

Superannuation issues for certain groups

Unincorporated self-employed

6.1 The majority of owner managers are unincorporated self-employed structures. As was noted by the Office of Small Business only 'around 20% of owner managers without employees had a company structure [incorporated] in 2004'.¹

6.2 Treasury discussed the low level of superannuation contributions by the unincorporated self-employed:

Superannuation coverage for self-employed people is considerably lower than for employees. The last Australian Bureau of Statistics Survey of Employment Arrangements and Superannuation found that only 67 per cent of the self-employed had superannuation, with an even smaller proportion making regular contributions.²

6.3 Additionally, the level of voluntary contributions by those self-employed business owners aged under 40 has fallen markedly:

The number of self-employed people under age 40 making superannuation contributions fell from 41,000 to 31,000 over the period 1999-2000 to 2002-03.³

1 Office of Small Business, Department of Industry, Tourism and Resources, *Submission no. 14*, p. 2.

2 The Treasury, *Submission no. 47*, p. 8.

3 Office of Small Business, Department of Industry, Tourism and Resources, *Submission no. 71 (supplementary)*, p. 2.

- 6.4 There are concerns that unincorporated small business and micro business owners are not saving in superannuation but rather in their own business:

The results suggest that the net wealth of the median self-employed household was around \$147,000 more than that of an employee ... This is consistent with the notion that many small business operators save for their retirement by reinvesting in their businesses.⁴

- 6.5 AMP Financial Services (AMP) noted in their submission the results of the 2005 AMP-NATSEM report⁵ on small business and retirement savings patterns:

Many small business operators rely almost entirely on the value of their businesses for their retirement savings. But relying on the value of the small business alone to fund their retirement can be risky, particularly for sole traders whose own knowledge and skills are often their businesses chief assets.⁶

- 6.6 The committee heard of the danger in doing this given a high percentage of small businesses established close prematurely or end in bankruptcy. Mr Noel Whittaker stressed the importance of superannuation to small business in regard to the business failing:

As you said before, 90 per cent fail anyway. One thing about super is that it is the one asset the trust in bankruptcy cannot get off them. That is why when I give talks to small business people I say, 'Look, if you incorporate it is a tax deduction and it is the one thing they cannot take off you if you go broke.'⁷

- 6.7 Not all small businesses end in bankruptcy. This is fortunate given 95 per cent of businesses are small businesses. Mr Peter Chesworth of the Office of Small Business (OSB) stated in evidence that many are successful and the numbers often quoted as failing are over-exaggerated:

It would be fair to say that there is a level of misconception out there. The levels of business failure in Australia are actually far lower than that bush telegraph anecdote that so many fail in such a

4 Office of Small Business, Department of Industry, Tourism and Resources, *Submission no. 71 (supplementary)*, p. 2.

5 AMP-NATSEM (2005), *Smallbusiness in Australia 1995–2004*, issue no. 11, Sydney, July 2005.

6 AMP Financial Services (AMP), *Submission no. 48*, p. 7.

7 Mr N Whittaker, *Transcript*, 10 February 2006, p. 74.

short period of time. Most succeed and there are other ways in which businesses can end as well.⁸

- 6.8 However, successful small business owners are prone to invest in the business alone and hope to make a handsome sale of the business at a future point in time to help fund retirement. This is not always possible and the retiree then faces a lower retirement income than expected. AMP noted the value of diversified savings/investment:

When they retire, the value of their businesses often falls significantly, meaning that they could have much lower retirement savings than anticipated.

Small business operators should be encouraged to diversify their retirement savings and invest in other assets through the use of superannuation.⁹

- 6.9 Additionally, even though a business may not fail, it may not be as financially successful as anticipated. This is likely to be particularly relevant to a younger self-employed owner who may either be starting a business (rather than taking on an established one) or have limited business acumen. A non-business payment (personal superannuation contributions) which attract a limited tax deduction and do not contribute to disposable income may rank low as a savings priority.

Co-contributions¹⁰

- 6.10 At present the co-contribution can only be received by people who earn at least 10 per cent of their income from eligible employment. As a result, a wholly self-employed (unincorporated) person cannot qualify. The reason for the restriction has been so that the unincorporated self-employed cannot claim both a tax deduction (of the first \$5000 and 75 per cent of the balance up to the age-based deduction limits) and a co-contribution in respect of the same contribution. Conversely, owner-managers of incorporated enterprises are eligible to receive co-contributions on undeducted super payments made to their own super funds.
- 6.11 However, in the 2006–07 budget the Treasurer announced changes with respect to the unincorporated self-employed's eligibility for the co-contribution scheme. The budget proposes that, from 1 July 2007, the

8 Mr P Chesworth, Office of Small Business, Department of Industry, Tourism and Resources, *Transcript*, 10 February 2006, p. 32.

9 AMP, *Submission no. 48*, pp. 7–8.

10 The co-contribution scheme and its rules are discussed in detail in Chapter 7. This discussion focuses wholly on the co-contribution with respect to the self-employed.

unincorporated self-employed be eligible to receive the government co-contribution for their post-tax superannuation contributions. To do this, the government will amend the ten per cent work test rule to include business earnings as well as employment earnings. Treasury will conduct a public consultation process on these and other proposed measures concluding early August 2006.

- 6.12 Prior to the budget announcements, a number of submissions to this inquiry commented that the unincorporated self-employed were effectively discriminated against by their exclusion from the co-contribution scheme. The Office of Small Business (OSB), for example, stated:

Where income falls within the low levels that might attract the Government co contribution, personal contributions by the unincorporated self-employed are generally ineligible. Essentially, the eligibility conditions require that 10% or more of the person's total income be from working arrangements that result in them being treated as an employee for superannuation guarantee purposes.¹¹

- 6.13 In light of these facts the committee heard from many who supported access to co-contributions for the self-employed as an incentive to make voluntary superannuation contributions.

- 6.14 One of Tower Australia's proposals was to allow co-contributions to be paid to self-employed people.¹² Rice Walker Actuaries believed that for young people it was not only a disincentive to contribute to superannuation but also to start a small business.

The current co-contribution arrangements only apply to persons who earn at least 10% of their employment from wages and salary. A wholly self-employed person cannot qualify. This is a serious disincentive to young people establishing their own businesses, and should be addressed.¹³

- 6.15 The OSB discussed the financial pressures of many unincorporated self-employed people and non-access to co-contribution:

Unincorporated self-employed business operators that have tried to set aside money into superannuation earlier in life, when they are still struggling to establish their businesses, have reported that

11 OSB, Department of Industry, Tourism and Resources, *Submission no. 14*, pp. 4-5.

12 Ms C O'Keefe, Tower Australia, *Transcript*, 18 October 2006, pp. 55-56.

13 Rice Walker Actuaries, *Submission no. 64*, p. 13.

they are unassisted by the operation of the co-contribution scheme. For many, financial pressures may not sufficiently ease before they are in their 30's to early 40's.¹⁴

Conclusions

- 6.16 The issue of access to co-contributions by the self-employed arose time and again during the inquiry. A number of submissions received by the committee discussed the matter and it was raised as an issue at the majority of public hearings. The committee concluded the treatment of self-employed in relation to access to the co-contribution particularly disadvantaged young people in business, where income levels are often lower.
- 6.17 The committee therefore endorses the government's plan, announced in the 2006–07 budget, to include unincorporated self-employed in the co-contribution scheme. However, the committee notes that the budget proposal means that the ten per cent rule still remains; it has just been broadened. Therefore, some groups remain ineligible to receive the co-contribution – those not earning at least ten per cent of their income from business or employment earnings. In Chapter 7 under *Co-contribution*, the committee recommends the removal of the 10 per cent work test rule.

Tax deductibility of contributions

- 6.18 An employer can claim a 100 per cent tax deduction for superannuation contributions in respect of an employee up to the particular employee's age-based deduction limit. This includes the contributions that an owner-manager makes to their own superannuation account. This is presently not so for unincorporated self-employed employers. Under the current rules, only \$5000 of an unincorporated self-employed person's personal contributions are fully tax deductible. Any contributions over this limit, up to their relevant age-based deduction limit, are only 75 per cent tax deductible.
- 6.19 However, the 2006–07 budget proposes the full tax deductibility of superannuation contributions for unincorporated self-employed persons. This is planned to be introduced on 1 July 2007, but, as with the other budget proposals, will be subject to a public consultation process in early August 2006.

14 OSB, Department of Industry, Tourism and Resources, *Submission no. 14*, p. 5.

- 6.20 Prior to the budget announcement, a number of groups and individuals were critical of the discrimination posed by the different deductibility arrangement for incorporated and unincorporated self-employed persons. As Noel Whittaker indicated in evidence, this distinction does not appear to have much relevance:

Why can some people claim a tax deduction and why can some not claim? Why should it be \$5,000 and three-quarters as opposed to all?¹⁵

- 6.21 The current tax treatment also creates a distinction between the treatment of superannuation contributions made by the self-employed owner and that of their employees. CPA Australia noted:

Essentially, a self-employed individual must contribute more to have the same amount go into their superannuation fund. This represents an unfair difference and discourages self-employed people from contributing more than \$5,000 pa. In some circumstances the employer is entitled to a lesser deduction for their own contributions than those for their employees.¹⁶

Conclusions

- 6.22 It appears to be ironic that the self-employed labour force, and particularly the young component, has been recognised by Treasury and others as being vulnerable in their ability to accrue superannuation and yet they face obvious business structure discrimination in this respect. They are currently disadvantaged because their business is not incorporated, and therefore they are not employees.¹⁷
- 6.23 The committee acknowledges and endorses the federal budget announcement to allow full tax deductibility of contributions by the unincorporated self-employed.

Invalidity payment

- 6.24 A person who receives an eligible termination payment (ETP) in consequence of the termination of employment due to disability can receive part of that payment tax free (known as an invalidity payment).

15 Mr Noel Whittaker, *Transcript*, 10 February 2006, p. 76.

16 CPA Australia, *Submission no. 18*, p. 5.

17 There are some exceptions. The definition of employee in the *Superannuation Guarantee (Administration) Act 1992* includes circumstances where a person works under a contract that is wholly or principally for the labour of the person.

- 6.25 This is effectively not available to the self-employed where they receive an ETP from their superannuation fund due to permanent disability. The reason for this is that there can not be any termination of employment in that circumstance because the self-employed person was never technically 'employed' by an employer.
- 6.26 The invalidity part of the payment therefore remains assessable income. This disadvantages wholly self employed persons under age 40— particularly those who work in physical environments where the possibility of injury is high. This was raised by the OSB, who stated:
- The Institute of Chartered Accountants expressed the same views in its 2005-06 pre-Budget submission stating that “The Government should bring the tax treatment of contributions and invalidity payments of the self-employed into line with that of employed people.”¹⁸

Conclusions

- 6.27 This committee believes that, as the government has done for co-contributions and tax deductibility, the treatment of invalidity payments for incorporated and unincorporated business owners should be aligned.
- 6.28 The committee believes that this measure is particularly important for unincorporated small business operators, who work in physically demanding and risky environments. These people are vulnerable to injury and disability through their work, and as such may become recipients of an eligible termination payment from their superannuation fund, which contains an invalidity component.

Recommendation 5

- 6.29 **The committee recommends the government align the tax treatment of invalidity payments of the incorporated and unincorporated self-employed.**

18 OSB, Department of Industry, Tourism and Resources, *Submission no. 14*, p. 3.

Superannuation Guarantee

6.30 The self-employed, because they do not employ themselves, are not subject to the Superannuation Guarantee Charge – the tax that employers incur if they decide not to pay the minimum superannuation contribution for their employees under the Superannuation Guarantee (SG) provisions – and do not have the forced nine per cent savings.

6.31 Many small business owners may choose to save for their retirement by building up the value of their business in addition to, or instead of, contributing to superannuation.

6.32 It has been suggested that the risky nature of small business means that small business operators *should* be putting money into superannuation. CPA Australia told the committee:

The Productivity Commission in its report *Business Failure and Change in Australia* found that only 50 percent of small businesses continue to exist after 10 years. This implies there is a significant risk of the self-employed having all their savings in the one basket. Therefore, it is imperative that independent superannuation savings are also encouraged.¹⁹

6.33 As previously mentioned, superannuation is generally protected from bankruptcy proceedings meaning that the small business person will not lose everything in the event that their business fails. Mr Noel Whittaker stated in evidence that the most persuasive reason a small business owner should invest in superannuation is that in the event of bankruptcy a person's superannuation balance is safe.²⁰

6.34 Statistics indicate that without some form of compulsion the self-employed will remain in a position of limited superannuation cover compared to employees. Treasury noted in their submission:

The coverage of superannuation in Australia has grown significantly since the introduction of compulsory superannuation and now extends to around 90 per cent of employees and 67 per cent of self-employed people.²¹

6.35 However, many may not have the cash flow to contribute to superannuation, and to reduce working capital in that respect may exacerbate any financial difficulties they may face. A number of initiatives recognise this and allow small business owners to reduce significantly, or

19 CPA Australia, *Submission no. 18*, p. 5.

20 Mr N Whittaker, *Transcript*, 10 February 2006, p. 74.

21 The Treasury, *Submission no. 47*, p. 2.

eliminate, their capital gains tax liability when selling a small business. In many cases their business is their sole asset and nest egg for retirement. As previously mentioned, 'putting all their eggs into one basket' can prove detrimental to final retirement income.

- 6.36 As Industry Funds Forum highlighted in their submission, the sale of a business at an age under 40 often results in proceeds not being put towards retirement income savings:

Most self employed see their business as their quasi-superannuation, but many under age 40 are likely to use the proceeds from any sale for home purchase or to meet other expenditure, even though there is an incentive for those who invest the proceeds of the sale into superannuation.²²

- 6.37 Treasury views the third pillar of the retirement income system (voluntary superannuation savings and other savings) as particularly relevant to those without access or having only limited access to the SG:

The third pillar encourages individuals to make additional savings. This is particularly relevant to groups that may not benefit or fully benefit from the SG, such as the self-employed, people with broken working patterns (including many women), mature workers and those with higher retirement income expectations.²³

- 6.38 However there is little incentive for them to voluntarily invest in superannuation, especially in the early stages of a business, whilst they are unable to receive co-contributions nor full tax deductions for voluntary savings. Treasury's submission showed that for those self-employed under age 40 the 100 per cent tax deduction cut out point at \$5000 appeared to influence low voluntary superannuation behaviour:

For most self-employed people under age 40 annual contributions are within the \$5,000 full deduction limit (Chart 13). ATO data for 2002-03 also shows an increase in the proportion of people making contributions at or near the new \$5,000 threshold.²⁴

- 6.39 A number of proponents of compulsory superannuation for the unincorporated self-employed were heard over the course of the inquiry. The OSB indicated support for compulsory superannuation for the self-employed:

22 Industry Funds Forum, *Submission no. 22*, p. 14.

23 The Treasury, *Submission no. 47*, p. 4.

24 The Treasury, *Submission no. 47*, p. 30.

Your question is whether we think there would be advantages in it being compulsory for self-employed people. I would have to say that essentially that would be a policy decision of the government to make in that area. Obviously the compulsory superannuation system has worked fairly well in the case of employees.²⁵

- 6.40 Mr Graeme McDougall from the Small Independent Superannuation Funds Association (SISFA) felt compulsion was important for both employees and self-employed to ensure people don't solely focus on the short term:

If you make it compulsory that the employee or the self employed make a contribution you are going to make them aware of another part of the structure that is going to be part of their short-, medium- and long-term life.²⁶

- 6.41 Rice Walker Actuaries proposed setting a nominal salary for the unincorporated self-employed on which their SG could be based.

In many other respects, the nexus between employment and superannuation has been broken. Perhaps it is time to give all self-employed persons a notional salary of (say) \$25,000 and treat them similarly to employed persons. They should then be subject to the SGC on this notional salary. This would generate minimum contributions for the self-employed of \$2,250 a year.²⁷

- 6.42 It is difficult to see how this could be equitably based given business profits, stages and types would vary.

- 6.43 The contrasting view was that as superannuation is deductible for the self-employed, be it fully, or partially, this is incentive enough for voluntary contributions to be made, countering the argument for compulsion. Mr Michael Perry of Taxpayers Australia stated at the Melbourne hearing:

I am a bit reluctant to say that it should be mandatory. It is hard to generalise on this. What we tend to find is that the people who are in a position of being self-employed are inclined to look at ways and means of getting funds into super. Essentially, it is a tax deduction so people will tend to do that. As to whether it needs to

25 Mr A Greenwell, OSB, Department of Industry, Tourism and Resources, *Transcript*, 10 February 2006, p. 29.

26 Mr G McDougall, Small Independent Superannuation Funds Association (SISFA) *Transcript*, 28 July 2005, p. 62.

27 Rice Walker Actuaries, *Submission no. 64*, p. 13.

be mandatory, I am not quite sure that I would go down that track.²⁸

- 6.44 Superannuation may also offer a side benefit of providing a degree of life insurance cover and the ability to elect a higher cover by paying a higher premium. The superannuation fund is able to offer the cover to members at a low premium and the premium is paid with contributions.
- 6.45 Some unincorporated self-employed without voluntary superannuation may have no independent life insurance cover. This places their dependents in a precarious financial situation in the event of their death. Rice Walker actuaries noted the high availability of basic life cover through superannuation:

Death and Total and Permanent Disability (TPD) benefits are so popular that almost all funds provide an insured benefit for their members, although the average levels are fairly low.

Many funds also provide disability benefits in income form to replace lost wages whilst disabled. These are usually limited to benefits payable for two years as it is considered more tax-effective to pay longer periods as “ordinary” life insurance rather than as a superannuation benefit.²⁹

Conclusions

- 6.46 The low level of voluntary superannuation savings by unincorporated self-employed people indicates alternative retirement savings intentions or a reduced incentive to voluntarily save.
- 6.47 The committee heard that many owner managers intend to utilise their business for their retirement income. As they are not compelled to contribute to superannuation many have low retirement savings diversification and are thus exposed to risk if the business fails, if it proves unprofitable or the proceeds of business sale are used prematurely.
- 6.48 People aged under 40 were reported to have the tendency to place the proceeds of an early business sale into their home, rather than into superannuation. This behaviour results in lost years of potential retirement income saving and the benefit of compounding from an early age.
- 6.49 There are practical impediments to implementing a mandated superannuation regime for the self-employed, particularly where incomes

28 Mr M Perry, Taxpayers Australia, *Transcript*, 3 February 2006, p. 25.

29 Rice Walker Actuaries, *Submission no. 64*, p. 1.

and business circumstances fluctuate and types of business differ. However the committee saw merit in bringing the self-employed under the SG system as it would provide preserved retirement savings particularly where business longevity, success and capital realisation were uncertain.

- 6.50 Additionally, superannuation offers a level of life insurance and total and permanent disability cover for the self-employed, many of whom work in physically demanding careers.

Recommendation 6

- 6.51 **The committee recommends consideration be given by government to bringing unincorporated small business owners into the Superannuation Guarantee system.**

Women

- 6.52 If a person is not in the paid workforce they are at a significant disadvantage in accumulating their own superannuation. In 2002–03 SG contributions by those under 40 amounted to approximately \$10 billion, whereas the non-SG (salary sacrifice, undeducted contributions, self-employed contributions) equalled approximately \$2 billion.³⁰ Therefore the vast majority of superannuation contributions are the compulsory contributions made by employers under the SG provisions. Self-employed people are not covered by the compulsory nature of the SG so may choose not to place savings into superannuation.
- 6.53 There are a number of individuals who spend significant amounts of time outside the paid workforce. These include the disabled, injured, those with redundant skills, the long-term unemployed and full and part-time carers. Sole parents may also spend time outside the paid workforce (6.4 per cent of Generation X are sole parents³¹).
- 6.54 In 2003, 2.5 million people provided informal care to 2.1 million disabled or elderly people living at home.³² Most people under 40 taking on an

30 Unpublished Australian Taxation Office data from The Treasury, *Submission no. 47*, p. 10.

31 Australian Bankers' Association, *Submission no. 28*, p. 23.

32 Australian Bureau of Statistics (ABS), *Australian Social Trends – 2005*, cat. no. 4102.0, Canberra, July 2005.

unpaid carer role are women. In 2003 the proportion of women who were carers peaked at age 55–64 years – pre-retirement years for the current under 40s and likely to be a time when their elderly family members will require care.

- 6.55 Women are also generally the primary child rearing carers in families and may spend time out of the workforce to raise children. Therefore, due to their traditional caring roles, women spend time out of the workforce which impedes superannuation accumulation.

The average superannuation balances of women across the lifecycle are lower than those of men. On average, when women retire from the workforce they will have half as much superannuation as men (Olsberg et al. 2001).³³

- 6.56 In addition, women face some unique disadvantages in accumulating adequate superannuation balances:

- on average, women live longer than men
- they tend to earn lower salaries
- many married women rely on their husband's superannuation yet with high divorce rates many are independent at older ages.

- 6.57 Women have lower participation rates than men and (like men) are only eligible for the Superannuation Guarantee contribution if they earn in excess of \$450 a month.

- 6.58 Dr Ross Clare of ASFA commented at the first hearing:

You can do a lot of research and determine quite conclusively that on average women tend to have less entitlement to superannuation than men – or you can ask your mum. Each will give you the same answer.³⁴

- 6.59 According to NATSEM, women are a particularly vulnerable group because:

- they are more likely than men to work part-year, part-time or in casual positions (eg. in October 2000, 43% of female employees worked part-time, compared with only 13% of male employees);
- even when they work full-time, women's average earnings amount to only 84 per cent of male average full-time earnings; and

33 Department of Family and Community Services (now Department of Families, Community Services and Indigenous Affairs), *Submission no. 38*, p. 9.

34 Dr R Clare, *Transcript*, 28 July 2005, p. 13.

- women are more likely to have interrupted labour force careers, due to child bearing and rearing.³⁵

6.60 Treasury's submission noted:

The lower incomes and lower levels of labour force participation for women under age 40 identify them as a particular group who may need to improve their savings to meet their retirement income expectations.³⁶

- 6.61 The low level of labour force participation for women under age 40 is mostly related to their traditional mothering roles – time out of the paid work force following births and often reduced time at work on return to the labour force (in part-time or job sharing roles) to balance work and family life. Interestingly, in their submission, the Office for Women referred to an Australian Bureau of Statistics (ABS) survey which revealed that two thirds of women return to work less than twelve months after having their youngest child with only 18 per cent not returning to work.³⁷
- 6.62 The tendency of women with children to return to work in a part-time or casual capacity impinges on their ability to reach the same superannuation level as their male colleagues working full-time and continuously.
- 6.63 That said, it is anticipated that around 1 in 4 women under 40 will not have children³⁸; more males now share child rearing responsibilities and work part-time (13 per cent of male employees work part-time³⁹); and some women, with or without children, earn well above median earnings. The ABS Catalogue Australian Social Trends 2005 also noted that 'Women earned 92 per cent of the average (hourly ordinary-time) earnings of men in May 2004 (calculation based on full-time adult non-managerial employees)' which is a marked increase on the 78 per cent that women were earning 30 years ago.⁴⁰
- 6.64 However, on all earnings, women earn less than men when you take into account part-time work and overtime. In May 2005 women earned 66 per

35 Australian Institute of Banking and Finance, *Submission no. 49*, pp. 8-9.

36 The Treasury, *Submission no. 47*, p. 27.

37 Office for Women, Department of Families, Community Services and Indigenous Affairs, *Submission no. 73*, p. 2 (reference to Career Experience, Australian Bureau of Statistics, 2002).

38 In 2000, it was estimated that 24 per cent of women who had not yet completed their fertility would remain childless for life if fertility rates for 2000 remained constant into the future. Australian Bureau of Statistics, *Australian Social Trends 2000*, cat. no. 4102.0, ABS, Canberra, July 2000.

39 Australian Institute of Banking and Finance, *Submission no. 49*, pp.8-9.

40 Australian Bureau of Statistics, *Australian Social Trends 2005*, cat. no. 4102.0, ABS, Canberra, July 2005.

cent of the male employee total earnings figure.⁴¹ The ABS attributed the difference in the total earnings of the genders to more women than men working part-time (45 per cent of women work part-time) and more men than women earning overtime.⁴²

- 6.65 A number of superannuation initiatives have been particularly identified in submissions as benefiting women. These include the co-contribution scheme and superannuation splitting.
- 6.66 Discussions in public hearings also raised the concept of the government's maternity payment initiative incorporating a superannuation component to benefit women. Others believed the aim was to maintain income levels (through maternity leave pay) to allow choice and continuity. Remarkably, even if more employers were to pay maternity leave, there is currently no legislative requirement to pay SG.⁴³
- 6.67 A significant number of comments were also received about women's poor financial literacy levels. Given that the first impediment to superannuation accumulation for women is workforce participation, the second is a lack of knowledge about retirement savings of those women in the labour force and those having SG contributions.
- 6.68 Ms Kristin Foster of the Financial Services Institute of Australasia (FINSIA) discussed these impediments at the October hearing in Sydney:

In *Saving the future*, 60 per cent of women are either not employed or employed in part-time or casual positions. Only 25 per cent of women earn more than \$50,000 per annum compared with men at 55 per cent. Crucially, 40 per cent of women as opposed to 19 per cent of men expect to be not employed for 12 months or more before retirement. Interestingly, of that number 56 per cent do not know how they will contribute to retirement savings during this period, and even more interesting is that only 22 per cent nominate their spouse as a fall-back plan.⁴⁴

41 Australian Bureau of Statistics, *2006 Year Book Australia – A Comprehensive Source of Information About Australia*, Denis Trewin, Australian Statistician, no. 88, cat. no. 1301.0, ABS, Canberra, p. 184.

42 Australian Bureau of Statistics, *2006 Year Book Australia – A Comprehensive Source of Information About Australia*, Denis Trewin, Australian Statistician, no. 88, cat. no. 1301.0, ABS, Canberra, p. 184.

43 Superannuation Guarantee Taxation Ruling, SGR 94/4, *Ordinary Time Earnings*.

44 Ms K Forster, the Institute of Securities, Banking and Finance (now FINSIA), *Transcript*, 18 October 2005, p. 7.

Co-contribution⁴⁵

6.69 The government's co-contribution scheme has been embraced by women. It was noted in Treasury's submission that:

In general, more females than males benefited from a co-contribution and the numbers of people who benefited tended to increase with age... For those under age 40, the numbers of people who benefited increased as income increased and again more women benefited than men...⁴⁶

6.70 The Department of Families, Community Services and Indigenous Affairs also determined from information they have recently collated that 'as at the beginning of February 2005, around 63 per cent of co-contribution payments had been made on behalf of women with an average payment of \$570'.⁴⁷

6.71 Under the current rules, to be eligible for the co-contribution an individual must earn more than 10 per cent of their income from wages and salaries. While the 2006–07 budget proposes to amend the 10 per cent work test, it does not remove the work test completely. This means that during periods away from work – for example, a career break to care for children, or a period of unemployment – a woman may not qualify to receive the co-contribution. In other words, if a woman is not earning an 'income' but is still contributing to her superannuation she is *not* entitled to a co-contribution.

6.72 The ability to make even small ongoing contributions to a fund in a period of leave without pay may reduce the disadvantage to women of maintaining on-going contributions to superannuation.

6.73 In Australia the average age for first births has increased to 30.5 years and in 2003 the contribution to the total fertility rate of women aged 35–39 equalled that of women aged 20–24 (at 16 per cent).⁴⁸ This means more women are entering motherhood at a later age, some with their own assets and the ability to earn supplementary income during career breaks from sources other than employment.

45 The co-contribution scheme and its rules are discussed in detail in Chapter 7. This discussion focuses wholly on the co-contribution with respect to women.

46 The Treasury, *Submission no. 47*, p. 20.

47 Department of Family and Community Services (now the Department of Families, Community Services and Indigenous Affairs), *Submission no. 38*, p.17.

48 Australian Bureau of Statistics, *Australian Social Trends 2005*, cat. no. 4102.0, ABS, Canberra, July 2005.

- 6.74 The ineligibility of a woman to access the co-contribution scheme during periods of unpaid leave impacts her ability to fully participate in a system which operates on the basis of continuous, long-term contributions.

Conclusions

- 6.75 The committee notes that people were once excluded from the ability to contribute to superannuation if they did not meet minimum work requirements. This is no longer the case, so any person on a career break may continue payments into their superannuation fund. Thus, if a person has the capacity to make ongoing payments from non-employment sources, they may.
- 6.76 However, the co-contribution scheme does not apply to these people. A woman on maternity leave who is not earning an income from employment is ineligible to receive a government co-contribution for her superannuation contributions, despite being in a very low or no income earning position. For example, if a woman had savings and was able to contribute via her savings, she would be ineligible to receive the co-contribution. Equally, if she had an alternative income source such as interest, rent or dividends from which she could make a contribution to her superannuation fund, she would be ineligible for the co-contribution.
- 6.77 The proposed budget changes to the ten percent work test will mean that a person earning at least ten per cent of their income from a business and or employment will be eligible to participate in the government co-contribution scheme. This may assist some women operating small and home-based micro businesses but is unlikely to assist those on an employment work break.
- 6.78 Most women without ongoing employment income would be unable to match their pre-break contribution level, with or without external assistance, even if they had supplementary earnings. However, if a woman has the ability to make a small superannuation contribution when she is most limited in her income earning capacity, government assistance through the co-contribution may give greater assurance that her balance grows in her absence from paid employment.
- 6.79 The committee therefore believes the ten per cent income rule applying to co-contributions impacts negatively on a woman's ability to continue superannuation payments during absences from the paid workforce. In Chapter 7, under *Co-contribution*, it is recommended that the 10 per cent rule be removed.

Superannuation Guarantee entitlement on paid maternity leave

- 6.80 The Human Rights and Equal Opportunity Commission's (HREOC) 2002 report on paid maternity leave noted that '...the majority of women in paid work do not have access to paid maternity leave'.⁴⁹ The report also stated that 'available data suggests that paid maternity leave is predominantly available in the public sector and larger organisations'.⁵⁰
- 6.81 It may be concluded from HREOC's report that many non-government employers do not offer paid maternity leave. Of those employers that do, there is no requirement for the SG to be paid. This is because SG is payable on ordinary time earnings only which does not include maternity leave.⁵¹
- 6.82 On a practical level, an employer who pays an employee SG and provides a period of paid maternity leave may choose to continue to pay the SG. For example, some government employees do continue to accrue superannuation benefits during paid, and, in some schemes, unpaid maternity leave.

Government maternity payment

- 6.83 The government's maternity payment is a non-income tested, non-taxed amount of money provided to a mother following the birth of a baby or adoption of a child under age two. The maternity payment commenced 1 July 2004 replacing both the means tested one-off maternity allowance and the means tested refundable tax offset, the 'baby bonus'.
- 6.84 The maternity payment is currently \$3166 and is paid as a lump sum unless the mother is deemed to be in circumstances which would warrant instalment payments. It is indexed annually and increases to \$4000 on 1 July 2006 and then to \$5000 on 1 July 2008.
- 6.85 The payment is primarily paid to a mother in recognition of the legal relationship between her and the infant and the role of the mother in the birth and extra costs associated with the birth or adoption of a child.
- 6.86 Australia and the United States are the only two OECD countries that do not have a national scheme of paid maternity leave. On the introduction of the maternity payment the Sex Discrimination Commissioner Pru Goward indicated that the maternity payment was a step towards national paid

49 Human Rights and Equal Opportunity Commission, *A Time to Value – Proposal for a National Paid Maternity Leave Scheme*, Sydney, 2002, Section 3.3.2.

50 Human Rights and Equal Opportunity Commission, *A Time to Value – Proposal for a National Paid Maternity Leave Scheme*, Sydney, 2002, Section 3.3.2.

51 Superannuation Guarantee Taxation Ruling, SGR 94/4, *Ordinary Time Earnings*.

maternity leave. The Commissioner stated in the Human Rights and Equal Opportunity Commission Annual Report 2003–04:

The payment, which is to be \$3,000 for each child whether or not the mother is in work, is equivalent to 6.4 weeks of paid leave at about the minimum wage. The federal Government has said it will increase this amount to \$5,000, roughly equivalent to 10.7 weeks paid leave. This falls below the recommended 14 weeks of paid leave ...⁵²

- 6.87 Ms Goward noted the payment is made to a mother for each baby whether or not they are in paid employment. It is on this basis that it is difficult to see a straight connection between the payment and paid maternity leave. However, given there is no national paid maternity leave scheme, the maternity payment could be seen to fill this gap – particularly by women who are in the paid workforce and whose work conditions do not include paid maternity leave.
- 6.88 It was noted at an inquiry hearing that the maternity payment is a poor substitute for maternity leave as maternity leave provides an income stream.⁵³
- 6.89 The Family Assistance Office states that the maternity payment is intended to cover the extra costs associated with the birth of a baby or the adoption of a child and to recognise the role of a mother in the birth of a baby.⁵⁴ However these costs are unspecified. It is therefore difficult to determine whether these costs are intended to include possible employment income foregone whilst the mother cares for the new child or only the direct costs associated with the birth or adoption.
- 6.90 The committee heard that women are generally less likely to accrue the levels of superannuation that men do due to the biological fact that women bear society's children and are the intimate nurturers of babies. This means that women who mother children are extremely likely to spend time out of the paid workforce, at least initially, and their superannuation would be impacted by this.
- 6.91 The need to ensure a woman is not disadvantaged in accruing superannuation during maternity leave was mentioned at a number of

52 Human Rights and Equal Opportunity Commission (HREOC), *Human Rights and Equal Opportunity Commission Annual Report 2003-2004*, Chapter 10, Sex Discrimination, Statement by Commissioner, Sydney, 2004.

53 Ms S Grierson MP, *Transcript*, 10 February 2006, p. 12.

54 <http://www.familyassist.gov.au/internet/fao/fao1.nsf/content/publications-factsheets-maternity_payment_guidelines.htm#1>

hearings. There were suggestions that superannuation could be incorporated into the maternity payment.⁵⁵

- 6.92 However, the Department of Families, Community Services and Indigenous Affairs stated that introducing a superannuation purpose into the maternity payment would water down the intent of the initiative:

I would just reiterate the point that was made about maternity payments. Maternity payment is a very important contribution by the government toward the costs of having a child and ... it is geared very much around the costs of early childhood and supporting younger families at that time. ... We would suggest to the committee that that is the prime focus of those payments, and taking anything away from those payments at an early point in time would have disadvantages.⁵⁶

- 6.93 One individual, Ms Melinda Finch, stated at an inquiry hearing:

Tying the baby bonus to some sort of super would be a brilliant idea.⁵⁷

- 6.94 Ms Finch thought a link between the maternity payment and a superannuation guarantee payment was worthwhile because it would '...keep it [superannuation] in people's minds'.⁵⁸

Conclusions

- 6.95 Paid maternity leave is not a legislated right. However it may be payable under various awards or workplace agreements and some employers may offer a period of paid maternity leave as a goodwill gesture. In cases where maternity leave is paid a superannuation component equivalent to the SG may or may not be paid.
- 6.96 The definition of ordinary time earnings, upon which SG is determined, excludes paid maternity leave yet includes other personal leave including sick leave and recreation leave.
- 6.97 The committee contends that the non-requirement to pay SG on paid maternity leave is a little known fact and many women may assume they have superannuation coverage during this period of payment when in fact

55 Dr C Emerson MP, *Transcript*, 10 February 2006, p. 58.

56 Mr R Barson, *Transcript*, 10 February 2005, p. 7.

57 Ms M Finch, *Transcript*, 28 July 2005, p. 89.

58 Ms M Finch, *Transcript*, 28 July 2005, p. 89.

they may not. The committee believe the non-entitlement to SG during paid maternity leave should be reviewed by government.

- 6.98 The concept of incorporating SG into the lump sum maternity payment was considered by the committee. The committee noted that the Sex Discrimination Commissioner has likened the maternity payment to the equivalent of a short period of paid leave on a minimum wage. In the absence of a national paid maternity leave scheme the maternity payment may enable a mother to take 'paid' leave for a short period of time after the birth or adoption of a child.
- 6.99 The committee is concerned that women taking unpaid leave to have and care for children have reduced or no superannuation coverage during this time. As a measure to provide greater ongoing superannuation coverage for women the committee believe the government's maternity payment could incorporate an SG component.
- 6.100 The maternity payment is paid to all mothers, whether they are in the paid workforce or not. Mothers who are not in the paid workforce perform valuable unpaid work in the home and community and yet have virtually no superannuation coverage. Sanctioning a component of the maternity payment for a superannuation contribution would enable all mothers to accrue a small amount of superannuation during periods of unpaid parenting.

Recommendation 7

6.101 The committee recommends that:

1. the government review the non-entitlement of Superannuation Guarantee during periods of paid maternity leave including amending the definition of ordinary time earnings under the *Superannuation Guarantee (Administration) Act 1992*.
2. consideration be given to having a component of the maternity payment apportioned to Superannuation Guarantee.

Superannuation splitting and the spouse contribution tax offset

- 6.102 Superannuation contribution splitting was introduced on 1 January 2006. It enables a fund contributor to transfer, at year end, some of their superannuation contributions to the fund of their spouse. Up to 85 per cent

of deductible contributions and 100 per cent of undeducted contributions may be transferred. The regulation was introduced to '...allow non-working spouses to have superannuation assets under their own control and to have their own income in retirement'.⁵⁹

6.103 This mechanism enables a low income or non-working spouse to maintain growth in their superannuation fund even though they are not themselves the contributor. It enables a household to access two reasonable benefit limits and two low rate threshold amounts from one person's income or the higher income of one person.

6.104 Most spouses who are not working are women. Women bear children and take maternity leave and are generally the carers in families. Therefore superannuation splitting is likely to favour the account balances of women. Evidence given to the committee indicates this is a way to empower women with their own superannuation and/or to maintain the growth in funds they have worked hard to contribute to.

6.105 In their submission Treasury noted:

It will assist low-income spouses to hold superannuation assets in their own name and under their own control, creating better incentives to contribute to superannuation.⁶⁰

6.106 Another initiative listed by some groups as an incentive to assist non-working or low income women to maintain superannuation balances is the superannuation spouse tax offset. It provides a spouse with a tax offset if they provide voluntary superannuation contributions to their partner. This initiative allows an 18 per cent tax offset for monies contributed to a spouse's superannuation, up to \$3000 per annum. Given most women are the primary care givers it is more likely female superannuation balances will benefit from the tax offset.

6.107 The incidence of relationship breakdown was cited during evidence by Mr Richard Gilbert of the Investment and Financial Services Association (IFSA) as a reason why superannuation splitting and the spouse rebate were important:

Particularly in light of some of the comments that were made in the previous set of evidence about divorce, it is important that each spouse has an independent retirement savings amount.⁶¹

59 The Hon Mal Brough, MP, Minister for Revenue and the Assistant Treasurer, Media Release, *Super Contribution Split Starts on January 1*, 9 December 2005.

60 The Treasury, *Submission no. 47*, p. 19.

61 Mr R Gilbert, IFSA, *Transcript*, 28 July 2005, p. 31.

6.108 In the case of a relationship breakdown the superannuation in a woman's name would be considered as general property of the relationship (as would her husband's) and could be dealt with by agreement or by a court order. From 28 December 2002 the *Family Law Act 1975* enables superannuation interests to be treated as property and superannuation interests can be divided on a marriage breakdown.

6.109 In a lasting relationship a household which utilises superannuation splitting may enjoy a tax offset, benefit from two superannuation incomes in retirement, and currently access two RBLs and two tax free components of superannuation income.

6.110 The Financial Planning Association of Australia (FPA) recognised the benefit in superannuation splitting and spouse rebates to the household unit:

These two mechanisms act (or will act) as an incentive for a family to place money within the superannuation system by contributing on a temporary or a more permanent basis. It may also assist those who are on low incomes due to family or other reasons to accumulate some superannuation savings.⁶²

6.111 Similarly, the Department of Families, Community Services and Indigenous Affairs (FaCSIA) stated:

This voluntary initiative will provide a way for couples to share their superannuation and enable a low-income or non-working member of a couple to have their own superannuation, and hence income in retirement.⁶³

Conclusions

6.112 The committee recognise the value of superannuation splitting and the spouse rebate for contributions to a partner's superannuation. These measures will particularly encourage household superannuation accumulation.

6.113 Women are more likely to take time out of paid work under age 40 than men, to have and to care for children. Superannuation splitting is therefore likely to favour women's balances in periods of low or no income earning capacity.

62 Financial Planning Association of Australia (FPA), *Submission no. 39*, pp. 5–6.

63 Department of Family and Community Services, (now the Department of Families, Community Services and Indigenous Affairs), *Submission no. 38*, p. 18.

- 6.114 Superannuation is now treated as general property of a marriage and may be the subject of property settlement. Therefore the value to women of superannuation splitting and the spouse contribution offset lies in the increased value of household superannuation savings, rather than in a woman having a guaranteed individual superannuation income on retirement.

Financial Literacy for Women

- 6.115 One point which came out in views to the inquiry was the particular lack of financial literacy of women. This covered general financial literacy and understanding about superannuation at basic levels. The Department of Families, Community Services and Indigenous Affairs (FaCSIA) wrote:

Further, a recent survey of women, conducted by Security for Women (S4W), shows that many women know little about superannuation and the importance of saving for retirement. Key findings of the survey include: 51 per cent of women surveyed were unaware of the Superannuation Guarantee Contribution entitlements, 62 per cent did not know how their superannuation was taxed, 55 per cent had two or more superannuation accounts, 43 per cent had never made voluntary superannuation contributions, and 68 per cent did not know how much superannuation they needed to retire comfortably.⁶⁴

- 6.116 FaCSIA also commented that one of the barriers to women contributing to superannuation and saving for retirement was poor understanding and that :

...women of all ages, and especially women under 40, need to be educated about the importance of retirement savings generally – [as they have] limited knowledge about superannuation terms and concepts, including compulsory superannuation entitlements...⁶⁵

- 6.117 Mr Ross Clare of the Association of Superannuation Funds of Australia (ASFA) also noted that women's perception of their superannuation savings needs changing through education:

64 Department of Family and Community Services (now the Department of Families, Community Services and Indigenous Affairs), *Submission no. 38*, p. 10.

65 Department of Family and Community Services (now the Department of Families, Community Services and Indigenous Affairs), *Submission no. 38*, p. 11.

There is the matter of education, there is the matter of encouraging women to regard superannuation as their asset rather than the family's asset.⁶⁶

- 6.118 It also appears that women under 40 should be informed about the characteristics of their retirement and likely trends when they retire. Some of these, as mentioned by FaCSIA, include:

The current life expectancy of women is 82 years while men can expect to live to 78 years (Olsberg et al. 2001). This means that the smaller retirement incomes of women will also need to last longer. Higher divorce rates are likely to result in more women living alone and being dependent on their own financial resources in their retirement (Goward 2004).⁶⁷

- 6.119 The committee heard that improving financial literacy for all people is fundamental to a person's attitude to saving for retirement (refer Chapter 5). It increases their awareness and confidence to make decisions about managing household finances, saving and planning for changes in their lives.

- 6.120 In addition, the Office for Women believes that financial literacy and superannuation education should be specifically targeted at women in order to have the best outcomes:

Women of all ages, and especially women under 40, need to be able to access relevant advice about the importance of retirement savings generally. Limited knowledge about superannuation terms and concepts, including basic compulsory superannuation entitlements, and a lack of available information sources targeted towards women's circumstances make it difficult for women to understand how they can increase their superannuation savings.⁶⁸

- 6.121 The Women's Economic Policy Analysis Unit (WEPAU) of Curtin University of Technology stated in their submission the three key items that exacerbated the structural problems of being able to accrue superannuation by women were:

...the relevance of the term retirement to women's working lives;
an expectation that retirement incomes will be provided through

66 Mr R Clare, ASFA, *Transcript*, 28 July 2005, p. 13.

67 FaCSIA, *Submission no. 38*, p. 9.

68 Ms K Flanagan, Office for Women, Department of Families, Community Services and Indigenous Affairs (FaCSIA), *Transcript*, 10 February 2006, p. 4.

transfers from a partner; and the availability and use of resources for retirement planning.⁶⁹

- 6.122 WEPAU suggested women may not consider 'retirement' as relevant to them. Women have more fragmented working patterns and as such they may associate 'retirement' with the end of a more traditional uninterrupted male working pattern. Retirement for them is also often blurred by the continuation of a heavier load of unpaid household work than men.⁷⁰ The under 40s age group may have less defined male/female roles than the previous generations but on the whole, regardless of employment or marital status, women undertake more unpaid work than men. WEPAU outlined this issue in their submission:

Many women view both their unpaid and paid roles as "work" and while there is a recognition that the balance between the two roles may alter over time, they do not consider that there will be a time when they cease "working". The perception that work does not cease at some point in the life cycle appears to discourage active consideration of retirement.⁷¹

- 6.123 The under 40s generation of women are more likely than their mothers to return to work after having children but their rates of pay are on average lower than men's and their return to work is not often full-time. Therefore, in the majority of households the male partner may be still the main 'breadwinner' and viewed as the party responsible for providing retirement income for the couple. WEPAU contended in their submission that women may therefore not be as attuned to saving for retirement themselves and are dependent upon transfers for their retirement wellbeing.

- 6.124 Given the increase in relationship breakdowns WEPAU contends that the assumption that a woman will be in a couple in retirement is a contentious one and that divorced women tend to move down the income distribution. WEPAU stated:

However, households are dynamic structures and the traditional view that women's retirement incomes will be provided through shared household resources is being challenged by rising divorce rates.⁷²

69 WEPAU, Curtin University of Technology, *Submission no. 12*, p. 9.

70 The most recent ABS data on unpaid household work shows that 65 per cent was performed by women. Australian Bureau of Statistics, *Australian Economic Indicators*, cat. no. 1350.0, ABS, Canberra, July 2001.

71 WEPAU, Curtin University of Technology, *Submission no. 12*, p. 9.

72 WEPAU, Curtin University of Technology, *Submission no. 12*, p. 11.

- 6.125 Data released in 2004 on the under 40s age group reveals the 35–39 age cohort has the highest divorce rate in both males and females than in any other age cohort.⁷³ The rate of remarriage fell significantly between 1986 and 2001.⁷⁴ However, the rate of divorce and remarriage reveals only one aspect of household formation and likely retirement living arrangements—many under 40s may remain in defacto relationships or remain single. These facts alone indicate that under 40s women should be educated about the importance of retirement planning for themselves.
- 6.126 Women are often not as exposed to resources for retirement planning as men owing to the availability of information in their working environment or their preferred information gathering methods. For example, many women working part-time may have limited or no access to the internet. WEPAU's submission wrote:
- Women are more likely than men to state that they have not received any information on retirement planning and this is particularly the case among those working part time (Onyx 1998). Men are more likely than women to value access to written and web-based information and it is possible that this is linked to occupational structures which give greater access to resources such as computers.⁷⁵
- 6.127 This was consistent with information given by Ms Kerry Flanagan from the Office for Women that women's financial literacy was 'Lower than men's, and that they need to receive financial information in different ways'.⁷⁶
- 6.128 It appears women prefer to approach information seeking with a more personal style and so are more inclined to consult colleagues, family and friends and attend seminars than would men. Studies indicate that women are more likely than men to consult a professional for advice yet they place less value on this kind of advice than more personal information gathering methods.⁷⁷ This may be tied to the economic constraints of seeking professional advice.

73 Divorce rate 12.6 per cent for males aged 35-39 and 13 per cent for females aged 35-39. Australian Bureau of Statistics, *Divorces Australia 2004*, cat. no. 3307.0.55.001, ABS, Canberra, November 2005.

74 ABS, *Australian Demographic Statistics*, cat. no. 3101.0, ABS, Canberra, September 2004.

75 WEPAU, Curtin University of Technology, *Submission no. 12*, p. 10.

76 Ms K Flanagan, Office for Women, FaCSIA, *Transcript*, 10 February 2006, p. 10.

77 M Clark-Murphy & P Gerrans, School of Finance and Business Economics, Edith Cowan University, 'Consultation and Resource Usage in Retirement Savings Decisions: Australian Evidence of Systematic Gender Differences', *Financial Services Review*, vol. 10, no. 2001, pp. 273–290.

- 6.129 The committee heard from the Office for Women that the Commonwealth, States and Territories and New Zealand Ministers' Conference on the Status of Women are undertaking work to improve women's overall financial literacy levels including superannuation:

The women's ministers around Australia are working to champion women's understanding of superannuation and the importance of saving for retirement.⁷⁸

Conclusions

- 6.130 As superannuation is a complex financial area a lack of knowledge persists in this area in both sexes (as discussed in Chapter 5). The committee heard that on the whole women have a lower level of financial literacy than men or are more likely to admit to this lack of knowledge. Superannuation is traditionally one of the financial areas where women are prone to a lack of financial literacy.
- 6.131 Moreover, the lack of knowledge about superannuation by women is tied to their view of what retirement is, and whether it relates to them. People tend to only seek out the information they require and do not pursue what is perceived to be non-relevant information.
- 6.132 The women of Generation X and Y have high levels of workforce participation and thus the majority have been subject to a compulsory superannuation system from their early working lives. There is evidence to suggest that without targeted education they may rely solely on the SG for their retirement income or rely on external transfers from a partner or government.
- 6.133 Additionally, Australian women in their prime childbearing years – this has now shifted more to the thirties – experience time out of work and many return to work in reduced capacities after having children. The return to work may not occur until the late thirties or early forties. This is a time when a man would otherwise be considering his, and/or his family's future financial wellbeing. Due to environmental constraints, day to day activities, and reduced or no income earning capacity, women are less likely to independently pursue information on retirement savings.
- 6.134 A woman may also earn below the SG threshold in pursuing a work-family balance or because she could not return to work in a greater time capacity due to unavailability of external child care. Being outside of

78 Ms K Flanagan, Office for Women, FaCSIA, *Transcript*, 10 February 2006, p. 4.

the compulsory system results in a lack of direct engagement in retirement planning.

- 6.135 The types of environments people operate in determine the level of exposure to information and the type of information they are exposed to. In many cases women do not have the opportunity to garner financial information because they are either out of the employed workforce or in the workforce in a reduced capacity. This is a result of women's traditional social responsibilities of bearing and raising children and being carers.
- 6.136 Women also tend to abrogate responsibility for their retirement wellbeing to a male partner – often because he is working full-time and has not experienced long or repeated periods of unpaid absences. This compounds lack of knowledge and interest in superannuation as these women have little ownership.
- 6.137 Much work has already been undertaken on a gender-neutral basis to boost the general financial literacy of Australians. However evidence to this inquiry indicates that women have particular learning preferences and they often miss the exposure to financial information incidental to being in the full-time workplace. It is for these reasons that the committee believes women's financial literacy should be targeted.
- 6.138 Empowering women with information about superannuation and its relevance to them throughout their life course (irrespective of their work and non-work periods) will allow them to make better informed decisions about their retirement savings, including ways to boost household retirement savings.

Recommendation 8

- 6.139 **That the Financial Literacy Foundation, in association with the Office for Women, target programs to improve the financial literacy of women under age 40 with respect to superannuation.**

Casual employees

- 6.140 Another group at a significant disadvantage in accumulating superannuation are those employed in part-time or casual employment.
- 6.141 The number of casual employees in the labour force has increased over the last ten years with 26 per cent of the labour force in casual positions in

2004.⁷⁹ The disproportionate increase in casual employment occurred in males, with the rate increasing from 16 per cent in 1994 to 22 per cent in 2004.⁸⁰ However the rate for women remained higher and relatively stable, at around 30 per cent.⁸¹ There is also a high level of part-time work in the casual workforce with 69 per cent of casual employees working part-time compared to 15 per cent of permanent employees.⁸²

- 6.142 Dr Diana Olsberg from the Research Centre on Ageing and Retirement, University of New South Wales, noted the issues associated with casual employment for employees and how it affects superannuation balances:

Casual employees do not enjoy the same rights and entitlements as ongoing employees. Apart from low pay and low career opportunities, they are particularly disadvantaged in their access to superannuation, so their retirement savings continue to be severely negatively affected. There is a continuing increase in casual employment and part-time and fragmented employment profiles – in particular, there is casualisation in the lower skilled occupations such as elementary clerical, sales and service workers, labourers and related workers.⁸³

- 6.143 The Department of Families, Community Services and Indigenous Affairs noted that being in part-time or casual work was one of the two main factors that can impact on the level of earnings which is critical to the ability to make superannuation savings:

The main factors that can impact on level of earnings are:

- casual or part-time work - work patterns may affect the level of Superannuation Guarantee contributions received, as employers are only obliged to pay superannuation contributions if the employee has earned more than \$450 per month; and
- education and skill levels, as higher paid work often requires, or is undertaken by those with high levels of educational attainment.⁸⁴

79 Australian Bureau of Statistics, *Year Book Australia 2006*, cat. no. 1301.0, ABS Canberra, Details, 2006.

80 Australian Bureau of Statistics, *Year Book Australia 2006*, cat. no. 1301.0, ABS Canberra, Details, 2006.

81 Australian Bureau of Statistics, *Year Book Australia 2006*, cat. no. 1301.0, ABS Canberra, Details, 2006.

82 Australian Bureau of Statistics, *Year Book Australia 2006*, cat. no. 1301.0, ABS Canberra, Details, 2006.

83 Dr D Olsberg, Research Centre on Ageing and Retirement, University of New South Wales, *Transcript*, 28 July 2005, p. 18.

84 Department of Family and Community Services (now Department of Families, Community Services and Indigenous Affairs), *Submission no. 38*, p. 11.

- 6.144 Many of these positions are filled by women as Dr Olsberg noted in evidence:

The main focus of my own research has been on the disadvantaged position of women in accessing retirement savings as a result of their fragmented work patterns and the preponderance of women in the part-time and casual paid labour force.⁸⁵

- 6.145 Treasury's submission did not see casualisation as such a negative in terms of superannuation accumulation, but rather a positive in enabling people to return to work in a reduced capacity where full-time work would be unsuitable for them:

Also, work patterns are changing. Working arrangements are more flexible, including part-time and casual work. These arrangements provide scope for students, those with caring responsibilities and those approaching retirement to continue to participate in the labour force and to save for their retirement.⁸⁶

- 6.146 The high degree of casualisation of the workforce means a significant number of these people may be employed in these positions on an on-going long-term basis and as such are vulnerable to having reduced, fragmented or negligible superannuation savings. As casualisation trends increase more young people are employed in this way. Dr Olsberg noted:

My most important point is that young people are disproportionately represented among casual employees. Although young people made up only 21 per cent of all employees in 2003, two-fifths – 40 per cent – of casual employees were young people aged 15 to 24.⁸⁷

- 6.147 As previously discussed in Chapter 3, the SG monthly earnings threshold of \$450 reduces the chances of this category of employees accumulating superannuation. This is because some have a single low paying or low monthly hours position whilst others have multiple low paying or reduced hours positions where each position earns less than the monthly threshold. Ms Philippa Smith of ASFA noted this problem:

A good number of people in the work force are cobbling together multiple casual or contract jobs to provide their total wages. So removing that \$450 threshold as a substantive factor in savings for

85 Dr D Olsberg, Research Centre on Ageing and Retirement, University of New South Wales, *Transcript*, 28 July 2005, p. 17.

86 The Treasury, *Submission no. 47*, p. 3.

87 Dr D Olsberg, Research Centre on Ageing and Retirement, University of New South Wales, *Transcript*, 28 July 2005, p. 18.

people who are in the casual and contract work force would be significant for the under 40s because of the number of people under 40 who achieve their income through casual and other work.⁸⁸

- 6.148 Additionally, SG payments are made on the basis of ordinary time earnings so people working shifts in sectors where their overall wage is dependent upon overtime are not necessarily receiving SG contributions commensurate with the nature of their work. The Transport Workers Union noted in their submission:

Nine per cent of a worker's ordinary time earnings is the amount provided to a worker's superannuation fund pursuant to compulsory superannuation contribution. Unfortunately this system works to the disadvantage of many casual workers.⁸⁹

- 6.149 Casual employment has been associated with short-term or irregular employment but this is a common misunderstanding. Many people are employed in the casual labour market on an on-going basis which means they may have a long-term disadvantage in accumulating superannuation. The Australian Bureau of Statistics Year Book Australia 2006 noted that 'In August 2004, 55% of the 2.0 million casual employees in Australia had been with their employer for 12 months or more, compared with 83% of the 5.7 million ongoing employees'.⁹⁰

- 6.150 In certain industries (for example retail and hospitality), holding more than one employment position is common place, because full-time employment is unavailable or rostering and contracting systems prevent earning sufficient monthly wages. Dr Olsberg noted in her submission that people employed in a casual capacity are more likely to hold multiple jobs:

Casual employees are more likely to have more than one job. In 2003, 8% of employees who were casual in their main job were multiple job holders, compared with 4% of employees who were ongoing in their main job.⁹¹

- 6.151 Dr Olsberg also cited nursing as an occupation affected:

In the research that I have done, particularly nurses, when they are in the private sector doing community care and those sorts of

88 Ms P Smith, ASFA, *Transcript*, 28 July 2005, p. 4.

89 Transport Workers' Union (TWA), *Submission no. 27*, p. 6.

90 Australian Bureau of Statistics, *Year Book Australia 2006*, cat. no. 1301.0, ABS Canberra, Details, 2006.

91 Dr D Olsberg, Research Centre on Ageing and Retirement, University of New South Wales, *Submission no. 30*, p. 3.

things, work for a range of employers, many of them earning substantially more than \$450 a month. But of course, because they do not earn \$450 from any one employer, they do not get anything. So they are severely disadvantaged.⁹²

- 6.152 This tendency to hold multiple casual positions was also mentioned by ASFA:

There also has been a substantial increase in the number of casual employees, with 26% of employees casual in 2003, compared to 22% in 1993, leading to an increase in casual jobs from 1.3 million to 1.9 million (ABS 2005). A significant proportion of these job holders achieve the equivalent of full-time employment through the combination of two or more jobs.⁹³

- 6.153 People aged under 40 are particularly prone to work in casual positions because newcomers to the labour force have constrained market power and casual work offers work experience opportunities. Additionally, casual work enables people to combine work with study, women returning to the workforce after having children tend to take part-time or casual work, and there has been a general labour market movement to casualisation of positions.

- 6.154 The ACTU's submission quoted the under 40 age group as particularly prevalent in the casual labour force and mentioned those most likely to be employed in this way:

First and foremost, amongst the under 40's are a very substantial group of employees who are part-time, casual and low paid. This is particularly the case amongst women, migrant workers, those who left school early before completing their HSC, the unemployed, as well as those who move off other social security benefits and participate in the low paid end of the labour market. A significant proportion of this group is likely to have labour market experiences over their working life that will prevent them accumulating enough super savings to meet the target of two thirds of pre-retirement income at age 65, even with the pension.⁹⁴

- 6.155 Even if a person in a casual position or multi-job casual positions were to earn above the threshold in each job they face other issues in growing their superannuation balances.

92 Dr D Olsberg, Research Centre on Ageing and Retirement, University of New South Wales, *Transcript*, 28 July 2005, p. 19.

93 ASFA, *Submission no. 16*, p. 21.

94 ACTU, *Submission no. 29*, p. 9.

- 6.156 One is that with shorter timeframes per month or per position they are less exposed to information about superannuation savings than those in full-time work and often work in environments where they do not have access to the internet or other in-work information resources. Ms Kerry Flanagan from the Office for Women noted this problem with casualisation:

For example, if women move jobs a lot and work in casual employment and part-time work then it is difficult for them, because they have superannuation balances all over the place. So giving them some assistance to understand how they can combine those and reduce administrative fees and things like that are important elements.⁹⁵

- 6.157 The other is that broken work patterns tend to give reduced opportunity to contribute to superannuation. Casual employees do not have an on-going permanent position and may find a placement or position prematurely ceases. Research discussed in the Australian Bankers' Association submission indicated that many young people in casual positions are actively seeking more hours of work:

However, not all younger people working part-time are necessarily doing so by choice (i.e. completing studies, having children, etc). Some are working part-time as longer hours or full-time positions are not available. In 2003, 12% of part-time workers aged 15-24 years were actively seeking more hours of work, and were available to work more hours. Similar levels are receiving government assistance.⁹⁶

- 6.158 The final issue is that multiple employment positions can often lead to multiple superannuation funds. The superannuation choice regime and portability of a selected fund attempt to alleviate multiple fund issues by allowing people to consolidate their superannuation into a single fund (discussed in detail in Chapter 7). However, this often requires the individual to have the knowledge of how and why to consolidate their super. Issues associated with multiple superannuation funds and the initiatives to overcome these problems are discussed in detail in Chapter 7.

Conclusions

- 6.159 The committee recognises that people under age 40 are exposed to more casualised work arrangements than other age cohorts for a variety of reasons including the higher degree of these positions on offer, combining
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95 Ms K Flanagan, Office for Women, *Transcript*, 10 February 2006, p. 6.

96 Australian Bankers' Association, *Submission no. 28*, p. 28.

work with tertiary studies and women under forty balancing the unpaid work of family life with shorter hours of paid employment.

- 6.160 Under 40s employed in a casual work environment are less likely to accumulate as much superannuation as their full-time permanent equivalents. This is mainly due to the prevalence of restricted hours in casual positions of employment which leads to lower wages and possible exclusion from the compulsory superannuation savings system. A lower waged person, even if they earn at or above the SG monthly threshold will have difficulty pursuing a robust superannuation balance.
- 6.161 Many people employed in casual work are employed by more than one employer as this is the pattern of the workforce in certain sectors and holding multiple jobs allows them to enjoy the income level of a full-time position. However, some would not receive the same SG contribution enjoyed by a person in an equivalent full-time position as each position must earn above the monthly threshold in its own right. SG entitlement is tied to earnings with an employer, not to overall income levels.
- 6.162 Whilst the committee acknowledges that the superannuation choice arrangements may act to encourage young people to nominate a preferred single fund for their superannuation, impediments to this remain. The problem with having multiple accounts is not only the likelihood of one or more falling into inactivity but also that each account will levy fees associated with the running of the fund, irrespective of the balance in the account. Such impediments associated with multiple superannuation funds are discussed in detail in Chapter 7.
- 6.163 Consolidation of funds may be costly in terms of time and money. Although an employee now has the advantage of portability of superannuation out of a fund into a preferred fund (this is discussed in more detail in Chapter 7) the committee heard that some funds impede the process and some charge high exit fees. These actions can impact on casual workers attempting to consolidate many small superannuation fund balances.
- 6.164 The committee has recommended that the government develop policies to ensure people with multiple casual jobs are not at a disadvantage in accruing superannuation (Chapter 3). It also endorses changes announced in the 2006 budget to encourage consolidation of superannuation accounts and locate lost benefits (refer Chapter 7).
- 6.165 On a general level the committee's recommendations to improve the financial literacy and superannuation savings awareness of all young Australians will help to improve the superannuation savings of casual

employees (Chapter 5). Promoting greater awareness of the co-contribution scheme and how it works may also assist those employed in casual positions to strengthen their superannuation savings position.