# 2024-2025 Pre-Budget Submission to the Assistant Treasurer and Minister for Financial Services

### HESTA submission February 2024

## About HESTA

HESTA is a profit-to-member industry super fund investing more than $81 billion[1] on behalf of more than 1 million members who work primarily in the health and community services sector, including in hospitals, primary healthcare, aged care, community services, disability and early childhood education and care.

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 16% less than their male counterparts on average[2], 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.

## Summary of HESTA recommendations

1. Superannuation be paid on the Commonwealth Paid Parental Leave Scheme to help narrow the superannuation gender gap.
2. Target super tax concessions to those on low incomes who need it the most. To overcome the current misalignment with the low-income superannuation tax offset's (LISTO) policy intent and to help remove an inequality, HESTA recommends the:
    - Maximum income eligibility for LISTO be increased from $37,000 per annum to the top of the second income tax threshold, currently $45,000 per annum.
    - LISTO payable amount be aligned with the yearly increase to the Superannuation Guarantee.
3. Access to Federal Government data is needed to support sustainable investment decision making and disclosure.
4. To continue the uplift in training and capability of Government organisations associated with the development, reporting and monitoring of the quality of sustainability and climate disclosures, HESTA recommends that additional Government funding be

[1] As of 21 February 2024.

[2] 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.

provided to these organisations. Such funding would help better deliver the purpose of the Government's Climate-related financial disclosure: exposure draft legislation[3]. HESTA provides its in principle support for this draft legislation.
5. A Federal Government data sharing framework would enable funds to better meet the Retirement Income Covenant objectives.

## Fairness within the superannuation system

Australia's superannuation system is one of the best in the world, but its design does not value caring work, and inefficiently distributes benefits such as tax concessions to those with high incomes and balances, and rewards those with unbroken careers.

Australian women on average have approximately a third less superannuation savings than men[4]. This is the case both while women are at work and when they retire. Women face a greater risk of poverty in old age when compared with men. These problems are exacerbated by women having higher life expectancies than men.

The superannuation gender gap reflects gender differences in employment (most notably pay and roles), working hours and career duration, and the extent to which the superannuation design mitigates these differences. The gender gap in superannuation savings results from the inequalities which women face over their lifetime.

### Recommendation 1: Superannuation be paid on Commonwealth Paid Parental Leave Scheme payments

One such inequality is the current failure to pay superannuation on paid parental leave. Payment of superannuation on paid parental leave would recognise that women do take career breaks. The Commonwealth Parental Leave Pay scheme is the only widely accessed form of paid leave that does not include corresponding superannuation contributions.

HESTA strongly advocates that superannuation should be paid on Commonwealth Parental Leave Pay scheme payments. 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 shows the life-changing impact on member super balances at retirement from paying super on Commonwealth Paid Parental Leave payments**

[3] Treasury, Climate-related financial disclosure: exposure draft legislation, https://treasury.gov.au/consultation/c2024-466491
[4] KPMG (2021). The Gender Superannuation Gap – addressing the options.

HESTA's modelling shows that this policy change alone could mean as much as 7.3 per cent in additional super savings for a Community Services worker with three children, or 4.5 per cent more for an aged care professional with two children. This could be a life-changing amount for women on lower incomes.

| **A typical HESTA member in:** | **Potential increase in super balance at retirement from having children[5]:** | | |
|---|---|---|---|
| | **One child** | **Two children** | **Three children** |
| Early Childhood Education & Care | 2.1% | 4.4% | 6.9% |
| Aged Care | 2.1% | 4.5% | 7.1% |
| Community Services | 2.2% | 4.7% | 7.3% |
| Primary Health | 1.7% | 3.5% | 5.7% |

## A member case study

HESTA has included the following case study to show how paying super on the Commonwealth Paid Parental Scheme would benefit a specific member.

'Mary' is a 25-year-old HESTA member who has an estimated annual salary of $26,487 per annum, a current member balance of $7,160, has default insurance cover, and has $2,785 in total superannuation guarantee contributions in the past 12 months. External modelling calculates Mary's Estimated Retirement Amount (**ERA**) using the current policy settings, then implementing HESTA's recommended change that superannuation guarantee be paid on the Commonwealth Paid Parental Scheme (**PPL**). The modelling also examines the impact on Mary's ERA if she had one baby at age 30, a second baby at age 32, and a third baby at age 34.

| | **No children** | **Potential increase in super balance at retirement from having children** | | |
|---|---|---|---|---|
| | | **One child** | **Two children** | **Three children** |
| Baseline ERA without PPL | $348,068 | $312,477 | $283,962 | $261,703 |
| ERA with super on PPL | | $319,057 | $296,755 | $280,369 |
| Total increase to ERA | | $6,581 | $12,793 | $18,666 |
| Total % increase to ERA | | 2.1% | 4.5% | 7.1% |

Because Mary is a low income earner as well as a mother, HESTA has modelled the *combined* impact of superannuation on Commonwealth Paid Parental Leave and aligning

[5] This is a forecast and is predictive in nature and as such the outcome cannot be guaranteed and may be different. Key assumptions used in the modelling include a retirement age of 67; AWOTE 3%; CPI 3%; investment return rate (real) 3% (above CPI figures, net of investment fees and taxes); investment return rate (nominal) 6%; wage growth (HESTA derived per industry as at 1/3/22); 32 weeks spent away from workforce (per child); age of mother 30, 32 and 34 for child 1,2,3 respectively. The modelling scenario assumptions are for an average HESTA member per industry, and include assumptions around current super balance, recent super guarantee activity, voluntary contributions (pre- and post-tax) and insurance premiums. Estimates on retirement amounts are in today's dollars.

the low income superannuation tax offset (LISTO) to its original policy intent. See Recommendation 2 below for more detail on this change.

### Mary’s case study if superannuation was paid on the Commonwealth Paid Parental Leave Scheme AND LISTO was aligned to its original policy intent

If super was paid on the Commonwealth Paid Parental Leave Scheme and LISTO was aligned to the original policy intent, Mary’s ERA would increase by:

- 4.7 percent if Mary had one child.
- 7.5 percent if Mary had two children.
- 10.9 percent if Mary had three children.

## Recommendation 2: Ensure alignment of the low-income superannuation tax offset (LISTO) so low-income workers are not taxed at a higher rate by indexation:

- **Maximum income eligibility for LISTO be increased from $37,000 per annum to the top of the second income tax threshold, currently $45,000 per annum.**
- **Increase the LISTO payable amount to align with the yearly increase to the Superannuation Guarantee.**

As noted by the Retirement Incomes Review[6], ‘While the Age Pension helps offset inequities in retirement outcomes, the design of superannuation tax concessions increases inequality in the system. Tax concessions provide greater benefit to people on higher incomes’.

Prior to the introduction of LISTO, concessional contributions to superannuation (mainly superannuation guarantee contributions) attracted a flat 15 per cent rate of tax. This meant that those on low incomes paid a rate of tax on concessional contributions which was disproportionate to those on higher incomes. LISTO was introduced in 2018 to refund tax paid on these concessional superannuation contributions by those with an annual taxable income of up to $37,000. $37,000 per annum was then the upper threshold for the second income tax bracket.

### Changes giving rise to the current misalignment from the original policy intent

Without LISTO, people on low incomes pay more tax on their super than their wages - or proportionately more tax on their super than high income earners. Since the Government introduced LISTO, several changes have occurred which result in a misalignment between the original policy intent and its current implementation:

- The Super guaranteed rate has increased from 9.5 per cent to 11 per cent.

[6] The Australian Government, The Treasury, 2020, Retirement Income Review https://treasury.gov.au/sites/default/files/2021-02/p2020-100554-udcomplete-report.pdf (Accessed 8 January 2024).

- The Stage 2 tax cut raised the upper threshold of the 19 percent tax bracket (the second income tax bracket) from $37,000 to $45,000 per annum.

This means that those Australians in the second income tax bracket and earning between $37,000 and $45,000 per annum do not currently receive any tax concessions on their concessional contributions.

The recent proposed tax cuts where the 19 per cent tax rate will be reduced to 16 per cent from 1 July 2024[7] underline the importance to adjust the LISTO upper threshold. It is important to ensure that low-income earners do not proportionately pay more tax on Superannuation Guarantee contributions than high income earners.

### Women and low-income earners would benefit from fixing the policy misalignment.

The current policy misalignment disproportionately affects women and low-income earners, who make up a significant portion of HESTA's membership.

HESTA contracted Laneway Analytics to estimate the type of HESTA members who would benefit from our recommended changes[8]:

- Over 83 percent are women.
- More than 60 per cent are under the age of 44. This means that for younger members, inequity occurs through these members not having the additional money earning compound interest over time.
- While younger members are more likely to benefit from the proposed policy change, older members are more likely to experience a higher financial impact. The wages of younger members might grow quickly past the LISTO threshold. However, the wages of older members' wages are more likely to stagnate, so if are eligible for LISTO, these members are likely to qualify for LISTO for a good number of years.

### An older member case study

HESTA has included this case study to show how realigning LISTO to its original intent would benefit a specific member.

'Gwen' is a 55-year-old HESTA member who has a current member balance of $73,404, has default insurance cover, and has made $6,702 in total contributions in the past 12 months of which $4,000 are Superannuation Guarantee contributions. External modelling calculates Gwen's Estimated Retirement Amount (**ERA**[9]) using the current policy

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[7] https://www.pm.gov.au/media/tax-cuts-help-australians-cost-living

[8] Laneway has generally assumed that the SG rate is 11% and will increase to 12% from 1 July 2025 as currently legislated; all members have default insurance cover; members do not have any super outside HESTA

[9] Retirement age 67, net investment return of 3% above CPI, CPI of 4%, $52pa administration fees (capped at 3% or at balance of $500,000).

settings, then implementing HESTA's recommended changes without delay, and then by implementing the changes with a one-, two- or three-year delay.

| Scenario | ERA | Increase to ERA of policy change | % Change | Cost of delay |
|---|---|---|---|---|
| Current policy | $187,506 | | | |
| Proposed policy (no delay) | $196,787 | $9,281 | 4.9% | |
| Proposed policy (1-year delay) | $195,702 | $8,196 | 4.4% | $1,085 |
| Proposed policy (2-year delay) | $194,687 | $7,181 | 3.8% | $2,100 |
| Proposed policy (3-year delay) | $193,737 | $6,231 | 3.3% | $3,050 |

### How alignment of the LISTO would affect a younger member's ERA

Earlier in this submission, we have shown how alignment of the LISTO to its original policy intent - combined with superannuation on the Commonwealth Paid Parent Leave - would increase a younger member's ERA (see Mary's case study on pages 3 and 4).

## Access to data and Standards to support making complex decisions

## Recommendation 3: Superannuation funds need access to government data to support sustainable investment decision making and disclosure

HESTA is pleased that the Government has recently released the Climate-related financial disclosure: exposure draft legislation[10] and provides its in principle support. HESTA supports the Government's commitment[11] to standardised, internationally aligned requirements for mandatory disclosure of climate-related financial risks and opportunities. To enable an effective taxonomy, supporting mandatory disclosure by companies will be required.

To enable institutions to meet these aims, large and diversified asset owners such as HESTA need to draw on a range of data sources to both support investment decision

[10] Treasury, Climate-related financial disclosure: exposure draft legislation, https://treasury.gov.au/consultation/c2024-466491
[11] Treasury, Policy Impact Analysis Climate-related financial disclosures, https://treasury.gov.au/sites/default/files/2024-01/c2024-466491-pia.pdf

making and disclosure. Often this data is expensive, inconsistent between providers and no assurance is given by providers as to its accuracy.

We believe this data must be readily accessible. An example of the type of data which needs to be developed and centrally available was outlined in our November 2023 submission[12]:

- Development of common Australian climate scenarios. While use of these scenarios in transition planning should not be mandatory and alternative scenarios could be used with appropriate justification, we believe that common scenarios would enhance the consistency and comparability of company transition plans.
- Development of localised data relating to the state of the environment. While relevant indicators exist at a national level, natural capital and biodiversity loss varies significantly at a localised geographic scale and granular data at a localised level would significantly support decision making.

Accordingly, HESTA recommends that funding be provided to both develop and enable superannuation funds to access such data. This would support sustainable investment decision making and disclosure.

## Recommendation 4: Additional funding be provided to Government organisations associated with climate-change financial disclosure and reporting

HESTA reiterates its in principle support for the Climate-related financial disclosure exposure draft legislation. The proposals seek to introduce standardised, internationally aligned requirements for climate-related financial risks and opportunities to be mandatorily disclosed. These requirements, once in place, will impact not only the institutions required to disclose but also the existing Government organisations responsible for the operation and management of the policy, as well as developing, monitoring, enforcement and reporting both the standards setting and disclosure regime. These Government organisations include Treasury, Australian Securities and Investments Commission (ASIC), the Australian Prudential Regulation Authority (APRA), the Australian Accounting Standards Board (AASB), and Auditing and Assurance Standards Board (AUASB).

To continue the uplift in training and capability of Government organisations associated with the development, reporting and monitoring of the quality of sustainability and climate disclosures, HESTA recommends that additional Government funding be provided.

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[12] HESTA submission, Sustainable Finance Strategy Consultation Paper, November 2023
https://www.hesta.com.au/about-us/super-with-impact/advocating-for-change

The development of internationally aligned sustainable finance markets and standards in Australia is important to help deliver long-term financial returns to members and to support communication of sustainability credentials to members. HESTA is committed to contributing to national efforts to establish sustainable finance standards in Australia.

## Recommendation 5: Develop a Federal Government data sharing framework to enable funds to better meet the Retirement Income Covenant objectives

Now that the superannuation system is maturing, it is time to consider how the three pillars (superannuation; age pension; savings) of the retirement incomes system can better operate together to deliver improved outcomes for members. Our members want – and indeed turn to – HESTA to take into account their super, the age pension, and any other assets.

The introduction of the Retirement Income Covenant (**RIC**) underpins the reality that one-quarter of all Australians will be aged 65 years and over by 2050[13].

For funds to better meet the Retirement Income Covenant objectives, funds need more efficient access to Government data. This would help deliver a better understanding of member savings and spending profiles, enabling funds to better develop products, investment strategies, and member communications and tools.

The need to use external data to better meet the RIC is highlighted within the APRA / ASIC review of the RIC implementation[14]: 'External data can provide useful population-wide insights such as life expectancy, retirement trends, retirement intentions and spending behaviour. When using such data, funds must consider the application of the data to their membership.' The review also highlighted many significant gaps in data available for use by funds as well noting that funds are actively using data to assist develop RICs. Access to meaningful and quality data is an important component in funds developing a retirement income strategy.

HESTA is continually developing ways to access both internal and external data as well as qualitative feedback from our members. That being said, HESTA strongly believes that shared data between government and funds would improve understanding of member needs and behaviours, as well as facilitate the development of innovative products and services. For example, more efficient access could enable the development of tools so that

[13] https://humanrights.gov.au/our-work/education/face-facts-older-australians

[14] APRA and ASIC, Information report: Implementation of the retirement income covenant: Findings from the APRA and ASIC thematic review July 2023 https://download.asic.gov.au/media/z3shktv1/rep766_published-18-july-2023.pdf (Accessed 8 January 2024).

members could view what a ‘member like them’ is actually spending in retirement, given that HILDA data has information about spending patterns in retirement.

HESTA recommends that the government fund government agencies to establish a data sharing framework. The output would be a single access point of data from various agencies such as APRA, ASIC, ATO and the Department of Social Services. Such a data sharing framework using a single point of access would provide a single and efficient query point, rather than funds seeking data from multiple sources.

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