SALLY LOANE ADDRESS
WOMEN IN SUPER
DOLTONE HOUSE, ELIZABETH ST
MONDAY 29 FEBRUARY 2016

Thanks everyone – it's great to speak to you today.

I would like to acknowledge and pay my respects to the traditional owners of the land on which we meet – the Gadigal people of the Eora Nation.

2016 is a very important year, both in Canberra and for the financial services industry.

It is an election year - and while tax is at the centre of the policy debate, we hope this will not be a superannuation election.

To be specific, a "tax on super" election is the last thing Australian savers want.

For several months there has been an intense national debate on superannuation – all aspects of it – from taxing it, to the imperative for critical reforms including stronger governance standards, choice and competition.

The news cycle has been dominated by tax and superannuation speculation.

I am going to talk today mainly about super – not only because it underpins so much of our financial services sector, but because it is critical for women.

Women generally get less pay than men, which means we end up with less in our super funds. We also live longer. Adequacy for women is critical if we are serious about long-term retirement policy.

Having adequate super should be number one on the list of every female in this country. I have started talking about it with my daughter, 21, and my nieces, all in their early 20s. At my urging, my son, 23, has recently merged his several super funds so that at least now he can keep track of it in the one fund.

Thanks to the fact that our tax system has for decades been centred on the value of home ownership, we Australians have property in our DNA. This has permeated generations of Australians.

It's about time we treated super the same way. Superannuation will be the second biggest asset most of us have, after our house.

Just to give you a sense of the size of the system, the FSC and UBS have just released our annual State of the Industry Report – a look at the size of Australia's financial services sector.

Financial services is Australia's biggest sector – larger than mining and manufacturing and it has outstripped all other sectors to become Australia's fastest growing industry over the past two decades.

The Australian financial services industry manages $2.6 trillion, the third largest pool of contestable funds in the world – and the **$2 trillion superannuation sector** underpins this.

I want to address the current political debate that centres on superannuation.

I will start with the general then move onto why women need to pay particular attention.

Superannuation is our only truly intergenerational public policy, the purpose of which is to provide adequate self-funded retirement incomes for all of us, and equally importantly, to reduce pressure on the age pension system, which at $44.7 billion a year and rising at a rate of seven percent annually, already consumes 10 percent of the Federal Budget.

Right now, both major parties appear to be looking at ways to tax Australia's superannuation savers.

Labor has announced its policy – it will increase the contributions tax from 15 to 30 per cent for those with an income over $250 000 per annum and levy a tax on investment income over $75 000 per annum when an individual is in retirement.

The Government, in spite of promises made before the last election to stop tinkering with super, appears to be considering doing just that.

While the Government hasn't yet given us any firm plans, there has been much discussion in the public arena about tax "progressivity" and new concession caps - with various models being fed into the debate – some of them extremely detrimental to Australians retirement savings.

There have been many kites flying in the media – almost every day last week there was a new one.

Thankfully some of the most regressive – such as allowing low income earners to opt out, and freezing the superannuation guarantee at 9.5 per cent - were dismissed by the Government as not options they were considering.

But some are still live.

One is consideration of Capital Gains Tax for super funds – in other words, tax on investments inside super.

This is a bad idea which would erode savings.

Trustees of APRA regulated funds already have a lower discount than individuals - 33 per cent compared to 50 per cent. If the discount was reduced further to 15 per cent, investment decisions could potentially be distorted and existing investments adversely affected.

Any proposal to change CGT on investments inside super funds ignores the tax complexity surrounding the transition from accumulation to retirement phases.

All the reviews into superannuation over the past decade – the Cooper Review, the Financial System Inquiry and the Productivity Commission reviews – have focused on how to boost returns to consumers after fees and taxes.

Increasing Capital Gains Tax on money already invested in super effectively puts the brakes on growth of invested savings and, over time, would have a material impact on the compound growth of a member's balance.

It runs contrary to all the hard work and reform implemented already.

Another media story last week claimed the Government is considering a cut to concessional caps to $20,000.

Again this is poor policy. The concessional caps have been lowered significantly already, at $30,000 for most taxpayers and $35,000 for those over 50.

Any move to bring this down to $20,000 will particularly penalise older workers who are trying hard to save more in their last decade or so of work.

Like other tinkering options it pushes the goal of self-funded retirements for middle Australia further into the future and condemns future generations to higher taxation to support them.

The question we all need to ask is – why tinker with superannuation?

What is the problem we are trying to solve?

Tinkering is a bad idea in itself – it immediately creates more uncertainty and less confidence in the system.

In a recent speech the Treasurer asked this question: “Should we direct tax concessions to superannuation in the same way we are doing it now, or should we instead put more money towards reducing income tax or company tax?”

“Is there a better balance we should strike?”

I would suggest that the question that needs to be asked is not about tax - it should instead be: “How do we get people to save?”

The national retirement savings policy – otherwise known as superannuation, has little to do with the tax system.

Everyone knows we have a crook tax system. It is confusing, inefficient, costs Australia investment and jobs and it reduces the incentives for many to work.

You can tinker with super but the truth is you will still have a broken tax system.

Superannuation changes are not credible tax reform. A credible tax reform is a tax mix switch. But that is a debate for another day.

When we make the case for superannuation to be a long-term retirement savings policy we need to go the demographic statistics revealed by the latest Intergenerational Report.

The great weight of demography is bearing down. The baby-boomers are retiring – 700 Australians are turning 65 every day:

- Life expectancy for Australians is among the highest in the world. By 2055, men will be living to 95 and women till almost 97.

- In 2055, there will be 40,000 people aged over 100. In the mid-70s there were only 122 Australian centenarians.
- By 2055 the number of working Australians aged between 15 and 64 for every retiree over 65 will be just 2.7 – nearly half what it is today, 4.5 people. In simple terms, the numbers of working taxpayers will be reduced by almost half.
- By 2055, the participation rate for Australians aged 15 years and over is projected to fall to 62.4 per cent, compared with 64.6 per cent in 2014-15.
- A lower proportion of Australians working will mean lower economic growth over the period.

We know these facts.

Survey after survey has found that too many Australians, in fact more than half of people surveyed in a recent ANU survey, are concerned about not having enough savings for their retirement.

If we do not get super savings to a level of adequacy where most middle and lower income Australians can self-fund their retirements through superannuation, we are simply not going to have enough funds in the age pension system to support them.

I find it unconscionable that we'd even consider condemning generations of young people to paying significantly higher taxes to support the rest of us who were not able, or not allowed through punitive taxation, to save more for their retirements.

If we take a minute to do a stocktake of super we find that is has achieved a great deal in its 24 years.

Our three pillar retirement system - the budget funded age pension, compulsory savings through the superannuation guarantee, and voluntary savings - is unique among developed countries.

It turned us from a nation of under-savers to a nation where our savings rate is well above that of other developed countries.

This volume of savings and liquidity served us well during the Global Financial Crisis – it was a critical buffer.

There are forecasts that super funds will grow to at least $8 billion over the next 20 years - firmly establishing the system as structurally important to Australian household's financial wellbeing.

Superannuation currently saves the Government, and taxpayers, more than $7 billion every year on age pension expenditure.

It generates almost $11 billion in annual tax revenue for the Federal Budget.

The superannuation system also enjoys an extraordinary level of public support.

Recent research for the FSC and ING Direct shows that 88 per cent of working Australians support compulsory super and 81 per cent say it's essential for a comfortable retirement.

This system has lifted the retirement savings of all Australians. It has helped to buffer the prospective deterioration in our budget finances as our population ages by reducing reliance on the aged pension.

But has super achieved its objectives?

The answer is not yet.

The Government's planned reforms on governance, choice and open market competition in superannuation are the right measures to ensure that consumers are adequately protected and enjoy the benefits of competition.

What else needs to transform super from almost there to the very best?

It has become more sustainable.

The gates have long been closed to stop people stuffing millions into super.

Super was never designed as an intergenerational wealth transfer vehicle and should not be used as such.

We have consistently said that in the effort to design a better retirement system, the tax treatment of superannuation should be on the table – but that it must be considered in the context of a full retirement income review that includes the Superannuation Guarantee rate, aged care affordability, the age pension entitlement and the assets and income test, as well as access ages for the pension and for super.

Super must not be raided to fill Budget holes or fund pet projects.

If the Government does have plans to change super, we urge it to find options that increase, not deplete, savings for middle Australia and crucially, do not add implementation costs onto super funds and therefore upward pressure on fees.

Superannuation can be made more sustainable so it can deliver on its long-term purpose.

The FSC has put forward a six point plan which we urge the Government to adopt:

1. Give every Australian saver cast-iron confidence in the system. Take it out of the Budget cycle, stop the tinkering;
2. Define its purpose and make it law ;
3. Increase the superannuation guarantee rate to 12 per cent by 2022;
4. Encourage people to save voluntarily beyond the 12 per cent guarantee – by maintaining contribution caps that are high enough to allow women and carers in particular to catch up on their savings after breaks from the workforce. We recognise an additional three per cent would get the majority of people to self-sufficiency;
5. Provide tax concessions which give all Australians – most particularly middle and lower earners - an incentive to save; and
6. Increase the preservation age in line with increases in the age pension and life expectancy.

If we follow this plan, new analysis by Rice Warner Actuaries demonstrates that the super system will achieve its objective - the

present value of our age pension liabilities will be reduced by 60 per cent for middle Australia by 2050.

In closing I want to address the very critical issue of adequacy for women.

We know there is a problem.

The superannuation system was designed to reflect traditional patterns of work; continuous full-time employment, and therefore its design inherently discriminates against women.

Women are not paid at the same rate as men. Women are more commonly employed in part-time or casual jobs, women take time out of the workforce to raise children and care for elderly parents.

Women live longer.

Women retire with significantly less savings than men.

Data from Rice Warner Actuaries has found that every generation of women, from baby boomers to Millennials, is facing a significant shortfall in retirement savings.

FSC member ANZ Global Wealth last year released research which showed that women earn four per cent less in their first graduate job than men – even when they have the same qualifications.

During their careers, the pay gap for women increases to almost 20 per cent by the time they reach retirement.

On average, full-time working women earn $295 per week less than full-time working men.

This adds up to $15,000 over a year or $700,000 over the course of a career. This is a staggering gap.

The ANZ study found that 90 per cent of women won't have enough superannuation savings to live comfortably in retirement while 15 per cent will experience poverty in retirement.

FSC members including Colonial First State, BT Financial and ANZ have not only done work to identify the issues, they're also put forward some solutions.

Perpetual and AMP, for example, have increased the SG rate for employees above the mandatory rate of 9.5 per cent. Perpetual announced last week they would increase the SG rate to 12 per cent by 2020 – really putting their money where their mouth is when it comes to adequacy.

ANZ is doing its part to address the gap for women through a range of initiatives, including making an extra $500 annual super contribution to all 12,700 of its female employees in Australia and offering free superannuation advice to Australians with less than $50,000 accumulated in their super.

In a speech last year BT Financial Group CEO Brad Cooper recommended that the government should consider taxing women's super contributions at a lower rate to help them catch up.

He acknowledged that introducing gender discrimination into the tax system would be unconstitutional and suggested the government could investigate getting around this by delivering the concessional tax rate via a rebate or offset placed directly into a woman's superannuation account.

In an effort to close the gap, some companies continue to pay the SG of 9.5 per cent during the period of parental.

I initiated this for staff when I started at the FSC a year ago. We only have a staff of 20, but there has been a mini-baby boom, with three going on parental leave last year and one due very soon this year.

There is currently a Senate Inquiry into adequacy for women – the Economic Security for Women in Retirement is due to report by March 2016.

The FSC gave evidence to this Inquiry.

And given the inequity of the wage system and the persistence of the wage gap between men and women, and the cumulative effect of that on women's superannuation savings, we recommended the Senate Committee consider the following Policy options to address lower retirement outcomes for women:

1. **Pay superannuation contributions on the existing Commonwealth Paid Parental Leave scheme, which is 18 weeks pay at the minimum wage, and extend contributions over time to the superannuation contributions a carer would have received should they continued in their employment .** Introducing an SG component to the current scheme would likely cost around $150 million per annum . Maintenance of the full SG contribution an employee would have otherwise received would have a significant effect on reducing the long-term savings gap of female employees who take breaks to care for children.

2. **Remove barriers in the Sex Discrimination Act 1984.** FSC members Rice Warner Actuaries and ANZ Bank have recently implemented policies to improve the retirement outcomes of their employees. Examples of such policies include higher superannuation guarantee contributions for female employees. The *Sex Discrimination Act 1984* (SDA) treats some of these policies as discriminatory whilst others are not. To implement a

   package of reforms that includes discriminatory elements, however, the anti-discrimination laws in all States and Territories present a barrier to addressing the unequal retirement outcomes for women. The FSC understands that Rice Warner and ANZ had to secure special measures and exemptions. We wish to see consistent anti-discrimination legislation that provides clarity to employers by explicitly permitting lawful discrimination in circumstances where employers are making higher superannuation contributions to female staff to address any gender gap in retirement savings.

3. **Lower the threshold for not paying super contributions**. A disproportionate amount of low income employees are women. As a result, the $450 per month threshold, below which

employers are not required to make SG contributions, contributes to inadequate retirement savings for women. The threshold equates to $112.50 per week, or approximately seven hours of work at minimum wage. The threshold is little changed from the advent of the compulsory superannuation system. The threshold is arbitrarily set and has little relevance to current work patterns.

We recommend the Government examine options to allow employers to pay contributions to employees who earn below the threshold of $450 per month.

Introducing flexibility around the threshold would have little regulatory impact on Australian employers as most employers have at least one employee to whom they must make superannuation contributions.

Introducing flexibility around the threshold would also interact with the retention of the Low Income Superannuation Contribution, to ensure there is a tax benefit arising for low income employees from participating in the superannuation system.

In finishing I want to urge the Government to look at the bigger picture for retirement savings.

It has a chance to be the first government in the 24 years since the advent of the compulsory superannuation system to devise a sound, long-term savings policy for this country.

By cushioning future generations against the cost of an aging population, it is more likely the living standards we enjoy today will also be enjoyed by our children.

This is why we must take a long term view of any superannuation policy announced in coming months.

[ENDS]