



Retirement incomes and pensions

The big question on retirement incomes: are women getting a poor deal through current policy settings?

1. Have you just lost some of your retirement nest egg through the global financial crisis, and the reckless practices of some banks and superannuation funds? Are you concerned that you may never save enough to retire in modest comfort? Have you just had to seek Centrelink help to supplement your self-funded retirement benefits?
2. The Treasurer has asked the Secretary of the Department of the Treasury Dr Ken Henry, to bring forward the element of the Review of Australia's Future Tax System dealing with retirement incomes.
3. He wrote: *"The Government wishes to examine the findings of Dr Harmer's review of pensions in conjunction with your Panel's review of the other aspects of the retirement income system. This will allow the Government to consider a broader and complementary response to the issues facing the retirement income system than those issues being considered by Dr Harmer¹."*
4. *"In your report, I request that the Panel include recommendations on the adequacy of the retirement income system and the appropriateness of the current taxation arrangements."*
5. The Treasury consultation papers on retirement incomes are available on-line²
6. **Women and their organisations have until 28 February 2009 to make submissions to the Treasury Review.**

What are the key issues for women's retirement incomes?

7. Australia has a three pillar retirement income system³:
 - a. A government-provided Age Pension;
 - b. Compulsory savings enforced through the superannuation guarantee⁴; and

¹ The Minister for Families, Housing, Community Services and Indigenous Affairs asked the Secretary of the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA), Dr Jeff Harmer, to complete an investigation into measures that might be adopted to strengthen the financial security of seniors, carers and people with disability, and to report by 28 February 2009 on:

1. The appropriate levels of income support and allowances, including the base rate of the pension, with reference to the stated purpose of the payment;
2. The frequency of payments, including the efficacy of lump sum versus ongoing support; and
3. The structure and payment of concessions or other entitlements that would improve the financial circumstances and security of carers and older Australians.

² http://taxreview.treasury.gov.au/Content/Content.aspx?doc=html/pubs_reports.htm

³ Available on the Tax Review website

(http://taxreview.treasury.gov.au/content/ConsultationPaper.aspx?doc=html/publications/Papers/Retirement_Income_Consultation_Paper/Executive_Summary.htm).

⁴ The Superannuation Guarantee (Administration) Act 1992 requires all employers to provide a minimum superannuation cover for all eligible employees. The Act also imposes a separate charge on an employer who fails to provide the minimum superannuation cover required under the Act. The minimum level of superannuation cover under

- c. Voluntary savings (both through superannuation⁵ and other sources).
8. Women's final retirement incomes are adversely affected by the following issues:
 - a. Women earn less than do men in similar or equivalent positions, diminishing their capacity to personally save for retirement. Young women in particular have a pattern of multiple part-time and short-term jobs, which can mean losses of savings through the superannuation guarantee⁶.
 - b. Women have more breaks in their patterns of workforce attachment (child bearing and rearing, caring for parents and such like), and frequently work part-time because of caring responsibilities - diminishing their capacity to save for retirement.
 - c. Intermittent workforce attachment means diminished lifetime income, and further depresses capacity to save for retirement.
 - d. Income tax policy (especially Family Tax Benefit) reduces women's incentives to engage in the workforce.⁷
9. Moreover tax assistance for personal superannuation savings is currently unfairly distributed.
10. Superannuation income is taxed at 15% so parking some money into superannuation instead of taking it as personal income reduces tax. But this only applies to people with a marginal tax rate over 15%, that is, people earning over \$34,000 in 2008-9. If a woman were on a 30% tax rate she would pay 15% less tax, but if she were on a 45% tax rate she would pay 30% less tax. Employed people with surplus money can salary sacrifice to get this tax break. Lower income earners (mostly women) are less likely to have surplus money so they are often putting only the compulsory 9% into superannuation.
11. A person with \$49,000 or more income in their superannuation account, and who is earning in the highest tax bracket, gets the equivalent, or more, of the Age Pension in tax concessions each year while they're still in paid work. A person in the 40% tax bracket (earning over \$80,000) gets the equivalent of the Age Pension in tax concessions when their super account income is over \$58,000. This income includes both their employer contributions to superannuation and the investment returns on the total fund balance.
12. These are people with about \$1 million or more in their super fund. There were about 5,500 of these in 06-07 and some would consider that they are not the most needy people around!

Are there any solutions?

13. Clearly, improving women's capacity to engage in the workforce, through measures such as reform of child care funding and provision of more child care (including for school age children); provision of a paid maternity (or parental) leave scheme; and reducing the gaps in pay equity would be a good start.

the Superannuation Guarantee, expressed as a percentage of an employee's gross salary is 9%. This had its basis in a Government-ACTU agreement that the employer contribution would be in return for moderation of wage demands. cf *'Prices and Incomes Accord'*.

⁵ Personal income tax concessions encourage personal co-superannuation concessions.

⁶ The YWCA will develop a submission specifically on this issue.

⁷ See, for example, Harding "Improving work incentives for mothers" 2008 (link to this document from <http://nfaw.org/resources/>).

14. The Commonwealth Government has it within its power to act immediately on both childcare and a paid parental leave scheme.
15. A House of Representatives Committee is pondering the pay equity matter.
16. Changing the taxation concessions regime would also help, but the Henry Review has already pointed out that for many women with lower lifetime earnings this could be less beneficial than improving the Age Pension and other supporting policies such as child care to enhance workforce attachment.
17. Thinking through the technical issues surrounding the design of superannuation can produce as many headaches as do the reports on superannuation fund returns for 2008.
18. Our consultant, Professor Patricia Apps has made some initial recommendations and suggests that women should consider some of these reform options:
 - a. **Reduce the SG rate for low and middle-income earners.** This will:
 - i. Reduce the double burden on those least able to afford it;
 - ii. Provide the option for higher earners to pay a higher rate.
 - b. **Expand the aged pension and integrate it with a contributory, public sector defined benefit scheme⁸.**
 - c. **Reform the family tax system.** Return to an income tax system based on individual income with a progressive rate scale and universal family benefits. This will
 - i. Reduce the tax burden on low and average wage second earners;
 - ii. With higher net incomes, women can accumulate a higher level of saving.
 - d. **Develop a public sector, education oriented childcare system.**
19. Professor Apps' full discussion paper will soon be available on www.nfaw.org/resources/.

Summary

20. Lower income earners, both male and female, cannot hope to save an adequate sum from the Superannuation Guarantee and voluntary savings. Their savings can however supplement the Age Pension set at an adequate level.
21. Women are especially at a disadvantage because of:
 - a. Their work in the home reduces their scope for paid work;
 - b. Lower earnings while employed outside the home;
 - c. Broken periods of employment; and
 - d. Greater longevity than men.
22. Already retired women will benefit from a significant increase in the means tested Age Pension and reform of associated benefits, such as housing allowances⁹, together with ready access to subsidised or free health care (including dental care) and pharmaceuticals.

⁸ For example, there could be a Government co-contribution to superannuation. The fund could be Government managed with Government bearing any risk (*NFAW comment*).

⁹ See NFAW's submission to the Pension Review (<http://www.nfaw.org/assets/Socialpolicy/Tax/NFAWpensionsub.pdf>).

23. Alongside reform of the superannuation system and a more generous Age Pension must come significant changes to the income tax system as it impacts on women still saving for retirement.
24. The tax system in general will be the subject of the next reference paper.
25. Currently, there is little evidence that reducing the compulsory employer contributions provided by the Superannuation Guarantee would increase women's wages, especially in the low pay sectors of the economy. NFAW supports policies to encourage workforce attachment, but recognises that many women make the informed choice to work part-time whilst raising children, or to completely exit the workforce during this period.
26. Policies should enable men and women to balance paid work and caring responsibilities according to their judgement of their own interests and those of the children.
27. Workforce attachment for women with a disability needs to be more effectively supported by Government, without punitive measures.
28. NFAW thinks the Government ought to move in Budget 2009-10 to:
 - a. Reform the Age Pension and set it at a level related to costs of living;
 - b. Ensure that women transitioning from Disability Support Pension or other benefits for women with a disability on reaching Age Pension age do not suffer any diminution of disability related benefits, and a Disability Allowance, if such is brought in, must also be continued;
 - c. Immediately introduce a national paid parental leave system. Payment of Mobility Allowance and Disability Allowance should continue whether a women with a disability is on Paid Parental Leave or in employment;
 - d. Reform child care including school vacation and out of school hours care;
 - e. Carefully consider the effects of the Superannuation Guarantee on lower income women;
 - f. Ensure that parenting payment and other income support benefits are aligned with the Age Pension; and
 - g. Further explore the retirement income issues for self-employed women. Small to medium enterprises are 30% women owners. Many women with a disability are in this category.

What do you think?

29. Let us know by early February. You can either make a direct comment on the NFAW website¹⁰ or email your ideas to me on mariecoleman@nfaw.org.

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20 January 2009

¹⁰ <http://www.nfaw.org/Make-your-views-known-about-tax/>