



Ending workforce discrimination against women



Executive summary

Discrimination is usually thought of as the unequal treatment of minority groups, whether based on ethnicity, indigeneity, religion, age, sexual preference or disability. However, Australia actively discriminates against a majority of its population – women.



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Although women comprise just over half of Australia's population, they are on average paid \$26,000 a year less than men, face strong work disincentives and receive superannuation payouts around half those of men.

Female representation on private company boards remains below 25 per cent and has not increased at all in the last four years. Only 16.5 per cent of company CEOs are women.

If the meagre rate of progress of the last four years in closing the gender pay gap is continued into the future, it will take until 2045 for the gender pay gap to be eliminated. In KPMG's view, recent progress in closing the gender pay gap has been unacceptably slow and the lack of progress in women's representation on company boards constitutes entrenched discrimination against women.

A major cause of the gender pay gap and smaller superannuation payouts is that women are in and out of the workforce while having and rearing children. Overall, women, disadvantaged by less continuity in workplaces, do not get the promotions that men are able to obtain. And the interaction of the personal tax, family payments and child-care subsidy arrangements can provide strong disincentives for women returning to work after having children to increase their hours of work per week.

Professional women can face severe disincentives to increase their working days from three to four and from four to five days per week. In the example of a couple where the male is earning \$100,000 per annum and the mother is also on the full-time equivalent of \$100,000 per annum, if the mother moved from working three to four days per week, she would take home – after tax and the payment of extra child-care costs – just \$14.50 per hour. This is less than a person on the minimum wage would earn after tax.

If the same mother moved from four to five days a week, the household would actually be worse off by more than \$10 for each extra hour worked.

Men benefit from parenthood just as much as women do, and society as a whole benefits from freshening the age profile of the population. Why should women be expected to bear the preponderance of the cost of parenting, through lower wages, strong work disincentives and smaller superannuation payouts?

While this discrimination against women in the workforce is patently unjust, it is also enormously wasteful in pure economic terms. With the right incentives, Australia could have more women in work, and hence, more working-age Australians earning the incomes and paying the taxes to support those too young and too old to work.

KPMG modelling suggests that if the gap between Australia's male and female workforce participation rates could be halved, our annual GDP would be \$60 billion greater in 20 years' time, and over the period our cumulative measured living standards would be raised by a massive \$140 billion.

Of course, GDP and household cash income aren't everything. Society should value the unpaid work done by women in child rearing and domestic work. But in doing so, society should not expect women to bear a disproportionate share of the burden of rearing children, through lower pay rates, fewer opportunities for promotion and executive management positions, and much smaller superannuation payouts.

Australia's poor record in removing workforce discrimination against women points to the inadequacy of existing policies. Some recent reforms have not yet had time to work, including Paid Parental Leave, changes to superannuation tax concessions that favour women and the new Child Care Subsidy that will come into force on 2 July 2018. While these reforms are welcome, they will not, of themselves, end workforce discrimination against women.

Further proactive policies are needed. KPMG considers the following reforms warrant further consideration:

- Paying the superannuation guarantee on Commonwealth Paid Parental Leave and applying it to workers' compensation payments;
- Amending the Sex Discrimination Act to ensure employers are able to make higher superannuation payments for their female employees if they wish to do so; and
- Reviewing the Fair Work Act to determine the effectiveness of Equal Remuneration orders in addressing gender pay equity, including a less adversarial consideration of the undervaluing of women's work.

These measures were recommended by a bipartisan Senate committee report on achieving economic security for women in retirement released in 2016 and therefore should be capable of attracting bipartisan support.

Further measures recommended by the Senate committee report include:

- Amending the Sex Discrimination Act to include a positive duty on employers to reasonably accommodate the needs of workers who are pregnant and/or have family responsibilities;
- Strengthening the 'right to request' provisions of the Fair Work Act by introducing a positive duty on employers to reasonably accommodate a request for flexible working arrangements;
- A Productivity Commission inquiry into policy options to reduce work disincentives for second earners;
- Re-targeting of superannuation tax concessions to ensure they assist people with lower superannuation balances to achieve a more comfortable retirement;
- Removing the exemption from paying the superannuation guarantee in respect of employees whose salary or wages are less than \$450 in a calendar month; and
- In light of the growing number of older people, particularly women, who are relying on private rental accommodation in retirement, reviewing the adequacy of the rate of Commonwealth Rent Assistance.


KPMG supports these recommendations in principle and will do further analysis of them during the course of 2018. At the same time, KPMG will examine in greater depth:

- The workforce disincentives for women created by the interaction of the progressive personal income tax scale, Family Tax Benefit and the Child Care Subsidy; and
- The treatment of workplace-provided child care for Fringe Benefits Tax (FBT) purposes.

KPMG considers sensible policy measures to reduce workforce discrimination against women to be not only economically warranted but also socially desirable.



Four forms of workforce discrimination against women



Relative to men, women experience discrimination in the workforce in four main ways: lower hourly rates of pay for work of comparable value; strong disincentives for women with dependent children to increase their hours of work; smaller superannuation payouts and less income security in retirement; and low representation on company boards and senior executive levels.

1 Discrimination in pay



Women continue to receive less pay than men when working full time. The latest report of the Workplace Gender Equality Agency, released in November 2017, reveals that men out-earn women on average by more than \$26,000 per annum.¹ While the gender pay gap has been trending downwards over the last few years, it still stands at 22.4 per cent on the basis of average full-time remuneration.²

All industries and occupations have a gender pay gap. Table 1 reveals that financial and insurance services have the largest gender pay gap, at almost 32 per cent, but even sectors where women are strongly represented – such as health care, social services, education and training, and retail trade – have substantial gender pay gaps in favour of men.

Table 1: Total remuneration gender pay gap by industry (per cent)

Industry	2013-14	2014-15	2015-16	2016-17
Financial and Insurance Services	36.1	35.0	33.5	31.9
Rental, Hiring and Real Estate Services	25.6	28.4	29.3	31.4
Construction	25.4	26.3	28.0	27.4
Agriculture, Forestry and Fishing	21.6	20.9	21.8	25.7
Professional, Scientific and Technical Services	27.9	27.3	27.5	25.4
Information Media and Telecommunications	25.4	23.3	23.5	22.7
Transport, Postal and Warehousing	22.6	21.4	21.9	21.8
Arts and Recreation Services	22.8	21.0	21.1	20.5
Electricity, Gas, Water and Waste Services	19.3	21.5	20.0	18.7
Retail Trade	17.6	15.5	16.2	16.3
Administrative and Support Services	23.0	20.7	14.8	15.9
Other Services	17.3	18.3	14.8	15.7
Health Care and Social Assistance	16.4	18.1	14.7	15.7
Mining	17.2	17.6	15.8	14.7
Manufacturing	14.9	14.1	14.2	13.9
Accommodation and Food Services	11.7	10.9	11.4	11.9
Education and Training	9.6	9.3	9.4	10.6
Wholesale Trade	11.6	10.5	10.0	9.8
Public Administration and Safety	9.1	8.7	10.5	9.2
ANZSIC (All)	24.7	24.0	23.1	22.4

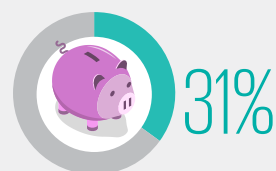
Source: Workplace Gender Equality Agency (2017, p. 10).

¹ Workplace Gender Equality Agency (2017), p. 1.

² Workplace Gender Equality Agency (2017), p. 8.



At recent rates of improvement, it would take more than a quarter century for Australia's gender pay gap to be eliminated.



During peak earning years the gender income gap in Australia exceeds 30 per cent.



On average, women's lifetime earnings are less than two-thirds those of men.

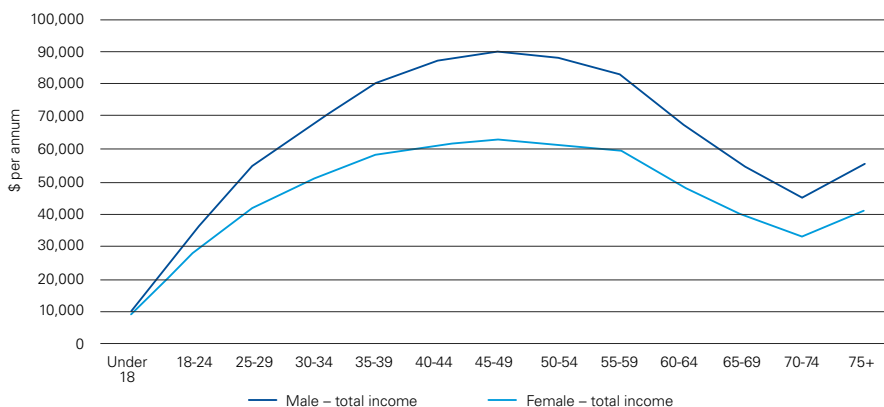
While the gender pay gap has narrowed over the last four years, at the average rate of reduction over that time it would take until 2045-46 for it to be eliminated.

Turning now to the gender income gap, a combination of fewer lifetime working hours associated with women's child rearing, and lower hourly pay rates, results in a large difference in the incomes of women and men throughout their working lives (Chart 1).

At age 30, the gender income gap is around 25 per cent, but during the peak earning years of 45 through 49 it opens up to 31 per cent.

On average, women's lifetime earnings are less than two-thirds those of men, and women comprise less than a quarter of the top 10 per cent of income earners in Australia.³

Chart 1: Average taxable income, by age and gender, 2015 (\$ per annum)

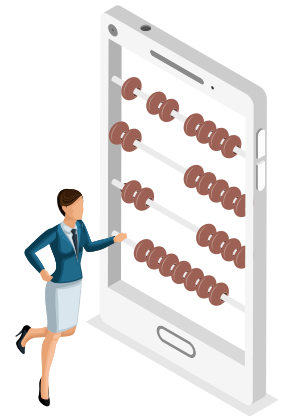


Source: KPMG Economics and Stewart (ed.) (2017, p. 48), based on ATO 2015 data.

³ Stewart (ed.) (2017).

2

Strong female work disincentives



Australia's tax and transfer system creates strong disincentives for women with children to increase their hours of work. For personal income tax purposes the individual is the taxing unit. However, means tests for the transfer system are based on the joint incomes of parents. The main government transfer payments for women are Family Tax Benefit Part A and Part B and the Child Care Subsidy (CCS), which comes into force on 2 July 2018 and will replace the Child Care Benefit and the Child Care Rebate.

Consider the case of a mother who is professionally qualified, works three days a week, and has two children in long day care. The mother under consideration earns \$100,000 per annum on a full-time equivalent basis, and her spouse also earns \$100,000 per annum.

Table 2 illustrates (using 2017-18 income tax rates, and 2018-19 CCS rates) the financial impact on the family of the mother increasing her hours from three days to four days per week, and then from four days to five days.

This professionally trained mother would face a strong disincentive to resume full-time work. A transition from three to five days a week would increase the family's weekly disposable income (after child-care expenses) by as little as \$26. The professionally trained mother would be expected to work two extra days for a total of just \$26 a week.

Assuming an eight-hour working day, moving to four days per week leaves the family with additional disposable income after tax and child-care costs of \$14.50 per hour. A single person with no dependents earning the national minimum wage would receive more than \$16 per hour after tax.

The new Child Care Subsidy is an improvement, but the phase-out and capping rules need further consideration. They can leave a professionally trained woman working for less than the minimum wage in moving from three days' work per week to four, and actually losing money from moving from four to five days per week.

Table 2: Incentive effects of a professional mother increasing working hours

	3 days p/w to 4 days	4 days p/w to 5 days
Gross income increase	20,000	20,000
Income tax thereon	-6,900	-7,485
Change in CCS	4,720	-4,024
Extra child-care cost* (pre-CCS)	-12,480	-12,480
Net additional income**	5,340	-3,989
Total CCS received	24,024	20,000

* Assumes the cost of a 10-hour care session is \$120.

** After tax and child-care costs.

The transition from four to five days a week would actually reduce disposable income (after tax and child-care costs) by more than \$10 per hour worked. For every extra hour worked beyond four days per week, the professionally trained mother would lose more than \$10 per hour, revealing a punishing penalty of well in excess of 100 per cent.

The CCS recognises the value of getting mothers back into the workforce, as can be seen from families earning \$200,000 per annum receiving \$20,000 per annum in CCS. Around 40 per cent of the family's tax bill is returned to it in the form of CCS.

However, the way in which the CCS phases out inhibits the productivity gains that would come from the experienced and highly-qualified woman in our example maximising her working hours. Employees at this professional level generate a multiplier effect on the productivity of their organisations, supervising and improving the output of their teams in addition to the value they generate from their own professional skills.

The Commonwealth Government might need to "throw good money after good" at the problem of work disincentives for professional women, in order to ensure that the benefits of its current outlays on child-care support are fully realised.

More generally, an analysis of female workforce participation in Australia reveals that it drops dramatically once a woman has a child and it never fully recovers. While women's workforce participation has increased significantly since the 1970s, the increase has been almost entirely in part-time work. Australia has "entered an equilibrium in which women who have children work part time, producing a family model of 1.5 earners."⁴

Strong work disincentives not only reduce female earnings in the short term. Decisions by mothers not to work, or not to increase their hours of work because of low returns from working, have the effect of reducing their lifetime wage rates, their employability and their superannuation payouts.

Women seeking to increase their hours of work per week can face strong disincentives to do so from the interaction of the personal income tax rate scale and means tests for Family Tax Benefit and the Child Care Subsidy.

4 Stewart (ed.) (2017), p. 48

3

Smaller superannuation payouts

The average superannuation balance at retirement is around \$105,000 for women and \$197,000 for men, resulting in a gender retirement superannuation gap of almost 50 per cent.⁵ The gender retirement superannuation gap is the result of three interrelated factors:⁶

- The gender pay gap – men earn more, on average, than women, and since compulsory employer superannuation contributions are based on a percentage of earnings, they will be larger for men than for women;
- Time out of paid employment – women are more likely to take time out of paid employment to care for children and other family members and therefore miss out on employer superannuation contributions; and
- Differences in working hours – women are more likely to work part time because of caring responsibilities and therefore earn less and receive smaller employer superannuation contributions.

KPMG has strongly supported the Commonwealth Government's 2016 Budget measures to allow those with broken work records – mostly women – to make top-up payments into their superannuation accounts.⁷ KPMG also supports the changes that allow those with superannuation balances of less than \$500,000 to roll over their unused concessional cap amounts for a period of five years. And KPMG supports the extension of tax offsets associated with contributions to low-income spouse accounts – again, mostly held by women – with eligible recipients' annual income limits increased from \$10,800 to \$37,000.

On average, women's superannuation payouts are little more than half those of men.



⁵ Senate Economic References Committee (2016), p. 9.

⁶ Senate Economic References Committee (2016), p. 10.

⁷ See Howes (2016).

4

Under-representation of women on company boards and at senior executive level

Despite all the rhetoric about a greater role for women on company boards, female representation on private corporate boards has not increased at all in the last four years; it is still stuck below 25 per cent.⁸ Only 16.5 per cent of company CEOs are women.⁹

⁸ Workplace Gender Equality Agency (2017), p. 3.

⁹ Workplace Gender Equality Agency (2017), Chart 7, p. 11.

Economic benefits of higher female workforce participation

As various Commonwealth intergenerational reports explain, the 'three P's' determine a nation's prosperity: population, productivity and participation. If our living standards are to continue rising, Australia needs to achieve a combination of a growing population, increasing workforce productivity and rising workforce participation.

Yet, as in other advanced countries, Australia's population is ageing. While living longer is a sign of an affluent, healthy society, an ageing population leaves a declining proportion of working-age people to earn the incomes and pay the taxes to support the rising proportion of retirees. Therefore, to offset the economic pressures created by population ageing, it is important

that the working-age population is as productive as possible and participates in the workforce to the greatest extent desired by those workers.

Australia's productivity growth has slowed markedly since the turn of the century. That's why KPMG continues to advocate policies aimed at increasing productivity growth. But lifting female workforce participation is also vital to offset the effects of population ageing.

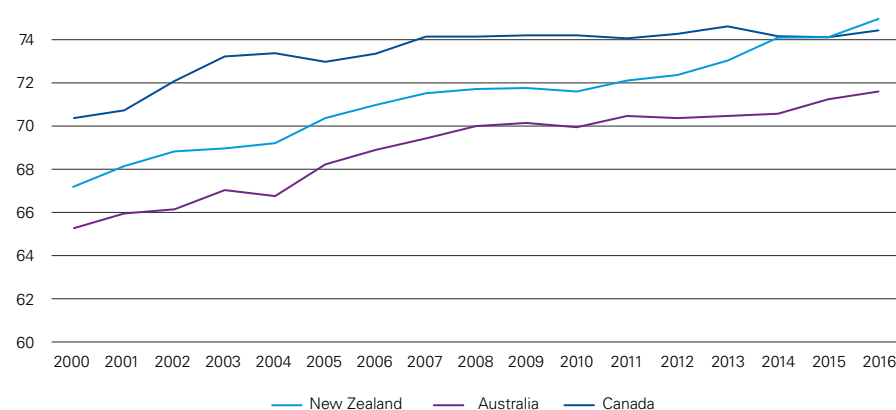
Australia's female workforce participation remains relatively low by international standards. While social change brought on by the women's movement has raised Australia's female workforce participation rate from less than 40 per cent in the early 1970s to around 70 per cent in 2015, this was still below the participation

rates of women in much of Europe and in Canada and New Zealand. See Chart 2.

More than half of Australia's university graduates are women. By discriminating against women participating in the workforce, society is not achieving the best possible return on investing in women's higher education. Moreover, lower women's superannuation payouts are forcing more women to rely on the age pension in retirement.

The Productivity Commission has estimated that around 165,000 parents (on a full-time equivalent basis) would like to work, or work more hours, but are not able to do so because they are experiencing difficulties with the cost of, or access to, suitable child care.¹⁰

Chart 2: Female workforce participation rates, Australia, Canada and New Zealand, 2000-2016 (per cent)



Source: OECD.

¹⁰ Productivity Commission (2014), p. 11.

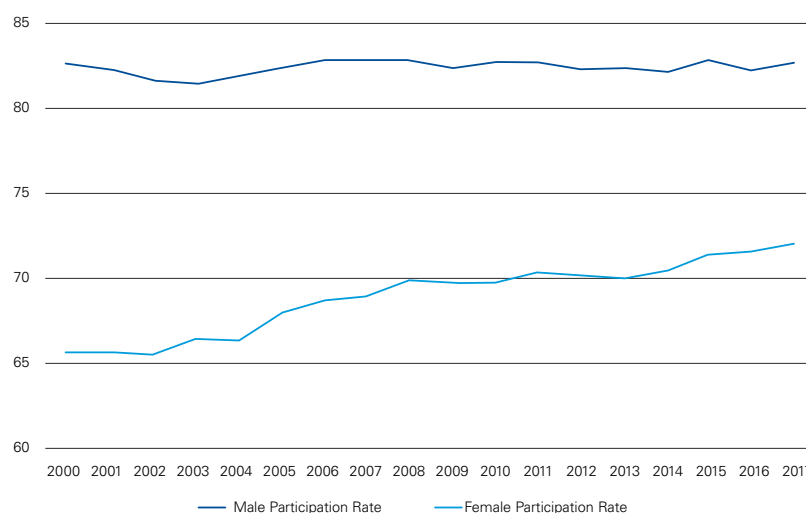
Lifting women's workforce participation has clear economic benefits for the nation as a whole. Among them are: greater prosperity, as reflected in an increase in per capita household disposable incomes; extra revenue from income tax and other taxes; better returns to the nation from its investment in higher education; and reduced budgetary costs of the age pension.¹¹

It has been estimated that if Australian women's workforce participation rate were the same as Canada's, then Australia's annual GDP would be about \$25 billion higher.¹²

Australia's recent female workforce participation rate of 72.9 per cent lags well behind the male participation rate of 82.8 per cent (Chart 3). KPMG has modelled the net benefits from halving the gap between the female and male workforce participation rates over a five-year period. This would involve increasing the female workforce participation rate from 72.9 per cent to 77.9 per cent.

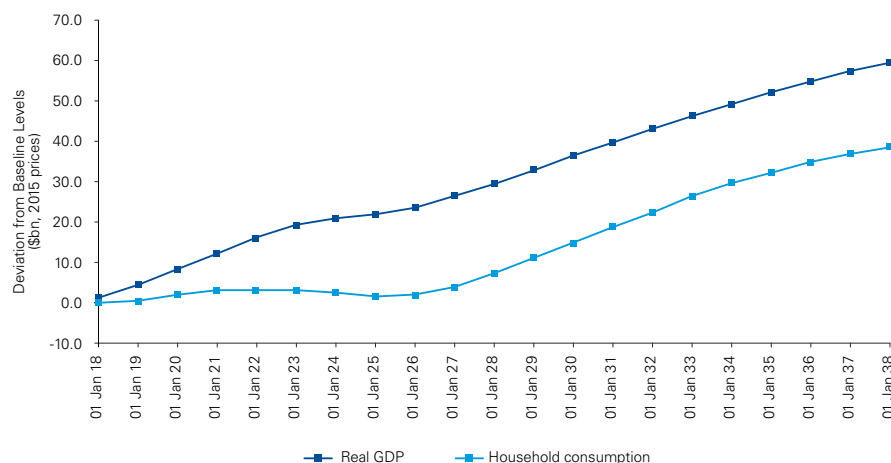
For modelling purposes, it has been assumed that halving the gap between female and male workforce participation rates would require a doubling over five years of government spending on Child Care Subsidy. The results are summarised in Chart 4.

Chart 3: Male and female workforce participation rates, Australia, 2000-2017 (per cent)



Source: ABS Catalogue 6291.

Chart 4: Increment to GDP and household consumption from increasing the female workforce participation rate (\$billion, 2015 prices)



Source: KPMG Economics.

11 See https://docs.education.gov.au/system/files/doc/other/2016_student_summary.pdf

12 Hockey (2014, p. 20) citing Daley and McGannon (2014).

After 20 years, Australia's annual real GDP is estimated to be \$60 billion greater and annual real household consumption is estimated to be bigger by more than \$38 billion.

Table 3: Increment to real household consumption from increasing the female workforce participation rate (per cent)

	Real consumption (\$bn, 2015 prices)		Deviation from baseline	
	Policy	Baseline	\$bn	%
31-Dec-18	1014.3	1014.5	-0.1	-0.01
31-Dec-19	1034.2	1033.7	0.5	0.05
31-Dec-20	1059.5	1057.6	1.9	0.18
31-Dec-21	1088.0	1085.0	2.9	0.27
31-Dec-22	1117.2	1114.0	3.2	0.28
31-Dec-23	1146.6	1143.7	2.9	0.26
31-Dec-24	1175.9	1173.6	2.3	0.19
31-Dec-25	1205.3	1203.9	1.4	0.12
31-Dec-26	1235.8	1234.1	1.7	0.14
31-Dec-27	1267.7	1263.9	3.8	0.30
31-Dec-28	1300.4	1293.2	7.2	0.56
31-Dec-29	1333.2	1322.2	11.0	0.83
31-Dec-30	1365.8	1351.0	14.8	1.09
31-Dec-31	1398.7	1380.1	18.6	1.35
31-Dec-32	1432.2	1409.8	22.4	1.59
31-Dec-33	1466.7	1440.7	26.0	1.81
31-Dec-34	1502.0	1472.6	29.4	1.99
31-Dec-35	1538.0	1505.7	32.3	2.14
31-Dec-36	1574.5	1539.8	34.7	2.25
31-Dec-37	1611.5	1574.8	36.7	2.33
31-Dec-38	1649.2	1610.9	38.3	2.38

Assuming a real discount rate of 5 per cent, the estimated present value of household consumption over the 20-year period is almost \$140 billion larger.

If the gap between Australia's male and female workforce participation rates were halved, households would be better off by an estimated \$140 billion over 20 years.

Source: KPMG Economics.

Policy measures for greater gender equality in workplaces

A multi-party Senate report on achieving economic security for women in retirement released in 2016 produced a set of agreed recommendations¹³ that KPMG considers warrant further consideration, including:

- +** Paying the superannuation guarantee on Commonwealth Paid Parental Leave and applying it to workers' compensation payments.
- +** Amending the Sex Discrimination Act to ensure employers are able to make higher superannuation payments for their female employees if they wish to do so.
- +** Reviewing the Fair Work Act to determine the effectiveness of Equal Remuneration orders in addressing gender pay equity, including a less adversarial consideration of the undervaluing of women's work.
- +** Amending the Sex Discrimination Act to include a positive duty on employers to reasonably accommodate the needs of workers who are pregnant and/or have family responsibilities.
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- +** A Productivity Commission inquiry into policy options to reduce work disincentives for second earners.
- +** Re-targeting of superannuation tax concessions to ensure they assist people with lower superannuation balances to achieve a more comfortable retirement.
- +** Removing the exemption from paying the superannuation guarantee in respect of employees whose salary or wages are less than \$450 in a calendar month.
- +** In light of the growing number of older people, particularly women, who are relying on private rental accommodation in retirement, reviewing the adequacy of the rate of Commonwealth Rent Assistance.

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- The workforce disincentives for women created by the interaction of the progressive personal income tax scale, Family Tax Benefit and the Child Care Subsidy; and
- The treatment of workplace-provided child care for Fringe Benefits Tax (FBT) purposes.

KPMG will release the results of its analysis in further reports during the course of 2018.

¹³ Senate References Committee (2016), pp. xi-xv.

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