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To whom it may concern

Re: Legislating the objective of superannuation

As a leading professional services firm, KPMG Australia (KPMG) is committed to meeting the requirements of all our stakeholders – not only the organisations we audit and advise, but also employees, governments, regulators and the wider community.

We strive to contribute to the debate that is shaping the Australian economy and welcome the opportunity to respond to Treasury's Consultation Paper *Legislating the objective of superannuation* (the consultation paper).

KPMG welcomes the government's proposal to legislate an objective for superannuation that entrenches the intentions and expectations of Australians. The superannuation system in Australia is the envy of the world, and one of the great Australian public policy triumphs. Until now, Australians have amassed over $3.4 trillion[1] in accumulated superannuation savings. This has enabled many Australians to retire securely, and will only grow as more people approach retirement age having paid superannuation for much of their working lives. This submission will outline measures that aim to promote better equity within the superannuation system.

KPMG supports introducing "equity" as a guiding principle for the superannuation system. The Australian superannuation system has come a long way in striving towards gender equity, but there is still more to do. The median superannuation balance remains lower for women than men. It is vital that policy makers remain vigilant on the impacts of the superannuation wage gap.

The gender superannuation gap can be anywhere between 22 per cent and 35 per cent. The median superannuation balance for men aged 60-64 years is $204,107 whereas for women in the same age group it is $146,900, a gap of 28 per cent. For the pre-retirement years of 55-59, the gender gap is 33 per cent and in the peak earning years of 45-49 the gender gap is 35 per cent.[2]

[1] https://www.apra.gov.au/news-and-publications/apra-releases-superannuation-statistics-for-december-2022
[2] https://assets.kpmg.com/content/dam/kpmg/au/pdf/2021/addressing-gender-superannuation-gap.pdf

We consider that superannuation has been successful in preserving savings for many Australians. As the scheme matures, it will continue to deliver income for many people to enjoy a dignified retirement. However, further consideration should be given to providing government support to address inequalities within the scheme.

Over the preceding decades, the sector has faced into significant regulatory change but never more so than in the last two to three years, which has seen over 180 recommendations, first made in the Murray Review and Haynes Reports, enacted into law.[3] Stability in the regulatory settings of superannuation is vital in ensuring Australians have the confidence to invest their money in superannuation funds.

KPMG encourages the government to consider minimising further retrospective changes to the superannuation system, and seek to ensure superannuation policy and legislative settings remain as constant as possible. Excessive changes can impose costs associated with compliance on superannuation account holders, especially those who have opted to have a self-managed super fund. The net impact of these changes is a potential reduction of confidence in the superannuation system, which may lead to people opting to invest non-compulsory contributions elsewhere.

It is vital that policy settings are not examined in a silo, but alongside a range of adjacent factors that contribute to the success of the retirement plans for all Australians. To this end, the proposed objective should be carefully considered as part of the three pillars that make up Australia's retirement income system: voluntary savings, superannuation, and the government-funded age pension.

To maintain and improve public trust, KPMG recommends implementing a legislative framework or Statements of Compatibility so that future policy making is aligned to the objective of superannuation. It is also important that the key words of the objective are clearly defined to avoid misinterpretation.

KPMG gender equity series

KPMG regularly advocates for reforms and policy settings that promote gender equality in Australia. KPMG's gender equity series proposes policy settings aimed at shifting the dial in a number of key areas, including parental equity, superannuation, retirement security, childcare, and parental leave. We have summarised the relevant positions below.

KPMG's Gender Superannuation Gap report found that individuals with low superannuation balances are more likely to rely on the age pension in retirement and as at December 2020, 55 per cent of those collecting the full pension were women.[4] Financial insecurity in retirement contributes to poverty and housing insecurity of older women in Australia. The provision of government support discussed in this paper would, in many cases, yield better value if provided at the front end, rather than waiting

[3] https://assets.kpmg.com/content/dam/kpmg/au/pdf/2022/super-insights-2022.pdf
[4] https://assets.kpmg.com/content/dam/kpmg/au/pdf/2021/addressing-gender-superannuation-gap.pdf

for prospective age pension recipients to fall into a reliance on welfare. It will also help maintain and enhance the dignity of retirees.

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

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

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

KPMG's *Towards a more equal sharing of work* advocates for a parent equality model allowing parents optimal balance of work and care responsibilities, and equal work opportunities for mothers. The report proposes the inclusion of taxpayer-funded Superannuation Guarantee contributions in the Commonwealth paid parental leave (PPL) scheme. Currently, primary care givers accessing the Commonwealth PPL scheme – predominately women – cease receiving superannuation contributions.

The report also proposes that employers may wish to make higher superannuation contributions for those who had taken time out of the workforce for primary carer responsibilities. In the report, KPMG recommends amendments to the Sex Discrimination Act to allow this without breaching any Commonwealth super, labour and tax laws.

KPMG's report *Delivering equality: A new deal for women pensioners that rent* found that individuals aged 50 to 59 who are receiving Commonwealth Rent Assistance (CRA) would also benefit considerably from having their superannuation savings topped up directly, as they would have limited ability to supplement their own mandatory superannuation contributions. This might ultimately save the Commonwealth money over the longer term if the superannuation fund performs well, and would deliver additional personal wellbeing benefits compared to greater reliance on the age pension.

KPMG's submission to Treasury's Retirement Income Review (the income review) found that it is important to acknowledge that much of the superannuation gap can be explained by broader inequity within the labour markets.[5] For example, the submission

[5] https://treasury.gov.au/sites/default/files/2020-02/kpmg030220.pdf

noted that women make up 68.7 per cent of part-time employees (January 2019). The submission also notes that it has been estimated that if Australian women's workforce participation rate were the same as Canada's, then Australia's annual GDP would be about $25 billion higher.[6]

The issue of gender equity in the workforce, and equity in superannuation policy settings are intrinsically linked. Australia's recent female workforce participation rate of 62.2 per cent lags well behind the male participation rate of 71.2 per cent.[7] Lifting women's workforce participation has clear economic benefits for the nation as a whole including greater prosperity, as reflected in an increase in per capita household disposable incomes; extra revenue from income tax and other taxes; better returns to the nation from its investment in higher education; and reduced budgetary costs of the age pension. More importantly, addressing women's workforce participation and pay gap will enable women to maximise their savings for retirement and to achieve better retirement income outcomes.

KPMG's submission to the income review also found that a lifetime concessional contributions cap would enable individuals who had taken time out of the workforce to undertake carer roles to "catch up" over a period of time as their ability to make additional contributions increased. Whilst a change in the cap system is cumbersome, the current system is quite complex and less efficient than the former Reasonable Benefit Limits style system.

A change in the cap system will also benefit small business owners who have limited cashflow as they invest all their profits back into their business. Many people that fall into this category will avoid making superannuation payments and rely on their business investments to support them in retirement. A lifetime cap will ensure they are receiving the tax benefits that is otherwise available to people with or steady cashflows of income, or are subject to compulsory superannuation contribution requirements.

Thank you for the opportunity to respond to the Consultation Paper and we look forward to working with the government on this important matter.

Yours sincerely

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[6] Hockey (2014, p. 20) citing Daley and McGannon (2014).
[7] https://www.abs.gov.au/statistics/labour/employment-and-unemployment/labour-force-australia/latest-release