

Submission No: 63
Date Received: 29/8/08
Secretary: G.W.

Australian Institute of Superannuation
Trustees
ABN 19 123 284 275

Ground Floor
215 Spring Street
Melbourne
info@aist.asn.au

Ph: 8677 3800
fax: 8677 3801
email:

29 August 2008

The Secretary
Standing Committee on Employment and Workplace Relations
House of Representatives
PO Box 6021
Parliament House
CANBERRA ACT 2600
E-mail: ewr.reps@aph.gov.au

Dear Secretary

Pay Equity and associated issues related to increasing female participation in the workforce

We welcome the opportunity to make a submission to this inquiry.

The Australian Institute of Superannuation Trustees (AIST) is a national not-for-profit organisation whose members are superannuation fund trustee directors and officers of industry, public sector, and corporate superannuation funds who operate with a representative Trustee Board of Directors. AIST provides professional training, consulting services and supports trustee directors and staff to help meet the challenges of managing superannuation funds and advancing the interests of their fund members.

As part of its continuing advocacy to improve retirement outcomes for women, AIST supports measures that increase female participation in the workforce and that seek to reduce pay inequities.

Maternity Leave

AIST has lodged a submission with the Productivity Commission Inquiry into Paid Maternity, Paternity & Parental Leave, a copy of which can be obtained from our website and is also enclosed.

Australia and the US are the only two countries in the OECD which do not have legislated, paid maternity leave. AIST believes that a paid maternity leave scheme has the dual benefits of providing income support for new parents whilst also leading to increased workforce participation by women – both through women returning to work more reliably following childbirth and currently unemployed women being encouraged to join the workforce because of the availability of the scheme.

Paid maternity must include superannuation

AIST has long recognised that the current superannuation regime does not offer women the same security in retirement as it does men. Lower pay rates, lack of full time employment opportunities and longer career breaks mean women are the big losers when it comes to having adequate aged income support. Women live longer than men, but the majority of them face a less than comfortable retirement.

According to recent estimates*, the average superannuation balance for men is about \$90,090, while for women the average balance is \$56,587, just two thirds the size of their male counterparts. Moreover, it is estimated that more than a quarter of women have no superannuation.

Women who spend time out of the paid workforce to raise children risk a significant reduction in their retirement living standards. The average six year career break for a 30 year old female on an annual salary of \$50,000 costs her \$77,000** in lost super at retirement. If that same woman takes a 10 year career break, it will cost her \$120,000 in lost super, or more than one-third of her expected retirement payout.

Recognising that the absence of superannuation contributions during periods of maternity leave is a major contributing factor to the much lower superannuation savings of women, AIST has proposed a Government-funded maternity leave scheme that includes a superannuation guarantee (SG) component.

AIST believes that women should be paid 5 months (20 weeks) paid Maternity Leave based on Full Time Average weekly earnings for women.

For women earning less than AWE prior to the birth, we recommend no reduction in this amount, as lower income earning women are more likely to need additional assistance with the expenses associated with motherhood.

In the absence of this superannuation component, AIST recommends that the Government make a once-off payment – a "Super Baby Bonus" - to the nominated superannuation account of each new mother. This payment would be equal to the net Superannuation Guarantee contributions that would be payable on the maternity leave income payments.

We recommend the Super Baby Bonus commence at \$1,500 and is increased in line with adult female full-time ordinary time earnings.

Abolition of \$450 monthly superannuation threshold

AIST recognises that the high number of women in part-time and casual work is a key contributing factor to the gender imbalance in superannuation. Currently, workers who earn less than \$450 a month do not qualify for employer compulsory superannuation payments. This includes those who may be earning more than \$450 a month but who may be working for more than one employer. Workers who miss out on compulsory superannuation also miss out on the benefits of default basic death and disability cover as well the opportunity to increase their level of low-cost insurance.

AIST believes that the abolition of the \$450 a month Super Guarantee threshold would encourage greater female participation in the workforce whilst also improving the retirement outcomes for women and providing them with access to cost-effective insurance.

Many women still missing out on benefits of the Super Co-contribution Scheme

AIST research indicates that while many women have benefited from the Government's Co-contribution super scheme, the take-up rate among young women and those with families is low.

While the scheme has benefited participants to the tune of about \$1 billion p.a since it was introduced and is to be applauded for its success in improving the savings behaviour of many women, the main beneficiaries have been found to be older workers with disposable income. Our research also found that partnered women are more likely to participate than single women.

Under the Co-contribution Scheme, the government tops up every \$1 voluntary contribution made by the employee with up to \$1.50, to a maximum of \$1500 a year. However to get the full co-contribution amount employees must contribute \$1000 of their money into the fund and earn less than \$28,900 a year.

AIST believes this scheme should be extended and boosted so that more women can benefit. We have recommended that the scheme be reconfigured into two components that include a direct cash payment from the government to the super accounts of very low income earners without the need for a voluntary contribution and a continuation of the current scheme on a \$1-for-\$1 basis, rather than the \$1.50-for-\$1 as currently applies.

AIST research indicates that people who begin contributing to the Co-contribution scheme are generally committed to continuing and view their contribution as an essential household expense.

Affect on female participation in the workforce

AIST believes that improving women's access to superannuation benefits will lead to greater female participation in the workforce and help narrow the gender pay gap.

As one of the most – if not the most – tax effective savings measures available, superannuation is a key employment-related benefit.

Low-income earners and women have largely missed out the benefits of the previous Government's Better Super reforms, which delivered generous tax concessions at retirement to those with large superannuation balances.

If more women are able to gain more from our superannuation system, they will be encouraged to stay in the workforce - both to qualify for the SG and have the opportunity to make voluntary top-up contributions.

Employers will benefit from retaining employees with the required qualifications and skills to grow their business.

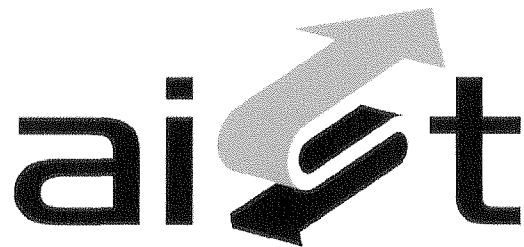
Yours sincerely



Andrew Barr
Policy & Research Manager

*Rice Warner Actuaries

**Calculations based on ASIC/FIDO Superannuation Calculator



Serving Super. Protecting Futures.

The Australian Institute of Superannuation Trustees

Submission to the Inquiry into Paid Maternity, Paternity and Parental Leave

Introduction

The Australian Institute of Superannuation Trustees (AIST) is a national not-for-profit organisation whose members are superannuation fund trustee directors and officers of industry, public sector, and corporate superannuation funds who operate with a representative Trustee Board of Directors. AIST provides professional training, consulting services and support trustee directors and staff to help meet the challenges of managing superannuation funds and advancing the interests of their fund members.

This submission is made in response to the Productivity Commission's Inquiry into Paid Maternity, Paternity and Parental Leave.

Background

AIST Supports paid parental leave for the following reasons:

- Income support for new parents at a financially difficult time, with flow-on benefits for family harmony and alleviation of parental stress;
- Improved maternal and child health and welfare, both during the period of leave, and in the subsequent lives of both mother and child;
- To the extent that the arrangements provide paid paternal leave as well as maternal leave, potential benefits for family life, father/child relationships, gender equity and work/family life arrangements;
- Maintaining women's connection with the workforce, retaining their skills, reducing employers' costs on recruiting replacement staff, continued utilisation of women's firm-specific skills and knowledge, and economy-wide productivity gains resulting from these factors;
- Increased workforce participation by women (both through women returning to work more reliably following the birth of a child, and currently unemployed women being encouraged to join the workforce because of the availability of the scheme);
- Continued accrual of employment-related benefits, notably recreational leave, long service leave, and Superannuation Guarantee (provided these were brought within the scope of any proposed scheme)

AIST believes there are many challenges for any proposed scheme:

- The financial impacts of the scheme on small business if the scheme is funded through employers;
- The labour market distortions that may occur whether the scheme is funded by Government or employers, particularly in small business and/or low-paid, unskilled occupational groups;
- The interaction with existing voluntary or negotiated paid parental leave arrangements;
- In the case where the scheme is linked to employment, equity issues for women outside the workforce, or self-employed;
- Issues specific to single mothers;
- Does any proposed scheme address the shortfalls in women's superannuation savings.

AIST proposal

AIST proposes a Government funded maternity leave scheme providing 20 weeks of paid leave for all new mothers. This would be overlaid on existing entitlements for up to 52 weeks unpaid leave. The benefit would be paid by the Government to the new mother from the date of birth of the child, for 20 weeks. The level of benefit would be Average Weekly Earnings for women. For women earning less than AWE prior to the birth, we recommend no reduction in this amount, as lower income earning women are more likely to need additional assistance with the expenses associated with motherhood.

Mothers wishing to take longer periods of leave would be able to continue as unpaid leave.

Superannuation

AIST believes that the absence of superannuation contributions during periods of maternity leave is a major contributing factor to the much lower superannuation savings of women when compared to those of men. We recommend that the Government make a once-off payment to the nominated superannuation account of each new mother, equal to the net Superannuation Guarantee contributions that would be payable on the maternity leave income payments. (The "Super Baby Bonus")

The Super Baby Bonus amount is calculated as:

AWE for Full time adult females (Feb 08):	\$1,003.20
20 weeks payment:	\$20,064
9% of 20 weeks payment:	\$1,806
9% contribution netted off for contributions tax:	\$1,534.90

We recommend the Super Baby Bonus is commenced at \$1,500, and is increased in line with adult female full-time ordinary time earnings. A copy of our Super Baby Bonus policy document is attached.

Existing schemes and laws

Existing paid maternity leave schemes

It is proposed that, where voluntary or negotiated schemes already exist, no automatic offset against the maternity leave payment would apply, although employers would have the right to renegotiate the level and duration of their existing scheme in light of the paid maternity leave scheme;

Under current law, voluntary or negotiated schemes are not included in the definition of Ordinary Time Earnings for the purposes of the Superannuation Guarantee. Women under these schemes are missing out on superannuation

entitlements now. Regardless of the outcome of the Commission's enquiry we strongly recommend that maternity leave be brought within the scope of the Superannuation Guarantee.

A number of employers now offer 14-20 weeks paid maternity leave. Where a woman takes such leave as part time over a longer period, there is an increased risk that her earnings will fall under the present \$450 per month earnings threshold for Superannuation Guarantee. This may mean that inclusion of maternity leave within the scope of the Superannuation Guarantee is of no effect in such cases. We strongly recommend the \$450 per month threshold on earnings be removed.

Existing Baby Bonus

The 2008-09 Budget announced the introduction of means testing for the Baby Bonus, and the Family Tax Allowance. We support means testing of the Baby Bonus.