

Senate Select Committee on Work and Care

HESTA welcomes the opportunity to make a submission to the Senate Select Committee on Work and Care.

Our members rely on us to ensure that their retirement story is told, and that their experiences are considered in complex policy deliberations that impact their financial security in retirement.

This submission outlines the effect of unpaid care work on HESTA members and proposes four policy recommendations to help address the inequity in their retirement outcomes arising from their unpaid care work.

HESTA and our members

HESTA is an industry super fund that invests around \$68 billion of assets on behalf of more than 950,000 members who work in caring industries, primarily in the health and community services sectors. Our largest member cohort works in aged care. Eighty per cent of our members are women, and most are on low-to-middle incomes. They earn 16% less than their male counterparts on average,¹ are less likely to be able to save outside their super, and are more likely to struggle to meet day-to-day expenses. Many of our members spend time in unpaid care work, which adds enormous economic benefit to the country at the expense of their own financial security.

Time doing unpaid care work drives financial insecurity for older women

Poverty in retirement is a stark reality² for many women after a lifetime of paid and unpaid work. Retirement outcomes are driven by people's workplace experiences and inequalities in the distribution of care work lead to inequalities in workforce participation and reduces the quality of employment, increasing the likelihood of part

¹ <https://www.wgea.gov.au/data/wgea-research/australias-gender-equality-scorecard/health-care-and-social-assistance>

² Older women—those aged 55 and over—were the fastest growing cohort of homeless Australians between 2011 and 2016, increasing by 31%. <https://humanrights.gov.au/our-work/agediscrimination/projects/risk-homelessness-older-women>

time, casual or contract work.³ Ensuring policy settings better account for the time women spend in unpaid care work will make a significant contribution to improving our members' financial security in retirement.

According to WGEA, in 2017-18, across all age groups women's median superannuation account balances were 30.8% lower than men's.⁴ The gender pay gap and reduced workforce participation are the central drivers of this gap⁵. These factors reinforce each other, with the effect of unpaid breaks amplified when women return to work by a widening gender pay gap, more precarious employment and less likelihood of being employed in managerial positions.⁶

On top of reduced earnings and therefore reduced super contributions, women working reduced hours to care for others tend to miss out on the gains arising from compound interest on the contributions that they have missed. Recent modelling shows that with improved parenting and workforce participation policy settings, an Australian woman could earn an additional \$696,000 over her working life and retire with an additional \$180,000 in her superannuation⁷.

The burden of unpaid care work falls on women

Unpaid care work is distributed unequally between the genders. Women take 93.5% of primary carer's leave⁸ when a child is born, account for seven out of ten unpaid primary carers⁹ of children of all ages and 56.1% of unpaid carers for the elderly, people with a long-term health condition or a disability.

Women perform 1 hour and 48 minutes of care for every hour of unpaid work contributed by men³.

Women perform 80% more unpaid work at home each week than men¹⁰ including child-care, caring for other family members, housework, shopping, food preparation. PwC

³ <https://www.wgea.gov.au/sites/default/files/documents/australian-unpaid-care-work-and-the-labour-market.pdf>

⁴ <https://www.wgea.gov.au/publications/womens-economic-security-in-retirement>

There are different calculations of the superannuation gap; however, any gap is unacceptable.

⁵ 2020 Retirement Income Review, p.42 – the gap between super balances of men and women “will not close while a gap remains in earnings and workforce participation”

⁶ <https://www.wgea.gov.au/publications/wages-and-ages>

⁷ https://www.theparenthood.org.au/back_of_the_pack

⁸ WGEA - *It's the luck of the draw for parental leave* – 2019 <https://www.wgea.gov.au/newsroom/its-the-luck-of-the-draw-for-parental-leave>

⁹ <https://www.carersaustralia.com.au/about-carers/who-is-a-carer/>

¹⁰ WGEA Women's economic security in retirement – 2020 <https://www.wgea.gov.au/publications/womens-economic-security-in-retirement>

has previously estimated that the replacement cost of informal childcare alone would be \$409.5 billion - this is a massive contribution to society.¹¹

HESTA members

A 2019 survey of almost 2,000¹² HESTA members in health and community services revealed the majority were involved in providing unpaid care for others at the time of the survey.

The most common forms of unpaid care recorded were for children, spouse or partner, and parents or parents-in-law. It is worth noting that many members are providing unpaid care to a combination of other family members and friends as well.

The table below shows the distribution of unpaid care responsibilities among members in different sectors:

	Aged Care	Early Childhood Education & Care	Community Services	Public Health	Private Hospitals	Primary Health Care
My children	26.4%	33.1%	31.4%	31.8%	30.8%	36.8%
My spouse / partner	19.0%	15.8%	13.5%	11.6%	14.9%	14.7%
My parents / parents-in-law	18.1%	14.2%	16.1%	12.6%	21.0%	21.4%
My grandchildren	13.6%	9.8%	9.9%	8.9%	10.3%	6.5%
Friends	9.6%	10.0%	8.9%	6.3%	6.8%	10.9%
Other family members	12.8%	16.3%	11.0%	7.7%	12.4%	13.2%

Reduced workforce participation

There is a lack of data on the extent of part-time and casual work. HESTA has submitted that WGEA capture actual earnings of part-time and casual employees (rather than full time equivalent) as well as the number of hours employees are engaged. This would allow for a clearer understanding of working patterns, which are a major driver of superannuation outcomes.

¹¹ PWC *Understanding the unpaid economy 2017* - <https://www.pwc.com.au/australia-in-transition/publications/understanding-the-unpaid-economy-mar17.pdf>

¹² Forethought HESTA member survey, conducted 2019

A HESTA survey showed that over 50% of all members are employed on a part-time or casual basis¹³. The sectors with the highest proportion of part-time and casual employment are aged care (78%), private hospitals (69%) and disability services (68%).

Improving financial security for carers in retirement

There is no single solution to better sharing the burden of the way care work is delivered, and valued, in our society. Improving equity requires structural change involving a range of measures, both legislative and cultural. The following recommendations will provide some improvement to the financial security in retirement of those who have undertaken unpaid care work during their working lives. These recommendations could be cost neutral if super tax concessions were distributed more equitably¹⁴.

Pay Super on Commonwealth Parental Leave Pay

Modelling shows that paying superannuation on Commonwealth Parental Leave Pay would give a typical aged care member with two children 2.6% more super at retirement.¹⁵

The table below shows how fixing this issue would increase the super savings at retirement of average HESTA members in the health and community services sector:

A typical HESTA member in:	Potential increase in super balance at retirement from having: ¹⁶		
	One child	Two children	Three children
Early Childhood Education & Care	1.4%	2.8%	4.5%
Aged Care	1.2%	2.6%	4.0%
Community services	1.1%	2.3%	3.6%

¹³ MyMavins 2019 Paid Parental Leave Survey

¹⁴ <https://www.mercer.com.au/content/dam/mercer/attachments/asia-pacific/australia/Mercer-2022-Fixing-super-tax-concessions.pdf>

¹⁵ Industry Super Australia - *Putting members and their financial interests first*, December 2021 <https://www.industrysuper.com/media/policy-priorities-december-2021/>

¹⁶ 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) 3.5% (above CPI figures, net of investment fees and taxes); investment return rate (nominal) 6.5%; wage growth (HESTA derived per industry as at 1/3/22); 32 weeks spent away from workforce (per child); age of mother 29, 31 and 33 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.

Of those HESTA members who have used parental leave, 52%¹ have taken two or more periods of parental leave in total.

HESTA members support super on parental leave pay

A 2022 survey¹³ of almost 2,500 HESTA members showed they overwhelmingly support payment of superannuation on parental leave:

- Around 3 in 5 who have taken parental leave are concerned about the negative impact on their financial security in retirement.
- 85% of all members, regardless of gender, support payment of super on paid parental leave, increasing to 92% among those who have taken parental leave or expect to.
- 90% of all members said it would send a positive message to Australian women about the value of their caring work if superannuation was paid on paid parental leave as it is on other forms of leave.

Introduce Carer's credit to compensate for superannuation lost due to unpaid parental leave.

In addition to superannuation on paid parental leave, a "carer credit" should be introduced to compensate parents for superannuation lost due to unpaid parental leave.

Carer credits have been supported by a wide range of stakeholders¹⁷ and 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."

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.

HESTA recommends:

- 1. Payment of superannuation on the Commonwealth Parental Leave Pay scheme; and***

¹⁷ KPMG 2021 - <https://home.kpmg/au/en/home/insights/2021/08/gender-superannuation-gap.html>

Actuaries Institute 2021 -

<https://www.actuaries.asn.au/Library/Miscellaneous/2021/GenderInequalityinRetirementSavingsActuariesInstitute270421.pdf>

Women in Super - <https://www.womeninsuper.com.au/content/policy-and-advocacy-priorities/>

2. Introduce a superannuation carer credit for unpaid parental leave to recognise the economic contribution made by this work

Tax equity to help compensate unpaid carers for their reduced workforce participation

Improving equity in the distribution of superannuation tax concessions will help improve retirement savings.

When super was introduced, it was intended to be taxed at a lower rate than take home pay as a trade-off for Australians putting super savings aside until retirement. But because super is taxed at a flat 15% rate, there is a significant tax benefit for saving in super for high income earners, and very little benefit for low-income earners.

In fact, low-income earners in the bottom tax bracket are taxed more on their super than they are on their wages, while workers in the second lowest tax bracket receive very little tax benefit from saving in super compared to their wages.

To improve this, in 2012 the Government introduced the Low-Income Superannuation Tax Offset (LISTO). The LISTO was created to pay 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 introduced. The LISTO threshold now sits below the minimum wage, so we can deduce that our members receiving it must be working part-time.

Around 1 in 5 HESTA members are estimated to be eligible for the LISTO, with these members predominantly working in part-time and casual jobs in aged care, childcare and disability services. However, almost 60,000 low-paid members miss out because the policy settings have not been amended since it was implemented in 2012.

- The top of the second tax bracket has now increased to \$45,000, while LISTO eligibility still cuts out at \$37,000,
- The \$500 maximum value of the LISTO is also out of date because the super guarantee has increased to 10.5%¹⁸ and will continue to increase to 12%. It is now equal to less than the tax paid on the SG contribution for individuals with incomes above \$31,746¹⁸.

Two simple changes will address these inequity issues: Extend LISTO eligibility to those earning up to the top of the second tax bracket and link the amount of LISTO to the SG rate.

¹⁸ Mercer – Fixing super tax concessions – 2022

<https://www.mercer.com.au/content/dam/mercer/attachments/asia-pacific/australia/Mercer-2022-Fixing-super-tax-concessions.pdf>

HESTA modelling shows simply updating the LISTO threshold and aligning the amount payable with SG increases would provide the following increases to super savings.

An typical eligible HESTA member in:	Increase to super savings of updating the LISTO in line with current tax and SG setting ¹⁶ :
Aged Care	2.5%
Community services	2.5%
Early Childhood Education & Care	2.4%

Modest tax benefit for the lowest paid

An important additional step in improving equity of government support is to provide our lowest income earners with a modest tax benefit for saving through their super. This can be done through an additional payment equivalent to the SG payable to those earning less than the effective tax-free threshold. The effective tax-free threshold is currently \$21,884. It includes those earnings up to the top of the lowest tax bracket plus any tax offsets to which the worker is entitled before tax is payable.

HESTA recommends:

- 1. Improve superannuation outcomes for unpaid carers and other low-paid workers by extending the Low-Income Super Tax Offset (LISTO) threshold to align with the second income bracket (currently \$45,000) and index the offset amount payable to the Super Guarantee to ensure members do not pay more tax on their super than they would on their wages.**
- 2. Unpaid carers and those on low-incomes earning up to the effective tax-free threshold (currently \$21,884) should receive an additional payment equal to the Superannuation Guarantee as a small incentive for deferring wages into their super savings.**