Equity and superannuation – the real issues

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SEPTEMBER 2012

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EXECUTIVE SUMMARY

The real equity challenge

Much of the public debate about equity in the superannuation system has focused on the top one per cent or five per cent of income earners. However, there has been little or no debate on how to advance outcomes for the other 99 per cent or 95 per cent of people. The real issue in regard to equity is that too many Australians have too little in retirement savings rather than too much.

If excessive government assistance is a problem it is restricted to a very small number of individuals. This is particularly the case since the introduction of progressively tighter caps on both concessional and non-concessional contributions. When properly measured, the total government assistance for retirement income in the form of both the Age Pension and tax concessions for superannuation is broadly even across the entire income distribution.

Nearly 90 per cent of the tax concessions for superannuation flow to individuals on less than the top marginal tax rate. The share of total concessions flowing to individuals on the top marginal tax rate was around 50 per cent in 2007-08 with the reduction in the share since then due to the introduction of contribution caps and higher rates of tax on the contributions of certain upper income earners.

Assisting those who need assistance

Evidence from surveys of superannuation account balances held by individuals indicates that compulsory superannuation has been very effective in lifting coverage rates and average superannuation balances. The increase in the Superannuation Guarantee (SG) to 12 per cent will further improve balances at retirement but it will be 40 or 50 years before the system is fully mature.

However, voluntary contributions have remained flat in recent years. Contribution caps and other changes to superannuation are limiting the amount of salary sacrifice contributions, including by individuals seeking to catch up on contributions late in their career. Longitudinal data indicate that a significant proportion of the population have higher incomes (with associated capacity to make higher contributions) for a relatively limited portion of their working career. A higher contribution cap generally or at least for those aged 50 and over would assist those who need to catch up and have a capacity to do so.

While the superannuation co-contribution has been effective in lifting personal contributions of low-income individuals, the design parameters of the co-contribution and recent changes (cutbacks) to them have made the co-contribution less effective than it could be. There is a case for both a higher maximum co-contribution and a lower matching rate in order to encourage greater additional contributions.

The self-employed

Nearly 10 per cent of the labour force is self-employed. While tax concessions have led to some self-employed saving for retirement through superannuation, average balances and coverage have remained relatively low. Around 29 per cent of the self-employed have nil superannuation, with no superannuation being more common for males than females. There is a strong case to extend compulsory superannuation to include the self-employed.

Individuals on paid parental leave

Paid parental leave is considered by the government to be equivalent to wages in terms of income tax and other treatment of individuals. Consistent with this it would be appropriate for the SG to apply to such payments.

One of the reasons that the average superannuation balance of women is lower than that of men is time out of the paid workforce for parental reasons. Paying SG on parental leave payments would help reduce this difference in entitlements. The effects of compound interest also would be very favourable in regard to superannuation contributions made on behalf of women mostly in their 20s and 30s, who take parental leave. The cost to the Commonwealth Budget would be just over $20 million a year.

The $450-a-month threshold for receiving the SG

While there may have been a rationale for the threshold when the SG was first introduced, it would make sense to now remove it given that nearly all employees have a superannuation account and processes for making contributions are now more efficient. Around 250,000 individuals, the majority women, would benefit from removal of the threshold through higher eventual retirement savings. The cost to both employers and to the Commonwealth Budget from removing the threshold would be very modest.

Indigenous Australians

Indigenous Australians have lower coverage and lower balances on average than the general population, again largely related to differences in paid labour force experience. Superannuation coverage for indigenous Australians is about 70 per cent for men and 60 per cent for women, compared to rates of 85 per cent for men and 80 per cent for women for the population more generally. Average (mean) balances are also lower than for the equivalent Australian population as a whole.

Increases in the superannuation coverage and average superannuation balances of Indigenous Australians will clearly be associated with improvements in involvement in paid work and in wages. Labour market measures rather than superannuation policies drive labour market outcomes.

However, current superannuation arrangements and administrative requirements do not always mesh well with the circumstances and needs of Indigenous Australians, particularly those in remote areas who may have difficulty in communicating with their superannuation fund and in claiming benefits or identifying lost accounts.

Recently divorced men and women

Survey data indicate that the distribution of superannuation is now much more even for those who have recently divorced compared to when amendments were made in 2002 to the Family Law Act to allow the splitting of superannuation. The extent of disparities in particular decreased between 2006 and 2010. While a number of factors would have contributed to this, the growing maturity of the compulsory superannuation system leading to higher average account balances for both men and women would have played a role, along with more women having superannuation in their own right. The figures also are consistent with the parties to a marriage making more use of the splitting arrangements.

RECENT PUBLIC, RESEARCHER AND POLITICAL DEBATE

Equity clearly is a key issue in the debate about superannuation and retirement income reform. There is strong government and community concern that the assistance provided to retirement income should be spread fairly according to need. There also is a strong tradition in Australia of support for a ‘fair go’. In the context of superannuation this means that no groups should face barriers to participation in the retirement income system.

However, much of the debate has been focused on the top one per cent or five per cent of income earners with little or no debate on how to advance outcomes for the other 99 per cent or 95 per cent.

This focus on upper income earners is not restricted to superannuation measures. For instance, there are extra taxes or exclusion from benefits or subsidies in a number of recent measures, including the flood levy, compensation for carbon pricing and the tax rebate for medical insurance. Over some income ranges the effective marginal tax rate will be quite high given the combination of the normal marginal tax rate and the withdrawal of benefits or imposition of levies.

THE TOP ONE PER CENT AND FIVE PER CENT

One statistic that has gained some currency is that five per cent of individuals account for 37 per cent of concessional contributions. This is a figure that was quoted at page 22 of the report of the Australia's Future Tax System (the Henry Review) Retirement Incomes Consultation paper. This figure has been quoted numerous times in public debate. The Australian Council of Social Service (ACOSS) has also published figures which deal with the amount of tax concessions going to those on the top marginal tax rates, in a Budget Priority Statement 2012-13 and in a 2011 paper into the fairness of the tax system.

The Treasury figure quoted by the above organisations and individuals relates to 2005-06 when superannuation policy settings were significantly different to now. For instance, in 2005-06 a maximum deductible contribution limit of $100,587 applied for each employee aged 50 and over and for the self-employed aged 50 and over. For those aged 35 to 49 the figure was $40,560 a year.

By 2009-10 a new set of concessional contribution caps was in force (after a number of variants along the way). These caps permitted annual contributions of no more than $25,000 a year for those aged less than 50 and $50,000 a year for those aged 50 and over. However, the $50,000 a year cap was a transitional one which expired on 30 June 2012 and is yet to be extended although the government has indicated that it will do so in the future.

As a result, more recent figures show lower contributions by the top few per cent of income earners. An ASFA Research Paper released earlier this year made use of data especially extracted for ASFA from a large scale survey of Australian households, namely the *Household, Income and Labour Dynamics in Australia (HILDA) Survey*.

However, even when up-to-date data is used, caution is needed in interpreting the data. For instance, superannuation contributions are not spread entirely evenly across all taxpayers or income ranges, nor should they be expected to be. In particular, individuals on a low income in any given year will not necessarily be on a low taxable income for all of their life. Many individuals who have low taxable incomes from employment are undertaking part-time employment when they are studying or when they also have family responsibilities that prevent them from undertaking full-time work. However, over their lifetime they will have many years, usually decades, of full-time work. As well, wages often increase in real terms over the course of a career.

As a result, the distribution of taxable incomes and tax concessions for superannuation contributions in any given year is not a good indicator of assistance delivered over a lifetime.

That said, even in regard to a single year, the HILDA data indicate that around 90 per cent of employer contributions relate to individuals on less than the top marginal tax rate, with over 50 per cent of contributions relating to individuals on a marginal income tax rate of 30 per cent or less.

Consistent with this, the top five per cent of employees (in terms of income) accounted for less than 20 per cent of the total superannuation contributions in 2009-10.

The ASFA paper also provided estimates of the amount of tax concession by personal income tax rate and factored in the receipt of the co-contribution, which is only available to low-income earners making personal contributions.

The research indicated that less than 15 per cent of the government assistance for superannuation contributions flows to those on the top marginal rate. This compares to the around 30 per cent of aggregate personal income tax collections that is paid by that group of taxpayers. While upper income earners do receive assistance for their superannuation contributions the overall personal tax system imposes a substantially higher tax burden on upper income earners compared to those on lower incomes.

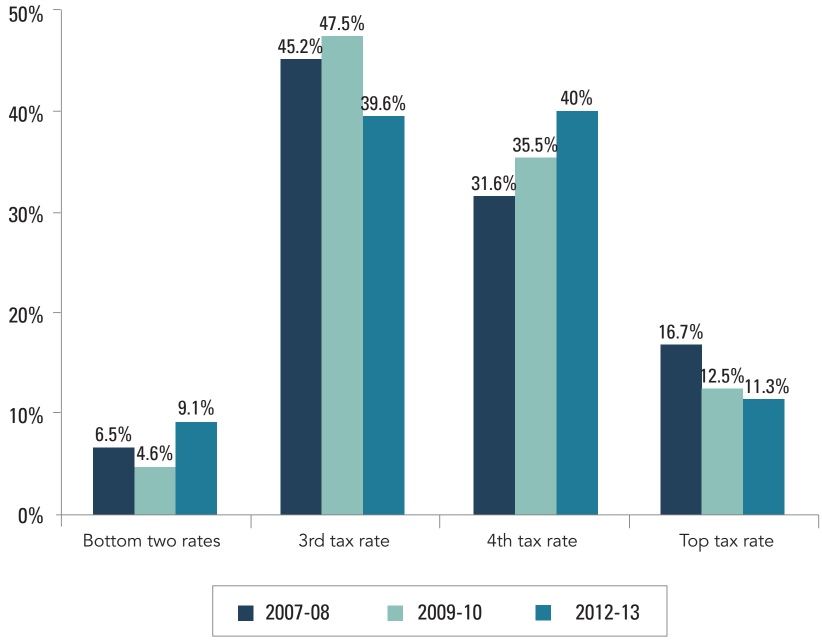
The findings also indicated that the bulk of government assistance for superannuation flows to those on either the 30 per cent or 38 per cent tax rates. Such taxpayers make up a very large part of the full-time work force in Australia.

RECENT TREASURY ESTIMATES OF THE SIZE OF THE TAX CONCESSIONS

In a recent paper Phil Gallagher of the Treasury has provided estimates of the tax concessions provided to superannuation contributions and investment earnings, both by marginal tax bracket and income deciles (along with the top one per cent and five per cent of income earners for some measures). These calculations are based on Australian Taxation Office personal income tax data and data from matched member contribution statements rather than the HILDA data used by ASFA.

Chart 1 provides details.

Chart 1 – Treasury estimates of contribution tax concession shares by tax bracket



Despite being calculated from different data to that used in the ASFA estimates, the two sets of estimates for 2009-10 are quite similar. The Treasury numbers are within a few percentage points of the ASFA figures.
The Treasury figures clearly confirm that the bulk of the contributions tax concession is delivered to those on less than the top marginal tax rate with nearly half of the total concession delivered to those with incomes between $37,000 and $80,000 a year.

Treasury projects that in 2012-13 the share of tax concessions flowing to those on the top tax rate will be 11.3 per cent of aggregate tax concessions. This share in 2007-08 was 50 per cent higher before the much lower contribution caps and a higher rate of tax on the contributions of certain upper income earners came into effect.

The Treasury estimates also indicate that the top five per cent of income earners receive 23.4 per cent of the contributions tax concession and 25.5 per cent of the combined contributions and fund investment earnings tax concessions. These figures clearly are well below the 37 per cent of concessional contributions being associated with the top five per cent that has been bandied about in public debate.

More contentious are estimates in the Treasury paper of the distribution of government assistance for retirement by income decile and certain percentiles, covering both payment of the Age Pension and tax assistance to superannuation. Charts 2 and 3 below, extracted from the Treasury paper, provide details of the Treasury calculations.

Chart 2 – Treasury estimates of the present value of government support for retirement by income decile of males ($)

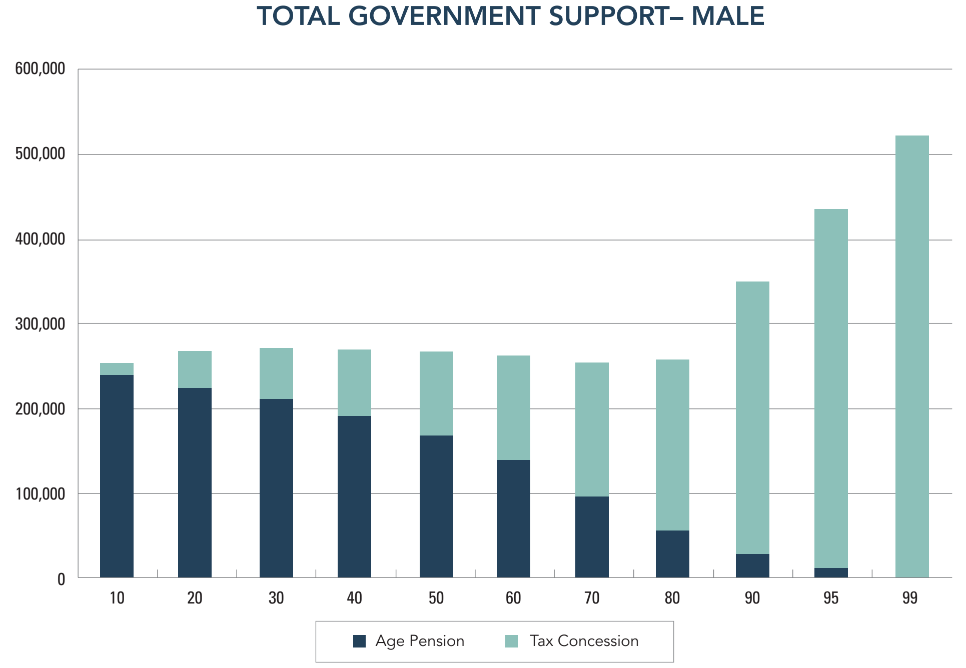
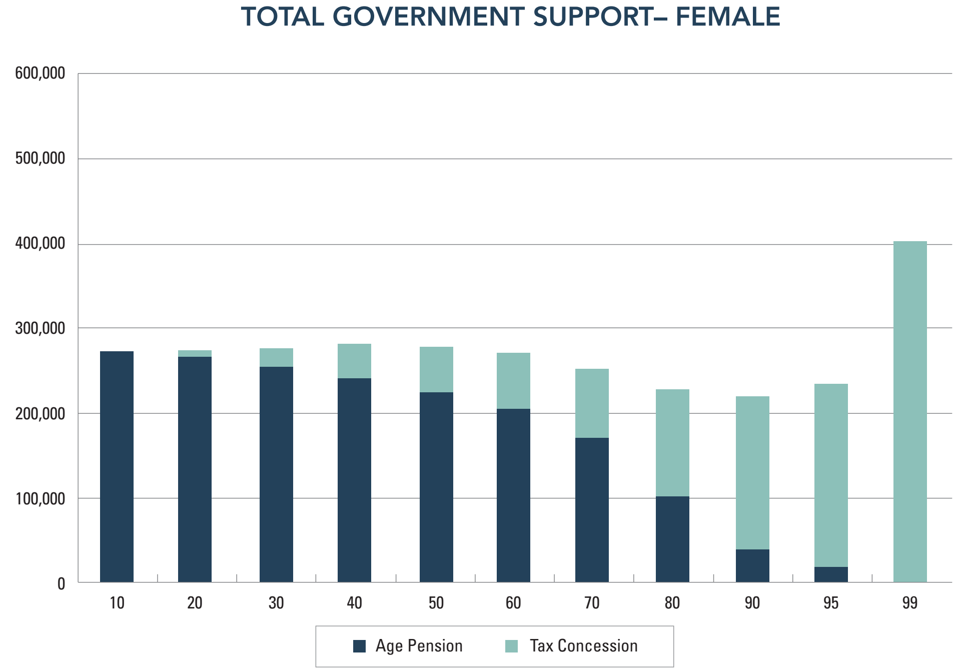


Chart 3 – Treasury estimates of the present value of government support for retirement by income decile for females ($)



There are two serious conceptual shortcomings in the Treasury analysis.

The first is that the tax concession estimate is calculated on the basis that investment earnings outside of superannuation would be taxed like interest from a bank account. The reality is that investment earnings outside of superannuation attract various concessions, including a 50 per cent discount on capital gains on assets held from more than 12 months. As a result the Treasury figures over-estimate the tax concession that flows from the concessional treatment of investment earnings within a superannuation fund.

The second and more serious conceptual problem is that the Treasury analysis assumes that it is the same one per cent or five per cent that stays at the top of the income distribution for a 37 year period from age 30 to 67; this is unrealistic and misleading. There will be few if any recorded cases of, say, a male achieving a salary of around $150,000 at age 30, reaching around $300,000 at age 50 and still earning around $230,000 a year at age 67. While these figures may describe the average for the top one per cent at each of these ages, the individuals in the top one per cent of the total population in terms of earnings will be quite different at each age for the cohort of individuals being considered. If nothing else, individuals on such high earnings will in almost all cases retire (or be retrenched from their job in, say, financial services) well before age 67.

In such group analysis it would make better sense to concentrate on deciles or even quintiles (20 per cent groupings) as they are less affected by individuals moving about the income distribution. While regular additions and departures from the top one per cent or five per cent can be expected over the course of a lifetime, movements between quintiles would be less common.

The shares for females by income decile in the Treasury analysis are much more even and actually show a falling away in aggregate assistance over most of the higher deciles. This is driven by less variability in the earnings of females, along with fewer females with relatively high incomes. The Treasury figures indicate an average income for the top one per cent of females at age 30 of around $130,000 peaking at around $170,000 in the early 40s before dropping to around $120,000 at age 67.

However, longitudinal data from the HILDA survey indicates that there are substantial movements of individuals even between quintile groups. In the *Families, Incomes and Jobs* report prepared by Professor Roger Wilkins and Diana Warren and published earlier this year, it was indicated that only 46 per cent of those who were in the top quintile in 2001 were still in the top quintile in 2009. Over 10 per cent of those in the top income quintile in 2009 had been in the lowest two quintiles in 2001.

Over the five-year period 2005 to 2009 around 10 per cent of the HILDA survey adult population were made redundant in a job, around 33 per cent changed jobs, 10 per cent had a major worsening in finances, 12 per cent had a major improvement in financial circumstances through inheritance or the like, and around 10 per cent separated from a spouse or long-term partner.

Clearly it is unrealistic to assume that individuals will remain in the top one per cent or five per cent of the income distribution making superannuation contributions at a steady rate over a 10-year period, let alone a 37-year period.

In summary, the Treasury estimates cannot be relied upon to indicate that the top one per cent or five per cent of males are receiving a disproportionate amount of government assistance for retirement income. For females, the evidence tends to suggest government support decreases with increasing income.

Even if it were accepted that the top one per cent or five per cent of males receive more than their fair share of government support, it is suggested that a more productive course of action would be to address the needs of the other 99 per cent or 95 per cent of the population, particularly those in the lower income deciles. There are far too few individuals with sufficient superannuation to fund a comfortable standard of living in retirement.

Around $430,000 is needed for a single person to support a comfortable standard of living in retirement (along with access to a part-Age Pension). In 2009-10, according to Australian Bureau of Statistics (ABS) figures (ASFA 2011), only 60,000 males and 30,000 females had more than $1 million in superannuation. Around 223,000 males and 93,000 females had more than $500,000.

In the age group in which individuals commonly retire (60 to 64) only around 100,000 individuals had more than $500,000 in superannuation. While the number of individuals with higher balances will increase as the compulsory system matures, this will take some decades to occur. As well, a substantial proportion of retirees, particularly those who were on lower incomes during their working life, will continue to retire with less than adequate retirement savings.

Table 1 demonstrates both how retirement savings have been improving and also how they are strongly associated with income level.

Table 1: Superannuation coverage and superannuation holdings of men and women who were not yet retired, by annual wage and salary income, 2006 and 2010

Annual wage and salary income	2006 per cent with super	2006 Superannuation balance of those with super ($)		2010 per cent with super	2010 Superannuation balance of those with super ($)	
		Mean	Median		Mean	Median
Men						
< 28,000	75.1	37,312	5,700	79.9	43,553	5,000
28,000 - < 58,000	96.7	70,698	30,000	96.8	62,853	25,000
58,000 - < 80,000	98.1	134,981	65,000	98.7	108,092	50,000
80,000+	97.8	207,801	110,00	98.6	212,025	110,000
Total	91.4	99,506	35,000	93.9	109,609	40,000
Women						
< 28,000	80.7	32,807	9,000	80.9	37,622	8,500
28,000 - < 58,000	96.8	56,253	25,000	96.6	52,885	29,000
58,000 - < 80,000	98.6	102,844	55,000	98.2	98,071	50,000
80,000+	97.7	158,652	88,000	98.9	142,855	75,000
Total	89.4	55,433	21,000	90.9	63,412	26,000

Note: Population weighted results
Source: HILDA data

The remainder of the paper looks at a number of categories of Australians who tend to be over-represented in the lower income deciles. Consideration is given to policy changes that would assist those individuals to boost their retirement savings and increase their incomes in retirement.

THE SELF-EMPLOYED

The self-employed make up a substantial proportion of the paid labour force in Australia. In 2009-10 there were around 754,000 individuals who were classified as self-employed by the ABS. This compares to 9.258 million wage and salary earners.

Self-employment is relatively common in primary production, construction, property and business services, retail trade, and transport services. On the other hand, there are very few self-employed persons in government administration and defence, or mining.

Compulsory superannuation contributions in the form of the Superannuation Guarantee (SG) are largely restricted to employees. However, some of the self-employed are covered by the SG due to the definition of wage and salary earners in the legislation. The SG covers a person who works under a contract that is wholly or principally for their labour. This means that a contractor may be considered an employee under the SG. This is the case even if the individual concerned quotes an Australian Business Number (ABN). However, enforcement can be difficult in cases which purport to establish a contractor relationship.

Currently, around 29 per cent of the self-employed have nil superannuation, with no superannuation being more common for males than females. This reflects, among other things, self-employed males being employed in industries which are less likely to pay superannuation.

The tax concessions which apply to superannuation mean that some of the self-employed make voluntary superannuation contributions.

Some of the coverage of superannuation of the self-employed also would flow from having an inactive account related to a previous job as an employee.

However, on average the self-employed are less likely to have superannuation than employees (Table 2); only around 13 per cent of wage and salary earners have no superannuation (presumably part-timers below the threshold for the SG or the survey respondent not knowing about their superannuation).

Table 2: Distribution of superannuation by main source of income and sex of person, Australia, 2009-10

	Superannuation balance group (a)				
	NIL	LOW	MIDDLE	HIGH	TOTAL
	Distribution of population (%)				
MALE					
Wage and salary	12.9	46.1	21.8	19.2	100.0
Self-employed	30.5	40.4	17.8	11.2	100.0
Total (a)	16.8	44.4	20.6	18.2	100.0
FEMALE					
Wage and salary	13.5	58.5	17.4	10.5	100.0
Self-employed	25.8	52.7	12.8	8.7	100.0
Total (a)	16.0	57.1	16.5	10.4	100.0
PERSONS					
Wage and salary	13.2	51.8	19.8	15.2	100.0
Self-employed	29.2	43.9	16.4	10.5	100.0
Total (a)	16.5	50.1	18.8	14.7	100.0

**estimate has a relative standard error of 25 per cent to 50 per cent and should be used with caution*
***estimate has a relative standard error greater than 50 per cent and is considered too unreliable for general use*
n.p. cell has not been published due to sample quality issues

The incidence of high superannuation balances (over $100,000) is relatively low amongst the self-employed. For males, wage and salary earners are around twice as likely to have high balances compared to the self-employed.
While 42 per cent of wage and salary earners achieved a superannuation balance in 2009-10 of more than $100,000 in the run-up to retirement, only around 18 per cent of the self-employed managed to do so.

In terms of the split by industry, there is a minority with high balances in each of the agricultural, construction, retail trade, property and business services, and health and community services industries (Table 3). This most likely means that there are a significant number of farmers, builders, shopkeepers, real estate agents and financial planners, and doctors and dentists with a reasonable amount of superannuation.

Low and nil balances are relatively common for the self-employed across most industries. The construction and transport industries are ones where there are a significant number of the self-employed and large proportions with nil or low superannuation.

Table 3: Number of self-employed by Superannuation Group, 2009-10

	Superannuation balance group (a)				
	NIL	LOW	MIDDLE	HIGH	TOTAL
	Number ('000)				
HIGHEST QUALIFICATION					
Degree or higher	35.5	66.0	25.5	35.9	162.9
Diploma	23.9	37.2	*9.0	9.1	79.2
Certificate	50.3	121.4	58.0	16.2	245.9
No post-school	107.3	98.1	27.6	15.7	248.7
Other	*3.0	*8.9	*3.6	**2.1	17.6
Total	220.0	331.5	123.8	79.0	754.3
INDUSTRY OF MAIN JOB					
Agriculture, forestry and fishing	22.1	16.4	*8.0	*8.1	54.6
Mining	n.p	0.0	n.p	0.0	**1.0
Manufacturing	*11.4	25.1	*11.3	*4.5	52.3
Electricity, gas, water and waste services	n.p	**1.0	n.p	**1.8	**3.9
Construction	43.4	87.8	27.7	*6.3	165.2
Wholesale trade	*7.7	*8.0	*3.5	**1.1	20.4
Retail Trade	*16.8	20.8	*7.3	*5.7	50.6
Accommodation and food services	*6.5	12.2	**2.4	**1.5	22.7
Transport, postal and warehousing	33.6	*12.2	*7.0	**1.4	54.3
Information media and telecommunications	**1.5	*5.7	**3.1	0.0	*10.4
Financial and insurance services	n.p	n.p	n.p	n.p	*5.7
Rental, hiring and real estate services	n.p	*5.9	n.p	**0.7	*9.1
Professional, scientific and technical services	14.5	43.4	20.8	23.3	102.1
Administrative and support services	*17.1	27.4	*3.9	*2.8	51.1
Public administration and safety	0.0	n.p	0.0	n.p	**0.6
Education and training	*3.1	*8.1	**4.2	*4.4	19.8
Health care and social assistance	*9.0	17.2	*7.0	*12.8	45.9
Arts and recreation services	*2.2	*6.2	**1.4	0.0	*9.8
Other services	25.8	28.9	*10.2	**2.3	67.2
Total	220.0	331.5	123.8	79.0	754.3

OCCUPATION IN MAIN JOB					
Managers	41.6	47.9	19.8	*13.9	123.3
Professionals	26.7	62.1	35.7	38.7	163.3
Technicians and trades workers	56.0	110.7	34.6	12.7	214.0
Community and personal service workers	*10.7	*15.5	**1.8	**1.4	29.5
Clerical and administrative workers	*18.7	23.7	*12.1	*5.9	60.4
Sales workers	*8.1	*12.4	*7.0	**2.3	29.7
Machinery operators and drivers	28.5	*16.8	*5.5	**2.1	52.8
Labourers	29.4	41.1	*7.1	*2.1	79.7
Total	220.0	331.5	123.8	79.0	754.3

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***estimate has a relative standard error greater than 50 per cent and is considered too unreliable for general use.*

INDIVIDUALS EARNING LESS THAN $450 A MONTH

Superannuation contributions form an important part of overall remuneration. The SG generally requires contributions from employers of nine per cent of ordinary time earnings as defined in the relevant legislation to be made for the benefit of eligible employees.

However, the legislation currently does not require contributions to be made on behalf of employees who receive less than $450 a month from a single employer. This impacts both on individuals in one part-time job and those – such as cleaners, nursing aides and the like – who have multiple casual or part-time shifts with different employers.

While some industrial awards provide for such payments, the lack of any general provision means that a substantial number of part-time employees do not receive the benefit of compulsory superannuation contributions. As a result, they receive remuneration which is around nine per cent less than employees who are doing identical or similar work but who are paid more than $450 a month by an employer. Their eventual retirement savings also will be lower.

In a number of sectors in the economy there are numerous casual employees. Many of these employees are female. For instance, statistics published by the ABS (*Employee Earnings and Hours*, Cat. No. 6306.0) indicate that 17.5 per cent of female community and personal service workers have weekly cash earnings of less than $200. The comparable percentage for males is 12.8 per cent. This compares to figures for the overall labour force of 11.5 per cent for all female workers and 6.5 per cent for males.

Also affected are individuals who because of disability or other factors beyond their control are only able to work limited hours and/or receive a low hourly rate of pay.

ASFA also commissioned a special extract of data from the HILDA survey on how many individuals earn less than $5,400 a year (equivalent to $450 a month). While data on a monthly basis would be more directly relevant it is not available.

As shown by Table 4, both younger and older workers, particularly female, are more likely to earn less than $5,400 a year.

Table 4: Proportion of employees earning less than $5,400 in 2009-10 by age and gender (2010)

Age	Male	Female	Total
15-24	17.1	24.0	20.6
25-34	*1.3	2.5	1.9
35-44	*1.9	3.2	2.5
45-54	*1.1	*1.3	1.2
55-64	*3.5	*2.1	*2.9
65+	*14.1	*18.15	*15.79
Total	4.9	7.0	5.9

*Note: * Estimate unreliable*

Table 5 provides details of those earning less than $5,400 a year who are receiving superannuation contributions and the average amount of such contributions.

Table 5: Employer contributions and super balance of employees earning less than $5,400 in 2009-10 (2010)

Age/Sex	per cent receiving super contributions by employer	Mean amount of these contributions per week ($)	Mean super balance ($)	Median super balance ($)
MALES				
15-24	53.5	24	1,500	100
25+	73.7	30	34,607	149
Total	60.2	27	12,496	100
FEMALES				
15-24	46.4	25	830	0
25-34	62.7	41	18,213	10,000
35-44	58.9	46	10,729	760
45+	74.8	22	33,589	14,000
Total	52.3	29	6,835	100
MALES AND FEMALES				
15-24	49.4	24	1,108	56
25-34	67.4	65	14,751	6,000
35-44	61.2	34	16,346	1,000
45+	75.9	16	41,807	576
Total	55.7	28	9,268	100

Note: Age categories have been aggregated to make estimates more reliable.
Questions regarding employer contributions were asked of the current jobs held in 2010-11. Employer contributions therefore might differ from those in 2009-10.

Around 40 per cent of the males concerned and 45 per cent of the females did not receive any superannuation contributions. Around 250,000 individuals in total missed out.

Of those that did receive the benefit of superannuation contributions, some may have done so because they received more than $450 in one or more of the months in the year and did not in the remaining months of the year although still employed. Young females were the most likely to miss out on superannuation contributions.

While employer compliance costs are sometimes raised as a potential barrier to paying contributions to those on less than $450 a month, examination of actual employer compliance costs would support the complete abolition or substantial reduction in the threshold. For instance, for an employee earning $300 in each month of a SG quarter, a nine per cent contribution would equate to $81. The actual administrative cost to an employer of making a contribution would be far less than this, perhaps only a dollar or so when a payroll or other automated payment system is used. Administration costs for small employers have also been reduced by the clearing house mechanism administered by Medicare.

In fact, there are likely to be higher compliance costs for employers from there being a threshold. Paying super on every dollar of wages involves less monitoring and compliance effort than checking that wages paid are below $450 in a calendar month, particularly if wages are paid on a weekly or fortnightly basis with varying numbers of payments between months depending on the cycle of payments. For this reason, and because they value their employees, a number of employers voluntarily pay super contributions on all wages paid.

Administration costs and net benefit are also likely to be positive for the beneficiaries of the superannuation contributions. It is often the case that an individual will have multiple jobs, particularly in industries such as office cleaning, hospitality or retail. As well, almost all adults in employment will have an existing superannuation account from a time when they earned more than $450 a month. Again it is not unusual for a person to have spells of full-time or near full-time employment punctuated by periods of part-time or casual employment. This is particularly the case for women with family or other care responsibilities.

Removing or substantially reducing the earnings threshold for payment would be easy to implement, would involve lower compliance costs, and would deliver benefits primarily to low to middle-income earners, particularly women given the incidence of women in part-time and casual work. There would be no impact on the take-home pay of low to middle-income earners. As well, a potential bias against the employment of those earning just above the threshold would be removed, leading to greater labour market efficiencies and productivity gains.

Costs to both employers and to the Commonwealth Budget would be relatively modest.

On the assumption that the 250,000 persons missing out on superannuation contributions because of the threshold have average relevant wages of $3,000 a year the total wages bill for them is $750 million. Superannuation payments at the rate of nine per cent would amount to some $50 million a year. This compares to a total wages bill for the economy of around $600 billion a year.

The impact on the Commonwealth Budget would be negligible as most of the individuals benefiting from removal of the threshold would be on a zero or 15 per cent marginal personal tax rate. There could be increased expenditure on the low-income earners superannuation tax rebate but it would be less than $5 million a year.

INDIVIDUALS ON PAID PARENTAL LEAVE

The Paid Parental Leave scheme is a government-funded entitlement for working parents who meet the eligibility criteria. If eligible, a parent may receive up to 18 weeks of Parental Leave Pay at the National Minimum Wage. It is, as most pay is, taxable.

A parent may be able to receive Parental Leave Pay if they:

- are the primary carer (usually the mother) of a newborn or recently adopted child;
- meet the Paid Parental Leave scheme work test before the birth or adoption occurs; and
- are on leave or not working, from when the parent becomes the child's primary carer until the end of the Paid Parental Leave period.

An income test of $150,000 a year applies based on the primary carer's adjusted taxable income in the previous financial year.

Parental Leave Pay can be taken before, during, or after any paid or unpaid maternity or parental leave or other employer-funded leave entitlements (such as annual leave or long service leave).

The scheme recognises all types of workers, including those in full-time, part-time, casual, seasonal, contract or self-employed work. It also recognises working parents who have multiple employers, those who work for a family business, and those who have recently changed jobs. It is expected that around 150,000 parents a year will receive the payment.

However, the Paid Parental Leave arrangements do not recognise the compulsory superannuation payments which apply to other forms of pay. Superannuation payments are not made in respect of government-administered Paid Parental Leave but the government has indicated that this decision will be subject to a review beginning two years after the scheme has commenced.

Given that expenditure on Paid Parental Leave is expected to be around $280 million in 2012-13, payment of superannuation at the rate of nine per cent would involve additional costs to the Commonwealth Budget of around $22 million after making allowance for additional tax collected on contributions at the fund level. The cost to the Budget would increase slightly as the increase in the rate of the SG to 12 per cent is phased in over the period 1 July 2013 to 1 July 2019.

INDIGENOUS AUSTRALIANS

There are a number of identifiable groups in the community which have lower superannuation coverage and mean and median superannuation balances than the community generally. This is not due to any legislative provision. Rather it tends to flow from differences in involvement in paid work and in average wages received. For instance, females on average tend to have less superannuation than males because of such reasons.

Indigenous Australians have lower coverage and lower balances on average than the general population, again largely related to differences in paid labour force experience. As shown by Table 6, superannuation coverage for Indigenous Australians is about 70 per cent for men and 60 per cent for women, compared to rates of 85 per cent for men and 80 per cent for women for the population more generally.

Average (mean) balances are also lower than for the equivalent Australian population as a whole. While Indigenous men had an average balance of $55,743 in 2010, the equivalent figure for the general population was $110,000. For women the respective figures are $39,909 and $63,000.

Table 6: Superannuation coverage and superannuation holdings of Aboriginal and Torres Strait Islander men and women who were not yet retired, 2006 and 2010

	2006			2010		
	per cent with super	Superannuation balance of those with super ($)		per cent with super	Superannuation balance of those with super ($)	
		Mean	Median		Mean	Median
Men	68.3	49,589	9,000	70.7	55,743	14,000
Women	52.1	42,109	10,000	60.6	39,909	15,000
Persons	59.5	46,069	10,000	65.3	47,863	15,000

Note: Population weighted results. Not enough cases to break down by age.
Source: HILDA data

Of interest is the increase in coverage between 2006 and 2010 for both Indigenous men and, particularly, women. The median figures are also up significantly between the two periods; this would reflect both increases in involvement in paid work and the impact of the maturing compulsory superannuation system.

RECENTLY DIVORCED MEN AND WOMEN

Divorce can have a substantial impact on living standards in retirement, particularly when one part to a marriage has significantly less superannuation. Around 30 per cent of marriages now end in divorce and currently around 10 per cent of women when they retire are divorced and without a partner.

Legislation which came into effect in 2002 widened the powers of the Family Court to allow it to split current balances or to flag the division of a superannuation benefit once it becomes payable. The parties to a marriage are also given the power to split superannuation by agreement following divorce or separation. The legislation also provided for better and more consistent reporting to the parties to a marriage of the superannuation entitlement of their partner.

The legislation was intended to increase the degree of equity in the treatment of the division of assets of divorced or separated couples. Measuring the increase is difficult however, as data on super balances of divorcing parties prior to the legislative changes are scant.

One survey was the 1984 survey *Economic Consequences of Marital Breakdown* (McDonald, 1986). It showed that while the 10 per cent of couples divorcing with the most wealth had an average of $40,000 in super, the lowest 10 per cent had negligible super. The median figure for super was $3,500, which was then less than the average value of household furniture owned by the divorcing couple and about the same as the value of the family car.

A 1997 survey by the Australian Institute of Family Studies (Dewar et al, 1999) indicated that of the sample of couples divorcing, about 80 per cent had at least one spouse with superannuation. Around 75 per cent of men had super compared to around 35 per cent of women. Reporting and valuation problems lead to a level of uncertainty and/or inaccuracy in these results. However, the survey results suggest that, for the couples surveyed, the median value of superannuation held by men was around $25,000, while for women the median was around $5,500. Some men, and very few women, had balances considerably in excess of these figures. On average, superannuation represented about 25 per cent of total assets of couples.

The HILDA data indicate that the distribution of superannuation is now much more even for those who have recently divorced and that the extent of disparities decreased between 2006 and 2010. While a number of factors would have contributed to this, the growing maturity of the compulsory superannuation system leading to higher average account balances for both men and women would have played a role. The figures also are consistent with the parties to a marriage making more use of the splitting arrangements. However, other statistical factors may also be playing a role.

Table 7: Superannuation coverage and superannuation holdings of recently divorced men and women who were not yet retired, 2006 and 2010

	2006			2010		
	per cent with super	Superannuation balance of those with super ($)		per cent with super	Superannuation balance of those with super ($)	
		Mean	Median		Mean	Median
Men	*86.4	113,165	70,000	*93.6	160,419	40,000
Women	83.4	51,101	25,000	*81.6	138,500	47,000
Persons	84.4	73,388	30,000	86.1	147,465	40,000

*Note: Population weighted results. *Estimate not realiable. Not enough cases to break down by age. 'Recently divorced' if divorced within the last three years.*
Source: HILDA data

POLICY IMPLICATIONS

The preceding statistical data and discussion has identified the various areas where the current tax concessions and compulsory superannuation arrangements have been working well. It also has identified areas where there is still room for improvement.

Policy implications drawn from this analysis are as follows.

Tax concessions for upper income earners

Contribution caps, means testing of the Age Pension, and the additional tax on the contributions of certain upper income earners means that government assistance for retirement income is now spread relatively evenly across all income levels. Any further measures aimed at limiting the amount of tax assistance provided in regard to the superannuation of upper income earners would not have a marked effect on the overall equity of the system as only a few per cent of individuals would be affected. It is more important to improve outcomes for the vast majority rather than have less favourable outcomes for a small percentage of individuals. As well, any measure based on income or superannuation balance in a given year runs the risk of severely disadvantaging the increasing percentage of the workforce who have time in and out of the paid labour force and/or taxable incomes that vary substantially between years or between various phases of their career.

Compulsory contributions

The compulsory superannuation system appears to be delivering better outcomes for a variety of groups, both in absolute terms and relative to others who traditionally had a relatively high share of superannuation in the community.

In particular, the relative positions of women, the recently divorced and Indigenous Australians have improved. As the compulsory system matures and the rate of contributions gradually increases to 12 per cent, these improved outcomes can be expected to be reinforced.

Voluntary contributions

Superannuation balances for many groups are still relatively low in absolute terms.

In recent years aggregate data on contributions indicates that salary sacrifice contributions and voluntary contributions have been relatively flat in absolute terms.

Policies that could assist in boosting voluntary superannuation contributions could include having a higher contributions cap for concessional contributions. Individuals are not in a position to spread contributions evenly over a working career. Lifting the concessional contribution cap to, say, $35,000 a year for all individuals or moving more quickly to a $50,000 a year cap for those aged 50 and over with less than $500,000 in superannuation, would assist in encouraging higher salary sacrifice contributions and concessional contributions by the self-employed.

The superannuation co-contribution has played a valuable role in encouraging voluntary personal, non-concessional contributions. However, a relatively high matching rate of government co-contribution relative to the contribution made means in effect that there is no encouragement or support for personal contributions in excess of $1,000. Adjustments made to the income thresholds (or more accurately the lack of such adjustments to reflect growth in average wages) also have decreased the proportion of the labour force that can qualify for the co-contribution.

A review of the co-contribution could address these shortcomings through making it available to a greater proportion of the labour force and also to provide an incentive for personal contributions in excess of $1,000. Such a review could also look at the role played by the tax rebate for spouse contributions. Given other developments in superannuation coverage and participation in the paid labour force by married women, the tax rebate for spouse contributions is becoming less relevant to the needs of contemporary Australian families.

The self-employed

The self-employed make up a significant proportion of the Australian labour force. Despite tax incentives for contributions, coverage and average superannuation balances have remained relatively low for the self-employed.

In many industries the self-employed and employees play very similar roles in the labour force. The case for including the self-employed in the compulsory superannuation system is strong. There are a number of practical options for including the self-employed in the compulsory superannuation system, including through the annual tax return system.

Those receiving parental leave payments from the Government

Paid Parental Leave is considered by the Government to be equivalent to wages in terms of income tax and other treatment of individuals. Consistent with this it would be appropriate for the SG to apply to such payments.

One of the reasons that the average superannuation balance of women is lower than that of men is time out of the paid workforce for parental reasons. Paying SG on parental leave payments would help reduce this difference in entitlements. The effects of compound interest also would be very favourable in regard to superannuation contributions made on behalf of women mostly in their 20s and 30s.

Those receiving less than $450-a-month from an employer

Some 250,000 Australians, the majority women, currently do not receive the benefit of superannuation contributions because they are earning less than $450 a month from an employer. As discussed earlier in this paper, this is a source of inequity between workers. As well, given that almost all workers now have superannuation accounts and the cost of making contributions is low, there is no administrative reason for excluding such employees from the compulsory system.

Indigenous Australians

Increases in the superannuation coverage and average superannuation balances of Indigenous Australians will clearly be associated with improvements in involvement in paid work and in wages. Labour market measures rather than superannuation policies drive labour market outcomes.

However, current superannuation arrangements and administrative requirements do not always mesh well with the circumstances and needs of Indigenous Australians, particularly those in remote areas who may have difficulty in communicating with their superannuation fund and in claiming benefits or identifying lost accounts.

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