ASFA Research note: Policies to reduce the super gender gap

- In general, women have lower super balances than men across the whole age distribution.
- A key driver of the super gender gap is women taking time off work, or working reduced hours, to have and raise children.
- Policies that would help reduce the gender gap include extending compulsory super to paid parental leave, and raising the threshold for the Low-Income Superannuation Tax Offset (LISTO).

A core goal of superannuation policy should be to improve equity of access to the benefits of the super system – including between men and women.

Under Australia's compulsory super system, employers make contributions to their employees' super accounts as a proportion of wages or salaries. The contribution rate increased from 10.5% to 11% (of wages/salaries) on 1 July 2023, and is scheduled to rise by a further 0.5% each year until it reaches 12% (on 1 July 2025).

Over time, Australian workers will increasingly benefit from the compulsory super system. A person who enters the workforce today will receive super contributions at higher rates, and for longer periods of time, compared with previous generations of workers. All else being equal, this means higher super balances at retirement.

However, not all people are able to yield the full benefits of the compulsory system.

For example, many Australians spend prolonged periods of time out of paid employment, or work reduced hours. Since the accumulation of super depends on contributions, affected people will tend to receive lower contributions over their lifetime (than otherwise would be the case), which will adversely impact their retirement outcomes.

Women are disproportionately affected. Women are more likely than men to take time out of the workforce and/or work reduced hours to have and raise children, and care for family members more generally.

The super gender gap

In general, women have lower super balances than men. Chart 1 shows median balances, for women and men across separate age cohorts. For each age cohort (except 25 to 29), the median balance for women (blue) is lower than the median balance for men (black).

The red line in Chart 1 is an alternative presentation of the same data: the *ratio* of median balances (women relative to men). A figure less than one indicates that the median balance for women is lower than the median balance for men (for a given age cohort). While median balances are around parity for the 25-29 age cohort, there is a substantial gender gap for older cohorts (proportionate terms).

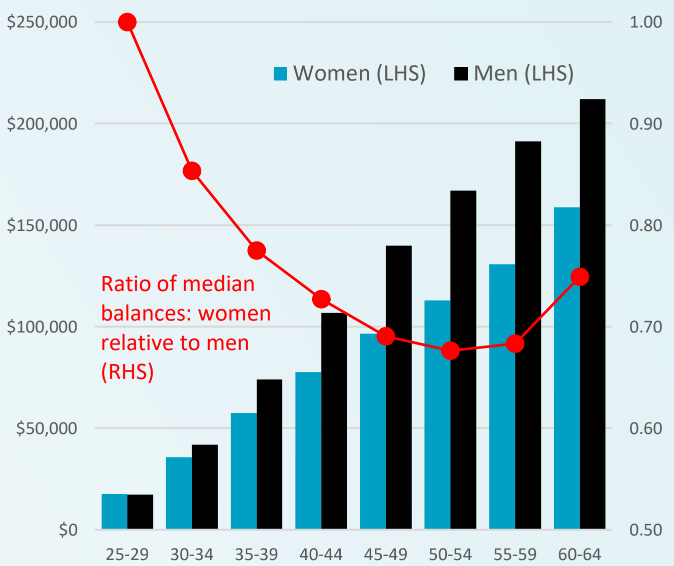
Reasons for the super gender gap are myriad.

Over successive generations, less women than men have been working in paid employment. Chart 2 shows that for a *given* generation (denoted by a specific colour), the proportion of women employed (solid line) is lower than the proportion of men employed (dotted line).

While the gap has narrowed from earlier to later generations, the fact that women remain more likely than men to take time out of the workforce to have and raise children (and care for family members more generally) means an employment gap will persist.

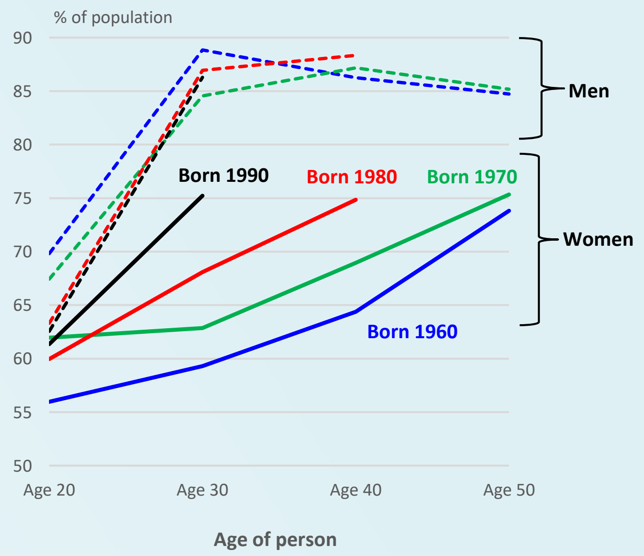
Another key cause of the super gender gap is that, on average, women have (and continue) to earn less from paid employment than men. In particular, women are more likely to work in part-time or casual positions – due in part to raising children and/or caring for family members. Further, any time taken out of the workforce can delay or limit career progression and thus impact remuneration.

Chart 1: Median super balances for 2020-21



Source: ATO and ASFA calculations.

Chart 2: Percentage of the population that is employed



Source: ABS and ASFA calculations.

Super on paid parental leave

Currently, the compulsory super regime does not cover paid parental leave (PPL). While some employers that have their own corporate PPL arrangements do make super contributions in respect of PPL, this is not mandatory. Likewise, compulsory super does not cover the Australian Government's PPL scheme (which is available to all eligible parents).

- Under the government scheme, a family can claim up to 100 days of paid leave (20 weeks based on a 5-day work week), at the minimum wage (currently $177 per day before tax).
- While there are about 300,000 births a year, income/employment tests mean about 170,000 women receive government payments.

ASFA has long advocated for compulsory super to apply to PPL (and other related policies) to boost the super balances of women who take leave from work to have and raise children.

Chart 3 shows the impact of time out of the workforce on super balances at retirement, and the potential boost from policy change.

For a woman who earns average wages (around $70,000), taking a year off work reduces the projected super balance at retirement from $540,300 to $522,700 – a 'super loss' of $17,600 (today's dollars).

Column 3 (in Chart 3) shows that the super balance would be boosted if super was applied to the government's PPL scheme. Assuming eligibility for the full 20 weeks, the super balance at retirement would be $527,900. In other words, the 'super loss' would be reduced by around 30%. Note that a portion of the boost to the super balance is due to the operation of the *current* LISTO arrangements (see next section).

Enhancements to the Government's PPL scheme – such as higher payments and/or longer duration – would also help. For example, Column 4 shows that extending the current PPL scheme to 52 weeks (assuming super is applied to PPL) would boost the super balance to $534,300. The 'super loss' would be reduced by around 70%.

ASFA has separately advocated for a "Super Baby Bonus", whereby the Australian Government would deposit $5,000 in the super accounts of women upon the birth of a child. Column 5 shows that the combination of super on the current PPL scheme (20 weeks duration) and the Super Baby Bonus would almost fully offset the impact of a year off work.

The LISTO and part-time work

For women who return to work on reduced hours, extending the Low-Income Superannuation Tax Offset (LISTO) would boost super balances of low-income earners. The LISTO effectively refunds the tax paid on super contributions (taxed at 15%).

Currently, the LISTO applies to people who earn $37,000 or less, with a maximum payment of $500.

Until 2019-20, the $37,000 ceiling for LISTO corresponded with the top of the second-lowest income tax bracket (a tax rate of 21% including the Medicare levy). However, the top of the second-lowest tax bracket has since been increased to $45,000. People who fall within these two income levels receive a tax concession of just 6% on their super contributions.

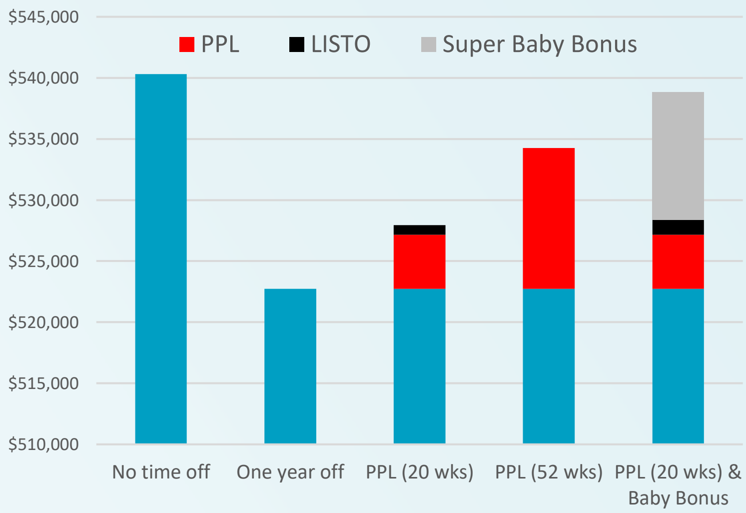
ASFA considers that the LISTO ceiling should be raised to (again) equate with the top of the second-lowest income tax bracket ($45,000), and that the maximum payment be increased accordingly to $700.

Chart 4 shows the boost to super due to the current and proposed LISTO, for a person who normally works full-time but also works part-time (3 days per week) for 5 years. A range of wage scenarios are shown.

For example, a woman who normally earns $70,000 but returns to work part-time at 3 days per week would instead earn $42,000 (for 5 years). Under the current LISTO settings, a woman earning $42,000 would not receive any rebate and thus there would be no impact on her super balance. Under ASFA's proposal, the woman would have an extra $8,500 at the time of retirement (today's dollars).

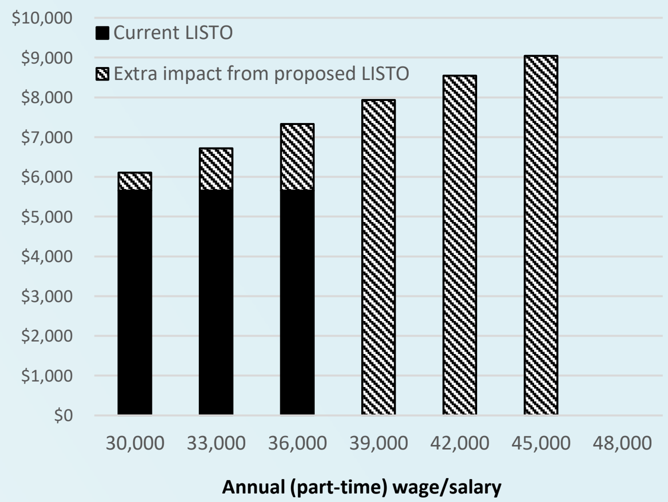
Enhancing the LISTO would increase the number of women benefiting from the scheme from around 1.4 million to around 1.9 million per year.

Chart 3: Super balance at retirement: impact of policy
Annual wage/salary of $70,000



The scenarios assume a woman is currently 30 years old with a super balance of $30,000, who earns average wages of $70,000 (today's dollars) throughout her career, and retires at 67. The woman has a child at age 35. The SG rate increases to 12% as scheduled.

Chart 4: Additional super at retirement due to LISTO
Person works part time, at 3 days per week, for 5 years



The scenarios assume the person is 30 years old with a super balance of $30,000, and retires at 67. In each scenario, the person works 3 days per week for 5 years from ages 35 to 40 (and otherwise works full time). Each part-time wage is 60% of normal full-time wage.