THE GENDER SUPERANNUATION GAP

Addressing the options

KPMG

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Executive Summary

As a leading professional services firm, KPMG Australia (KPMG) is committed to meeting the requirements of all our stakeholders – not only the organisations we audit and advise, but also employees, governments, regulators and the wider community. We strive to contribute to the debate that is shaping the Australian economy and welcome the opportunity to provide options to address Australia's gendered superannuation gap.

This options paper follows KPMG's series of reports on gender inequality since 2018. KPMG released *Towards a more equal sharing of work* and *Enhancing work-life balance: a better system of Paid Parental Leave* earlier this year, which proposed 'catch-up' superannuation concessions for carers and a significant restructure of the Paid Parental Leave scheme. This paper looks at several options available to policy makers to help support gender equity in retirement.

A combination of greater levels of part-time work, employment in lower-paid industries, lower hourly rates of pay for women compared to men and less time in the paid workforce during their working years results in pronounced gender pay, income and superannuation gaps. While there are a range of reasons that contribute to unequal superannuation retirement balances between men and women, predominately the leading factor is time out of the workforce to be the primary carer of young children.

In the years approaching retirement age, the gender superannuation gap can be anywhere between 22 per cent and 35 per cent. The median superannuation balance for men aged 60-64 years is $204,107 whereas for women in the same age group it is $146,900, a gap of 28 per cent. For the pre-retirement years of 55-59, the gender gap is 33 per cent and in the peak earning years of 45-49 the gender gap is 35 per cent.

Individuals with low superannuation balances are more likely to rely on the age pension in retirement and as at December 2020, 55 per cent of those collecting the full pension were women. Financial insecurity in retirement contributes to poverty and housing insecurity of older women in Australia.

KPMG welcomes the reform through the *Treasury Laws Amendment (More Flexible Superannuation) Act 2021*, that allows individuals up to the age of 67 (previously 65) to bring forward some of their non-concessional contributions cap. This will assist older women to top up their balances where they have the necessary financial resources. While this is a welcome move, it does not address an individual's ability during their peak earning years to catch up on unused concessional capacity that has arisen from time out of the workforce due to childcaring over their earlier working life.

This paper outlines four options that could be adopted to help primary carers catch up on their superannuation balances to address the superannuation gap. The options considered include time-limited rebates of the superannuation contributions tax (SCT), the creation of a supplementary concessional contributions cap, removing the five-year limit on utilisation of concessional contributions caps relating to years spent as a primary carer and top-up contributions for low-income primary carers.

We look forward to continuing to contribute to the gender equity debate in Australia given it is a critical lever to drive productivity and economic growth and look forward to working with all levels of governments on implementing measures that drive gender equity reform.

Yours sincerely,

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SECTION 1:
OVERVIEW OF KPMG OPTIONS

KPMG Australia supports:

- A restructured Commonwealth paid parental leave scheme that would encourage more equal sharing of leave entitlements between mother and father, as set out in *'A better system of Paid Parental Leave';*
- The inclusion of taxpayer-funded Superannuation Guarantee contributions in the Commonwealth paid parental leave scheme, as set out in *'Towards a more equal sharing of work';*
- Amending the Sex Discrimination Act to ensure employers can make higher superannuation payments for their female employees if they wish to do so, as set out in *'Towards a more equal sharing of work';*
- Expansion of programs such as Career Revive that seek to change policies and practices within small and medium businesses that have traditionally prevented women from re-entering or remaining in the workforce i.e. flexible work and recruitment practices;[1] and
- The provision of superannuation contributions for those aged 50 to 59 years receiving Commonwealth Rent Assistance.[2]

In addition, this paper sets out four options for policy makers to consider when considering gender equity superannuation reform:

OPTION ONE

Time-limited rebate of superannuation contributions tax (SCT)

OPTION TWO

Create a Primary Carer Supplementary Concessional Cap

OPTION THREE

Remove the five-year limit on utilisation of concessional caps for years spent as a primary carer

OPTION FOUR

Provide top-up superannuation contributions for primary carers (not on a co-contribution basis).

1 See Career Revive DESE website: Career Revive - Department of Education, Skills and Employment, Australian Government (dese.gov.au)

2 https://assets.kpmg/content/dam/kpmg/au/pdf/2020/treasury-retirement-income-submission.pdf

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SECTION 2:
KPMG OPTIONS

OPTION ONE

Time-limited rebate of superannuation contributions tax (SCT)

This option provides a means of supporting primary carers at all levels of income in catching up on the foregone opportunity for superannuation contributions during the years spent as a primary carer. Lower income earners generally do not have the financial resources to make full use of the carry-forward of unused concessional contributions caps.

KPMG proposes rebating, for a limited period, the 15 per cent SCT that is charged on all concessional contributions. Eligibility would be limited to individuals who meet the criteria outlined below.

The Primary Carer SCT rebate would apply to years following the Primary Carer Period. The ATO would pay the rebate to the Primary Carer's nominated superannuation fund account.

1

The Primary Carer Period (PCP):

- Is a period during which the Primary Carer is caring for one or more children who are:
  - Less than 6 years of age; or
  - Less than 16 years of age and has or have a disability requiring intensive care;
- Does not include any period where the Primary Carer is paid for full-time work;
- An individual can have more than one eligible PCP during their lifetime.

2

The rebate would apply for up to the first five years of work (employed or self-employed) that follow the PCP. The objectives are to:

- Support the Primary Carer in catching up to the extent of 50 per cent of the mandatory concessional contributions that might reasonably have been made, had the PCP not occurred; and
- Provide some incentive to the Primary Carer to resume at least the same level of paid work after the end of the PCP, as the individual had before it.

3

The maximum annual rebate would be the lesser of the below amounts.

- SCT on actual contributions in the eligible year following the PCP; or
- SCT on contributions in the last full year worked before the PCP.

Using the last full year worked would negate the potential impact on the rebate of parental leave taken before a birth. It would also be reasonable to allow the rebate on greater than 100 per cent of the pre-PCP contributions to partly compensate for the investment growth foregone.

4

Average annual contributions made for the individual during the PCP would reduce the available rebate.

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5

Claiming the rebate:

- The individual would claim the rebate through the personal income tax return, nominating the superannuation fund to which the ATO should pay the rebate.
- The tax return disclosure would include identification of the PCP and/or the last full year of work that preceded it.
- ATO would calculate the rebate based on information reported by individual and by the superannuation fund. ATO would pay the rebate direct to the fund, quoting the individual's TFN.

6

The total $500,000 fund balance limit to be eligible for "catch up" concessional contributions would also apply. The government could consider other limits, such as a maximum dollar value for the rebate.

7

Proof of the PCP would be by Statutory Declaration and supported by reference to birth certificates, claimant of Paid Parental Leave or adoption papers of children. If there was a preference to limit access to the rebate to lower-income parents, then the claim for Paid Parental Leave could be the evidence of eligibility. However, we expect that a separate attestation as to the duration of the PCP would still be needed.

8

Claimant must be:

- Birth mother, parent, male or female partner of birth mother or parent, Adoptive Parent or Legal Guardian; and
- Must be the Primary Carer of the child for the PCP.

Illustrative examples

Example 1

Lee had full-time income in the full year prior to a PCP of $50,000 per annum. During this year her superannuation contributions were $5,000 and SCT was $750.

Lee did not work at all during her one-year PCP. Had she continued to work full time during this year, it is reasonable to expect she would have had superannuation contributions of $5,000.

After the PCP she returns to work full time and earns $50,000 per annum.

Lee's aggregate SCT rebate is $5,000 x 1 year x 50 percent = $2,500.

This is made up of a payment of $750 for each of the three years following the PCP, and a final payment of $250 in the fourth year, making a total of $2,500.

Example 2

Sally had full-time income in the full year prior to a two-year PCP of $70,000 per annum.

During the year her superannuation contributions were $7,000 and SCT was $1,050.

While she was looking after her children in the two-year PCP Sally worked part time. Sally worked two days p/w on the same wage in Year 1 of PCP and three days p/w in Year 2.

During this time Sally's average annual superannuation contribution was $3,500. This is $3,500 less than if she had worked full time.

Sally returns to work full time and has employer contributions of $7,000 in each of the five years following PCP.

Sally's aggregate SCT rebate is ($7,000-3,500) x 2 years x 50 percent = $3,500.

This is made up of $1,050 for each of the first three years following the PCP, totalling $3,150, and $350 for the fourth year of working that follows the PCP.

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OPTION TWO

Create a Primary Carer Supplementary Concessional Cap

At present an individual can have concessional contributions of up to a cap of $27,500 per annum. A taxpayer with a total superannuation balance of less than $500,000 on 30 June of the previous financial year can apply any unused cap for up to five subsequent years.

Primary carers would benefit from having additional "catch up" capacity that is not subject to the five-year time limit. Their earnings may not increase sufficiently in the five years following the PCP to enable them to make the additional contributions before the catch-up period expires.

The Primary Carer Supplementary Concessional Cap would have the following features:

1

Eligibility would be limited to individuals who meet the criteria outlined in paragraphs 1 and 8 of Option 1.

2

The Primary Carer Supplementary Concessional Cap:

- Is the product of [$X,000] and the PCP as defined in Option 1 (expressed in years);
- Can be utilised up to the lesser of
  - [$Y,000] per year
  - [Z per cent] of income from personal exertion (including contractor and small business income)
- Can be carried forward without limit to the extent it is unused. So, if an individual's Supplementary Concessional Cap was $10,000, and in the year following the PCP the person could use a maximum of $5,000 (in addition to the standard concessional contributions cap), then the remaining $5,000 would be available for indefinite carry-forward.

3

The total $500,000 fund balance limit to be eligible for "catch up" concessional contributions would also apply.

The dollar limits on the Supplementary Concessional Cap could reduce any perception of higher income earners taking excessive advantage of the scheme. The final value of X, Y and Z would be determined by policy makers to be in line with community expectations.

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OPTION THREE

Remove the five-year limit on utilisation of concessional contribution caps relating to the Primary Carer Period

Primary carers, usually the mother, might be out of the workforce or working part time for extended periods of time. The expiry after five years of unused concessional superannuation contributions capacity relating to periods spent as a primary carer disadvantages these individuals.

Removing this five-year limit in respect of unused concessional contributions capacity from the PCP for eligible individuals would allow them more flexibility to top up their balances and make up for gaps in work.

Eligibility would be limited to individuals who meet the criteria outlined in Option 1.

As an alternative, a lifetime concessional contributions cap is also potentially preferable to support those with breaks in work or greater levels of part-time work as advocated in KPMG's submission to the Treasury Retirement Income Review.[3]

OPTION FOUR

Provide top-up superannuation contributions for primary carers (not on a co-contribution basis)

The Commonwealth could consider making top-up contributions (rather than co-contributions) into the superannuation accounts of primary carers who have a child of pre-school age. This could, for example, be directed to accounts of those accessing the Paid Parental Leave scheme.

Past co-contribution schemes have generally required an individual to find money to access the scheme, therefore making it difficult for those on low incomes to participate. The Commonwealth could make a top-up payment where the primary carer was on a low income and could prove that they took time away from the workforce to look after children (as per Option 1).

Given the huge potential long-term benefits of even a small boost to a primary carer's superannuation balance, KPMG suggests that the impact of a $500 or $1000 annual top-up be modelled by the Commonwealth Treasury. Since a person might have a PCP of more than one year, and more than one PCP due to having more than one child, the benefit could make a real financial difference to a low-income primary carer. As people tend to have primary carer responsibilities in the first half of their working life, the potential for compound growth on these contributions by the time of retirement would also be considerable.

3 Retirement Income Review: KPMG's submission to Treasury (assets.kpmg)

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