation contributions caps and strong increases in residential property values. Younger Australians will benefit from a longer period of contributing to superannuation and the higher SG rate.
- **Inheritances can assist some current young people to prepare for retirement, but they come at a cost to intragenerational equity.** Inheritances allow current older people to pass their wealth to current younger people. If most people continue to die with the majority of the wealth they had at retirement, the maturing superannuation system is expected to increase the size of inheritances. Inheritances are distributed unequally, with wealthier people tending to receive larger inheritances.

Outline of this section

This section assesses intergenerational equity by examining:

- How Australia's retirement income system is funded.
- Whether the annual cost per working-age person of the Age Pension and superannuation earnings tax concessions retirees receive (**'generational transfer cost'**) has changed over time — in dollar terms and as a proportion of wages.²²⁹
- How opportunities to accumulate retirement savings and generate retirement incomes have changed over time.
- How inheritances affect intragenerational equity.

²²⁹ For this analysis, 'working-age people' are people aged 15-64, while 'retirees' are people aged 65 and over, to align with the age ranges used in the available data.

Box 3H-2 Stakeholder views on intergenerational equity

A few stakeholders noted the importance of achieving intergenerational equity in the retirement income system, but there was no consensus on how to do so.

Some stakeholders noted **the Age Pension for each generation is funded by younger generations**. A few stakeholders argued the burden on younger generations should not become unsustainable. They suggested increasing compulsory superannuation or encouraging self-reliance in retirement would help achieve intergenerational equity. One stakeholder noted:

'...if younger generations are faced with an increasing burden of supporting the incomes of retired Australians (through the tax system), then this could increase pressure on the implied inter-generational social contract.' (ASFA, 2020a, p. 21)

A few stakeholders noted **a decline in housing affordability has reduced intergenerational equity**, with fewer people in younger generations able to access the benefits of home ownership. One stakeholder noted:

'The increasing lack of housing affordability threatens inter-generational retirement income equity and the ability of the existing system to deliver dignified retirements in the future...' (Heffron, 2020, p. 14)

Box 3H-3 What is intergenerational equity?

'Intergenerational equity' is concerned with fairness in the opportunities and outcomes between people of *different generations*. It differs from 'intragenerational equity', which is concerned with fairness in the opportunities and outcomes between people of the *same generation*.

Many factors outside the retirement income system contribute to outcomes and opportunities experienced by different generations. For example, in addition to economic and financial factors, one study measured intergenerational equity using environmental, social and pro-elderly bias factors (Vanhuyse, 2013).

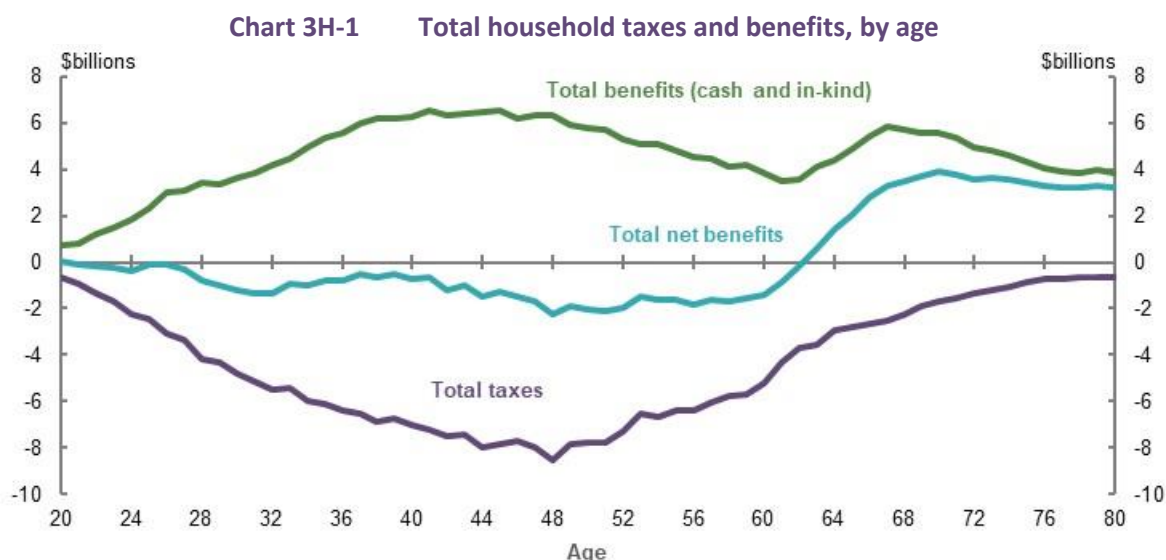
Measures for intergenerational equity in the retirement income system include:

- **Full cohort self-funding** — where the retirement income benefits received by each generation throughout its lifetime largely match the amount of taxes/contributions that generation has paid to support retirement.
- **Generational bargain** — where working-age Australians transfer income, through their tax contributions, to support retirees by funding the Age Pension, superannuation earnings tax concessions and other benefits retirees receive. Today's working-age Australians expect the generation after them to support them in the same way as they supported the previous generation.

Although the review measured the size of the generational transfer cost over time *between generations*, data limitations preclude measurement for *a particular generation* of the size of contributions they made during their working life compared to benefits they receive in retirement.

Funding of the pillars of the retirement income system

The taxpayer-funded Age Pension is a fundamental part of the 'generational bargain' (Chart 3H-1), but it does not achieve full cohort self-funding. In other countries, pensions are paid from 'ring-fenced' taxes, such as the UK's National Insurance Fund (UK Government, 2019). Whereas, in Australia, the Age Pension is paid out of consolidated Government revenue. As the cost of the Age Pension increases in line with wages, its real costs will rise over time, all else being equal.



Note: 2015-16 data. Net benefits refers to all taxes paid minus all social transfers (cash and in-kind). Source: Replication of (Wood, et al., 2019), which is derived from (ABS, 2018c).

The superannuation system encourages people to rely on their own savings to a large extent, rather than on future generations to fund their retirement. Defined contribution schemes, which are common in the superannuation system, are funded primarily by the member. Income depends on factors such as how much is paid into the superannuation account, the investment performance and fees. In contrast, defined benefit schemes, which are the minority, are funded by the employer, generally with the promise of a specific income. In an unfunded defined benefit scheme, the liability may be passed to future generations to meet the obligation.

People receive significant tax concessions for making both compulsory and voluntary superannuation contributions. These reduce tax revenue, meaning that other taxes may be higher than they would otherwise be to finance Government expenditure, or Government expenditure could be lower.

In 2015-16, households where the reference person was younger than 65 paid 90 per cent of taxes²³⁰ (ABS, 2018c). As 84 per cent of superannuation tax concessions were received before age 65 in 2019, this suggests the same generations generally pay for and receive superannuation tax concessions. However, in 2019, around 14 per cent of all superannuation tax concessions were earnings tax concessions received by people aged 65 and over. This is expected to increase to 24 per cent in 2059, due to the maturing superannuation system.²³¹ As these earnings tax concessions represent a generational transfer, **superannuation does not completely achieve full cohort self-funding.**

In contrast, voluntary savings outside superannuation are fully funded and therefore consistent with full cohort self-funding.

Generational transfer cost

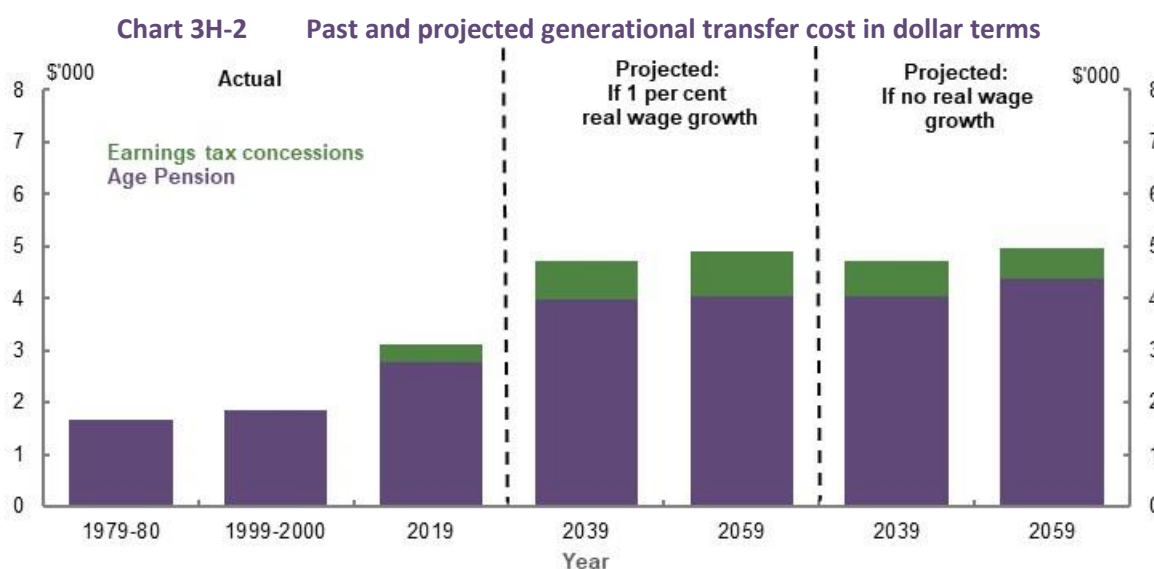
Analysis suggests **each successive generation will contribute more during their working life to fund retirees' income than the previous generation** (Chart 3H-2). In 2019, the real cost for each working-age person of the Age Pension was around 65 per cent higher than in 1979-80. This cost, together with that of earnings tax concessions, is projected to rise over future decades.

²³⁰ Taxes include personal income tax and taxes on production, such as goods and services tax, stamp duty and import/export taxes. It excludes corporate taxes. For more information, see:

<<https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6537.0Main+Features12015-16?OpenDocument>>

²³¹ Analysis of Rice Warner estimates for the review.

The generational transfer cost would be higher if other government benefits — including social transfers in kind — received by people aged 65 and over were included. For example, aged care and health benefits are projected to increase as a percentage of GDP through to 2054-55 (Commonwealth of Australia, 2015).

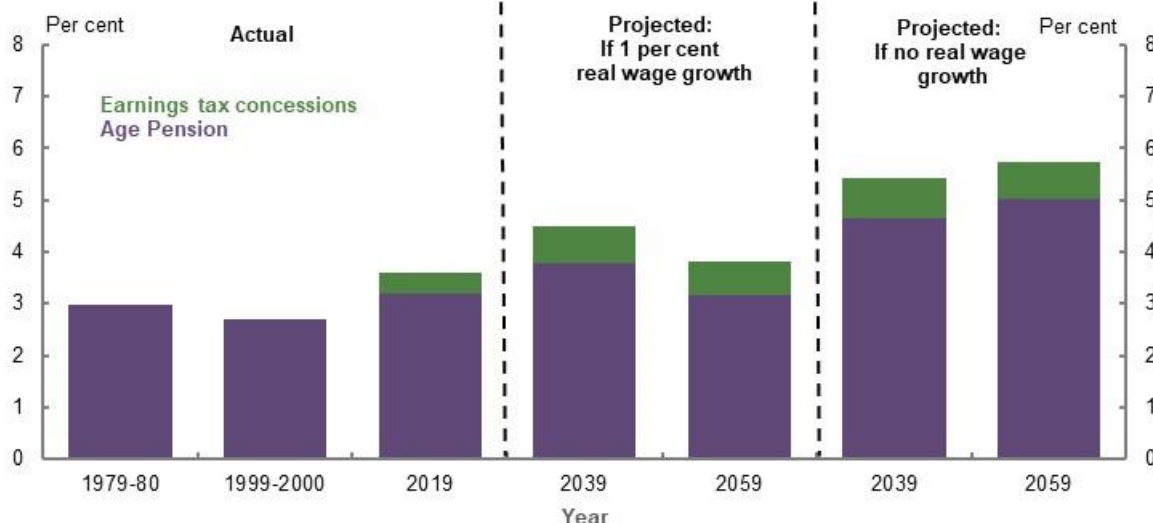


Note: Cost is per working-age person, per year. Values for 1979-80 and 1999-2000 are from Year Book 1981 and 2001 and are converted to 2018-19 dollars. Values for 2019, 2039 and 2059 are from Rice Warner estimates for the review and are in 2019 dollars, assuming CPI growth of 2.5 per cent per year in the future. The proportion of taxes, and therefore the Age Pension, working-age people pay for appears to have been stable for at least the last two decades. This is because households where the reference person was younger than 65 paid more than 90 per cent of total direct and indirect taxes in both 1988-89 (ABS, 1992b) and 2015-16 (ABS, 2018c). Earnings tax concessions are not included before 2019 due to data limitations. Data points vary between financial and calendar years to align with the time period of the underlying data. Source: Year Book 1981 and 2001 (ABS, 2001), (ABS, 2020e), (ABS, 2019b), (ABS, 2018g); Analysis of Rice Warner estimates for the review.

Although the generational transfer cost is projected to increase in *dollar terms* (Chart 3H-2), a better benchmark may be the generational transfer cost as a *proportion of wages* of the working-age population, in real terms. This approach may better represent the affordability of the generational transfer cost, as it recognises people's capacity to pay has generally been rising over time.

The generational transfer cost as a proportion of wages marginally increased between 1979-80 and 2019 (Chart 3H-3). If future real wage growth is equal to 1 per cent per year,²³² this cost would be broadly similar in 40 years' time. However, if there was no real wage growth in the future, the cost is projected to increase substantially, placing a higher burden on working-age people to fund the Age Pension and earnings tax concessions of retirees. This suggests **real wage growth is necessary to ensure the Age Pension and earnings tax concessions retirees receive are not an excessive burden for working-age people in the future.**

²³² Real wage growth of 1 per cent per year is the long-run baseline assumption in the Rice Warner model.

Chart 3H-3 Past and projected generational transfer cost as a proportion of wages

Note: Cost is per working-age person, per year. Assumes CPI growth is 2.5 per cent per year. Wages in 1979-80 refers to 'average weekly earnings per employed male unit' in September 1979; in 1999-2000 and 2019 it refers to 'Earnings; Persons; Full-Time; Adult; Total earnings' in November 1999 and November 2019, respectively. Earnings tax concessions are not included before 2019 due to data limitations. Data points vary between financial and calendar years to align with the time period of the underlying data. Source: Year Book 1981 and 2001 (ABS, 2001), (ABS, 2020e), (ABS, 2019b), (ABS, 2018g); (ABS, 2020d); Analysis of Rice Warner estimates for the review.

Box 3H-4 Factors that influence the generational transfer cost

The following factors have affected, and will continue to affect, the trend in the real annual cost for each working-age person of the Age Pension and retiree earnings tax concessions:

- **The superannuation system.** As the superannuation system matures, people are retiring with larger superannuation balances. For example, modelling projects that, by 2060, around 27 per cent of Australians will retire with a wage-deflated superannuation balance below \$250,000, compared with 70 per cent in 2020.²³³ This means people are projected to fund a greater proportion of their own retirement, reducing the generational transfer cost.
- **The rate at which the Age Pension and means test thresholds increase.** The rate of Age Pension is benchmarked to wages, while the means test thresholds increase with prices (CPI). As wages have grown faster than prices, benchmarking the rate of Age Pension to wages has *increased* the cost of the Age Pension. In contrast, as long-term average returns on most assets have been greater than price increases, indexing the means test threshold to prices has *decreased* this cost. These effects are projected to continue, assuming wages and investment returns grow at a faster rate than prices.
- **The decline in the number of working-age people to retirees ('dependency ratio').** The dependency ratio has fallen from 7.3 in 1974-75 to 4.5 in 2014-15 (Commonwealth of Australia, 2015). This decline has *increased* the generational transfer cost. This cost will continue to climb as the dependency ratio is projected to fall further, to 3.2 in 2060²³⁴ (see 4. *Sustainability*). This does not take into account the effect of a temporary reduction in immigration due to the COVID-19 Pandemic. Migration slows the rate of population ageing as migrants, on average, are younger than the average age of the resident population (Commonwealth of Australia, 2015).
- **The level of real wage growth.** See Chart 3H-2 and Chart 3H-3 above.

²³³ Treasury estimates for the review using MARIA.

²³⁴ 'Retirees' in the dependency ratio includes people 65 years and over in 1974-75 and 2014-15, while it includes people 67 years and over in 2060. This reflects that the Age Pension eligibility age is rising from 65 years in 2014-15 to 67 years in 2060.

- **The level of investment returns.** The generational transfer cost as a proportion of wages in 2059 would *increase* if investment returns were 1 percentage point lower. This is because the increase in the cost of the Age Pension would more than offset the decrease in earnings tax concessions retirees receive (see *Appendix 6D. Supplementary equity charts*).
- **The level of superannuation fees.** The generational transfer cost as a proportion of wages in 2059 would *decrease* marginally if superannuation fees were lower (See *Appendix 6D. Supplementary equity charts*). This is because the decrease in the cost of the Age Pension would more than offset the increase in earnings tax concessions retirees receive.
- **The Age Pension payment rate.** Between 1975 and 2020, the maximum single rate of Age Pension rose as a proportion of average earnings, largely due to a substantial increase in the rate in 2009. This has *increased* the cost of the Age Pension.

Comparing internationally, the cost of Australia's Age Pension at 2.6 per cent of GDP in June 2016 was much lower than the OECD average of public expenditure on pensions of 8.8 per cent of GDP in 2015-16. In future, the cost of the Age Pension is expected to fall slightly as a percentage of GDP (see 4. *Sustainability*), while the OECD average is projected to rise. In some countries, mainly in Europe, public expenditure on pensions is projected to rise well above 10 per cent of GDP (OECD, 2019b). Even after taking into account the cost of earnings tax concessions retirees receive, **the total cost of Australian Government support as a proportion of GDP is projected to remain much lower than the OECD average of public expenditure on pensions.**

Opportunities to accumulate retirement savings for different generations

The design of Australia's retirement income system and external factors, such as asset prices, affect people's ability to accumulate retirement savings and generate retirement incomes. When rules within the retirement income system or asset prices change, the resulting different retirement outcomes may not affect all generations equally. For example, a rule change may make it more difficult for younger people to save large amounts in superannuation, but may not affect people who are retired.

Previous changes that have affected people's opportunities to accumulate retirement savings and generate retirement incomes include:

- **Significant alterations to superannuation contribution rules and taxes** — These included: unlimited non-concessional contributions before May 2006; a one-off \$1 million non-concessional contributions cap between May 2006 and June 2007; and higher concessional contributions caps, especially for older people, between 2007 and 2017. This means current older generations have had an opportunity to contribute larger amounts to superannuation — and to receive much larger earnings tax concessions — than current younger generations will have under existing lower contributions caps (see 1B. *Design of Australia's retirement income system* and 3A. *Income and wealth distribution*).

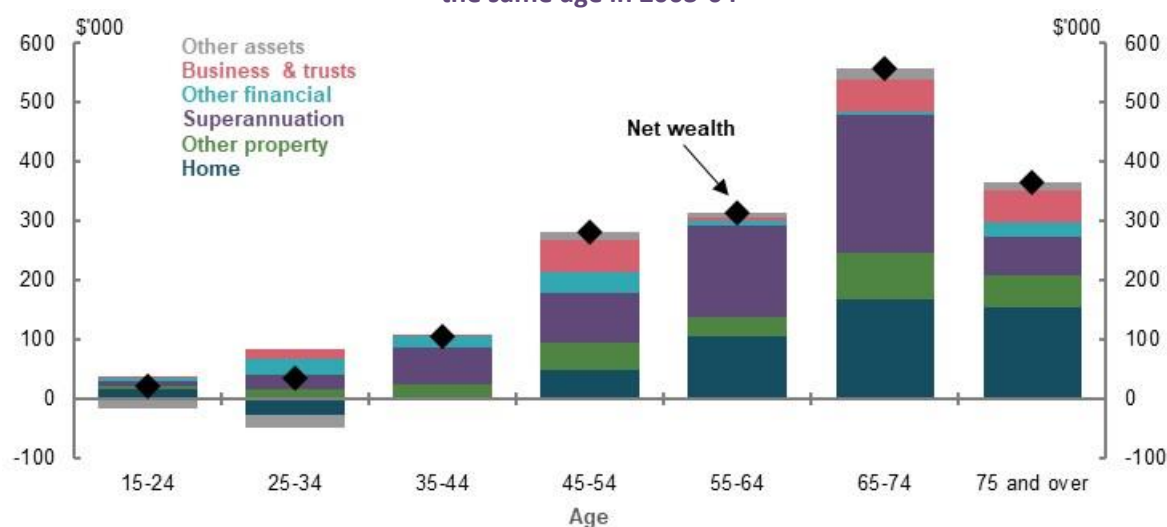
In addition, some current older Australians have benefited from changes to when superannuation taxes are incurred; for example, the change from mainly levying taxes on superannuation benefits before 1988 to the current model of levying taxes on superannuation contribution and earnings (CEPAR, 2018b, p. 39). As a result, some older Australians will have paid less tax on their superannuation savings than younger Australians will pay under the current rules.

However, lower superannuation contributions caps can improve intragenerational equity by reducing the amount of superannuation tax concessions, which higher-income earners tend to receive disproportionately.

- **Continued increases in residential property values** — In February 2020, residential property values in Australia's capital cities were around 45 per cent higher than in 2012 (CoreLogic, 2020). The large asset price gains for home owners have primarily been received by current older people (Chart 3H-4). If the strong gains in residential property values are not repeated, younger home owners may not have the same opportunity to accumulate housing wealth as current older Australians.

In addition, if the trend of falling home ownership rates continues, (see 1D. *The changing Australian landscape*), some current young people will need to rely on other assets, such as superannuation or equities, as voluntary retirement savings. These people will forgo the benefits of home ownership in retirement, including the ability to age in a place of tenure. They may be unable to achieve the same retirement outcomes as current home owner retirees.

Chart 3H-4 Change in average wealth per household in 2015-16, compared to households of the same age in 2003-04



Note: Age group is the age of the household's reference person. 'Other financial assets' include bank accounts, shares, and the outstanding value of loans made to other households or businesses. 'Other assets' include car, home contents, silent partnerships and assets not covered elsewhere. Source: Replication of (Wood, et al., 2019), which is derived from (ABS, 2018f).

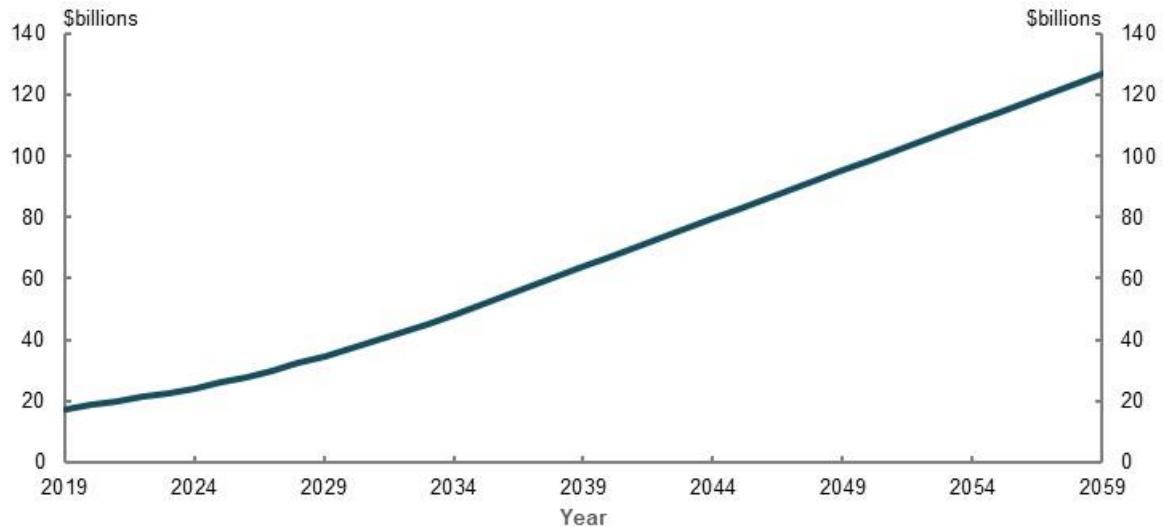
- **Expanded coverage and increases in the rate of the SG** — Current younger generations will benefit in retirement from contributing to superannuation throughout their working life and at the higher SG rate. As such, on average, they are projected to have higher superannuation balances at retirement than current older Australians.

Inheritances

Inheritances can help rebalance intergenerational differences in opportunities to save for, and outcomes in, retirement. However, inheritances can be ineffective at *equalising* opportunities and outcomes between generations, as their size and timing are not guaranteed.

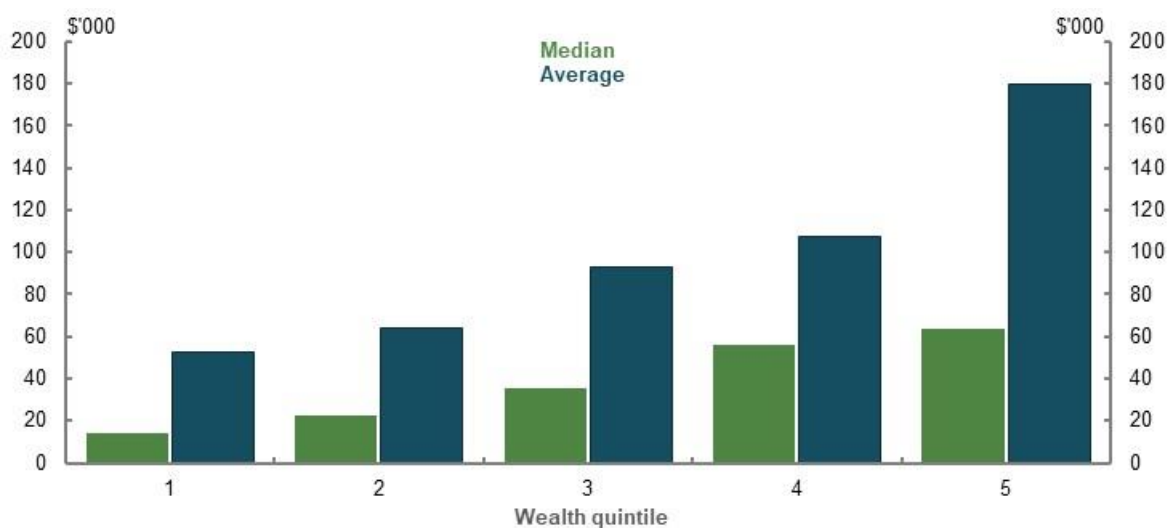
Most people die with the majority of the wealth they had when they retired (see 5A. *Cohesion*). If this continues, inheritances will increase as the superannuation system matures. For example, assuming no change in how retirees draw down their superannuation balances, superannuation death benefits are projected to increase from around \$17 billion in 2019 to just under \$130 billion in 2059 (Chart 3H-5).²³⁵

²³⁵ Analysis of Rice Warner estimates for the review.

Chart 3H-5 Projected value of superannuation death benefits

Note: In 2018-19 dollars. Superannuation death benefits include insurance payouts due to death. Source: Analysis of Rice Warner estimates for the review.

Although inheritances can help people to prepare for retirement, they are distributed unequally, with wealthier people tending to receive larger inheritances than those with lower wealth (Chart 3H-6). Inheritances therefore increase intragenerational inequity and do not help all people to prepare for retirement.

Chart 3H-6 Size of inheritances, by wealth quintile

Note: In 2017-18 dollars. Median and average calculated by size of inheritance where one was received. Self-reported inheritances are captured in all HILDA Surveys between 2001 and 2017, while wealth is only captured in the 2002, 2006, 2010, and 2014 HILDA Surveys. As a result, wealth quintile is based on most recently captured wealth information for an individual. Individuals are allotted to a wealth quintile across all survey respondents. Source: Replication of (Wood, et al., 2019), which is derived from HILDA Survey data (Waves 2-17).

Receiving an inheritance at the point of retirement boosts the annual retirement income of higher-income earners by more than lower-income earners, for the same size inheritance (Chart 3H-7). This is because receiving an inheritance increases a person's assets and income and therefore reduces any Age Pension payments as they do not have the same need for Government support. Higher-income earners are the least affected by the assets test as, even without an inheritance, they qualify for minimal or no Age Pension in retirement.

Chart 3H-7 **Projected change in annual retirement income from a \$250,000 inheritance at retirement**



Note: Values are in 2019-20 dollars, deflated using the review's mixed deflator. 'Drawing down earnings and capital value of inheritance' strategy assumes the inheritance is contributed to superannuation and drawn down consistently with other superannuation assets (see *Appendix 6A. Detailed modelling methods and assumptions*). Inheritance size of \$250,000 is inflated by CPI and is based on the median value of a final estate of \$480,000 from 2016 Victorian probate data (Wood, et al., 2019). As the fertility rate has been 1.9 births per woman since the late 1970s (Commonwealth of Australia, 2015), the inheritance is roughly split between two children. For simplicity, the inheritance is received at the point of retirement. The average size of inheritances is significantly higher in probate data than in HILDA (see Chart 3H-6). The difference may be due to the HILDA Survey relying on people self-reporting inheritance amounts and excluding some people living in aged care, and probate data excluding some small estates that do not require a probate. Probate data excludes superannuation death benefits, jointly owned assets and family trusts. Source: Cameo modelling undertaken for the review.

Most inheritances go to people over age 50 (Wood, et al., 2019, p. 42). As the timing and size of inheritances is uncertain, this makes it difficult for working-age people to plan optimally for retirement and to avoid over-saving. With life expectancy at birth projected to increase in the future (see *1D. The changing Australian landscape*), inheritances are expected to increasingly go to even older Australians.

Inheritances and gifts have generally been tax-free in Australia since the late 1970s (The Sydney Morning Herald, 2018). However, superannuation death benefits are taxed in some cases, including the taxable component of lump sum benefits paid to non-dependants and income stream benefits paid to dependants (ATO, 2020d).²³⁶ In 2017, Australia was one of eight OECD countries without any inheritance, estate or gift taxes (OECD, 2020b).

²³⁶ The tax rate for lump sum benefits paid to non-dependants varies based on whether the benefit is from a taxed or untaxed source. The tax rate for income stream benefits paid to dependants varies based on the age of the deceased person at the time of death, the age of the beneficiary and whether the benefit is from a taxed or untaxed source.

Box 3H-5 Impact of changes to certain policy settings on intergenerational equity

A few submissions raised policy proposals to improve intergenerational equity. The following summary outlines some implications of some of those proposals.

- **Increase the rate of SG.** This would increase the extent of cohort self-funding in the system, as a smaller share of each generation's retirement incomes would be funded by the Age Pension.
- **Change superannuation tax concessions.** Changes to contributions tax concessions would have little effect on intergenerational equity. Reducing tax concessions on earnings of assets held in the retirement phase would improve intergenerational equity by reducing the cost of these concessions to working-age people.
- **Encourage people to spend more of their savings in retirement.** This would likely reduce wealth inequality among future generations. Inheritances would be lower if retirees consumed a higher proportion of their savings during retirement, rather than dying with the majority of the wealth they had at retirement. Given inheritances are distributed unequally, this would assist in reducing intragenerational wealth inequality for future generations, but would mean some current younger people are less prepared for retirement.