SUPER MEMBERS COUNCIL

Securing a dignified retirement for more women

December 2023

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About the Super Members Council

The Super Members Council (SMC) is the collective voice for profit-to-member superannuation funds, representing more than 10 million Australians and their $1.4 trillion in assets. Our primary purpose is to protect and advance the interests of super fund members throughout their lives. SMC advocates on their behalf to ensure superannuation policy is stable, effective, and equitable.

Executive summary

- Australia's $3.56 trillion superannuation system is one of the most effective retirement schemes in the world, covering around 90 per cent of employees, and with median balances for workers nearing retirement around $200,000.
- With this success also comes a responsibility to keep improving super, ensuring its benefits are enjoyed by as many people as possible.
- One group for whom there is an opportunity to ensure super is better targeted is women. Women today are expected to retire earlier and live longer than men, but currently retire with a third less super. This is an issue that persists in every state and territory in Australia.
- While this gender super gap has narrowed slightly over the years with increased female labour force participation, progress has slowed as other key factors contributing to the problem remain unaddressed.
- For women in their 30s the super gap has failed to narrow.
- The key drivers of the gender super gap are inequalities that impact women's working lives – such as lower wages and more time out of the workforce caring for children and ageing family members – as well as super tax settings that magnify these differences in lifetime savings.
- Women receive a lower proportional tax benefit than the assets they have in the system – essentially amplifying the external inequities coming into the super system. For example, while men represent 51.5 per cent of taxpayers with super balances, they receive 59.8 per cent of the tax concessions. Whereas women are 48.5 per cent of taxpayers with super balances but receive only 40.2 per cent of the tax concessions.
- As outlined in this report, a few targeted changes would go some way to closing the savings gap and improving retirement outcomes for more women. Using cameo modelling Super Members Council analysis shows that:
    - Paying super on the Commonwealth Parental Leave Pay Scheme will leave a mother of two $12,500 to $14,500 better off at retirement. With the typical women retiring with around $50,000 less than their male counterparts, this would make a meaningful reduction in the gender super gap.
    - Increasing the low income superannuation tax offset (LISTO) so workers earning up to $45,000 receive a full tax refund on their super guarantee (SG) contributions. This change would boost the super of more than 1.2 million Australians – 60 per cent of whom are women – by an extra $500 million in the 2025-26 financial year alone.
- Improvements to LISTO and paying super on Commonwealth parental leave could boost the super balances of the lowest paid women by 21 per cent.

Introduction

Australia's $3.56 trillion superannuation system is one of the most effective retirement schemes in the world. After more than 30 years' operating in its modern form, Australians today have more super than ever, and the size of super balances is changing lives – providing higher living standards, financial security, and flexibility in retirement.

The proportion of employees receiving superannuation has increased from about 30 per cent in the mid-1970s to 90 per cent today[1], while the median super balance of Australians nearing retirement is now around $200,000. At an aggregate level, the total value of Australians' annual super retirement benefits including lump sums and income streams currently sits at around 1.5 to 2 times the total annual cost of our age pension system.

But despite these impressive numbers, some groups are not receiving their fair share from our super system and remain at risk of a less financially secure retirement. The data is clear – women make up half our population and typically retire earlier and live longer than men, but today retire with a third less super than men.

The key drivers of this gap are well understood. Women spend more time out of the workforce than men, are more likely than men to undertake part-time or casual work, and earn less than men when they are working. With time out of the workforce, women's career progression is also slowed and their future earning potential reduced, making it even harder to build up their super balances.

Super tax settings also add to the issue, entrenching and extending a greater distribution of super to men than women.

Successive Governments have taken steps to help improve retirement outcomes for women. In 2022, the $450-a-month threshold for the SG was abolished, providing a boost to the super contributions of lower-income workers – about two thirds of whom are women. Other important initiatives include the expansion of the Child Care Subsidy and the Parental Leave Pay Scheme, which will help increase women's workforce participation and encourage greater sharing of care responsibilities, which are key drivers of the gender super gap.

There have and will continue to be many voices across the political landscape talking about the economic inequalities facing women and adding to our collective understanding of the causes and benefits of addressing these issues, particularly within our superannuation system. For example, a 2023 report by the Women's Economic Equality Taskforce contained a 10-year plan to tackle the barriers that hold back the value of women's full economic participation, and specifically called for the Government to legislate the payment of superannuation on all forms of paid parental leave. Women In Super, many of SMC's member funds and other key advocates including the Grattan Institute and the Parenthood have also made important contributions adding further weight to the need for both immediate and longer-term action.

To its credit, the Federal Government has acknowledged these contributions from stakeholders, particularly in the lead up to the 2024 Federal Budget, and has committed to developing a National Strategy to Achieve Gender Equality.

Continuing to improve our world-class super system is an ongoing project. Building an even more equitable super system will provide financial security to more Australians, including those who need it most, and in doing so will strengthen the fundamental role that super plays in Australia's social and economic framework.

About this report

In producing this report SMC adds its voice to those that have come before, to highlight the significant opportunity to improve equity in Australia's world-class super system. It provides:

- the latest data on the size of the gender super gap, its causes, and changes over time, and
- a deeper dive into key areas affecting gender equity in the system that should be prioritised.

[1] Retirement Income Review Final Report (July 2020), 298-299.

Unpacking the gender gap in super balances

Women typically retire earlier and live longer but continue to receive significantly less super than men across their working lives.

Super Members Council (SMC) modelling shows this pattern is systemic – consistently observable across every Australian state and territory and in every age cohort over 30.

Figure 1 shows the trend becoming evident around the age of 30 when women take time out of work and reduce their hours to have and care for children. The gap continues to increase until women are in their early 50s, when it is common to care for ageing family members.

Figure 2 confirms the gap between all male and female median super balances exists across every Australian state and territory.

These findings are consistent with research that indicates the most significant drivers of the gap are due to inequality during women's working lives. This includes factors such as:

- Women's lower workforce participation rates compared with men
- Female dominated industries and jobs attracting lower wages
- The gender pay gap
- Lack of workplace flexibility to accommodate caring responsibilities
- Discrimination and bias in hiring and pay decisions
- Social norms around unpaid caring responsibilities.

Figure 1. The gender super gap by age, based on median balances

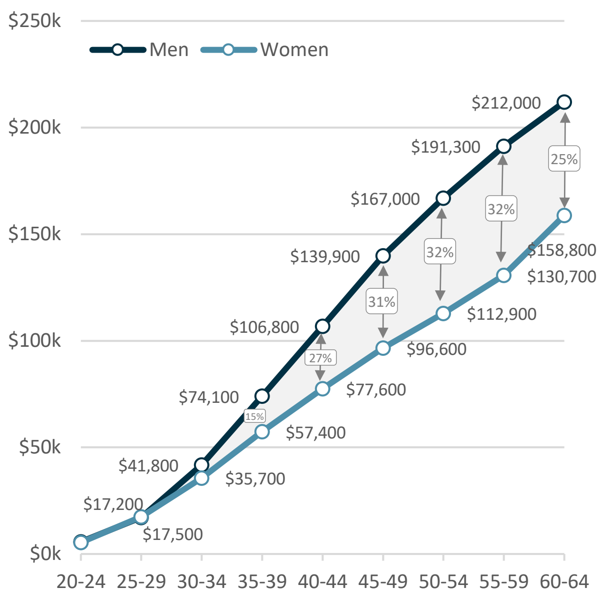
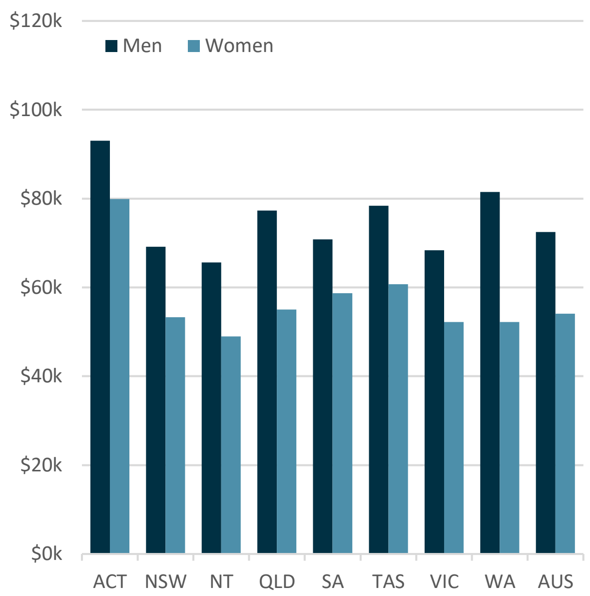


Figure 2. The gender super gap by jurisdiction, based on median balances

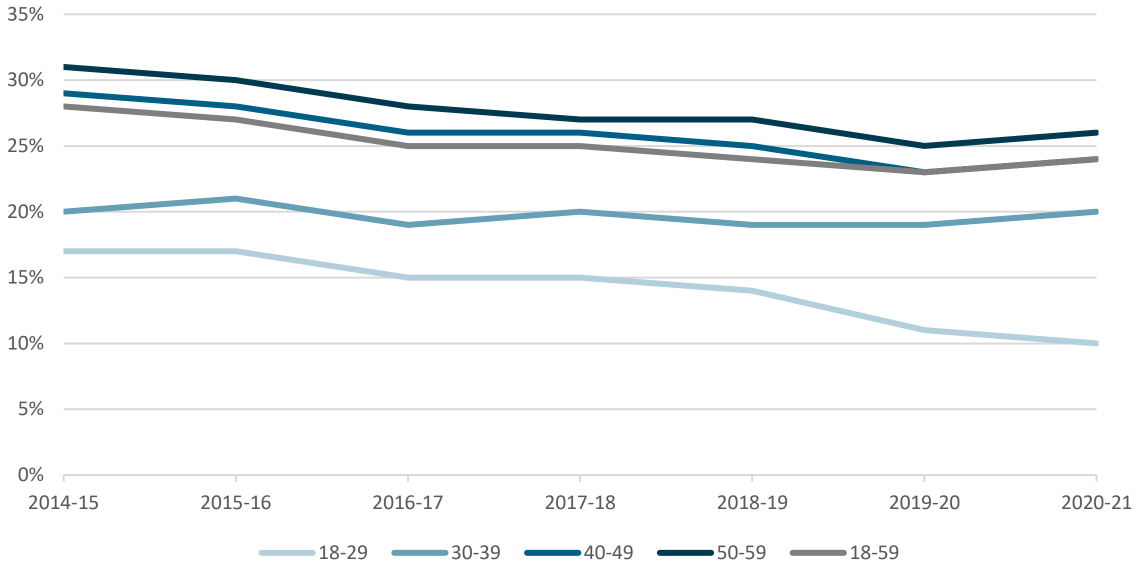


Source: ATO Taxation Statistics, 2020-21.

Over time, the gender super gap has narrowed slightly for most working age groups (**Figure 3**). This broadly reflects increasing female labour force participation (**Figure 4**), noting however that reductions in the gap between men and women's labour force participation has more recently plateaued.

Progress in narrowing the gender super gap has been slow. **Figure 3** shows that over the seven years to 2020-21, the gap in average balances for those aged 18 to 59 has only narrowed by 4 percentage points, from 28 per cent to 24 per cent across all ages. However, for women in their 30s, the gap has failed to narrow, remaining around 20 per cent.

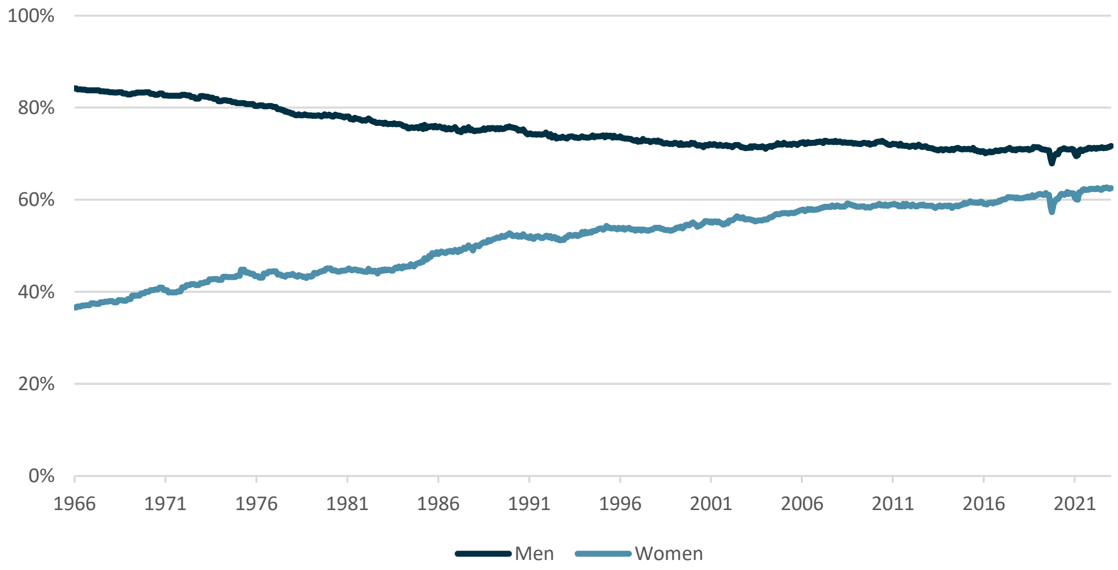
Figure 3. Gender super gap over time by age, based on average balances



Source: ATO Taxation Statistics, 2020-21.

Labour force participation (**Figure 4**) has improved over the past 50 years, helping to narrow the gap to some extent. But while other key contributing factors remain unaddressed, closing the gap will remain an issue.

Figure 4. Labour force participation rate between men and women



Source: ABS 6204.0.55.001 Labour Force Historical Timeseries, Australia, 1966 to 1984 (for 1966 to1977). ABS 6202.0 Labour Force, Australia, August 2023 (for 1978 onwards). Seasonally Adjusted.

Boosting the retirement savings of working mothers

Paid parental leave is an important policy measure supporting women's workforce participation by encouraging women's continuing attachment to the workforce. More gender neutral paid parental leave policies have also encouraged more gender-equitable division of unpaid household labour and care, although women are still the primary carers in most households.

In Australia, parents that have a baby or adopt a child may be entitled to:

- Parental Leave Pay from the Federal Government,
- paid parental leave from their employer, and
- unpaid parental leave from their employer.

Entitlement to each of these forms of parental leave depends on a range of factors.

For example, to receive payments under the Governments' Parental Leave Pay Scheme, parents need to meet the income test, work test and residency rules. Entitlement to paid parental leave from an employer will depend on the enterprise agreement, employment contract or workplace policy covering the employee. And to receive unpaid parental leave, employees need to have worked for their employer for at least 12 months.[2]

Taking leave from paid employment to have and care for children remains a significant contributing factor to the gender super gap, as during this time carers experience reduced or no super contributions.

This is because in contrast to other types of commonly taken leave such as annual leave, paid sick leave and long service leave, super is not required to be paid on any kind of parental leave.

Given women still account for 86 per cent of parental leave taken[3], it is mostly women who are missing out on super due to this gap in SG coverage.

The gendered nature of parental leave

The Government's Parental Leave Pay Scheme currently provides 20 weeks of pay at the weekly national minimum wage rate to eligible parents to support them to take time off work after a birth or adoption. Two of these weeks are reserved for each parent on a 'use it or lose it' basis. By 2026, the length of the Scheme will increase to 26 weeks, with 4 weeks being reserved for each parent to use.

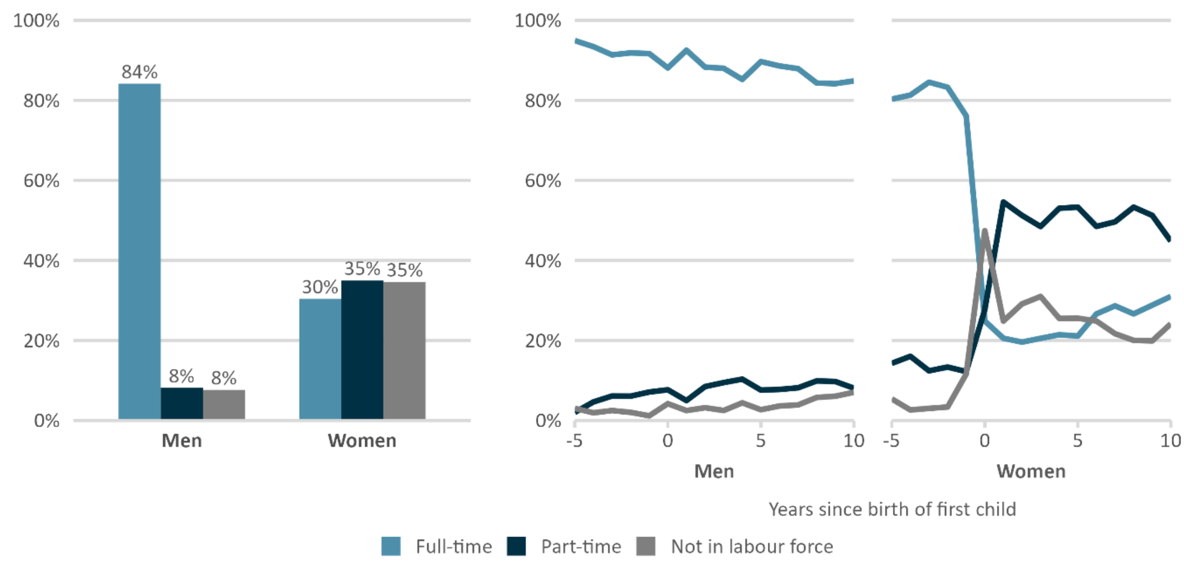
While the introduction of a 'use it or lose it' component may encourage greater sharing of care responsibilities, women are expected to remain the primary recipients of the payment for some time.

This is supported by SMC analysis of the labour force status of parents with young children. **Figure 5** shows that:

- of parents with children aged under 5 in 2019-20, most men were employed in full-time work (84 per cent) while most women were either engaged in part-time work (35 per cent) or not in the labour force (35 per cent),
- men typically do not change their work patterns when their first child is born,
- in contrast, women often significantly reduce paid hours, either switching to part-time hours or leaving the workforce altogether, and many do not return to their previous working patterns even 10 years after their first child.

[2] Section 67 of the *Fair Work Act 2009*.
[3] While there is significantly more work that can be done to improve the collection of data around gender equality, one useful source is the Workplace Gender Equality Agency (WGEA), which each year collects data on gender equality from employers with 100 or more employees. The key results are published in a report titled 'Australia's Gender Equality Scorecard'. The 2022-23 Scorecard shows that men still only account for 14 per cent of all paid primary carer's leave taken.

Figure 5. Labour force status of parents with children under 5 (left); after the birth of the first child (right)



Source: ABS Survey of Income and Housing, 2019-20 (left). HILDA Waves 1 to 21 (right).

Paying super on Parental Leave Pay

Paying super on Parental Leave Pay is an effective equity measure to ensure the retirement savings of working mothers keeps pace with men.

It would also be well targeted, with SMC analysis showing that the gender super gap for women in their 30s has failed to narrow compared to other age groups over the last decade, indicating that the loss of super during childcare is a significant contributing factor to the problem.

Cameo analysis by SMC shows a mother of two who received super on the Government's Parental Leave Pay Scheme would be $12,500 to $14,500 better off in retirement. With the typical woman retiring with a bit over $50,000 less than their male counterpart, this would make a meaningful reduction in their super gap.

Parents have missed out on $2.5 billion in super contributions since the Scheme began, the majority of which would have accrued to women.

The growth of employer-funded parental leave

In addition to the Government's Parental Leave Pay Scheme, a growing number of employers now offer paid parental leave to their employees through enterprise agreements, employment contracts or workplace policies.

According to recent 2022-23 data[4] from the Workplace Gender Equality Agency, 63 per cent of employers now offer employees access to paid parental leave, although this percentage can vary widely depending on the size of the business and industry.

- Employees working in larger businesses are 1.5 times more likely to have access to employer-funded parental leave than employees working in businesses with fewer than 250 employees.
- Only 27 per cent of employers in Public Administration and Safety and 35 per cent in Accommodation and Food Services offer paid parental leave, compared to 87 per cent of employers in the Education and Training and 86 per cent in Information Media and Telecommunications.

[4] WGEA Gender Equality Scorecard 2022-23.

There are also considerable differences across industries and employers around the design of their parental leave schemes. This includes differences around:

- the number of weeks of paid parental leave provided,
- how long an employee needs to have worked with an employer before being able to access the leave, and
- whether the leave is universally available (that is, available equally to both women and men with no distinction between primary and secondary carers, which encourages more equitable uptake of parental leave).

Critically, employer-funded parental leave policies are still largely gender biased with only 21 per cent of employers offering universally available employer-funded paid parental leave, albeit an increase of 9 percentage points year on year.

Employers lead the way on paying super on parental leave

In 2022-23, of employers offering paid parental leave, 86 per cent paid super on that leave even though it is not required under the *Superannuation Guarantee (Administration) Act 1992*.[5] This represents an increase of 3 percentage points year on year and is a positive sign that more employers are taking action to narrow the gender super gap. Some employers are even taking this a step further by paying super on top of unpaid parental leave (12 per cent).[6]

Modelling by SMC shows that a decision by the Government to pay super on its Parental Leave Pay Scheme would be significantly boosted by the super many employers are already offering on their paid parental leave schemes (**Figure 6**).

Figure 6 – Cameo showing accumulative benefit for women from receiving super on both the Government PLP Scheme and from employer sponsored arrangements

Income percentile	Commonwealth PLP				Commonwealth PLP + Employer PPL			
	Dollar value		Per cent		Dollar value		Per cent	
	Men	Women	Men	Women	Men	Women	Men	Women
P10	882	12,444	0%	10%	1,868	15,006	1%	12%
P20	882	12,444	0%	6%	2,456	16,488	1%	8%
P30	882	12,444	0%	4%	2,848	17,847	1%	6%
P40	882	12,444	0%	4%	3,180	19,052	1%	6%
P50	882	12,444	0%	3%	3,499	20,220	0%	5%
P60	882	12,444	0%	3%	3,859	21,512	0%	4%
P70	882	12,444	0%	2%	4,277	22,944	0%	4%
P80	843	12,444	0%	1%	4,606	24,808	0%	2%
P90	845	12,337	0%	1%	5,567	27,198	0%	2%

Notes: The analysis assumes 2 children when the parents are aged 29 and 33. Mothers are assumed to be the primary carers, taking the full allocation of Commonwealth PLP (less 2 weeks reserved for the fathers) and receiving 12 weeks of employer paid parental leave. Fathers take 2 weeks of Commonwealth PLP and receive 3 weeks of employer paid parental leave as secondary carers. See appendix for details on cameo specifications.

Source: SMC cameo modelling.

[5] WGEA Gender Equality Scorecard 2022-23.
[6] WGEA Gender Equality Scorecard 2022-23.

Super tax concessions currently magnify gender differences in retirement balances

Tax concessions are an important and longstanding feature of the super system. They are broadly designed to compensate people for not being able to access their super savings until retirement and to encourage voluntary contributions that further increase individuals' retirement savings while reducing reliance on the age pension.

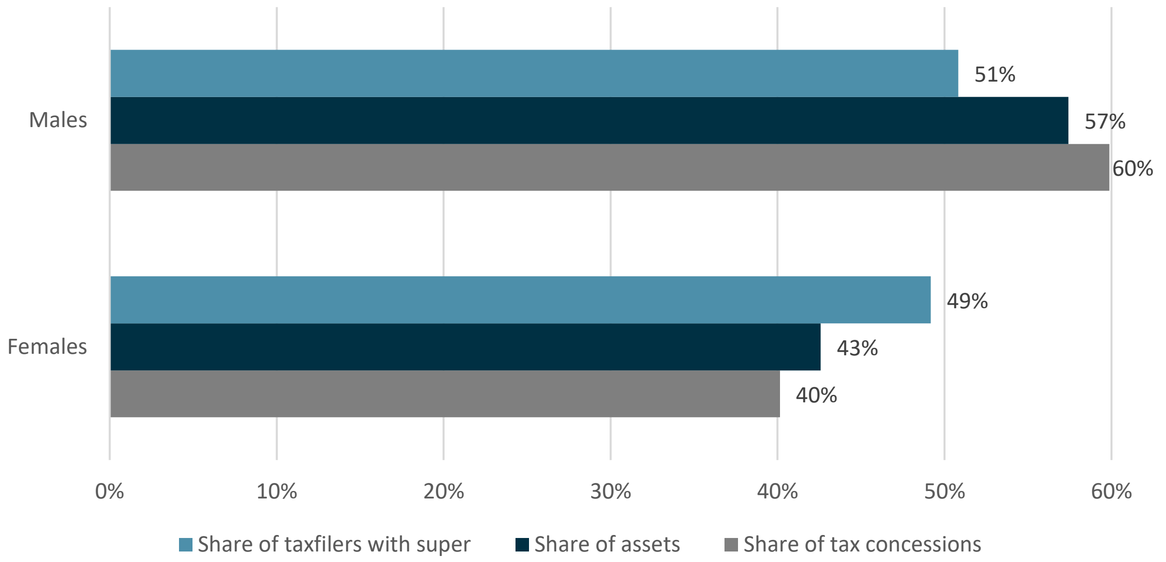
However, the current settings are not well targeted. This is primarily because income tax is progressive while super is taxed at a flat rate and therefore the concession a taxpayer receives increases with their income. To put it simply - those with the greatest need receive the lowest concessions and those with the lowest need receive the greatest concessions.

In other words, stronger savings incentives apply to wealthier individuals who will retire on incomes well above what is needed to obtain financial security in retirement, whereas low- and middle-income earners have access to more modest, and for some, insufficient incentives to save for a financially secure retirement.

The current settings particularly disadvantage lower-income earners, especially women, who may experience situations where contributions do not attract any concession relative to wage income, and earnings may in fact be taxed more highly in super than if held directly.

This is best illustrated by looking collectively at the recipients of tax concessions across the system based on gender. As **Figure 7** shows, women received just two fifths of aggregate super tax concessions in 2020-21, a lower share than their claim to accumulated savings in the system. If the system was not magnifying the inequities coming into it, we would expect to see the share of assets in the system align with the share of tax concession benefits.

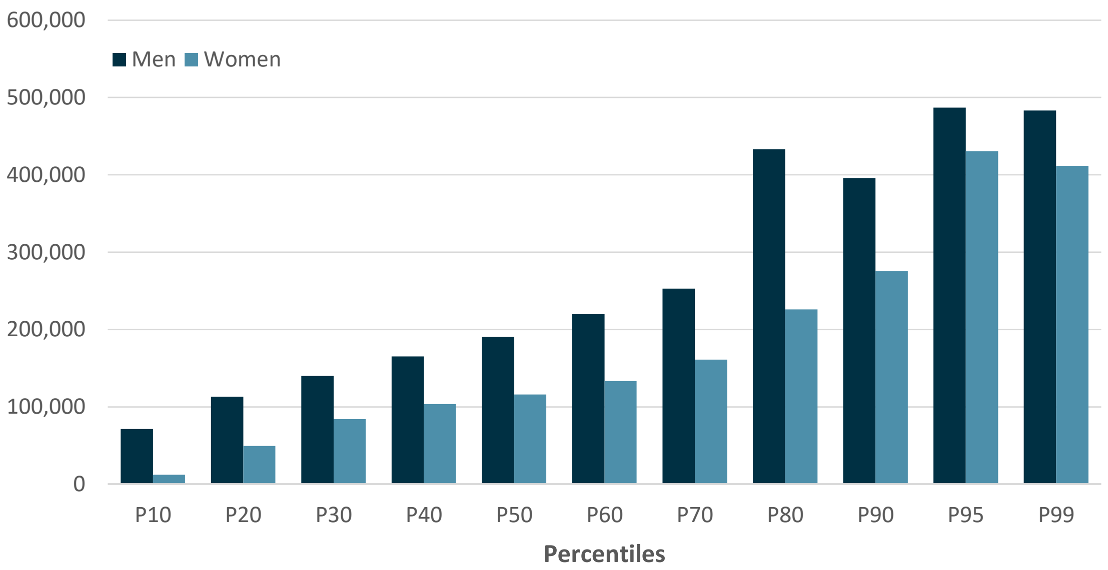
Figure 7. Gender share of total assets and tax concessions



Source: ATO Taxation Statistics, 2020-21

This disproportionate tax concessions benefit that men receive over women is prevalent across every income decile, as represented in **Figure 8** below.

Figure 8. Increase in retirement balances from concessional taxation of super versus taxing at marginal tax rates



Notes: The analysis measures the benefits derived from tax concessions across gender and income percentiles by comparing the accumulated superannuation balance at age 67 (in wage-deflated terms) when taxing contributions and earnings at marginal tax rates versus current superannuation taxation. Income tax brackets are indexed by wages from 2030 onwards. See appendix for details on cameo specifications.

Source: SMC cameo modelling.

Since tax concessions should act to allow a higher level of savings than would otherwise be the case, this implies the existing structure of tax concessions magnifies gender differences in retirement balances. In particular, it fails to adequately support the accumulation of savings for women during periods when they work part-time and undertake caring responsibilities. ATO data shows there is a significant overlap with this group and LISTO eligibility.

Benefits of updating the low income superannuation tax offset

The LISTO was originally designed to make the super tax system fairer for low-income earners by ensuring they did not pay more tax on their super contributions than on their take-home pay. Many of these low-income earners are women (60 per cent) working in lower paying jobs or on a part-time basis.

For members earning up to $37,000 a year, the LISTO currently refunds the 15 per cent tax on super contributions, up to a maximum of $500.

At the time the LISTO was introduced, this meant that every individual falling within the first- and second-income tax brackets received a full refund of the tax paid on their SG contributions.[7]

However, eligibility for LISTO no longer aligns with the second income tax bracket as the upper threshold increased on 1 July 2020 from $37,000 to $45,000. In addition, the value of the offset no longer reflects the legislated increases in the SG rate, which is now 11 per cent. This means the LISTO is currently not flowing through to many members in the second income tax bracket.

Realigning eligibility and increasing the offset amount through minor adjustments to the framework will go some way to making super tax settings fairer for low-income earners (**Figure 9**).

[7] This was based on the upper threshold of the second income tax bracket being $37,000 at the time and the SG rate being 9 per cent.

Figure 9. Changes needed to ensure LISTO operates as originally intended

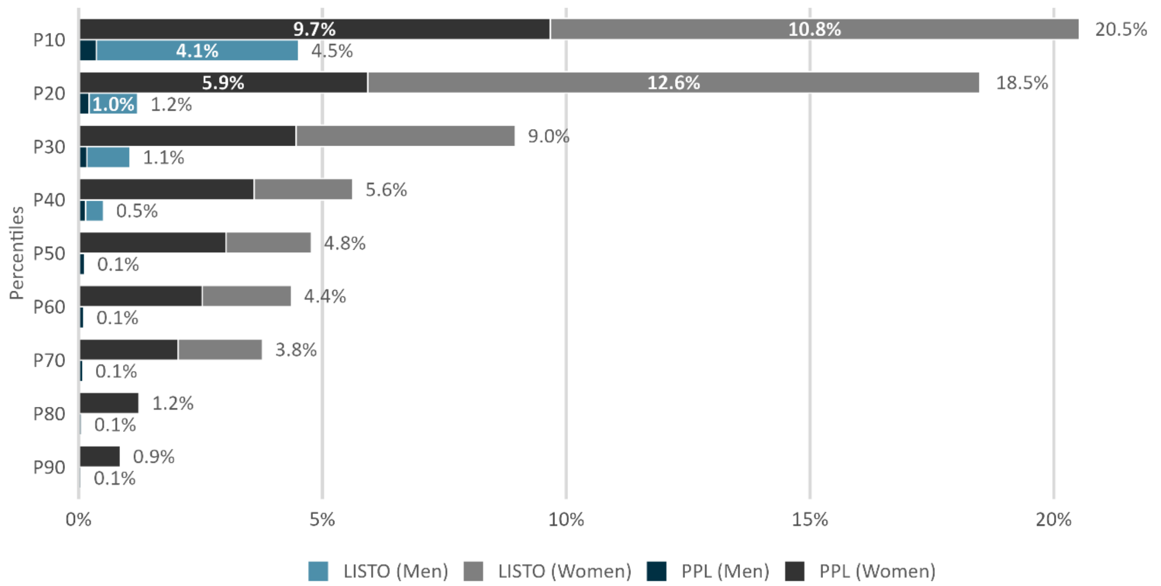
	SG rate	Legislated		Revised Policy	
		Amount	Threshold	Amount	Threshold
2023-24	11.0%	$500	$37,000	$750	$45,000
2024-25	11.5%	$500	$37,000	$780	$45,000
2025-26	12.0%	$500	$37,000	$810	$45,000

Our analysis shows that implementing these changes would boost the super of more than 1.2 million Australians – 60 per cent of whom are women – who will benefit from an extra $500 million in 2025-26.

The combined benefits of updating LISTO and paying super on Parental Leave Pay

Low-income women would be the biggest proportional benefactors of updating the LISTO and paying super on the Government's Parental Leave Pay Scheme. **Figure 10** shows women in the lowest 10 per cent of wage earners would experience a 21 per cent boost in their super balance at retirement – almost double the benefit they would receive from LISTO alone (11 per cent).

Figure 10. Combining the benefits of LISTO and Commonwealth PLP



Source: SMC cameo modelling. See appendix for details on cameo specifications.

Conclusion

Australia's super system is changing the lives of workers, with almost universal coverage and accumulated savings that today are providing financial security for those entering retirement.

But as with any area of economic and social policy, its effectiveness needs regular review to ensure it meets the needs of our modern and changing society.

As this report makes clear, women are one group whose super needs are significant, but who continue to retire with far less super than men – one third less.

The gender super gap has begun to narrow for all age groups other than women in their 30s, but it is clear ongoing improvements are needed.

Paying super on the Government's Parental Leave Pay Scheme and updating the LISTO to meet its original design intention are important steps the Government can take now to make super fairer for women.

Longer term we also need to tackle the broader drivers of lower female super balances

There are also other broader measures we should be considering, to address the structural drivers of the gender super gap, for example women's lower workforce participation rates, the fact that highly feminised industries and jobs continue to attract lower wages, and social norms around unpaid caring responsibilities.

We also need to take a broader look at the super system and the role some structural design elements play in entrenching gender inequity in retirement outcomes, including the taxation of super and super co-contributions.

SMC will continue to look at all the factors contributing to this issue – large and small - and is committed to working with all Governments in the future to find ways to keep lifting the retirement outcomes of women to where they should be.

Appendix – Cameo modelling

The SMC cameo model tracks the accumulation of superannuation throughout the life of hypothetical individuals or couples. The model simulates components of the tax, transfer, and superannuation systems – such as contributions, returns, drawdowns and age pension payments – under current and alternate tax settings to estimate the impact of policies on retirement outcomes.

The cameo modelling in **Figures 6, 8 and 10** follow the same broad specifications. Individuals are assumed to commence work at age 22 and retire at 67. Women have 2 children at age 29 and 33 and are assumed to be the primary carers. They take a year of maternity leave for the birth of each child (receiving 24 weeks of Commonwealth PLP and 12 weeks of employer paid parental leave) and then work part-time hours until the youngest child is 10 years of age. In total they work 37 full-time equivalent years over their career. Men are assumed to work continuously from age 22 to 67. They earn some business income from age 45, in line with the proportion of men in self-employment according to the 2021 ABS Census. In total they work 41 full-time equivalent years as employees and receive SG coverage for the proportion of income derived from wages.

While working, men and women earn wage income consistent with employees in their gender and age-based wage percentiles (as sourced from ATO data). Individuals are assumed to remain in their wage percentiles for the entirety of their working career. Individuals up to the 70th percentile receive only SG contributions on their wage income. Individuals in the 80th percentile and above make additional salary sacrifice and member contributions consistent with the mean contribution rate for individuals in their wage percentiles (as sourced from ATO data).

The modelling assumes a high-quality profit-to-member fund that has an after-tax, before-fee return of 7.5 per cent per annum, asset-based fees of 58 basis points, and an administration fee of $78 (indexed by wages).

Income tax scales are indexed by wages from 2030 onwards. In the base case, the LISTO threshold is assumed to remain at $37,000 and the maximum rate at $500. Under the policy scenario, the LISTO threshold is increased to $45,000 and the maximum rate to $810 in line with increases in the SG rate (see **Figure 9**). These rates are then increased in line with movements in the second income tax bracket.

The model assumes wage growth of 4 per cent per annum. All figures are in wage-deflated terms.