Towards gender equity in retirement

Including superannuation guarantee contributions in paid parental leave and the carer payment

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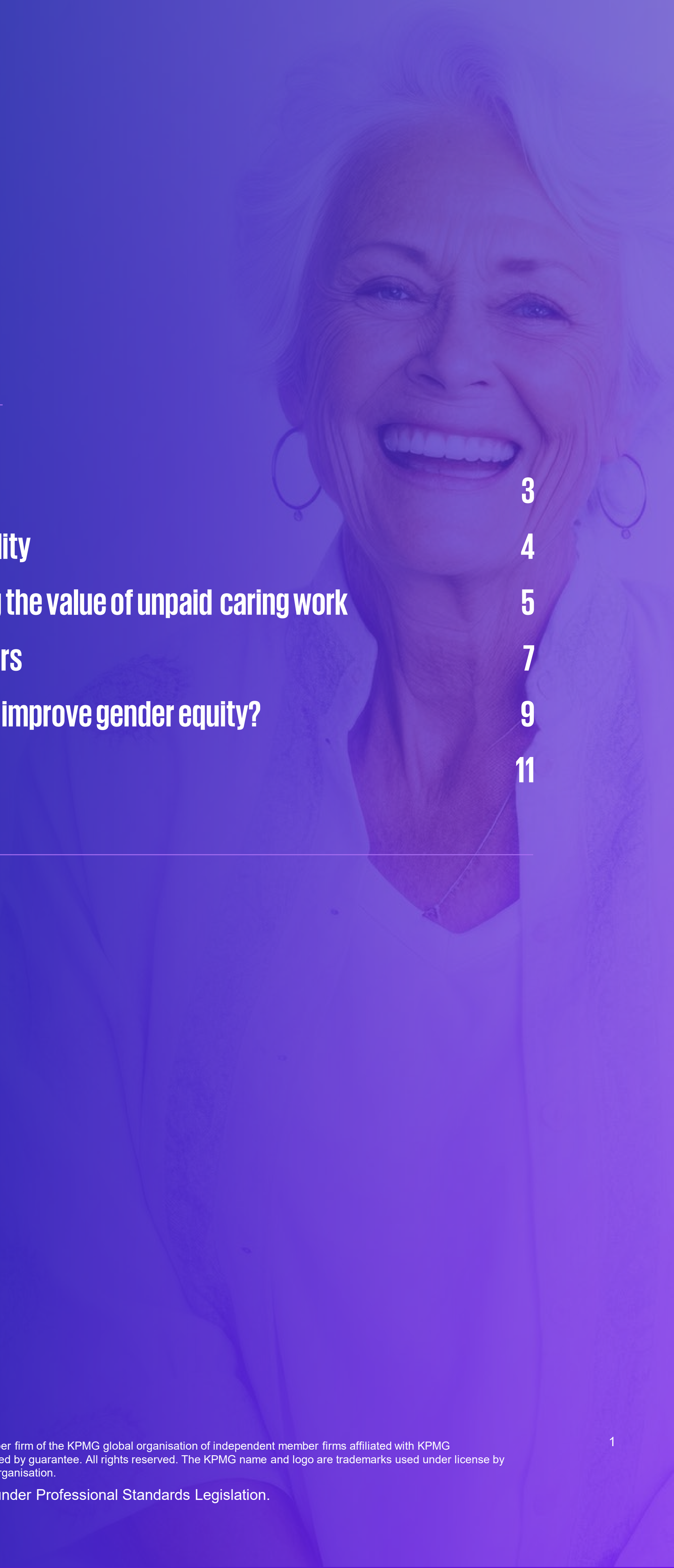

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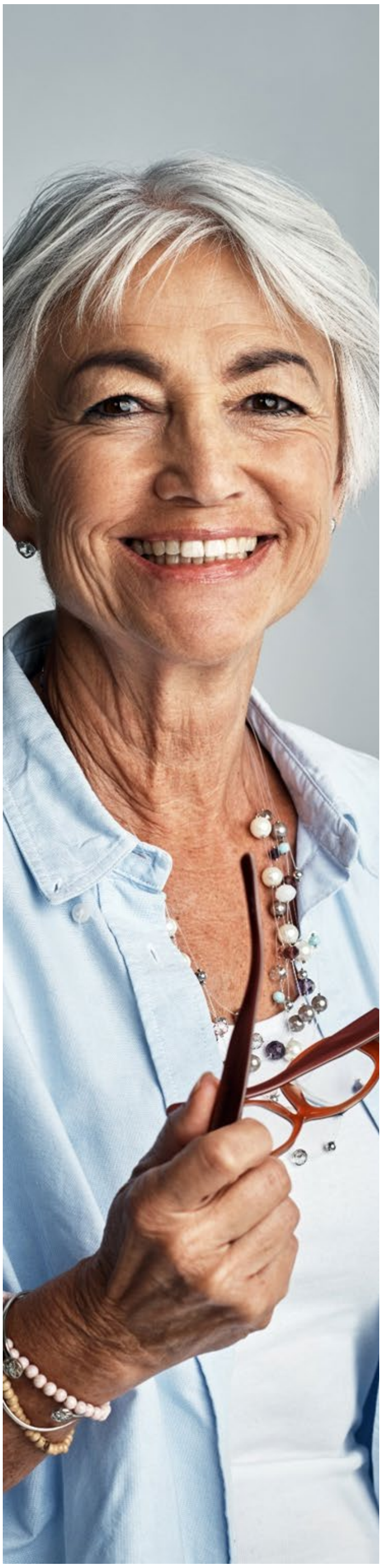
EXECUTIVE SUMMARY



Including Superannuation Guarantee (SG) contributions in Paid Parental Leave (PPL)

The time women spend out of the workforce giving birth and raising children contributes not only to a gender pay gap and a gender income gap but also to a gender superannuation gap.

These gender inequities arise largely from our society's economic undervaluation of unpaid caring work, which is performed predominantly by women. Ever since 1 January 2011, when the Commonwealth Paid Parental leave (PPL) scheme came into force, it has not included Superannuation Guarantee (SG) contributions. As it is still mostly mothers who take PPL, the omission of SG adds to the super and income gender gaps.

KPMG believes that since the Commonwealth pays PPL to eligible workers – and compulsory super contributions rightly form part of remuneration – then Superannuation Guarantee contributions should be applied to Commonwealth PPL payments. We would support that change being made in future budgets.

Including Superannuation Guarantee contributions in Carer Payment

KPMG also recommends that the Government considers adding superannuation contributions to the Commonwealth Carer Payment. This modest measure would be an immense boost for those for recipients of the Carer Payment, who provide constant care to someone who has a disability, severe illness or is frail aged, and who often have to leave the workforce for years, leaving them with minimal super balances.

Carers benefit the federal budget by providing a valuable service to society at a much lower cost than if the people they look after went into formal care. Not only would KPMG's proposal properly recognise and value that role – and help close the gender superannuation gap, given that most carers are women – but it could be done cost-neutral to the Budget over time.

From the individual's perspective, a person who began caring at 35 years of age and continued to provide care and receive the Carer Payment for 15 consecutive years thereafter, the addition of SG contributions to the Carer Payment could be expected to boost the carer's superannuation balance at retirement age by $123,000. KPMG economic analysis finds that this could be achieved at a budgetary cost of $45,500 in real terms.

The addition of SG contributions to the Carer Payment could be expected to boost the carer's superannuation balance at retirement age by $123,000

From the public finances' perspective, all recipients of the Carer Payment also receive the Carer Allowance and the Carer Supplement, totalling $29,624 per annum, compared with the $42,255 per annum received by a worker on the minimum wage. Where formal care involves the use of government-funded facilities such as residential aged care buildings and hospitals, the cost gap is even greater.

But if the addition of SG contributions to the Carer Payment were to incentivise an increased number of informal carers, KPMG estimates this policy could result in net budgetary savings. Further savings might also result from a potential reduction of Age Pension payments resulting from the boost to carers' superannuation balances.

The CARITO would provide incentives for carers to return to the workforce, where they are able to do so, by offering them a credit against income tax payable...

This policy complements KPMG's 2022 recommendation of a Carer's Income Tax Offset (CARITO), a tax credit to be offset against personal income tax payable by a carer upon returning to the workforce, proportionate to the total amount of unpaid caring work performed prior to returning to work.

The CARITO would provide incentives for carers to return to the workforce, where they are able to do so, by offering them a credit against income tax payable that reflects the time and effort they have devoted to unpaid caring work.

However, KPMG also recognises that many carers have their hands full with their caring responsibilities and will not be able to re-enter the workforce. This is where the SG being applied to the carer's payment will come in.

This is a highly equitable policy, since recipients of the Carer Payment must satisfy a means test and therefore are on low incomes – and more than 70 percent of them are women. Women called to engage in unpaid caring work are asked to pay a price not only in terms of lost earnings and missed career opportunities during their time as carers but also in the form of a less comfortable retirement in the future.

Together, our two recommendations – applying SG contributions to PPL and to the Carer Payment – form part of the suite of policy proposals KPMG has put forward in a series of policy papers going back to 2018 with the aim of reducing gender inequality in pay, super and the wider economy and society.

POLICIES FOR GENDER EQUALITY

In a series of reports on policies to achieve greater gender equality, KPMG has proposed various reforms to the Childcare Subsidy and to Paid Parental Leave (PPL)1. The Government has made reforms to the Childcare Subsidy and PPL that substantially implement KPMG's proposals. As an additional measure, KPMG has recommended including SG contributions in PPL2.

01 https://assets.kpmg.com/content/dam/kpmg/au/pdf/2018/ending-workforce-discrimination-against-women-april-2018.pdf
https://assets.kpmg.com/content/dam/kpmg/au/pdf/2018/achieving-better-deal-working-mothers.pdf
https://kpmg.com/au/en/home/insights/2019/02/women-pensioners-who-rent.html
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https://kpmg.com/au/en/home/insights/2022/08/budgeting-gender-equity.html
https://assets.kpmg.com/content/dam/kpmg/au/pdf/2022/valuing-unpaid-work-report.pdf

02 https://assets.kpmg.com/content/dam/kpmg/au/pdf/2021/addressing-gender-superannuation-gap.pdf

THE CASE FOR RECOGNISING THE VALUE OF UNPAID CARING WORK

In its report, Towards a more equal sharing of work, KPMG observed that women do the bulk of the unpaid caring work in Australia while men do the majority of the paid work[3].

On average, Australian men do an estimated 172 minutes of unpaid work per day compared with an estimated average of 311 minutes per day for women. That is, women on average do 80 percent more unpaid work than men[4].

KPMG estimates that if the value of unpaid work performed by women and men is added to the value of paid work, women and men each contribute half the work performed in Australia[5].

Despite this equal sharing of all work performed in Australia, women are disadvantaged relative to men by doing less of the paid work and more of the unpaid work. The result of this imbalance is a gender pay, a gender income gap and a gender superannuation gap.

The gender pay gap is, on average, 13.3 percent and is prevalent even in feminised occupations such as health care, education and retail trade. The gender income gap peaks at 36 percent in the 45-49 years age group[6].

In 2019-20, the median superannuation balance for men aged 60-64 years was $180,928 whereas for women in the same age group it was $139,056, a gap of 23 percent (Table 1 and Figure 1). For the pre retirement years of 55-59, the gender superannuation gap was 31 percent and in the peak earning years of 45-49 the gender superannuation gap was also 31 percent. These gaps closed only marginally in the five years from 2014-15 to 2019-20.

Table 1: Median superannuation balance by age and gender

Median account balance (2019-20)			
Age	**Male**	**Female**	**Gap**
Under 18	$241	$137	-43%
18 – 24	$3,214	$3,018	-6%
25 – 29	$14,643	$14,591	0%
30 – 34	$35,673	$30,614	-14%
35 – 39	$65,587	$49,676	-22%
40 – 44	$91,642	$66,837	-27%
45 – 49	$119,268	$82,389	-31%
50 – 54	$141,433	$95,594	-32%
55 – 59	$163,180	$112,122	-31%
60 – 64	$180,928	$139,056	-23%
65 – 69	$185,938	$178,333	-4%
70 – 74	$187,678	$184,245	-2%
75+	$142,111	$138,984	-2%

Source: Australian Taxation Office – Individuals Statistics

03 https://assets.kpmg.com/content/dam/kpmg/au/pdf/2021/towards-a-more-equal-sharing-of-work-parental-equality.pdf

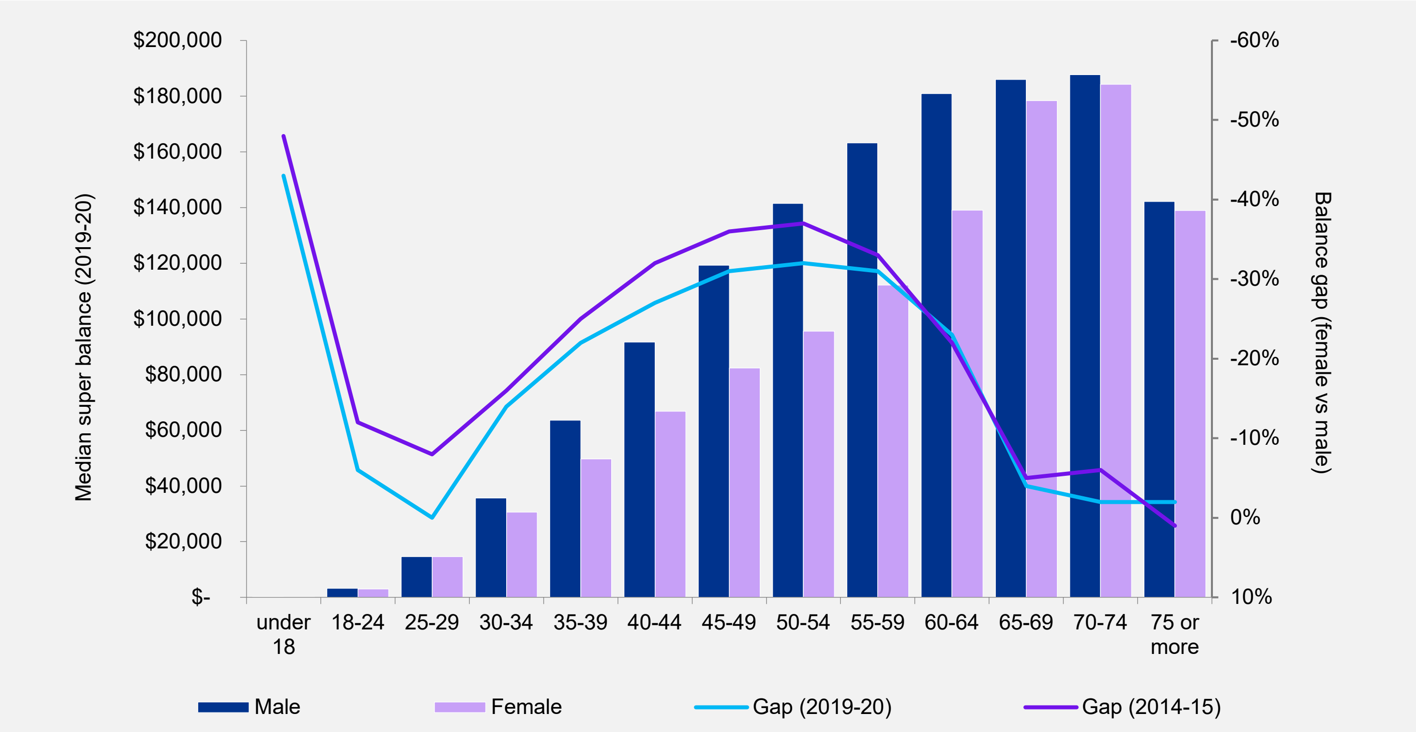
04 OECD 2019 data on male-to-female minutes per day spent on unpaid work ratio, Chart 2 in https://assets.kpmg.com/content/dam/kpmg/au/pdf/2021/towards-a-more-equal-sharing-of-work-parental-equality.pdf

05 https://assets.kpmg.com/content/dam/kpmg/au/pdf/2021/towards-a-more-equal-sharing-of-work-parental-equality.pdf

06 https://assets.kpmg.com/content/dam/kpmg/au/pdf/2021/addressing-gender-superannuation-gap.pdf

THE CASE FOR RECOGNISING THE VALUE OF UNPAID CARING WORK cont.

Figure 2: Median superannuation balance by age and gender



Source: Australian Taxation Office – Individuals Statistics

KPMG's report, *Towards a more equal sharing of work,* proposed, as a long-term policy, a Carer's Income Tax Offset (CARITO). The CARITO would be a tax credit to be offset against personal income tax payable by a carer upon returning to the workforce, proportionate to the total amount of unpaid caring work performed prior to returning to work.

This policy proposal would provide incentives for carers to return to the workforce, where they are able to do so, by offering them a credit against income tax payable that reflects the time and effort they have devoted to unpaid caring work.

However, KPMG also recognises that many carers have their hands full with their caring responsibilities and will not be able to re-enter the workforce. These are especially vulnerable carers, lacking the opportunity to accumulate retirement incomes to augment the Age Pension.

SUPERANNUATION FOR CARERS

KPMG therefore is now proposing a modest measure that would help reduce the gender superannuation gap: adding SG payments to the Carer Payment, which is for those who provide constant care to someone who has a disability, severe illness or is frail aged.

At present the maximum basic rate of the Carer Payment is $971.50 per fortnight, but with supplements it can total $1064.00 per fortnight. Recipients might also be eligible for further financial assistant payments, including the Carer Allowance, the Carer Supplement and the Child Disability Assistance Payment.

At the current SG rate of 10.5 percent, adding SG contributions to the Carer Payment at the maximum basic rate would amount to a superannuation contribution of $102 per fortnight. This amount would increase as the SG rises to 11.0 percent on 1 July 2023 and further to 11.5 percent on 1 July 2024, before reaching 12.0 percent on 1 July 2025.

One quarter of the more than 300,000 recipients of Carer Payment have received it continuously for between five and 10 years, while almost one quarter have received it for more than 10 consecutive years[7] (Table 2).

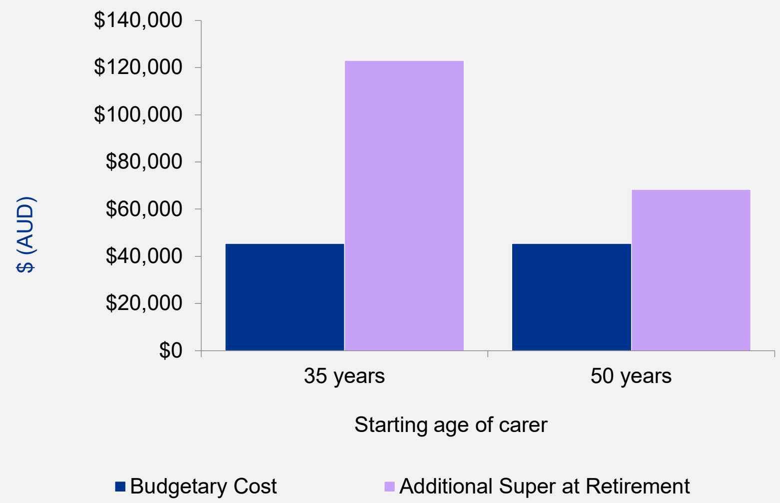
Table 2: Recipients of Carer Payment

Duration on Carer Payment	< 1 year	1-2 years	2-5 years	5-10 years	10 years+
Number of recipients	38,195	37,850	77,635	77,285	72,550
Proportion of total recipients	12.58%	12.47%	25.58%	25.46%	23.90%

Source: Australian Department of Social Services

A parent caring for a disabled child who received the maximum basic rate of the Carer Payment for a period of 15 years from the age of 35 to 50 years would accumulate little or no superannuation for that period under existing policy, but would retire with an estimated additional superannuation balance of $123,000 in real terms if KPMG's proposed policy were implemented[8] (Figure 2). Someone who started caring for a frail-aged parent at the age of 50 and received SG contributions on the Carer Payment for 15 consecutive years thereafter would retire with an additional $68,000 in superannuation. The budgetary cost in both scenarios would be $45,500.

Figure 3: Cost and benefit of receiving SG contributions with the Carer Payment for 15 years



Source: ABS – Disability, Ageing and Carers, Australia: Summary of Findings

07 Australian Department of Social Services, *DSS Benefit and Payment Recipient Demographics - December 2022*
08 Assuming a SG rate of 12 per cent, an average annual return on superannuation savings of 4 per cent and a retirement age of 67 years. All dollar amounts are in real terms.

Based on the 2023-24 budget papers, the initial annual cost of adding SG contributions to the Carer Payment at a rate of 12 percent would be around $944 million with the cost projected to reach $1.1 billion in the 2026-27 financial year.

Given the cost of formal care, each carer receiving the Carer Payment contributes to net budgetary savings. If those receiving care from recipients of Carer Payment were instead placed into formal care, such as high-care aged care facilities for frail aged people and NDIS service provision for people with a disability, the cost to the federal budget of that service provision would rise.

Formal care is more costly to the budget because carers are paid at award or above-award wage rates, whereas recipients of Carer Payment are paid a much lower rate. All recipients of the Carer Payment also receive the Carer Allowance and the Carer Supplement, totalling $29,624 per annum, compared with the $42,255 per annum received by a worker on the minimum wage. And where formal care involves the use of government-funded facilities such as residential aged care buildings and hospitals, the cost gap is even greater.

All recipients of the Carer Payment also receive the Carer Allowance and the Carer Supplement, totalling $29,624 per annum, compared with the $42,255 per annum received by a worker on the minimum wage.

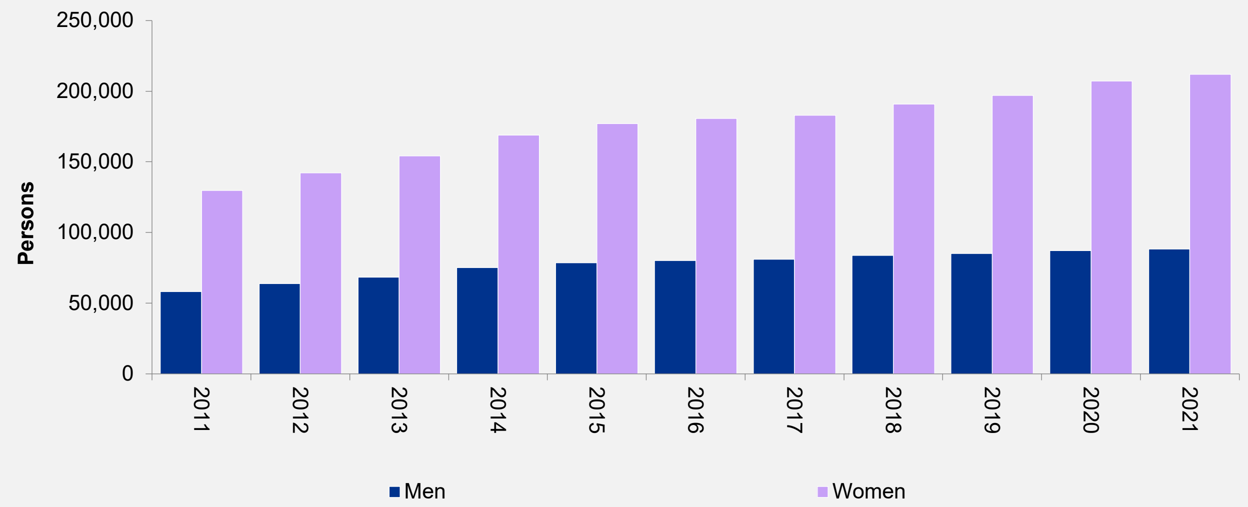
If the addition of SG contributions to the Carer Payment were to incentivise an increased number of informal carers, this policy could result in net budgetary savings. Further savings might also result from a potential reduction of Age Pension payments resulting from the boost to carers' superannuation balances.

HOW WOULD THIS PROPOSAL IMPROVE GENDER EQUITY?

Those engaged in caring cannot participate fully, or at all, in the paid workforce. Although carers eligible for the Carer Payment are permitted to work for up to 25 hours a week while still receiving some amount of income support, 91 percent of Carer Payment recipients in December 2022 had received no additional earnings from employment in the prior fortnight. That is, less than 10 percent of Carer Payment recipients are accumulating superannuation while performing unpaid caring work.

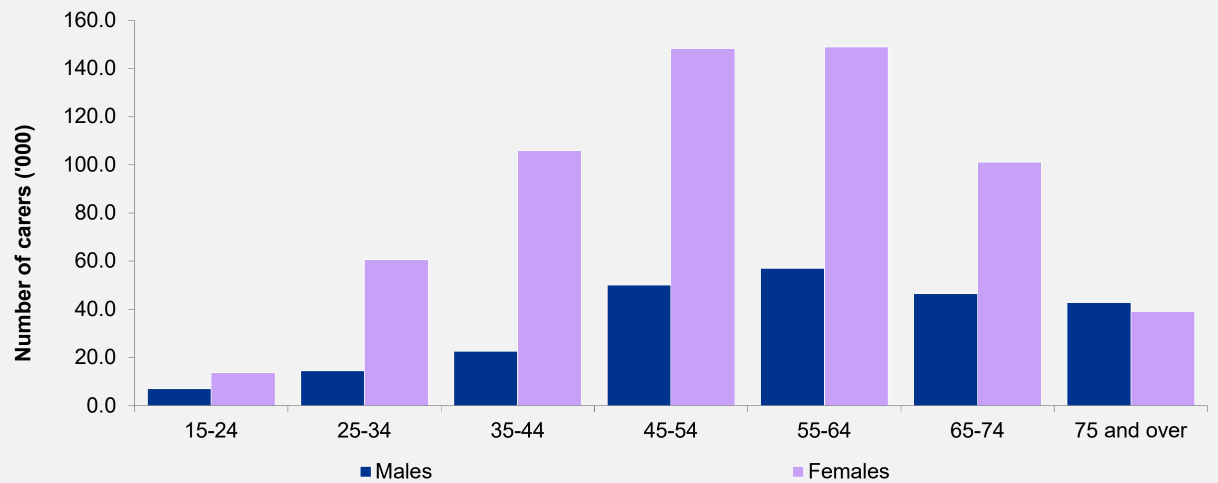
Carers are predominantly female: more than 70 percent of recipients of the Carer Payment are women, with this proportion having increased over the past decade (Figure 3).[9]

Figure 4: Recipients of Carer Payment, June 2011 to June 2021



Source: Australian Institute of Health and Welfare – Disability Support Pension and Carer Payment (2021)

The only age bracket in which men do more caring than women is 75 years and over (Figure 4).



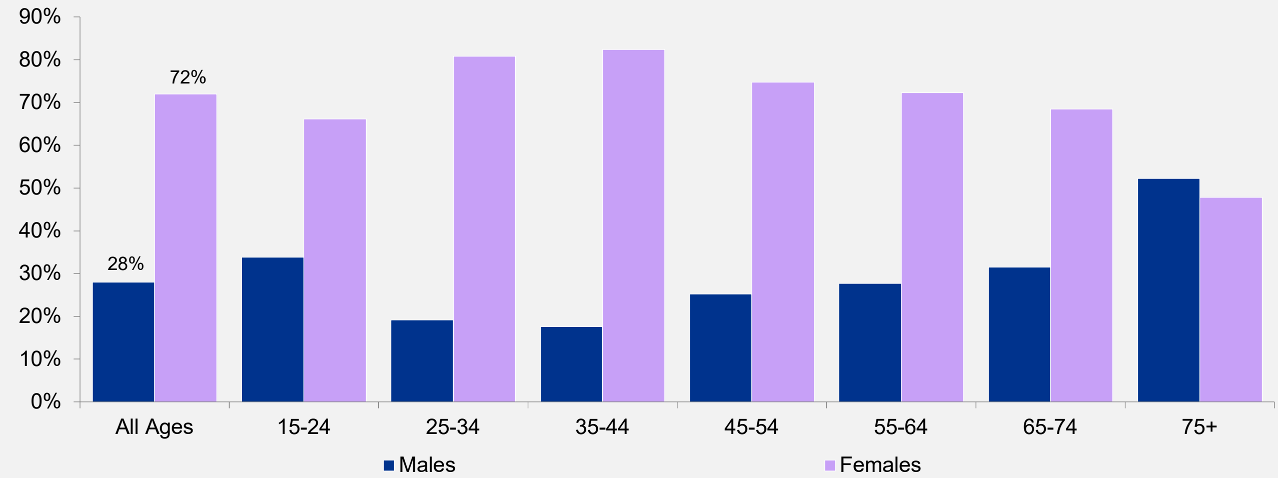
Source: ABS – Disability, Ageing and Carers, Australia: Summary of Findings

09 https://www.aihw.gov.au/reports/australias-welfare/disability-support-pension-and-carer-payment

HOW WOULD THIS PROPOSAL IMPROVE GENDER EQUITY? cont.

The gender care gap is largest during the earlier working years: more than 80 percent of the primary carers in the 25-44 age bracket are female (Figure 5).

Figure 5: Proportion of male and female primary carers in different age groups



Source: ABS – Disability, Ageing and Carers, Australia: Summary of Findings

Owing to the greater compounding of returns on superannuation contributions made earlier in life, this pronounced gender disparity among younger carers exacerbates the gender superannuation gap.[10] Women called to engage in unpaid caring work are asked to pay a price not only in terms of lost earnings and missed career opportunities during their time as carers but also in the form of a less comfortable retirement in the future.

The cost of adding SG contributions to the Carer Payment is more than justified by the benefit to gender equity outcomes for informal carers and might be paid for by resultant reductions in government expenditure on the provision of formal care.

10 https://www.aihw.gov.au/reports/australias-welfare/disability-support-pension-and-carer-payment

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