



Division Head
Retirement Income Policy Division
The Treasury
Langton Crescent
PARKES ACT 2600

6th April, 2016

Dear Sir/Madam,

Submission to the Commonwealth Government on the Objective of Superannuation

Women in Super

Women in Super (WIS) is a national advocacy and networking group for women employed in the superannuation and financial services industries.

WIS advocates on behalf of its members and women generally to government, politicians, unions, employer organisations, regulators, and superannuation funds to improve women's workforce participation especially in the context of retirement prospects and access to superannuation.

Executive Summary

WIS welcomes the opportunity to make a submission to the Australian Government on the Objective of Superannuation Discussion Paper. WIS makes comments in the context of our objective of improving the retirement income outcomes of women, and the issues that most affect women in interacting with the superannuation and retirement incomes systems.

Prior to the introduction of compulsory superannuation few women had superannuation and those that were members of schemes were subject to discriminatory provisions which were protected by an exclusion within the Sex Discrimination Act 1984.

The introduction of compulsory superannuation has been of great benefit to women however the system reliance on full time work patterns and a flat rate tax structure mean that women accumulate half the retirement savings of men. Many women are also excluded from superannuation (at least for part of their working lives) due to non-inclusion of the self-employed and low income earners and failure to pay the SG on paid parental leave.

This must change and a committed gender focus is the only mechanism to ensure accountability and change which will give women the same likelihood as men of enjoying a dignified retirement with access to adequate income.

The Primary Objective of Superannuation

Women in Super believe that the objective of superannuation should be established within the Retirement Income System (RIS).

We believe the words of (then) Treasurer Dawkins, as quoted in the Discussion Paper, remain relevant in aspiring to a higher standard of living in retirement including for Australians unable to fund their own retirement adequately. These sentiments reflect a commitment to improving and maintaining an adequate Age Pension, and the supplementation or replacement of the Age Pension by superannuation savings to improve living standards in retirement. Treasurer Dawkins comments also reflect on superannuation as a mechanism to enable a sustainable retirement incomes framework.

Women in Super support a legislated objective to serve as a guide to policy makers, regulators, industry and the community about superannuation's fundamental purpose.

Women in Super does not support the FSI objective as we believe this does not provide sufficient guidance regarding the purpose of superannuation as it does not embrace the important matters referred to by Treasurer Dawkins regarding higher living standards, nor the inequity within the system for women which must now be recognised as a design flaw and be addressed.

Women in Super support an objective which includes statements regarding;

- **the right to a 'dignified' retirement;**
- **the standard of living we expect in retirement;**
- **the relationship between superannuation and public pensions to achieve the desired income; and**
- **specific reference to 'all women and men'.**

A clear primary objective would enable government, regulators, policy makers and all other stakeholders to assess any future changes to the Retirement Income System and ascertain whether the outcomes of such changes meet the primary objective.

We support the seeking of broad political agreement for the primary objective of superannuation and community support and understanding of the objective and any supporting objectives (once established) of superannuation.

Supporting Objectives of the Superannuation System

WIS concurs with the need to include other factors in supporting the primary objective. Ideally these would act to provide guidance and clarity around the interpretation of the primary objective and further insight into the aims of the RIS.

In this submission we refer to them as 'supporting objectives'.

The superannuation industry is an important part of the Australian economy and as such all stakeholders (for example, government, regulators, community groups, industry and retail superannuation funds, financial service providers etc.) have an obligation to ensure that they take the objectives into account and that they act prudently and in the best interest of the Australian people in regulating and managing the RIS and retirement monies.

There is a need to consider how to address the sustainability of the pension system in the context of the challenges of demographic change and financial-market risk; the adequacy of future retirement incomes (Age Pension and other sources of superannuation income); the modernity of pension provision to ensure that it reflects social and economic changes, especially the support it can provide for flexibility in the labour market and extending working lives; and equity within the RIS between different groups (women and men, low and high earners and workers in different sectors of the economy).

With this in mind we suggest the following wording for supporting objectives:

“The supporting objectives of superannuation should be founded on the principles of certainty, adequacy, fairness, sustainability, stability and equity. These include the recognition of the interrelationship between the Age Pension and other compulsory and voluntary methods of superannuation savings; the balancing of needs between the different generations of Australians the understanding that men and women have different working lives and patterns; and the recognition that it is the shared responsibility of all stakeholders to deliver a Retirement Income System that benefits all Australians – men and women.”

Certainty

The vast majority of Australians have low superannuation savings balances and have been unnecessarily alarmed by generalised reporting about superannuation changes and their potential negative impact.

The establishment of a superannuation savings level as a benchmark which guaranteed no negative impact from future government policy changes would reassure the vast majority of Australians and allow sensible consideration and debate regarding the policy settings appropriate for the system as it matures in coming decades. The benchmark could then be adjusted by an appropriate measure.

Adequacy

The European Union has defined adequacy (and sustainability) in the context of providing for current and future pension provisions as follows¹:

Adequacy: The adequacy of pensions is measured by their ability to prevent poverty, the degree to which they match the level of pre-retirement income and how they compare to the average incomes of people below pensionable age.

The European Parliament, in the same report, also notes that there is a need to be vigilant with adequacy as even if current retirees are receiving an adequate level of income in retirement this may not be the case in the future. For example there can be specific groups at risk of inadequate income in retirement (such as women and single retirees) which is certainly the case in Australia today and we

¹ European Parliamentary Research Service, Briefing document, November 2015, European Union pension systems - Adequate and sustainable?, David Eatock

need to deal with the challenges presented by vulnerable groups in order to avoid poverty and significant drops in future levels of retirement income.

WIS notes that the majority of discussion in Australia in relation to the adequacy of retirement income focuses on fixed dollar amounts, or income replacement rates relative to pre-retirement income. Such discussion fails to consider the circumstances of the individual, and assumes everyone would require the same percentage of pre-retirement earnings to live 'comfortably' in retirement. Likewise, the same criticism can be levelled at the concept of a single level of income applicable to all.

We need to be mindful of the longevity issue in deciding what constitutes an adequate level of income in retirement as women on average live longer than men so actually need higher superannuation savings to deliver the same level of income as that delivered to men but over a longer timeframe.

The European Union definition of adequacy includes the prevention of poverty and the New Zealand RIS includes a 'wellbeing' factor. If we adopted either in an Australian context this would take into account the many Australians who will be dependent on the Age Pension (including a disproportionate number of women and indigenous Australians) and ensure that the Age Pension delivers an adequate income level.

WIS would be in favour of setting a benchmark for 'modest comfort' which could be a determinant for extra government assistance with respect to accumulation of superannuation savings.

We have previously supported policy initiatives to encourage those with balances that may not be considered adequate to contribute extra to their super, and also believe that assistance should be focused on these groups. Those individuals with adequate balances should not be the focus of government assistance programs, such as generous tax concessions.

In this way it would be clear that superannuation is not a vehicle for unlimited wealth accumulation or a method of leaving bequests to future generations.

Sustainability

WIS believes that sustainability in the context of superannuation relates to achieving a RIS that delivers on its objectives not just for the current population of retirees but for future generations of retirees too.

Essentially, there is a need to balance the financing of superannuation in the accumulation stage (for example tax concessions) in order to achieve the desired amount of superannuation savings required and on the other hand the payment of income in the retirement phase especially in relation to the costs of the Age Pension and the taxation of other sources of retirement income.

The fiscal cost of Australia's age pension is expected to increase by 2.2 per cent of GDP from 1.7 to 3.9 per cent from 2010 to 2050 and total tax expenditures from the Superannuation Guarantee and other

voluntary contributions combined were 2 per cent of GDP in 2012². Therefore the 2010/12 combined fiscal costs of superannuation for Australia sits at 3.7 per cent of GDP.

Obviously long term fiscal projections are dependent on whether or not the current system continues or whether changes are made. However, some of the current tax concessions provided within the superannuation system are directed to high income earners with substantial resources while those in greater need (predominantly women) will not achieve equitable outcomes without further assistance.

Despite the ageing of the Australian population there are a number of factors available to policy makers and industry to increase the contribution level of the workforce whether that is by increasing the actual number of workers as a percentage of the population or by working to increase the financial amount they contribute. Many countries have implemented a number of initiatives designed to increase workforce participation such as increasing the workforce participation of women, removing barriers to keeping older workers in the workforce and increasing the affordability and availability of child care. Equally importantly, other initiatives undertaken aim to improve the skill and therefore the income level of the average worker of the future such as increasing the overall quality of education at all levels and for all ages.

However, while many initiatives should be directed at enabling more Australians to save for their retirement, the Age Pension will continue to be integral to the RIS. In order to have a fiscally sustainable system, as the Discussion Paper notes, there may be a limit to the support that can be given to those who have already saved enough to achieve a 'comfortable' standard of living in retirement.

Issues such as longevity are also vitally important in ensuring we have an adequate and sustainable RIS as there is an acknowledgement that not only do women live longer on average than men but that future generations are likely to live longer than current ones.

Fairness

We believe that including the supporting objective of fairness for the RIS would ensure that in creating superannuation policies there would be an emphasis on ensuring all Australians (men and women) had access to superannuation irrespective of income earned thus enabling them to save for retirement. This would be particularly true for any Australian who cannot (for whatever reason) participate in the workforce for a long, sustained period of time.

Presently, government assistance is distributed across the lifecycle in both the accumulation and pension phases in the forms of co-contributions, low-income contributions, and tax concessions.

² Comparison of the New Zealand and Australian Retirement Income Systems - Background paper prepared for the 2013 review of retirement income policy by the Commission for Financial Literacy and Retirement Income, Ross Guest, Professor of Economics, Griffith University, February 2013. Figures quoted from Commonwealth of Australia (2010) Intergenerational Report and Australian Treasury (2011) Tax Expenditure Statement 2011.

Government assistance programs are not applied equally – the low paid in particular are most disadvantaged, although the Low Income Super Contribution (LISC) made some progress in alleviating some taxation disadvantages. Women are disproportionately represented amongst low income earners.

WIS believes ‘adequacy’ should be a key consideration in deciding on distribution of government assistance and mechanisms beyond taxation concessions and matching of additional contributions (which are difficult for many low income earners) are required.

There are arguments that fairness should be looked at over an individual’s lifetime. For example, high income earners benefit from tax incentives when saving for their retirement during their working life but do not receive the Age Pension when in retirement and the opposite is true of low income earners so when analysing benefits (tax concessions vs Age Pension) over a lifetime fairness is met. However, if the primary objective of superannuation is to improve standards of living in retirement for all whilst balancing the costs of incentives to save and reliance on the Age Pension, then, innovative and forward thinking policies are required which bring all groups of Australians, especially the vulnerable ones, into the Retirement Income System at the accumulation stage. This would open the way for a policy debate on retargeting the majority of benefits accorded by tax concessions to the lower income groups in order to enable them to access superannuation.

Stability

Public confidence in the retirement income system is important as decisions are made today based on existing policies and the assumption that there will not be any major changes to those policies on retirement, especially any changes that might negatively impact the level of retirement income received. This is deemed to be the reward for putting away money today into a system where it cannot be accessed until retirement. It allows for consumption smoothing.

If there is constant tinkering of superannuation policies then there will be less confidence in the system and people will be reluctant to put money aside for the future. We would welcome a more stable RIS but do believe that we need to be able to measure whether or not the RIS is meeting its objectives and if not, it is inevitable that policy changes may well be necessary at some point in the future.

However, if there is a process in place for policy debate around the proposed changes and a period of time allowing for implementation and change in behaviour then it would be hoped that many of the issues relating to confidence and therefore stability would be contained.

Equity

WIS supports the addition of equity.

Due to the nature of superannuation as a deferred wage, and a percentage of wages, it has delivered differential outcomes for women compared to men and for indigenous Australians compared to non-indigenous Australians. For example, one of the greatest inequalities in the present system is the

disparity between men's and women's balances. We understand that this is for a variety of reasons, including caring responsibilities and different work patterns between men and women, career breaks, and wage disparities.

Furthermore, the different workforce experiences of many indigenous Australians impact their superannuation savings, and insurance and administrative requirements can cause disadvantage.

While we agree that the current parameters do not overtly discriminate against any particular group, the system has produced different outcomes for women, in particular, over the last 20 years or so. Future policies must address these issues, and so we believe the addition of an 'equity' principle would ensure that all policy recommendations or decisions are made in light of their impacts on all groups.

Measuring the Outcomes of the Objectives of Superannuation

If legislated objectives are established for superannuation there must be a system for assessing the success of the system as measured against the objectives. An example of such an assessment tool is provided by the 'Super Tracker' recently launched by the Australian Institute of Superannuation Trustees and Mercer. The 'Super Tracker' measures the performance of the superannuation system and proposed policy changes against the legislated objectives. It includes a measure of gender equity and is supported by WIS.

Gender Analysis

WIS is particularly concerned that gender analysis is incorporated into any chosen measurement system due to the gender super gap. Current superannuation policies, such as super tax concessions, are compounding this gap. The average superannuation account balance for women in 2009-10 was \$40,475, compared to \$71,645 for men³. At retirement, the average superannuation payout in the same period was \$112,600 for women and \$198,000 for men.

Introducing the idea of gender analysis to all government economic and fiscal policies especially those relating to superannuation will ensure that both men and women are treated fairly despite having very different work patterns, fiscal behaviour and responsibilities (budgetary/caring).

Budget is the most powerful tool available to government to plan future policies and actions. Budgets are not gender neutral: spending and revenue activities result in discriminatory effects on men and

³ Association of Superannuation Funds of Australia, Developments in the level and distribution of retirement (2011)

women.⁴ The budgetary process provides an opportunity for reflection on the success of gender equality goals.⁵

Conducting a gender analysis of superannuation policies can be a particularly powerful tool in revealing and address the disproportionate effects of policies on women – changes to the tax system can inadvertently discriminate against women. It can be used to ensure financial and budgeting measures reflect overall policy commitments and that the gender impact of any proposed changes are fully understood and do indeed lead to the desired policy outcomes.

Specific measures are required to improve the level of accumulation of superannuation savings by women as if the current accumulation levels continue; many women are likely to experience poverty in retirement.

Establishing an Independent Body (or System) to oversee and monitor the Objectives of Superannuation

We also support the establishment of an independent publicly-funded body to oversee and regulate superannuation which would reduce the number of changes and focus on short-termism which currently undermines the system and builds a level of mistrust, stress and uncertainty. We endorse the AIST submission to the Financial Services Inquiry in March 2015 in relation to the establishment of such a body.

Having a robust system in place to monitor and measure whether or not the primary objective is being met at a macro level and testing policies at a micro level (i.e. before being passed by the Parliament) is necessary to ensure that we are meeting our objectives (primary and subsidiary) and enables considered changes to current and future policies to be enacted.

Legislation

WIS does not have a particular view on whether the objectives of the Retirement Income System should be legislated as the preamble to a major piece of superannuation legislation – the Superannuation Industry (Supervision) Act 1993 or legislated as a stand-alone piece of legislation. We believe that either of these would be worth considering.

⁴ Diane Elson, 'Integrating Gender Issues into National Budgetary Policies and Procedures: Some Policy Options', (1998) *Journal of International Development* 10 (7): 929-41; Diane Elson, 'Integrating Gender into Government Budgets within a Context of Economic Reform', in Debbie Dublender (et. al. eds.) *Gender Budgets Make Cents: Understanding Gender-Responsive Budgets* (2002, London: Commonwealth Secretariat), 23-47; Rhonda Sharp and Ray Broomhill, 'Budgeting for Equality: The Australian Experience', (2002) *Feminist Economics*, 8(1): 25-47; Janet Stotsky, 'Budgeting with Women in Mind', (2007) *Finance and Development*, 44(2): 12-15.

⁵ The Council of Europe, Directorate General of Human Rights, 'Gender Budgeting' (Strasbourg, 2005), p.8.

Summary of Recommendations

- Establish the objectives of superannuation within the Retirement Income System which should include a statement relating to a ‘dignified retirement’, the recognition of ‘men and women’ as groups with differing retirement outcomes and needs and the core principles of certainty, adequacy, stability, fairness, sustainability and equity.
- Ensure that the aim is to enable all Australians to have access to the Retirement Income System and accumulate superannuation.
- Establish a system of measurement of the objectives to ensure whether we are meeting them for current and future generations so appropriate and considered changes to policies can be made.
- Incorporate gender analysis into the taxation, budgetary and economic systems of Australia so that all proposals relating to superannuation are considered in relation to the objective of enabling men and women to save adequately for retirement.
- Establish an independent body to oversee and regulate superannuation so the Retirement Income System is subject to long-term goal setting and decision making.

Conclusion

We are grateful for the opportunity to contribute to the Discussion Paper on the Objective of Superannuation. To recap WIS does not accept the FSI stated primary objective but would support an objective which includes statements regarding;

- **the right to a ‘dignified’ retirement;**
- **the standard of living we expect in retirement;**
- **the relationship between superannuation and public pensions to achieve the desired income; and**
- **specific reference to ‘all women and men’.**

WIS would also like to see the supporting objectives of superannuation included in the preamble or stand-alone piece of legislation to ensure that there is guidance and clarity around interpretation of the primary objective. Therefore we suggest the following wording:

“The supporting objectives of superannuation should be founded on the principles of certainty, adequacy, fairness, sustainability, stability and equity. These include the recognition of the interrelationship between the Age Pension and other compulsory and voluntary methods of superannuation savings; the balancing of needs between the different generations of Australians the understanding that men and women have different working lives and patterns; and the recognition that it is the shared responsibility of all stakeholders to deliver a Retirement Income System that benefits all Australians – men and women.”

Please do not hesitate to contact either Sandra Buckley, Executive Officer, Women in Super, (sbuckley@womeninsuper.com.au) or Cate Wood, National Chair, at the below numbers should you wish us to provide any further information.

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Yours sincerely,



Catherine Wood
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