TACKLING GENDER INEQUITY IN SUPERANNUATION

2023-24 Pre-Budget Submission

January 2023

HESTA welcomes the opportunity to make a pre-Budget submission for the 2023-24 Budget. This submission focuses on key measures that address gender inequities in superannuation and improve financial security for women in retirement.

HESTA and our members

HESTA is a profit-to-member industry super fund investing around $70 billion on behalf of more than 970,000 members who work primarily in the health and community services sector.

At HESTA, our core responsibility is to grow and protect our members' retirement savings and we care deeply about addressing inequities and imbalances faced by our members which impact their retirement outcomes. As a large investor, HESTA also has an interest in contributing to the debate and frameworks in key areas that impact our membership, including housing and climate transition.

Our members are predominantly low and middle-income working women and come from every stage of working life – from those under 18 and just starting out, to retirees. Around 80% of our members are women who work in vocationally driven and often low paid roles. They earn over 13% less than their male counterparts on average[1], are less likely to be able to save outside their super, and are more likely to have lower account balances when they retire compared to their male counterparts. Many of our members spend considerable time in unpaid care work, which adds enormous economic benefit to the country at the expense of their own financial security.

Australia's superannuation system is one of the best in the world but gaps remain because of system settings which overwhelmingly disadvantage women and those in casual, part-time or insecure work.

HESTA recommends as a priority that the Government pays super on the Parental Leave Pay scheme, which would pave the way to closing the gender super gap. HESTA makes

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[1] WGEA (2022). WGEA Scorecard 2022: The state of gender equality in Australia. https://www.wgea.gov.au/data/wgea-research/australias-gender-equality-scorecard/health-care-and-social-assistance

other key recommendations to reform superannuation settings and address the deep inequity in the super system. Recommendations in relation to tax concessions would also provide savings to the Government, making them effective budgetary measures.

HESTA Recommendations for improving equity in retirement outcomes:

Closing the gender super gap

Recommendation 1

- Pay superannuation on the Commonwealth Parental Leave Pay scheme

Recommendation 2

- Extend Low Income Super Tax Offset (LISTO) eligibility to those earning up to the top of the second tax bracket, linking the amount of the offset to the Superannuation Guarantee (SG)
- Introduce an additional payment, equal to 15% of concessional contributions, for individuals with taxable incomes below the effective tax-free threshold

Recommendation 3

- Introduce a superannuation "carer credit" for unpaid parental leave

Removing inequity in super tax concessions

Recommendation 4

- Cap the amount of superannuation balances to $5 million, where investment earnings exceeding this cap are taxed at the top personal income tax rate

Recommendation 5

- Link the Division 293 threshold with the top marginal personal tax rate

Executive summary

HESTA strongly supports reform that addresses the gender inequity embedded in the superannuation system. 80% of HESTA members are women whose financial security in retirement is directly impacted by inequitable super settings. HESTA sees an opportunity for Government to implement measures that improve retirement outcomes for women and low-income earners.

HESTA's advocacy for superannuation policy reform is because as a superannuation fund we strive to maximise the retirement savings of our membership, most of whom are female and in low-paid work. Our members' superannuation outcomes are driven by their workforce experiences and taking time off to care for children and others. These penalties are exacerbated by inequitable tax concessions which tend to advantage high income earners who tend to be male.

New HESTA modelling demonstrates the combined impact on the superannuation savings of typical members of superannuation on the Commonwealth Parental Leave Pay scheme and more equitable distribution of tax concessions[2]. Implementing our recommendations could see mothers working in the health and community services sector get a boost to their super balance at retirement of over 11%. Our modelling demonstrates that these reforms are not only the right thing to do, they could be life changing for our members and would start the path to closing the gender super gap.

Table 1 – Impact of super on PPL and tax concessions for low income workers January 2023 model – Assumptions in Appendix A

A typical HESTA member:	Impact to super balance at retirement from having:		
	One child	Two children	Three children
Early Childhood Education & Care worker	+4.99%	+7.03%	+10.10%
Aged Care worker	+4.48%	+7.10%	+10.39%
Community services worker	+4.91%	+8.08%	+11.02%
Primary Health worker	+3.70%	+5.91%	+7.87%
Private Hospital worker	+4.46%	+7.21%	+9.31%

[2] The modelling combines the effect of paying super on the Parental Leave Pay scheme with the impact of expanding eligibility to the Low Income Super Tax Offset (LISTO) to those earning up to the second income tax bracket of $45,000. The modelling incorporates the legislated increases in the Superannuation Guarantee rate between 2022 and 2026 (10.0% to 12.0%).

Improving equity of the super system

Super on Commonwealth Parental Leave Pay scheme is the first step in addressing the gender gap

Paid Parental Leave is the only widely accessed form of paid leave that does not include corresponding superannuation contributions. This is inequitable and disproportionally unfair to women, who overwhelmingly suffer the consequences of reduced super when taking time off work to care for children. It also directly contributes to the gender super gap, which sees women retiring with a quarter less super than men. A first step to fixing this is to pay super on the Commonwealth Parental Leave Pay scheme.

Women already suffer a motherhood penalty as their earnings reduce by 55% "in the first five years of parenthood" [3], further exacerbating the gender super gap and risking women's financial security in retirement.

Paying super on the Commonwealth Parental Leave Pay scheme is an important and immediately achievable equity measure that will impact many women, particularly those in casual, part-time or insecure work or in industries that are typically lower paid, like aged care and early childhood education and care.

HESTA modelling in 2023 shows the policy change would have a significant impact on women, particularly those working in undervalued caring roles. This is an update from previous modelling and accounts for increases in the minimum wage and the superannuation guarantee.

The model shows how an early childhood educator with three children could have a boost to their super savings of as much as 6.5%; an aged care professional with two children could see her super get an additional 4.2% at retirement. A mother with two children who is working in the community services industry could retire with up to 7.1% more super if super was paid on the Parental Leave Pay scheme. This is potentially life changing for HESTA members on low and middle incomes.

Our modelling also shows how paying super on the Parental Leave Pay scheme could help boost the super savings of members working in hospitals and primary health:

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[3] Treasury (2022). Women's Budget Statement. https://budget.gov.au/2022-23-october/content/womens-statement/download/womens_budget_statement_2022-23.pdf

Table 2 – Impact of paying super on Parental Leave Pay
January 2023 model – Assumptions in Appendix A

A typical HESTA member:	Impact to super balance at retirement from having:		
	One child	**Two children**	**Three children**
Early Childhood Education & Care worker	+1.94%	+4.03%	+6.45%
Aged Care worker	+1.94%	+4.19%	+6.68%
Community services worker	+2.07%	+4.49%	+7.10%
Primary Health worker	+1.56%	+3.40%	+5.36%
Private Hospital worker	+1.74%	+3.75%	+5.88%
Public Hospital worker	+1.94%	+4.08%	+6.47%

Paying super on the Parental Leave Pay scheme is the first step in addressing the motherhood penalty. It would be a positive policy reform that will contribute to more equitable outcomes by closing the super gender gap and improving the retirement outcomes of women and other workers in these sectors.

Recommendation 1

- **Pay superannuation on the Commonwealth Parental Leave Pay scheme**

Improving equity of super tax concessions

Targeting Government support to super accounts where it is needed most

When occupational super was introduced in the 1980s and 90s, it was intended to be taxed at a lower rate than take home pay as a trade-off for putting savings aside until retirement.

However, because super is taxed at a flat 15% rate, low income earners in the bottom tax bracket were actually taxed more on their super than they were on their wages, while workers in the second lowest tax bracket received no tax benefit on their super.

This also means high income earners benefit more from these settings than low and middle income earners as they pay less tax on their super than their salaries.

Women are more likely than men to be low income earners, yet government support for super savings overwhelmingly benefits men, who already have more super savings than women overall.

As a result, the Government introduced a scheme designed to address the deepest super tax inequities, a scheme now called the Low Income Superannuation Tax Offset (LISTO). The LISTO pays back the 15% tax paid on superannuation for those earning up to $37,000 which was the top of the second tax bracket when the LISTO was reintroduced. The maximum value of the LISTO is $500 per year, which is based on the 9.5% super guarantee rate that was in place at the time. For those earning taxable incomes below the effective tax-free threshold of $21,884, this means they get no tax concessions.

The LISTO is intended to be a basic equity measure for Government to support the super savings of low-income earners. It is the only tax measure which benefits more women than men and amounts to only 2% of the total $40 billion in super tax concessions, costing around $800 million[4].

Since 2017, increases in the superannuation guarantee and changes to the income tax brackets mean more low income earners are missing out on this tax concession. A worker must earn less than the full-time minimum wage to be eligible for this tax concession, making the LISTO an equity measure that does not adequately compensate most of our lowest paid for the additional tax they have paid.

The current $500 cap equates to less than the tax paid on the 10.5% super contributions by individuals with incomes above $31,746[5]. The combined effect of these changes have resulted in many low income earners, mostly women, paying ***more*** tax on their super contributions than their take-home pay.

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[4] Mercer (2022). Fixing super tax concessions. https://www.mercer.com.au/content/dam/mercer/attachments/asia-pacific/australia/Mercer-2022-Fixing-super-tax-concessions.pdf

[5] Mercer (2022). Fixing super tax concessions. https://www.mercer.com.au/content/dam/mercer/attachments/asia-pacific/australia/Mercer-2022-Fixing-super-tax-concessions.pdf

It is an inequitable outcome impacting women throughout their lifetime, with women between the ages of 18 and 54 twice as likely to receive the offset as men, and LISTO payments peaking for women aged 25 to 33 as they return to the workforce from having and caring for children.

Adjusting the settings of the offset would ensure the integrity and original intent of this measure are maintained, and that those most in need get a boost to their super savings.

HESTA proposes two simple changes that will address this misalignment. First, extend the LISTO eligibility to those earning up to the top of the second tax bracket, linking the amount to the Superannuation Guarantee rate. In addition, introduce an additional annual payment equal to 15% of Superannuation Guarantee contributions for those who earn below the effective tax-free threshold. This second recommended change is so that those individuals who earn up to the effective tax-free threshold get some benefits from the concessional treatment of super.

Our modelling suggests that if the Government adopts these changes, a 25-year old HESTA member working in aged care could see their balance at retirement increase by 2.5% – this is an additional $8,854, a significant amount for low income earners. About 250,000 HESTA members could see increases to their super savings if the LISTO eligibility was extended.

Adjusting the LISTO settings to rebate members the additional tax they have paid on their super and provide a modest incentive for our lowest paid members would make it consistent with its original intent as an equity measure.

Recommendation 2

- **Extend Low Income Super Tax Offset (LISTO) eligibility to those earning up to the top of the second tax bracket, linking the amount of the offset to the Superannuation Guarantee (SG) rate**
- **Introduce an additional payment equal to 15% of concessional contributions for individuals with taxable incomes below the effective tax-free threshold**

A Carer Credit to value unpaid care work

In addition to superannuation on the Commonwealth Parental Leave Pay scheme, the Government should introduce and fund a "carer credit" to compensate parents for superannuation lost due to unpaid parental leave.

Unpaid time out of the workforce to care for others has a significant impact on women's financial security in retirement. Women perform 80% more unpaid work at home each week than men[6] including child-care, caring for other family members, housework, shopping, and food preparation. PwC has previously estimated that the replacement cost of informal childcare alone would be $409.5 billion per year[7]. This is an enormous contribution to society that is not properly recognised as essential to the economy, with the cost borne mostly by women.

If a small fraction of this amount was paid as superannuation this would make a substantial impact to retirement outcomes and demonstrate that unpaid care work is valued. Women's unpaid caring work should not result in financial insecurity in retirement.

A small boost to a primary carer's superannuation can create enormous potential long-term benefits at retirement. Carer credits have been supported by a wide range of stakeholders[8] and is a model applied in other economies similar to Australia's. As noted by the Actuaries Institute:

> "The concept of pension credits for carers is not a new idea as in Europe, most countries provide some form of pension entitlement within their national pension system during these periods."[9]

Eligibility for a superannuation carer credits scheme for unpaid leave in Australia should be broad, being available to parents who are out of the workforce as well as those who are taking additional unpaid leave on top of their paid leave.

The combination of superannuation on paid parental leave and a superannuation carer credit for unpaid leave should provide all parents with at least the value of a year's superannuation contributions.

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[6] WGEA (2020). *Women's economic security in retirement*. https://www.wgea.gov.au/publications/womens-economic-security-in-retirement
[7] PwC (2017). *Understanding the unpaid economy.* https://www.pwc.com.au/australia-in-transition/publications/understanding-the-unpaid-economy-mar17.pdf
[8] KPMG (2021). *The gender superannuation gap.* https://home.kpmg/au/en/home/insights/2021/08/gender-superannuation-gap.html
[9] Actuaries Institute (2021). *Gender inequality in retirement savings.* https://www.actuaries.asn.au/Library/Miscellaneous/2021/GenderInequalityinRetirementSavingsActuariesInstitute270421.pdf

Recommendation 3
• **Introduce a superannuation "carer credit" for unpaid parental leave**

Paving the way for more equitable distribution of tax concessions

Superannuation tax settings remain deeply inequitable as Government support to boost super savings is heavily skewed towards high income earners and high net worth individuals – support that should go to low income earners. Because men on average earn more and have higher super balances, the inequity of these tax concessions means two thirds[10] of the $40 billion in Government tax concessions go to men.

While existing settings cap the amount of super that can be transferred into a tax-free retirement phase, there remain a large number of accumulation accounts with extremely high balances that enjoy tax concessions beyond what could be considered reasonable. This is because investment earnings in the super system are concessionally taxed at 15%, which means that individuals with high incomes are getting tax concessions of up to 30% of the top marginal tax rate.

It has been identified that there are over 11,000 people with balances of $5 million or more[11] and an acknowledgement that high-wealth individuals are the biggest beneficiaries of super tax concessions[12]. Poorly targeted tax concessions in super mean that those who need them most, such as women, low-income earners and those in the caring sector or insecure work, will suffer poor retirement outcomes at the expense of those who can afford to sustain themselves comfortably in retirement without any Government support.

To address this expensive and inequitable disparity in Government support, HESTA recommends that the Government cap the amount of superannuation balances to $5 million, where investment earnings exceeding this cap are taxed at the top personal income tax rate. This would improve Government revenue by reducing expensive concessions to those who do not need them and ensure the system operates in an equitable way.

Recommendation 4

- **Cap the amount of superannuation balances to $5 million, where investment earnings exceeding this cap are taxed at the top personal income tax rate**

[10] Women in Super (2022). 2022-2023 Pre-Budget Submission. https://clarety-wis.s3.amazonaws.com/userimages/20220128%20WIS%202022-23%20Pre-Budget%20Submission.pdf
[11] Retirement Income Review (2021). https://treasury.gov.au/sites/default/files/2021-02/p2020-100554-udcomplete-report.pdf
[12] Ibid.

Better targeting tax concessions to lift the floor

Super is taxed at a flat rate to provide a tax advantage as incentive for saving wages for retirement. With the exception of those who should be captured by the LISTO, most members are taxed less on their super than their wages.

High income earners enjoy tax benefits that would be more effectively paid to to low- and middle-income earners who are less likely to be able to save for retirement outside the superannuation system. A person earning between $180,000 and $250,000 must pay 45% marginal tax on their income, but their super contributions are taxed at a lower rate, meaning overall they enjoy a greater tax concession than lower income earners.

To address this, HESTA recommends linking the Division 293 threshold with the highest income tax bracket of $180,000 plus super. This would ensure the threshold moves with any changes to the top marginal tax rate and future increases to the superannuation guarantee, and ensure tax concessions are not being poorly targeted to high income earners.

Recommendation 5
• **Link the Division 293 threshold with the top marginal personal tax rate**

APPENDIX A – Methodology and assumptions

2023 Models: Impact of Super on Parental Leave Pay scheme and Low Income Super Tax Offset (LISTO)

We have provided two models: the first modelling forecasts outcomes if super was paid on the Parental Leave Pay scheme in combination with an expansion of the LISTO in line with our recommendations and based on key assumptions.

The second modelling forecasts outcomes with super on the Parental Leave Pay scheme in isolation based on the same assumptions as the first model. The fees applied in the calculation are based on fees and costs as of 27 January 2023.

Assumptions:

- Retirement Age: 67
- AWOTE (Average Weekly Ordinary Time Earnings) : 3.00%
- CPI: 3.00%
- Investment return rate (real): 3.0% (Above CPI figures, net of investment fees and taxes)
- Investment return rate (nominal): 6.5%
- Wage growth: HESTA-derived per industry, 1st March 2022
- 32 weeks time away from workforce (per child)
- Age of mother 29, 31 and 33 for child 1, 2, 3 respectively

Cameo assumptions: are for an average member, per industry, and include assumptions around:

- Current balance
- Recent superannuation guarantee activity, voluntary contributions (pre and post tax) and insurance premiums
- Eligibility for the Parental Leave Pay scheme for the 20-week maximum announced in the October 2022 Federal Budget
- Superannuation Guarantee rate increases as currently legislated
- Wages are frozen to the pre-parental leave level for one year after returning from parental leave
- Default insurance cover for all cameos
- No other Superannuation Guarantee contributions outside of HESTA
- No other income other than estimated based on Superannaution Guarantee contributions to HESTA
- No other LISTO eligibility requirements other than individual income threshold