Superannuation balances of the self-employed

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Andrew Craston, Senior Research Advisor
ASFA Research and Resource Centre

The Association of Superannuation Funds of Australia Limited (ASFA)
PO Box 1485, Sydney NSW 2001
T +61 2 9264 9300 or 1800 812 798 (outside Sydney)
F 1300 926 484

ABN 29 002 786 290
ACN 002 786 290

www.superannuation.asn.au

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Executive summary

This ASFA research paper highlights the low superannuation balances of the self-employed compared with wage and salary earners, and the absence of any significant retirement savings for many of the self-employed. The analysis in this paper supports the case for extending the Superannuation Guarantee (SG) regime to the self-employed.

Who are the self-employed?

The self-employed account for around 10 per cent of the Australian workforce, although this share is likely to increase with the rise of the gig economy.

Compared with the broader economy, self-employment is relatively more common within primary production, construction and some service industries – such as building services and road transport (truck drivers and taxi drivers).

The self-employed tend to be older than employees. Around 33 per cent of the self-employed are aged 55 years and over, compared with 19 per cent of the overall workforce.

Superannuation balances of the self-employed

Although some self-employed people are on track to securing comfortable levels of retirement income, the majority will struggle to achieve this.

Australia's superannuation system is less mature for the self-employed than for employees. In general, self-employed people have lower superannuation balances than employees across the entire age distribution, and in general, self-employed women have relatively low balances.

Around 20 per cent of the self-employed have no superannuation, compared with only 8 per cent of employees. Many of the self-employed who have some superannuation would have accumulated their balances when they were an employee at some stage in their working career.

Self-employed people with high superannuation balances have a larger share of the total superannuation assets of the self-employed than is the case for employees. For the cohort of self-employed in the run-up to retirement (people aged 60 to 64), 87 per cent of superannuation assets are held by only 30 per cent of the self-employed in that group. For employees in the 60 to 64 age cohort, 92 per cent of assets are held by 57 per cent of wage and salary earners (in that group).

In general, the disparities between the self-employed and employees have not diminished over the past decade.

Superannuation balances by age

For both the self-employed and employees, superannuation balances increase with age.

However, with respect to each age cohort, the self-employed have significantly lower balances. In the run-up to retirement, the self-employed have around half the superannuation of employees. Only 30 per cent of the self-employed aged 60 to 64 have more than $100,000 in superannuation, compared with almost 60 per cent of employees.

Superannuation balances by gender

For both men and women, the self-employed have lower balances than employees across the entire age distribution.

The average superannuation account balance for self-employed males in the 60 to 64 age cohort is around $143,000, compared with around $283,000 for male wage and salary earners.

For women, the disparity is even starker. The average balance for self-employed women aged 60 to 64 is around $83,000, compared with around $175,000 for wage and salary earners.

Across age cohorts, in general, female self-employed have significantly lower superannuation balances than both female employees and the male self-employed. In the run-up to retirement, the average balance for self-employed women is around half that of female employees and the male self-employed.

Superannuation balances by occupation

There are substantial variations in superannuation balances for the self-employed with respect to level of qualifications, occupation and the industry in which they operate.

Those self-employed with a degree qualification tend to have higher superannuation balances. Around two-thirds of self-employed people with no post-school qualification have no superannuation, or a balance less than $40,000.

The sectors that have the largest proportions of self-employed with balances greater than $100,000 include *Agriculture, forestry and fishing* (for example, farmers), *Professional, scientific and technical services* (for example, accountants) and *Health care and social assistance* (for example, doctors).

Among the major sectors in the Australian economy, the construction industry (which includes tradespeople) has the highest proportion of self-employed with either no superannuation or a balance less than $40,000.

The future of self-employment

Looking ahead, self-employment will become more prevalent in the Australian workforce with the rise of the gig economy. Most new gig workers will be self-employed contractors.

In the absence of reform, this will mean there will be a lower proportion of jobs for which workers will receive compulsory Superannuation Guarantee contributions, and lower superannuation balances at retirement for affected workers.

1

Introduction

This ASFA research paper assesses the scale, distribution and adequacy of the retirement savings of self-employed people.

For many years ASFA has highlighted the low superannuation balances of the self-employed relative to wage and salary earners, and the absence of any significant retirement savings for many of the self-employed. ASFA has previously published data and analysis in June 2008 (*The self-employed and saving for retirement*), in March 2014 (*An update on the level and distribution of retirement savings*), and in May 2016 (*Super and the self-employed*).

Using new, unpublished data[1] this paper confirms the diversity of retirement savings among self-employed people and the significant differences in saving patterns of the self-employed relative to wage and salary earners.[2] The paper finds that although some self-employed people are on track to securing comfortable levels of retirement income, the majority will struggle to achieve this.

The issue of inadequate retirement savings of the self-employed will become increasingly important with the rise of the gig economy. The number of gig economy workers in Australia is likely to increase rapidly over coming years from the current 150,000 workers (who use web-based platforms to obtain work on a regular basis).[3] Most new gig workers will be self-employed contractors.

This suggests that, in the absence of reform of superannuation settings, there will be a lower proportion of jobs for which workers will receive Superannuation Guarantee (SG) contributions. This will mean lower or no contributions for affected workers and lower incomes in retirement.

In this regard, ASFA is developing potential reforms to formally include the self-employed in the SG regime and to ensure SG coverage for gig economy workers.[4] Such reforms would lead to higher retirement incomes for workers and help boost the broader adequacy of the superannuation and retirement income system.

1 This paper makes use of new, unpublished data from the Australian Bureau of Statistics from its *Survey of Income and Housing 2015-16*, as well as other ABS data and data from the Australian Taxation Office.

2 In its *Survey of Income and Housing 2015-16*, the ABS distinguishes between workers based on their main source of income – that is, a worker's main source of income is either own unincorporated business income or employee income. For convenience, this paper refers to the two categories of workers (respectively) as *the self-employed and wage and salary earners (or employees).*

3 ASFA derived.

4 See forthcoming ASFA policy paper on gig economy workers and superannuation.

2

Who are the self-employed?

Self-employed people account for a substantial proportion (around 10 per cent) of the Australian workforce. This share has declined somewhat over the past twenty-five years, down from just over 15 per cent in 1992.[5] This reflects, in part, a greater tendency for businesses to incorporate.[6]

Owners of unincorporated businesses

The standard definition of a self-employed person is one who is the owner of his/her unincorporated business (as either a sole proprietor or a partner in a partnership). In August 2017 there were around 1,267,000 people who were owner-managers of unincorporated businesses – around 724,000 full-time owner-managers and around 542,000 owner-managers who worked part-time as their main job (Figure 1).[7]

Broadly speaking, of all owner-managers of unincorporated businesses, around half work as 'independent contractors' – who typically generate income from providing labour services directly to clients, rather than selling goods or services to the public.[8]

Owners of other types of businesses

There are other people who, although not included in the above definition, might consider themselves as 'self-employed'. This cohort includes some small business owners who have incorporated.

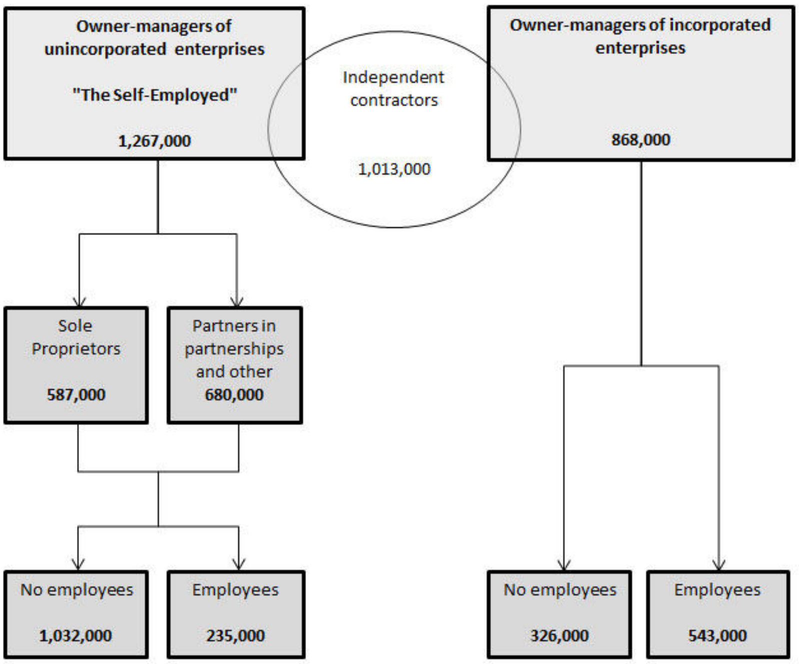
5 Based on ABS data (ABS Cat. no. 6333.0, *Characteristics of Employment*, Australia, August 2017 and ABS Cat. no. 6105.0, *Australian Labour Market Statistics*, July 2014).

6 There are a number of reasons why incorporation can be relatively attractive – for example, the legal protection of limited liability and the lower tax rate on corporate profits relative to the marginal rate of personal income tax (Reserve Bank of Australia 2012, *Small Business: An Economic Overview*, Small Business Finance Roundtable, May).

7 Based on ABS data (ABS Cat. no. 6333.0, *Characteristics of Employment*, Australia, August 2017).

8 Not all self-employed people work as independent contractors – for example, those self-employed who generate income from managing staff or from selling goods or services to the public (rather than providing labour services directly to clients). Not all independent contractors are self-employed – for example, those contractors who work in their own incorporated enterprise. Based on ABS data (ABS Cat. no. 6359.0, *Forms of Employment*, Australia, November 2010).

Figure 1: The self-employed in context (as at August 2017)



Source: based on ABS data.[9]

In August 2017 there were around 326,000 people who ran their own incorporated enterprise, but had no employees. An example of this type of arrangement is a sole tradesperson who works as sub-contractor (in the construction industry) and has incorporated his/her business. The ABS statistics concerning the self-employed and their superannuation do not include such people. However, given that their remuneration and their engagement with superannuation are unlikely to be materially different from those defined as self-employed (in the same industry), it is reasonable to expect they would have similar issues regarding the adequacy of their superannuation.

There were a further 543,000 people who ran their own incorporated business and employed others – in most cases only a small number of workers. This type of arrangement is particularly prevalent in the construction sector and some household/business services, such as real estate.[10] It is likely that many of the owners of such businesses would consider themselves as 'self-employed'.

9 Based on ABS data (ABS Cat. no. 6333.0, *Characteristics of Employment*, Australia, August 2017 and ABS Cat. no. 8165.0, *Counts of Australian Businesses*, February 2017).

10 Reserve Bank of Australia 2012, *Small Business: An Economic Overview*, Small Business Finance Roundtable, May.

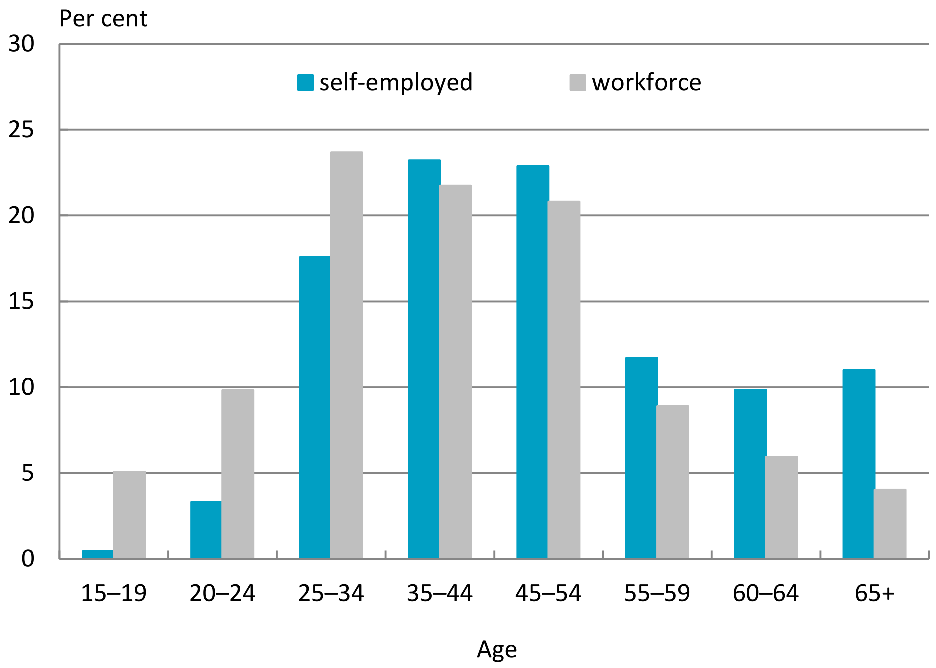
3

Characteristics of the self-employed

Men account for a relatively large share of self-employed people (63 per cent), but just over half (53 per cent) of the overall workforce. Both proportions have declined somewhat over the past twenty-five years as female participation in the labour force has increased.[11]

The self-employed have an older age distribution than the overall workforce (Chart 1). Around 33 per cent of the self-employed are aged 55 years and over, compared with 19 per cent of the workforce. Both these proportions are almost double that of two decades ago, as the Australian population has aged and workers have chosen to stay in the labour force for longer.

Chart 1: Age distribution of the self-employed and overall workforce (August 2017)



Source: ABS[12]

At the other end of the age distribution, 21 per cent of the self-employed are under 35 years old, compared with 39 per cent of the workforce generally. For some categories of self-employment it is necessary to complete trade or professional training before being licensed to provide services. A self-employed person might start off in an industry as an apprentice, then work as an employee and finally become self-employed.

On an industry basis, self-employment is relatively more common in the primary production and construction sectors compared with the broader economy (in Table 1, the bold figures indicate those sectors where the self-employed are over-represented relative to the overall workforce). With respect to the construction sector, the cohort of self-employed includes tradespeople who have their own business (and may or may not employ other workers).

11 Based on ABS data (ABS Cat. no. 6333.0, *Characteristics of Employment*, Australia, August 2017).

12 Based on ABS data (ABS Cat. no. 6333.0, *Characteristics of Employment*, Australia, August 2017).

There is also a number of service sectors in which self-employment is relatively more common:

- Administrative and support services: for example, support services associated with buildings such as cleaning, gardening and pest control.
- Professional, scientific and technical services: this category includes a range of services such as accounting, architectural, design, legal and market research services.
- Transport, postal and warehousing: for example, road freight drivers and taxi drivers.

Unsurprisingly, there are few self-employed in the government sector (Public administration and safety), and also few self-employed in the mining sector and utilities sector (Electricity, gas, water and waste services). However, contractors are becoming more common with respect to telecommunications services.

Table 1: Australia's workforce and the self-employed, by sector (main source of income)

Industry	Percentage of the self-employed	Percentage of the overall workforce
Construction	**24.5**	8.3
Professional, Scientific and Technical Services	**10.4**	8.2
Agriculture, Forestry and Fishing	**9.5**	2.4
Health Care and Social Assistance	8.8	12.8
Administrative and Support Services	**8.2**	3.3
Transport, Postal and Warehousing	**6.3**	4.8
Other Services	**6.1**	3.9
Education and Training	5.9	8.7
Accommodation and Food Services	*5.2	6.7
Retail Trade	4.6	10.5
Manufacturing	3.4	7.7
Arts and Recreation Services	**2.1**	1.7
Wholesale Trade	*1.6	3.4
Financial and Insurance Services	*1.2	4.0
Rental, Hiring and Real Estate Services	*0.9	1.8
Information Media and Telecommunication	*0.7	1.8
Public Administration and Safety	**0.6	7.2
Mining	0.0	1.5
Electricity, Gas, Water and Waste Services	0.0	1.3
Percentages are additive down columns. Bold figures indicate sectors where self-employed people are over-represented relative to the overall workforce.		
** estimate has a relative standard error of 25% to 50%. ABS advises use with caution.*		
*** estimate has a relative standard error greater than 50%. ABS considers too unreliable for general use.*		

Source: ABS[13]

13 Based on unpublished ABS data from the *Survey of Income and Housing 2015-16*.

4

The future of self-employment

Looking ahead, self-employment will become more prevalent in the Australian workforce with the rise of the gig economy.

Broadly speaking, the gig economy encompasses markets where buyers and sellers of goods and services are matched or organised via web-based platforms. Gig economy workers typically derive income by using their skills to complete discrete tasks – for firms or other entities, or for consumers.

Currently, economic activity and employment facilitated through web-based platforms represents only a small share of the broader economy. However, the volume of activity is growing fast and platforms are expanding to encompass a wider variety of industries.

The number of gig economy workers in Australia is likely to increase rapidly from current low levels – ASFA estimates that around 150,000 workers utilise web-based platforms to obtain work on a regular basis.[14] For some workers, gig economy work will be their main, or even sole, source of income. For others, income from gig economy work will supplement income from more conventional work arrangements – such as permanent full-time employment.

Thus far, many new gig economy jobs have been at the low-paid end of the labour market, such as on platforms that facilitate goods delivery. However, gig economy jobs for a broader range of workers will become more prevalent. For example, advancements in information and communications technology are likely to reduce barriers to gig economy activity for jobs that require extensive teamwork and collaboration.

The rise of the gig economy will lead to an increase in the prevalence of independent contractors (most of whom will fall within the definition of self-employed).[15] Independent contractors are defined as people who are engaged under a contract for services (a commercial contract), rather than a contract of service (an employment contract). In terms of business models, independent contractors typically generate income from providing labour services directly to clients, rather than, say, selling goods or services to the public.

Within this cohort, there will be workers who could best be described as ‘dependent contractors’. That is, workers who are engaged under a commercial contract for services, but who have work arrangements that (in a variety of ways) resemble those of an employee—such as where a platform operator sets job prices and/or schedules work shifts—and have economic dependency on a single organisation/client.[16]

The SG regime makes the distinction between workers who are employees for the purposes of SG (and are covered by the regime), and those who are not (and are not covered). Whether an individual is an employee (or not) for the purposes of the SG is a function of the underlying nature of the relationship between the individual and the entity that engages the individual (see Appendix).

The SG regime was developed for broad coverage of the workforce, using wide definitions of employee (and employer). However, the changing nature of work requires that superannuation settings are adjusted to ensure the system remains fit-for-purpose. In this regard, ASFA is developing potential reforms to ensure SG coverage for gig economy workers,[17] which would lead to higher retirement incomes for those workers (than would otherwise be the case).

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14 See footnote 3.

15 See footnote 8.

16 The Parliament of the Commonwealth of Australia 2005, Making it Work: Inquiry into Independent Contracting and Labour Hire Arrangements, House of Representatives Standing Committee on Employment, Workplace Relations and Workforce Participation.

17 See forthcoming ASFA policy paper on gig economy workers and superannuation.

5 Superannuation contributions of the self-employed

Compulsory superannuation contributions under the SG regime generally apply to employees. That said, as noted above, there are some self-employed people who are covered due to the reasonably expansive definition of wage and salary earners in the legislation (see Appendix).

Also, many individuals who are currently self-employed were previously employees and/or have a secondary source of income as an employee (and so have accumulated compulsory superannuation benefits).

The significant tax concessions that apply to superannuation mean that some self-employed people make voluntary superannuation contributions. The self-employed can also make additional contributions in the run-up to retirement when their business is sold (the Appendix sets out the various tax concessions and incentives that apply to contributions of the self-employed).

Broadly speaking, the self-employed make lower contributions than employees. Data from the Australian Tax Office (ATO) reveal that although the self-employed account for around 10 per cent of the workforce, they only accounted for around 5 per cent of total superannuation contributions in 2014-15. Other ATO data suggest that a minority (less than 10 per cent) of the self-employed made tax deductible contributions to their superannuation accounts in 2014-15. Given that around 80 per cent of self-employed have at least some superannuation (see Chart 2 in next section), the ATO data also suggest that the self-employed tend to make ad hoc superannuation contributions rather than ongoing contributions – which is generally the case for employees.

It should be noted that recent changes to the tax treatment of superannuation make it easier for some workers—particularly some gig economy workers—to claim income tax deductions for superannuation contributions. The *2016–17 Budget* removed the condition whereby a person could only claim a deduction if less than 10 per cent of his/her income was from salary and wages. This means, for example, that a person who works as an employee for his/her main job, and also works as an independent contractor on the side, can now claim a tax deduction in respect of contributions from his/her earnings from contracting.[18]

18 The Commonwealth of Australia 2016, *Budget 2016-17: Budget Paper No.2*. This measure came into effect on 1 July 2017.

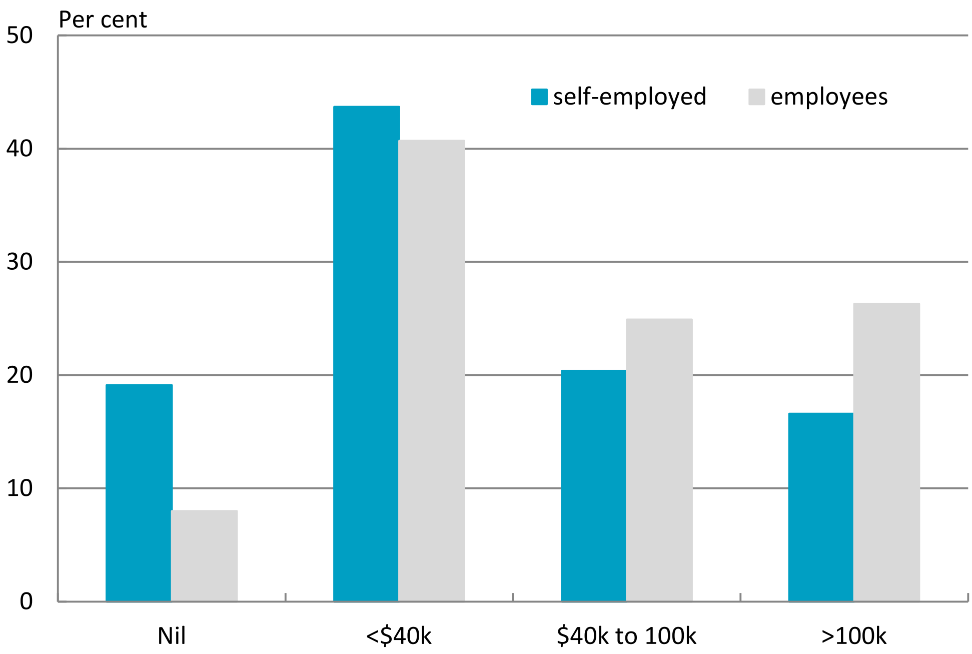
6

Superannuation balances of the self-employed

Data on the distribution of superannuation balances among the self-employed and employees show that, in general, self-employed people have lower superannuation balances than employees (Chart 2), notwithstanding that self-employed persons are, on average, older.

Around one-fifth (19 per cent) of the self-employed have no superannuation, compared with only 8 per cent of employees. Those employees with no superannuation are likely to be part-time workers on incomes below the threshold for the SG.[19] Also, a higher proportion of the self-employed have a 'low' superannuation balance (less than $40,000).

Chart 2: Distribution of superannuation balances, by worker type (2015-16)



Source: based on ABS data[20]

At the upper end of the distribution of superannuation balances, 17 per cent of the self-employed have a 'high' superannuation balance (greater than $100,000), compared with 26 per cent of employees.

Similar distribution patterns can be seen in the balance data for men and women (Table 2). This data also shows that women tend to have lower balances than men (this issue is explored in more detail in the next section).

19 The income threshold is less than $450 in a particular month.

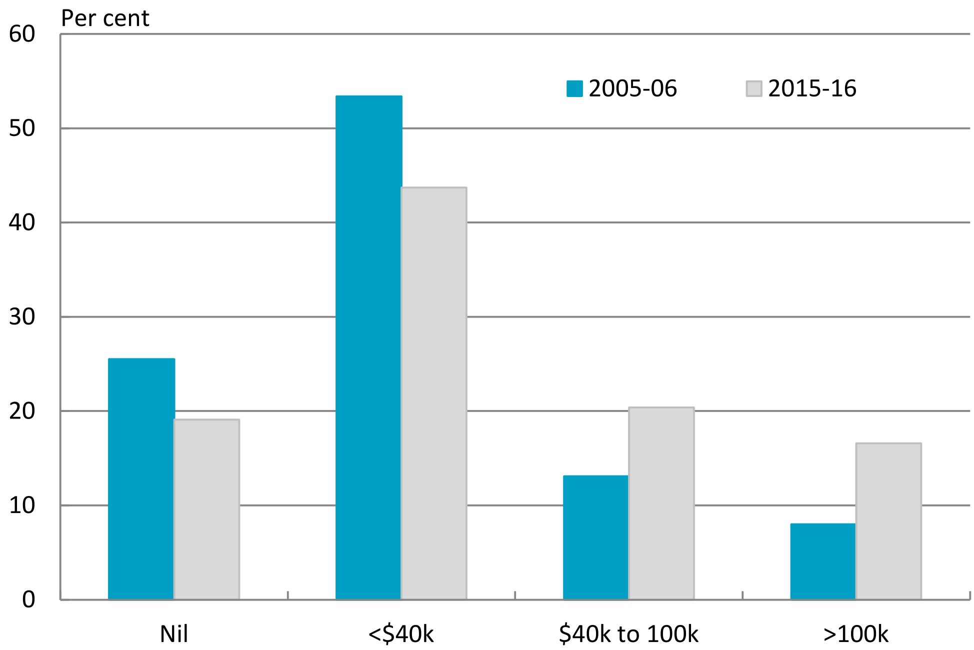
20 Based on unpublished ABS data from the Survey of Income and Housing 2015-16.

Table 2: Distribution of superannuation balances, by worker type and gender (2015-16)					
Worker type		**Superannuation balance**			
		Nil	**Low**	**Middle**	**High**
		% of worker type	% of worker type	% of worker type	% of worker type
Male	Self-employed	19.2	41.3	20.5	18.2
	Wage and salary earners	7.8	36.3	24.3	31.6
Female	Self-employed	18.3	49.9	21.0	12.7
	Wage and salary earners	8.2	45.6	25.6	20.7
Persons	Self-employed	19.1	43.7	20.4	16.6
	Wage and salary earners	8.0	40.7	24.9	26.3
Percentages are additive across columns, but may not sum to 100 due to rounding.					
Balance ranges					
Low: <$40,000					
Middle: $40,000 to $100,000					
High: >$100,000					

Source: ABS[21]

Historical data suggest there has been a modest improvement in the distribution of superannuation balances of the self-employed over the past decade (Chart 3). In 2005-06, 79 per cent of the self-employed had either no superannuation or a balance less than the 'low' balance threshold of $40,000, compared with 63 per cent in 2015-16. However, as the preceding analysis reveals, the proportion of self-employed people in this group remains far greater than for employees.

Chart 3: Distribution of superannuation balances, self-employed



Source: based on ABS data[22]

21 Based on unpublished ABS data from the *Survey of Income and Housing 2015-16*.

22 Based on unpublished ABS data from the *Survey of Income and Housing 2015-16 and Survey of Income and Housing 2005-06 Unit Record File*.

7

Superannuation balances by age and gender

The self-employed have lower superannuation balances than employees across the entire age distribution (Table 3 and Chart 4), for both men and women. In the run-up to retirement (the 60 to 64 age cohort), ABS data suggest the self-employed have around half the superannuation of employees.

Table 3: Average superannuation balances, by age and gender (2015-16)

	Age	Self-employed (SE)	Wage and salary earners (W&S)	SE balance as a percentage of W&S balance
Male	25 to 29 years	8,970	28,041	32
	30 to 34 years	28,813	49,007	59
	35 to 39 years	44,116	75,328	59
	40 to 44 years	*74,548	113,057	66
	45 to 49 years	85,924	175,890	49
	50 to 54 years	82,844	210,486	39
	55 to 59 years	*127,474	289,098	44
	60 to 64 years	*143,130	282,643	51
	All#	**72,302**	**117,275**	**62**
Female	25 to 29 years	*23,658	23,929	99
	30 to 34 years	14,851	44,120	34
	35 to 39 years	37,535	65,637	57
	40 to 44 years	*70,254	79,731	88
	45 to 49 years	48,329	108,348	45
	50 to 54 years	*44,651	118,116	38
	55 to 59 years	*131,688	146,646	90
	60 to 64 years	*82,951	174,646	47
	All#	**57,211**	**72,982**	**78**
Persons	25 to 29 years	12,715	25,983	49
	30 to 34 years	25,381	46,444	55
	35 to 39 years	42,000	71,046	59
	40 to 44 years	*70,284	97,741	72
	45 to 49 years	75,892	143,604	53
	50 to 54 years	74,454	165,183	45
	55 to 59 years	130,065	217,603	60
	60 to 64 years	*121,180	236,149	51
	All#	**67,777**	**96,226**	**70**

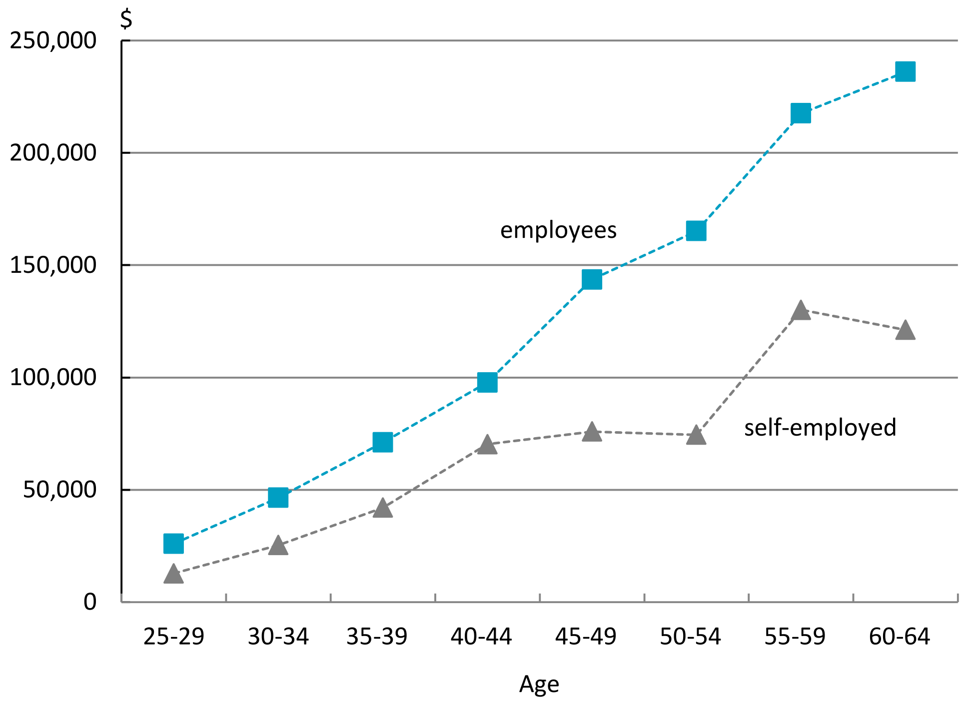
 # includes persons younger than 25 and older than 64.

** estimate has a relative standard error of 25% to 50%. ABS advises use with caution.*

Based on ABS data[23]

23 Based on unpublished ABS data from the *Survey of Income and Housing 2015-16*.

Chart 4: Average superannuation balances, by age (2015-16)



Based on ABS data[24]

The average superannuation account balance for self-employed males in the 60 to 64 age cohort is around $143,000, compared with around $283,000 for male wage and salary earners. For women, the difference is even starker. The average balance for self-employed women aged 60 to 64 is around $83,000, compared with around $175,000 for female wage and salary earners. For the female self-employed in particular, the average figure would provide only a modest retirement income.

Across age cohorts, in general, the female self-employed have significantly lower superannuation balances than both female employees and the male self-employed. For example, in the run-up to retirement, ABS data suggest the average balance for self-employed women is around half that of female employees and the male self-employed.

24 Based on unpublished ABS data from the *Survey of Income and Housing 2015-16* and *Survey of Income and Housing 2005-06 Unit Record File.*

The story has changed little over the past decade. Table 4 shows superannuation balances for the self-employed and employees in 2005-06, by gender and age cohort. In general terms, the disparity between the self-employed and employees is similar to that in 2015-16. The self-employed have lower superannuation balances than employees across the age distribution and, in general, self-employed women have relatively low balances.

Table 4: Average superannuation balances, by age and gender (2005-06)

	Age	Self-employed (SE)	Wage and salary earners (W&S)	SE balance as a percentage of W&S balance
Male	25-34	11,020	22,650	49
	35-44	23,760	56,840	42
	45-54	60,140	113,940	53
	55-59	73,140	161,270	45
	60-64	123,730	173,260	71
	All#	**49,130**	**77,100**	**64**
Female	25-34	13,780	18,110	76
	35-44	23,750	35,880	66
	45-54	45,890	62,150	74
	55-59	40,100	69,320	58
	60-64	44,730	94,540	47
	All#	**33,340**	**42,960**	**78**
Persons	25-34	11,800	20,600	57
	35-44	23,750	47,610	50
	45-54	54,860	89,440	61
	55-59	63,960	119,990	53
	60-64	105,080	147,030	71
	All#	**44,000**	**61,780**	**71**

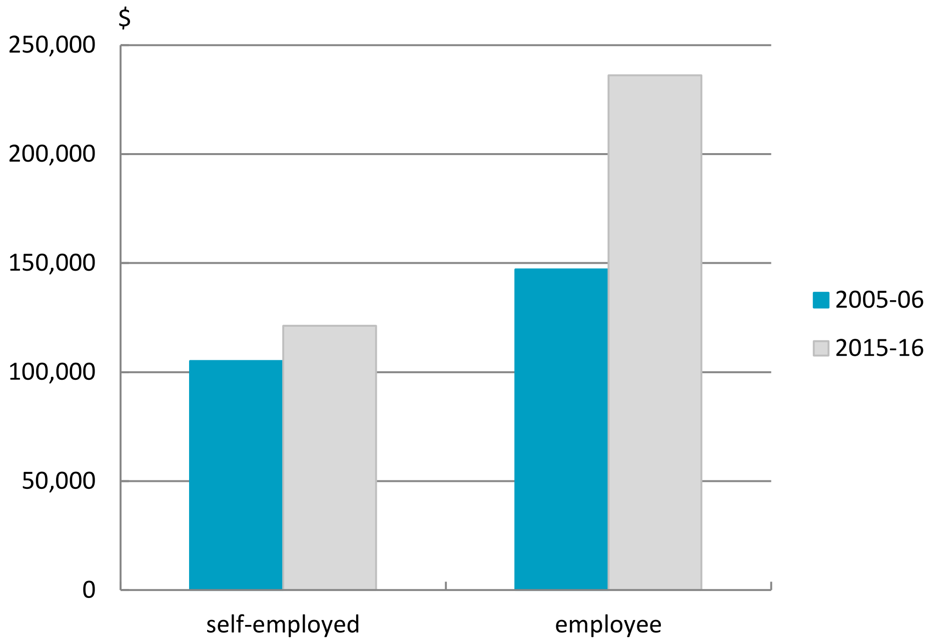
 # includes persons younger than 25 and older than 64

Source: based on ABS data[25]

That said, there have been significant changes for some cohorts. For those in the run-up to retirement, the current group of self-employed have significantly lower balances than employees than was the case ten years ago (Chart 5). While the average superannuation balance for employees is around 60 per cent higher, the average balance for the self-employed is only 15 per cent higher.

25 Based on unpublished ABS data from the *Survey of Income and Housing 2005-06 Unit Record File*.

Chart 5: Average superannuation balance, age 60 to 64



8

Superannuation balances by qualification, occupation and industry

As is the case for the broader workforce, there are significant differences in superannuation balances with respect to the characteristics of the self-employed—their level of qualifications, their occupation and the industry in which they operate. There is a degree of overlap between these categories—for example, professionals would be more likely to have degree qualifications compared with other occupations.

Table 5: Number of the self-employed by characteristic and superannuation balance (2015-16)

	Superannuation balance			
	Nil	**Low**	**Middle**	**High**
Highest qualification				
Degree+	*25,656	81,918	*26,935	*52,715
Diploma	17,880	47,377	19,489	15,683
Certificate	**38,573	*126,866	*52,871	*27,808
No post-school	64,696	98,593	48,056	32,220
Other	0	5,630	0	1,519
All	**148,954	**354,368	**146,200	**129,701
Occupation				
Managers	*40,782	49,444	**27,379	**24,761
Professionals	*19,053	69,650	*27,765	*46,139
Technicians and Trades Workers	35,971	105,506	36,693	18,355
Community and Personal Service Workers	12,305	33,482	7,193	10,316
Clerical and Administrative Workers	4,838	24,661	14,496	8,955
Sales Workers	6,449	8,058	4,871	5,087
Machinery Operators and Drivers	12,937	13,067	2,819	8,364
Labourers	12,641	51,791	23,498	6,427
All	148,954	354,368	146,200	129,701
** estimate has a relative standard error of 25% to 50%. ABS advises use with caution.*				
*** estimate has a relative standard error greater than 50%. ABS considers too unreliable for general use.*				
Balance ranges				
Low: <$40,000				
Middle: $40,000 to $100,000				
High: >$100,000				

Source: ABS[26]

26 Based on unpublished ABS data from the *Survey of Income and Housing 2015-16*.

Those self-employed with a degree qualification, or above, tend to have higher superannuation balances compared with other levels of qualification. In contrast, around two-thirds of those self-employed with no post-school qualification have either no superannuation or a 'low' balance (Table 5).

Table 5 also suggests that self-employed managers and professionals account for just over 50 per cent of the self-employed who have 'high' superannuation balances. Technicians and trades workers account for a further 14 per cent of 'high' superannuation balances, however the distribution of superannuation balances among technicians and trade workers is skewed more towards 'nil' or 'low' balances.

Table 6 suggests the sectors that have the largest proportions of self-employed with 'high' balances include *Agriculture, forestry and fishing* (for example, farmers), *Professional, scientific and technical services* (for example, architects) and *Health care and social assistance* (for example, doctors). Among the major sectors in the Australian economy, the construction sector (which includes tradespeople) has the highest proportion of self-employed people with 'nil' or 'low' balances.

Table 6: Number of the self-employed by characteristic and superannuation balance (2015-16)

	Superannuation balance			
	Nil	**Low**	**Middle**	**High**
Industry				
Agriculture, Forestry and Fishing	*22,845	*19,989	*11,306	**18,290
Mining	*0	*0	*0	**0
Manufacturing	4,030	*9,116	*7,813	**5,202
Electricity, Gas, Water and Waste Services	**0	**0	0	**0
Construction	29,372	**108,194	37,405	**18,193
Wholesale Trade	2,102	**5,278	1,712	**1,355
Retail Trade	*7,905	15,270	*12,527	2,688
Accommodation and Food Services	*13,379	17,883	3,913	*9,228
Transport, Postal and Warehousing	15,925	**15,511	**9,006	7,469
Information Media and Telecommunication	*951	*2,701	**0	*910
Financial and Insurance Services	*0	1,806	*0	5,244
Rental, Hiring and Real Estate Services	*0	*1,687	**0	**1,911
Professional, Scientific and Technical Services	*6,838	34,793	*16,353	*23,153
Administrative and Support Services	5,530	30,840	21,960	5,196
Public Administration and Safety	0	4,097	560	0
Education and Training	*10,898	21,955	8,149	6,598
Health Care and Social Assistance	8,457	28,917	10,627	19,262
Arts and Recreation Services	*6,006	7,906	*1,344	**1,984
Other Services	*8,285	28,781	*7,241	*6,616
All	*148,954	*354,368	**146,200	*129,701

** estimate has a relative standard error of 25% to 50%. ABS advises use with caution.*

*** estimate has a relative standard error greater than 50%. ABS considers too unreliable for general use.*

Balance ranges

Low: <$40,000

Middle: $40,000 to $100,000

High: >$100,000

Source: ABS[27]

27 Based on unpublished ABS data from the *Survey of Income and Housing 2015-16*.

9

Detailed distribution of superannuation balances

In general, the superannuation assets of the self-employed are more concentrated in high-worth balances than is the case for employees (Tables 7). For the self-employed, 71 per cent of total superannuation assets are held by 17 per cent of the self-employed population. For employees, 77 per cent of assets are held by 26 per cent of wage and salary earners.

Table 7: Distribution of superannuation balances (2015-16)

Age	Superannuation balances of self-employed							
	Nil		Low		Med		High	
	% of the age cohort in this category	% super held by the age cohort	% of the age cohort in this category	% super held by the age cohort	% of the age cohort in this category	% super held by the age cohort	% of the age cohort in this category	% super held by the age cohort
25 to 29	*14.0	na	82.5	66.2	**5.6	**18.2	0.0	**15.5
30 to 34	20.8	na	48.1	32.9	*29.2	60.5	0.0	**6.6
35 to 39	*7.4	na	54.8	21.8	25.8	38.3	*11.4	*39.9
40 to 44	21.3	na	43.0	8.5	19.9	17.0	*19.3	*74.6
45 to 49	*18.7	na	37.0	10.0	*23.0	25.0	22.0	64.9
50 to 54	13.0	na	44.8	10.6	26.0	21.8	19.6	67.6
55 to 59	*17.7	na	25.5	3.9	20.2	10.0	32.3	86.1
60 to 64	22.1	na	31.1	3.7	*17.0	9.2	30.0	87.0
All#	19.1	na	43.7	9.6	20.4	19.0	16.6	71.4
	Superannuation balances of wage and salary earners							
25 to 29	6.7	na	75.1	51.3	16.0	33.5	2.6	15.4
30 to 34	5.3	na	47.0	20.7	38.7	49.2	8.8	30.1
35 to 39	4.5	na	30.7	9.7	43.1	38.5	22.0	52.1
40 to 44	3.9	na	27.5	6.1	34.3	23.1	34.4	70.7
45 to 49	4.7	na	20.0	3.1	28.5	13.3	46.8	84.0
50 to 54	5.6	na	17.1	2.3	28.8	11.5	48.3	86.3
55 to 59	3.4	na	15.2	1.5	24.4	7.5	57.2	91.0
60 to 64	4.7	na	17.1	1.4	21.8	6.6	56.7	91.9
All#	8.0	na	40.7	6.7	24.9	16.5	26.3	76.8

Percentages are additive across columns, but may not sum to 100 due to rounding.

 # includes persons younger than 25 and older than 64.

** estimate has a relative standard error of 25% to 50%. ABS advises use with caution.*

*** estimate has a relative standard error greater than 50%. ABS considers too unreliable for general use.*

Balance ranges

Low: <$40,000

Middle: $40,000 to $100,000

High: >$100,000

Source: ABS[28]

28 Based on unpublished ABS data from the *Survey of Income and Housing 2015-16*.

The difference is particularly stark for those in the run-up to retirement. For the self-employed in the 60 to 64 age cohort, 87 per cent of total superannuation assets are held by 30 per cent of the self-employed in that group. For employees in the 60 to 64 age cohort, 92 per cent of assets are held by 57 per cent of wage and salary earners (in that group).

It is also worth noting that in the run-up to retirement almost 60 per cent of employees have more than $100,000 in superannuation savings, compared with only 30 per cent of the self-employed.

At the other end of the distribution of superannuation balances, Table 7, as previously noted, that a larger proportion of the self-employed have no superannuation, and that this is the case across all age cohorts.

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The broader savings of the self-employed

Taking into account savings vehicles outside of superannuation, the cohort of self-employed have (in average terms at least) higher non-home net worth than wage and salary earners (Table 8). However, the average figures mask substantial differences in individuals' savings.

Table 8: Assets of the self-employed and wage and salary earners (2015-16)

Age	Worker type	Asset type: Cash	Shares	Investment property	Super	Business (net)	Non-home net worth	Share of super in non-housing wealth
25 to 29	SE	*10,908	*2,581	*8,773	12,715	*9,461	37,166	34
	W&S	11,624	840	26,275	25,983	*5,091	52,725	49
30 to 34	SE	6,748	*1,852	*33,565	25,381	*69,004	*113,753	22
	W&S	12,017	*4,689	79,526	46,444	*14,552	92,492	50
35 to 39	SE	*20,154	*8,236	*34,277	42,000	*68,804	144,708	29
	W&S	14,807	2,998	96,642	71,046	15,073	116,853	61
40 to 44	SE	*26,147	*9,513	*155,139	*70,284	*137,455	262,492	27
	W&S	18,294	5,151	106,815	97,741	*27,494	166,062	59
45 to 49	SE	*22,071	*6,379	*103,033	75,892	*138,545	253,703	30
	W&S	21,722	*26,408	170,038	143,604	*33,683	235,153	61
50 to 54	SE	24,834	*4,694	*209,925	74,454	184,512	306,753	24
	W&S	23,568	*19,774	120,811	165,183	**185,508	*408,969	40
55 to 59	SE	29,543	*8,259	*208,000	130,065	*160,001	355,317	37
	W&S	28,834	13,120	158,605	217,603	38,259	324,199	67
60 to 64	SE	*32,615	*4,147	*97,951	*121,180	*158,099	348,437	35
	W&S	26,007	*14,425	161,122	236,149	**77,583	363,181	65
All#	SE	23,343	*5,992	113,333	67,777	128,242	238,969	28
	W&S	16,696	7,849	92,113	96,796	*38,507	173,441	56

 # includes persons younger than 25 and older than 64.

** estimate has a relative standard error of 25% to 50%. ABS advises use with caution.*

*** estimate has a relative standard error greater than 50%. ABS considers too unreliable for general use.*

Source: based on ABS data[29]

Table 8 suggests that the self-employed tend to accumulate more of their non-housing wealth outside of the superannuation system, including in cash, shares and investment properties. For the self-employed, business assets are also substantial contributors to non-housing wealth.

As shown in Table 7, the superannuation assets of the self-employed are more concentrated in high-worth balances than is the case for employees. This is also likely to be the case for other savings vehicles – such as cash, equities and property. Thus, it is likely that the better-off self-employed would tend to have higher superannuation balances, more investment properties and larger holdings of shares. The less well off self-employed would likely have little of each of these.

29 Based on unpublished ABS data from the *Survey of Income and Housing 2015-16*.

There is also likely to be substantial variation in the value of business assets.

For some self-employed people, the value of the business might be little more than the market value of a second-hand utility or truck and some tools of trade. For others, it might be the value of an ongoing business worth a million dollars or more. Individuals with lower-value business assets would tend to have lower superannuation balances.

Lack of business assets is particularly relevant for gig economy workers. A typical gig economy worker, who provides services based on his/her particular skills, may not—at the time of retirement—have a business with any material goodwill or value other than his/her labour. The longer business assets are held (provided there are significant assets other than goodwill), the greater the sale proceeds are likely to be. As shown in Table 9, the average capital gains tax (CGT) concession under the retirement exemption was around $85,000 in 2014-15, whereas under the 15-year exemption the average concession was around $421,000. As is explained in the Appendix to this report, the small business CGT concessions interact with the rules relating to amounts that can be contributed to superannuation.

Table 9: Capital gains tax concessions for owners of small businesses who are retiring (2014-15)

CGT exemption type	Number	Total value ($m)	Average value ($)
Retirement exemption	8,996	764	84,916
15-year exemption	1,517	639	421,387

Source: ATO Taxation Statistics 2014-15

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Gig economy workers and superannuation

As noted above, with the rise of the gig economy, individuals' participation in the workforce is likely to become more varied. For example, a worker may be an employee and an independent contractor at different periods in his/her career (or at the same time).

Accordingly, a worker would receive SG contributions while an employee, but may not make superannuation contributions while a contractor. This would affect the worker's ultimate retirement income.

Worker on average income

For example, consider the case of a woman who starts full-time work at 23 years of age after a period of full-time study, and retires at 67.

- If she earns average wages throughout her working life, she would retire with a substantial superannuation balance of around $620,000.
- If she took a 5-year break from being an employee to work as a contractor at age 45, and did not make contributions during this period, her superannuation balance at retirement would instead be around $540,000.
- A longer break, say of 10 years, would mean a lower balance at retirement of around $475,000.

Worker on lower income

For a person who is on lower wages, the impact on his/her superannuation balance may be particularly egregious. As with the above scenario, lower superannuation contributions over a working life would mean lower superannuation balances at retirement (all else being equal).

For example, consider the case of a man who starts work at 18 years of age as a contractor and earns the equivalent of the minimum wage (but does not receive SG contributions). Eventually, he obtains a job with employee status, and receives SG contributions. He retires at 67.

- If he works for 5 years as a contractor, his balance at retirement would be $260,000.
- If he works for 10 years as a contractor, his balance at retirement would be $220,000.

This compares with around $300,000 for a person who receives SG contributions for their entire career (assuming the minimum wage is earned throughout).

A person under these circumstances is unlikely to be able to save the equivalent of SG contributions from his/her wage. Further, for many such workers, their only work asset would be their labour – there would be no business to sell at retirement.

12

Conclusion

The paper finds that although some of the self-employed are on track to securing comfortable levels of retirement income, the majority of the self-employed will struggle to achieve this.

Australia’s superannuation system is less mature for the self-employed than for employees. The majority of the self-employed have nil or low superannuation balances, and do not make regular superannuation contributions despite the availability of tax concessions. Only a small proportion of the self-employed have high superannuation balances. Although the self-employed have savings outside of the superannuation system, such asset holdings are likely to be similarly distributed.

The issue of inadequate retirement savings of the self-employed will become increasingly important with the rise of the gig economy. The number of gig economy workers in Australia is likely to increase rapidly over coming years. Most new gig workers will be self-employed contractors.

A substantial improvement in the scale and distribution of superannuation balances among the self-employed will be needed to provide comfortable retirement incomes for the majority of the self-employed. However, leaving it to individuals to decide whether or not to save for retirement leads to less-than-optimal outcomes for both individuals and the community more generally.

ASFA supports the eligibility of all Australians to save for their retirement. In ASFA’s view, employees, the self-employed and those relying on business and investment income all should be included in the compulsory savings arrangements, as well as being able to save on a voluntary basis.

APPENDIX

The tax treatment of superannuation contributions

The *2016–17 Budget* removed the condition whereby a person could only claim an income tax deduction for superannuation contributions if less than 10 per cent of his/her income was from salary and wages (the tax deduction means that taxes on contributions are effectively at the rate of 15 per cent, which is levied when contributions are received by a superannuation fund).

These changes will make it easier for some people to claim a deduction. The changes mean, for example, that a person who works as an employee for his/her main job, but also works as an independent contractor on the side, can now claim a tax deduction in respect of contributions from his/her earnings as a contractor.

If a person wishes to claim a tax deduction, the person must notify his/her superannuation fund by the time the person lodges his/her tax return or by the end of the following financial year, whichever is earlier. People aged 65 to 74 must meet a work test in order to be eligible to make a contribution and claim a tax deduction.

A self-employed person can also choose to make a non-concessional contribution(s). These are contributions for which the person does not receive a personal tax deduction, but equally are not taxed when received by a superannuation fund.

Small business capital gains tax (CGT) exemptions

The self-employed can also qualify to roll into their superannuation account proceeds from the disposal of assets that qualify for one of the small business capital gains tax (CGT) exemptions. These are the small business CGT retirement exemption, and the exemption applying to small business assets held for 15 years or more.

With respect to a self-employed person, the general eligibility criteria are that:

- the person owns the asset (or a portion thereof if an interest in a partnership asset)
- for at least half the time of the person's ownership, the relevant asset is used or is ready for use in the course of carrying on a business or is an intangible asset inherently connected with a business the person carries on (an 'active asset'). Note that if the person owns the asset for more than 15 years, the time period for the 'active asset' test remains at 7.5 years
- the related business entity (sole trader or partnership) must have an aggregated annual turnover of no more than $2 million, or the person has net assets of no more than $6 million (excluding personal-use assets such as main residence).

CGT retirement exemption

With respect to the CGT retirement exemption, a self-employed person (sole trader or a partner in a partnership) can use the exemption to exempt all or part of a capital gain if:

- the amount to be exempt does not lead to the person exceeding his/her lifetime cap (of $500,000)
- the amount is contributed to a complying superannuation fund or retirement savings account (RSA) if the individual was aged under 55 years just before using the retirement exemption. If the individual is aged 55 or more just before choosing to use the retirement exemption, the individual does not have to pay any amount to a complying fund or RSA.

15-year exemption

A self-employed person can disregard a capital gain arising from a CGT asset that the person has continuously owned for at least 15 years if the person retires in connection with the CGT event and is aged 55 or over or is permanently incapacitated (there are other rules that apply to a business entity that is a company or trust).

If the sale of an asset qualifies for the 15-year exemption on the capital gain, the owner has the option of contributing all or some of the total proceeds from the sale to superannuation. The proceeds from the sale will likely exceed the capital gain from the sale.

The contribution of the sale proceeds will not be treated as either a concessional or a non-concessional contribution if the contribution does not exceed the person's lifetime CGT cap, which is currently $1.445 million (2017-18).

Limits on superannuation contributions

There are limits on the amounts of both concessional and non-concessional contributions that can be made.

Concessional contributions cap

For 2017-18, the general annual concessional contributions cap is $25,000. The cap applies to personal contributions claimed as a tax deduction (as well as employer contributions). If an individual has more than one fund, then all concessional contributions made to all funds are counted for the purpose of the cap. In 2016-17, the cap was $35,000 for individuals aged 49 years and older (at the end of the previous financial year), and $30,000 for younger people.

The new cap will be indexed in line with average weekly ordinary time earnings (AWOTE), rounded down to the nearest $2,500.

From 1 July 2018, individuals will be able to 'carry-forward' any 'unused' portions of annual concessional caps, on a rolling five-year basis. Unused portions that are carried forward, but not used, will expire after five years. Individuals will only be able to carry-forward unused portions if his/her total superannuation balance at the end of the previous financial year is less than $500,000.

The first year in which an individual will be able to carry-forward any 'unused' portions is 2019–20.

Non-concessional contributions cap

There are also annual caps on non-concessional contributions – which include personal contributions for which no income tax deduction is claimed.

From 1 July 2017, the annual non-concessional contribution cap reduced from $180,000 to $100,000 per year for 2017-18 (and future financial years). The cap increases in line with the concessional contributions cap (which is indexed).

The cap is zero if the individual has a total superannuation balance greater than or equal to the general transfer balance cap ($1.6 million in 2017-18) at the end of 30 June of the previous financial year.

An individual aged under 65 years (at the end of the relevant financial year) can 'bring forward' non-concessional contributions – depending on the individual's total superannuation balance (at the end of the previous financial year). The individual can make non-concessional contributions of:

- up to three times the annual non-concessional contributions cap, if his/her total balance is less than $1.4 million
- up to two times the annual non-concessional contributions cap, if his/her total balance is less than $1.5 million.

The ATO will advise an individual if he/she exceeds the non-concessional contributions cap, and provide options for how any excess contributions are treated and taxed.

- Release from fund (default): withdrawal of the excess amount, plus 85% of the associated earnings. The total associated earnings amount is included in the individual's assessable income and taxed at the individual's marginal tax rate. A non-refundable tax offset equal to 15 per cent of the associated earnings is applied to recognise any tax paid by the fund.
- Leave in fund: the excess amount is taxed at the highest marginal tax rate (plus the Medicare levy).

An individual is required to quote his/her tax file number in order to make contributions.

For an individual aged between 65 and 74 years old, non-concessional contributions are allowed if the individual meets a work test. Between age 65 and 74 an individual can only make personal contributions if they have been gainfully employed for at least 40 hours in a period of not more than 30 consecutive days during the same financial year in which the contributions are made. From age 75 onwards the self-employed are unable to make contributions on their own behalf.

Employees can receive the benefit of mandated employer contributions (which includes SG contributions and contributions under an award or certified industrial agreement) at any age, but cannot make voluntary contributions from age 75.

The superannuation co-contribution

Some self-employed may qualify for the government's superannuation co-contribution. There are a number of eligibility tests for the co-contribution.

- The co-contribution only applies to personal non-concessional contributions where no tax deduction has been allowed.
- The individual must be aged less than 71 at the end of the financial year in which the contribution is made.
- An individual's total superannuation balance must be less than the transfer balance cap ($1.6 million in 2017-18) on 30 June of the year before the relevant financial year, and the individual cannot have contributed more than the non-concessional contributions cap ($100,000 for 2017-18) for the relevant financial year.

There is also an income test. Ten per cent or more of total income must be from eligible employment, running a business, or combination of both.

For 2017-18, if an individual's eligible income (from the aforementioned activities) is $36,813 or less, they will have their personal contributions matched by $0.50 from the government, up to a maximum entitlement of $500. For income above $36,813, the maximum entitlement reduces progressively as income rises, reaching zero for income of $51,813.

The self-employed and the Superannuation Guarantee

Industrial award based superannuation in the late 1980s and the introduction of compulsory superannuation in 1992 in the form of the Superannuation Guarantee (SG) has led to the great bulk of Australians in the paid labour force having some or a significant level of superannuation savings.

The SG was developed for broad coverage of the workforce, using wide definitions of employer and employee. Whether an individual is an employee (or not) for the purposes of the SG is a function of the underlying nature of the relationship between the individual and the entity (or person) that engages the individual (Box 1).

The minority of Australians who are self-employed do not generally fall within the coverage of the SG compulsory superannuation system.

Box 1: Who is a contractor for the purposes of SG

There are a number of indicators that have been regarded by the courts in determining whether an individual is an employee or an independent contractor under common law, and thus an employee for the purposes of the SG.[30] The classic 'test' for determining the nature of the relationship between the individual and the entity (or person) that engages the individual is the degree of control that the latter can exercise over the former.

The *Superannuation Guarantee (Administration) Act 1992* provides for a broader determination of whether an individual is an employee for the purposes of the SG. In this regard, the ATO's ruling SGR 2005/1 outlines how it interprets the Act.[31] In particular, an individual is an employee for the purposes of the SG if the contract terms and conduct of the parties indicate that:

- the individual is remunerated (wholly or principally) for their personal labour and skills;
- the individual must perform the work personally (there is no right of delegation); and
- the individual is not paid to achieve a result.

30 This principle is subject to minor exceptions that are not relevant with respect to this discussion.

31 ATO 2005, *Superannuation Guarantee: Who is an Employee?* , Superannuation Guarantee Ruling 2005/1.