Senate Select Committee on COVID-19

June 2020

Summary

HESTA welcomes the opportunity to make a short submission to the Senate Select Committee on the Australian Government's response to the COVID-19 pandemic. We have primarily focused on funding arrangements for the early childhood education and care (ECEC) sector that made childcare services fee-free for families. Most of this assistance is delivered through a fee assistance payment, namely the Child Care Subsidy (CCS). Currently the changes are expected to remain in place until 28 June 2020.

HESTA commends the Government for these emergency measures and believes they should be used as a catalyst to make positive reforms. This is an important opportunity for the Government to fundamentally reconsider the funding model of Australia's childcare system, rather than simply return to the pre-COVID model which presents significant barriers for women to return to the workforce.

HESTA is an industry super fund with a strict profit-to-members model that was created to meet the specific needs of employees working in the health and community services sector. HESTA has $50 billion of assets and 860,000 members who are mostly women (80%), are likely to take career breaks, live longer, and more likely to be dependent on the Age Pension in retirement.

As a super fund for many workers in the childcare and early childhood education sector, HESTA believes winding back free childcare by the end of June risks missing a significant productivity boosting opportunity. As we shift into post COVID-19 recovery mode and rebuild the economy any steps to minimise barriers to workforce participation, particularly for women, will provide benefits.

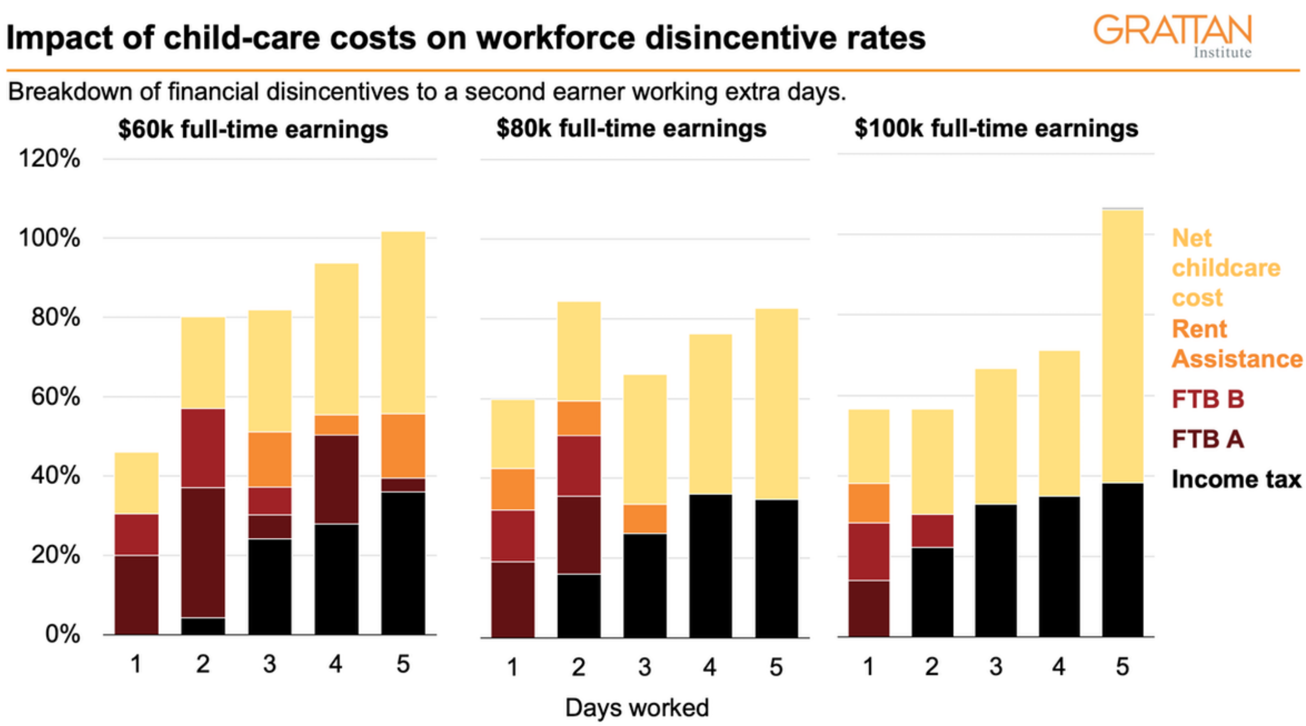
HESTA believes that reducing childcare cost is the most significant action the government could take to boost workforce participation for mothers of young children more than any other measure. We can (and should) utilize the full talent and potential of the labour force; however, high childcare costs often exclude women who want to work more.

Women are significantly underutilised in the Australian economy when it comes to participation and productivity as evidenced by the gap in labour force participation

rates between women (67.4%) and men (78.5%).[1] Unfortunately, there has been only slight progress for women's full-time participation over recent decades, with Australia 10% behind the OECD average.[2]

The lack of women in full-time work often limits their opportunities to progress in the workplace. There are many factors that affect women's interaction with the labour market; however, a significant obstacle is their overrepresentation in undertaking caring responsibilities and the associated 'cost' that goes with it.

The following graph from the Grattan Institute shows the cost of childcare as one of the biggest contributors to these high workforce disincentive rates.



***(Source** – Grattan Institute[3])*

There is no shortage of evidence that boosting women's participation in the workforce would provide significant benefits. Economic modelling by KPMG in 2018 showed that halving the workforce participation gap between men and women would increase Australia's annual GDP by $60 billion by 2038.[4] In 2017 PwC

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[1] ABS (2019), *Gender Indicators Australia: Economic Security*, https://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/4125.0~Nov%202019~Main%20Features~Economic%20Security~4

[2] OECD, Labour Force Statistics 2018, https://stats.oecd.org/Index.aspx?DataSetCode=FTPTC_I

[3] https://grattan.edu.au/news/childcare-wont-remain-free-after-the-pandemic-but-it-should-be-reformed/

[4] KPMG (2018), *Ending Workforce Discrimination Against Women,* https://assets.kpmg/content/dam/kpmg/au/pdf/2018/ending-workforce-discrimination-against-women-april-2018.pdf

estimated the total value of volunteering, domestic work, care of adults and children to be worth over $565 billion (in 2016 terms).[5] The 2019 report by KPMG, *Unleashing our potential*,[6] makes a strong case for investing in childcare and the benefits that this could bring.

Government investment in childcare would be an investment not only in Australia's economic recovery, but also an investment in the retirement outcomes of Australian women. The second part of our submission sets out some of the factors why Australian women retire with significantly less superannuation than men and the effect that can be characterized as the '*motherhood penalty'*. We have also included quotes from HESTA members who were recently surveyed about childcare.

We note and support the advocacy by Early Childhood Australia and Chief Executive Women regarding this issue.[7]

HESTA recommends that:

- ***The current ECEC relief package be extended to September 2020 to ensure proper consideration and consultation can occur regarding different CCS structures. This could produce lower workforce disincentive rates and improve workforce participation into the future.***

- ***The Child Care Subsidy be reviewed in the context of the wide-ranging economic impacts of COVID-19. This would include whether current subsidy settings are sufficient and what further mechanisms are necessary to support financially vulnerable families.***

- ***Consideration be given for the CCS to provide 20 hours of early childhood education and care to all children with no out of pocket cost.***

- ***Service providers be given discretion to waive the parent component of the fee when children are absent.***

COVID-19 has had a profound impact on our society and our economy; however, it also provides an opportunity to build a more equitable and productive Australia. We urge government and all stakeholders to embrace this historic opportunity.

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[5] PwC (2017), *Understanding the Unpaid Economy*, https://www.pwc.com.au/australia-in-transition/publications/understanding-the-unpaid-economy-mar17.pdf

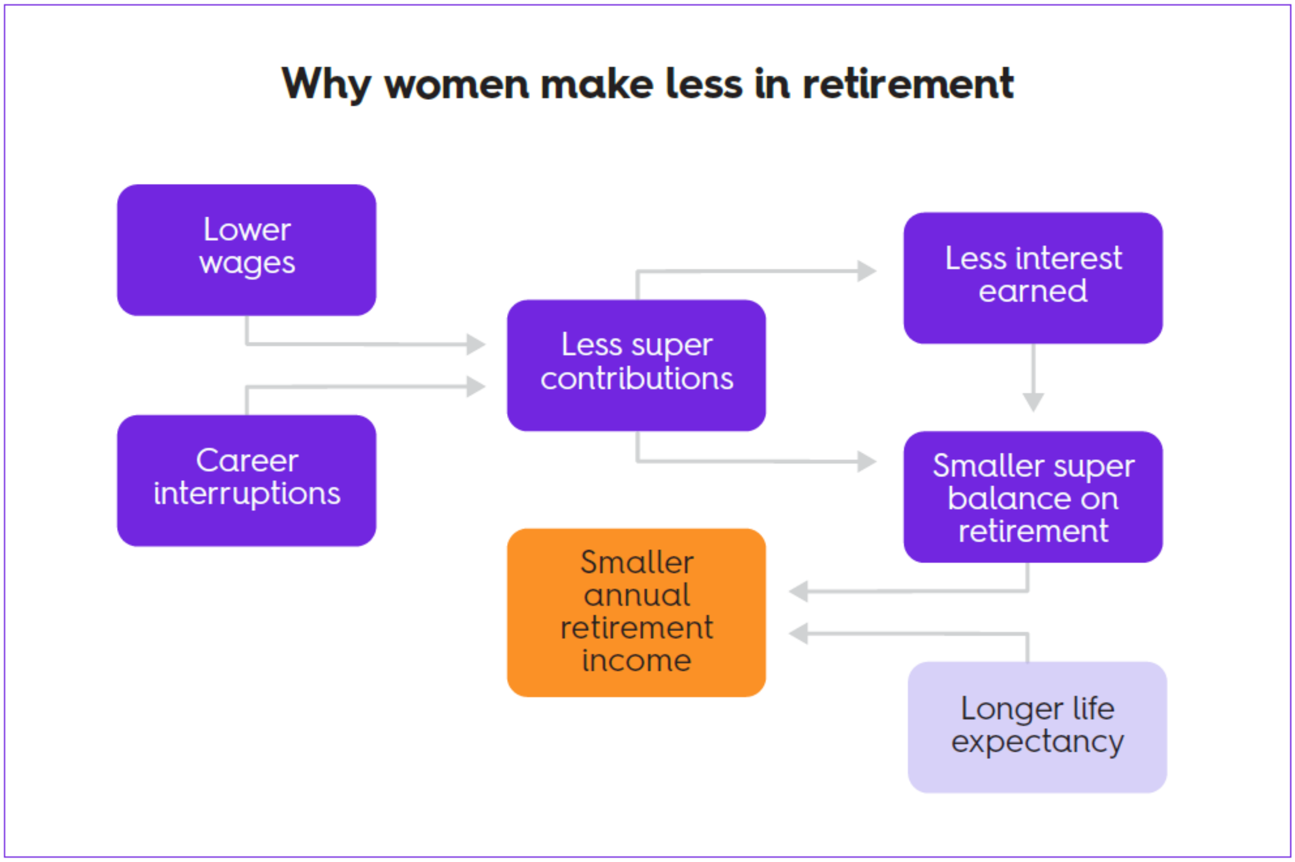
[6] KPMG (2019), *Unleashing our Potential*: The case for further investment in the child care subsidy, https://assets.kpmg/content/dam/kpmg/au/pdf/2019/case-for-further-investment-in-child-care-subsidy-october-2019.pdf

[7] https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/COVID-19/COVID19/Submissions (Sub48) & https://www.abc.net.au/radio/programs/am/sue-morphet-interview/12299174

An inequitable system

Australian women overwhelmingly experience an intolerable level of economic insecurity in retirement. For most women and most HESTA members the Age Pension is the main pillar for retirement income. Our analysis shows that approximately 6% of HESTA members will never even reach a balance of $6,000 despite being in the workforce for decades.

There are several well-known factors that combine to cause the gender savings gap in retirement and impact the poverty outcomes for women.



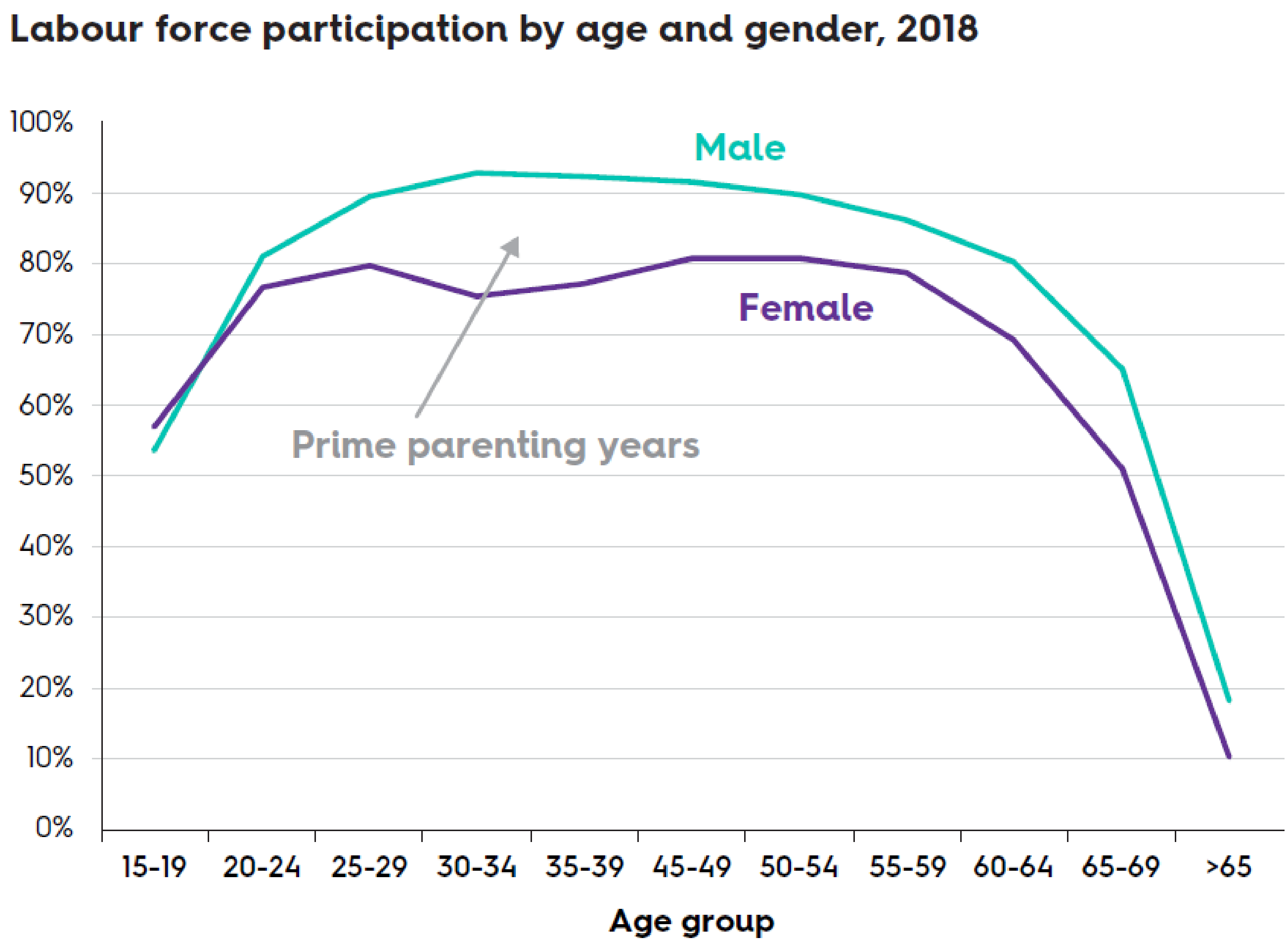
The biggest factor suppressing women's wages is their concentration in part time work and other irregular or precarious jobs. Those jobs not only pay lower hourly wages than full time jobs, but they also offer fewer hours. That widens the gender pay gap even more. In 2018, average weekly wages for women were 32% lower than for men.[8]

Closing the gender pay gap is important to our members and will help close the gender retirement savings gap; however, unpaid time out of the workforce to bear children and care for others is the driver that poses the greatest threat to a woman's prosperity in retirement.

[8] ABS Catalogue 6302.0, Table 2.

Unfortunately, there is effectively a '***motherhood penalty'*** as a result of having children: equal to at least 5-10% of wages.[9] This is amplified because women typically receive smaller wage increases and fewer promotions after returning to work, and lower superannuation contributions.

This effect is most pronounced when children are very young, when a mother may stop work for a period of time. This is also the time when contributions to their super account would have the greatest chance to take advantage of exponential growth through compounding interest.



Source: ABS Catalogue 6291.0.55.001, Table 1.

When they reach age 65, most women can anticipate living longer than men: by close to three more years, on average. But women's super balances on retirement are more than a third smaller, on average, than men.[10] Elderly women are thus left more dependent on the Age Pension, support from families, and other sources of income – and too many, unfortunately, experience poverty.

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[9] *Vital Signs*, HESTA (2019) - https://www.hesta.com.au/content/dam/hesta/Documents/HESTA-Vital-Signs-Report.pdf
[10] ibid

For women who are currently working there is no change to the superannuation system that will be enough to arrest these figures completely. A well-funded social security system is crucial for the financial wellbeing of Australian women. The median superannuation balance held by women is only $39,000.[11]

What HESTA members said about childcare . . .

The cost impacts women's ability to work

…when my children were younger it definitely affected my ability to work and impacted to the point that I resigned from my position as it was not financially viable to continue working once I had my second child.

I needed to reduce my work hours as fulltime care was too expensive.

Cost of childcare makes working pointless as the income from working goes to childcare instead of to bills and mortgage etc.

It cost almost as much to send my children to daycare as my pay check so I reduced my work hours so didn't have to send children as often.

Childcare costs are a burden for families

Some people I know of have to have a second job, just to pay childcare fees. That sounds silly - work so that your child can go to childcare while you work.

Childcare has continued to increasingly hinder the health and wellbeing of the family unit. Higher costs in living has meant that both parents must work, however childcare costs can be a large chunk of the weekly wage.

Comments from grandparents

…as a grandmother I see my children now paying very high childcare costs. Child care needs to be made reasonable especially for low income workers…

I just worry about the cost for my grandchildren and the pressure that it will place on my children.

I do enjoy looking after grandchildren but I have given up a lot to help with the costs for my (adult) kids.

[11] Ibid

***Appendix* – A village of 100 HESTA members**

100 HESTA members

Gender

Like the health and community services workforce in general, HESTA members are predominantly women.

80 Women

Men 20

Working and retired

Most of our members are still working. That's because the superannuation system (which only began in the early 1990s) is still maturing, and few of our members have retired yet.

96 Still Working

4 Retired and Drawing Pension

Age

HESTA members fall into all stages of work life: younger workers just starting out, mid-career workers, and older and retired workers.

Under 30: 19

In their 30s: 24

In their 40s: 21

In their 50s: 20

In their 60s: 13

Over 70: 3

Average annual salary (for working members)

The average HESTA member makes over **$53,000** per year. But our male members, on average, make about **20% more** than our female members.

Total $53,300

Women $52,400

Men $63,000

Average length of HESTA membership

Over one third of HESTA members joined our fund within the last five years; this reflects the strong growth that has occurred in health and community services. Relatively few members have been with the fund for more than 20 years – but that is changing as the fund matures, and our working members accumulate more experience.

Under 5 years: **34**

5-10 years: **23**

10-15 years: **20**

15-20 years: **12**

Over 20 years: **11**

Annual salary (for working members)

The earnings of HESTA members are concentrated in the broad middle-income band: **over three-quarters of our village earn between $25,000 and $100,000**. But a significant minority of our members earn less.

Under $25,000: **16**

$25-50,000: **36**

$50-100,000: **40**

Over $100,000: **8**

Family structure of HESTA members

Like Australian society as a whole, the family arrangements of HESTA members have evolved, and become more diverse. Our members have many different ways of living.*

Couple with children: **47**

Couple without children: **17**

Single with children: **10**

Single without children: **23**

Other: **3**

Home ownership of HESTA members

Among HESTA members over 50 years of age, 80% own their own home. That's higher than the average (65%) for all Australians. But almost one in five HESTA members in that age category does not own a home. Of those over 50 that own a home, over half have paid off their mortgages.

Own home, no mortgage: **25**

Own home, with mortgage: **36**

Don't own home: **39**

Average superannuation balance

Because many HESTA members are early in their careers, their super balances are still relatively small. On the other hand, our retired members have had more time to build up larger balances.

For those still working: **$50,000**

For those retired **$208,000**