SUPER SOLUTION:

How payday super will benefit women in retirement

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About Industry Super Australia

Industry Super Australia (ISA) is a collective body for funds that carry the Industry SuperFund symbol. ISA manages research, advocacy, and collective projects on behalf of those funds and their five million members. Our aim is to maximise the retirement savings of all our members.

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Executive summary

Women continue to miss out on super due to time out of the workforce to care for children and other family members. This contributes to the gender gap in super balances, which currently sees women retiring with a third less super than men.

That's why women suffer more acutely from the scourge of unpaid super.

Missing out on super they are entitled to dramatically erodes their super balance at retirement, putting their future financial security at risk.

Compounding the problem is the fact that young women on lower incomes are more likely to be affected by unpaid super – depriving them of the vital early career contributions needed to build their retirement savings.

New analysis from ISA reveals the toll unpaid super takes on women.

- In 2019-20, one in five women were underpaid super. They missed out on a total of $1.3 billion in super guarantee contributions. Over the last seven years, this figure amounts to an eyewatering $10.8 billion.
- Two in five young women (aged between 20-29) who earn less than $25,000 per annum were underpaid super.
- By the time they retire, they can miss out on more than $40,000 in super savings due to these missing contributions and the lost compounded returns on those contributions.
- ISA cameo modelling on the impact of unpaid super in female dominated industries shows that it can result in an enrolled nurse having $44,000 less super at retirement, a personal assistant having $37,000 less super, and an aged care worker having $35,000 less super.

A key driver of the unpaid super problem is that super payments are misaligned with wages. Mandating the payment of super with wages will benefit women immediately. This change could result in an additional $300 million in super contributions flowing to women over the next four years from better compliance activities and less scope for employers to dud their workers. Increasing the frequency of super guarantee contributions would also deliver an extra $8,000 at retirement to 4.2 million workers, many of whom are women, as investment earnings on super contributions will begin to accrue sooner.

A recent UMR survey showed 79 per cent of people agree that fixing unpaid super is an important step to help women.

Mandating the payment of super with wages is cost neutral to the Federal budget in the short-term and delivers a long-term saving, meaning the proposal could be quickly enacted without having to find other budget savings.

This plan delivers many women more super now, while the Government considers the best timing to make super payable on its Parental Leave Pay scheme.

Introduction

Under Australia's super system, employers must comply with the super guarantee by contributing at least 10.5 per cent of their employee's earnings to their super fund.[1]

Contributions must be made at least on a quarterly basis, although employers can – and many do – choose to make contributions on behalf of their employees more frequently.

Over the last 30 years, we have built a super system that now holds around $3.4 trillion in assets. However, the success of our system and its capacity to promote financial security and wellbeing for workers in retirement depends on employers doing the right thing: paying super contributions for each employee in full and on time. Unfortunately, this does not always occur.

Unpaid super affects one in five women, costing each affected worker an average of $1,300 in super contributions each year. In 2019-20, women missed out on a total of $1.3 billion in super guarantee contributions. Over the last seven years, this figure amounts to $10.8 billion.

By the time they retire, these women can miss out on more than $40,000 in super savings each, due to the missing contributions and the lost compounded returns on those contributions.

For women who are underpaid super, the adverse impact on their retirement outcomes is further exacerbated by:

- factors outside the super system that contribute to the gender gap in super balances, for example, that women spend more time out of the workforce than men to care for children, are more likely than men to undertake part-time work, and earn less than men when they are working, and
- persisting inequities within the super system, for example, that super is not paid on the Commonwealth Parental Leave Pay scheme.

In other words, the consequences of being underpaid super can be more acute for women, who continue to retire with a third less super than men.

This report therefore focuses on how fixing unpaid super will benefit women in retirement.

It builds on our unpaid super report released in October 2021[2], which examined the main causes of unpaid super and the key policy reforms that are needed to ensure workers are not deprived of their super guarantee contributions. The key policy reforms discussed in that report include:

- **Mandating payment of super with wages**: The single most effective change would be to require employers to pay super guarantee contributions at the same time they pay employees' salaries. This reform would address many of the causes of unpaid super, including poor business practices by employers, insolvency, and super contributions not being visible to employees. ISA analysis shows this reform is also revenue neutral over the forward estimates and would produce significant long-term fiscal savings.

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[1] The super guarantee rate is legislated to increase to 12 per cent by 2025.

[2] Industry Super Australia, 'Super Scandalous: How to fix the $5 billion scourge of unpaid super', October 2021.

- **Enforcing penalties for employers who do not pay super**: The Australian Taxation Office (ATO) should be more rigorous in applying the existing enforcement regime. The ATO should also publicise its enforcement action so that fear of detection and penalty acts as a real deterrent for employers looking to avoid paying super.
- **Facilitating other actors to assist in recovery**: Other relevant agencies, such as the Fair Work Ombudsman, and third parties such as unions and super funds, should be given greater scope to work with the ATO to recover unpaid super. The right to be paid the super guarantee should be included as part of the National Employment Standards so it is an enforceable entitlement for all workers and the Fair Work Ombudsman could sue for unpaid super.
- **Extending the Fair Entitlements Guarantee to cover super guarantee contributions**: The Fair Entitlements Guarantee should be extended to cover unpaid super guarantee contributions. This would mean super would be treated in the same way as other employee entitlements in the event of employer insolvency.

Since that report was released, the Government has committed to enshrining the right to be paid the super guarantee as part of the National Employment Standards, and to impose a recovery target for unpaid super on the ATO.

While ISA welcomes these commitments, they do not go far enough. For instance, these commitments do not help the 40 per cent of workers who do not check whether they have been paid their super and instead assume that because it appears on their payslip, it has been paid.[3]

Mandating the payment of super with wages is an overdue solution that will make a significant difference to those who need it most. It is a simple and cost-effective reform that will make it easier for employees to track their super and reduce the instance of employers using super to manage cashflow while accumulating large unpaid super liabilities. Many employees will also be better off in retirement, as investment earnings on their contributions will begin to accrue sooner.

This report outlines the results of ISA's quantitative analysis of how unpaid super affects women and how mandating the payment of super with wages will benefit women's retirement outcomes.

[3] UMR research from January 2023 indicates that 40 per cent of Australians with super reported that they have neither checked their super online to ensure that they have received their payments or checked their annual statement.

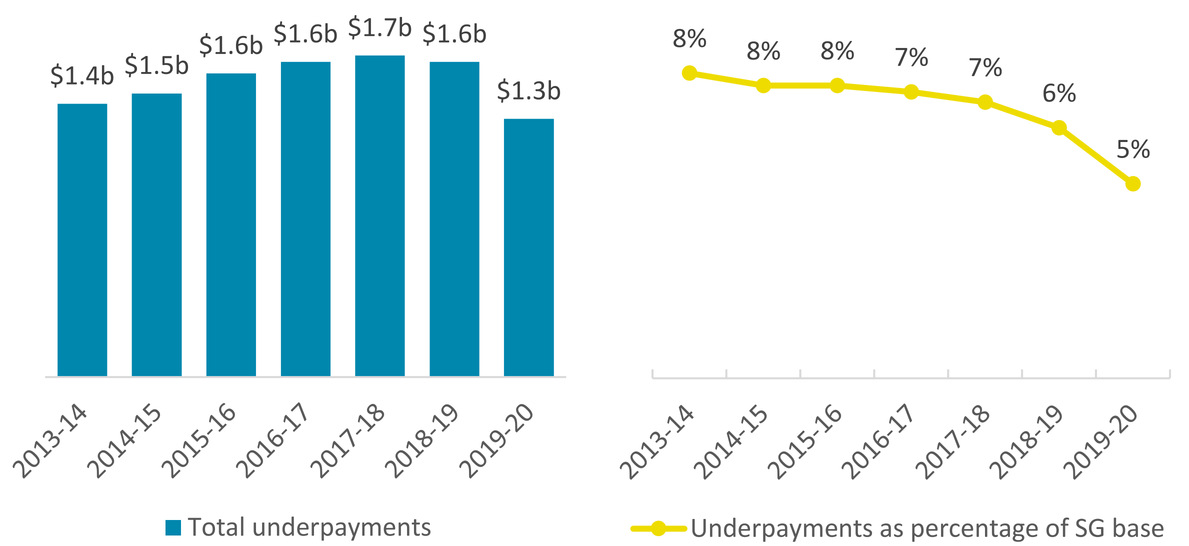
Size of the problem

In this section, we show the size of the problem of unpaid super on women, including by age, wage level and occupation. For a detailed analysis about the impact of unpaid super on all workers (i.e., men and women), please refer to our 2021 report.

Our analysis shows that in each of the last seven years, the total amount of unpaid super for women has never been less than $1.3 billion.

Chart 1 below shows that the dollar value of underpaid super over the last seven years has remained static or increased, other than in 2019-20, when it decreased slightly. This decrease may be due to the economic impact of COVID-19 and the Government's assistance packages – rather than any government reforms directed at addressing unpaid super.

Chart 1: Value of total underpayments for women (left) and underpayments as a percentage of the total SG base for women (right)



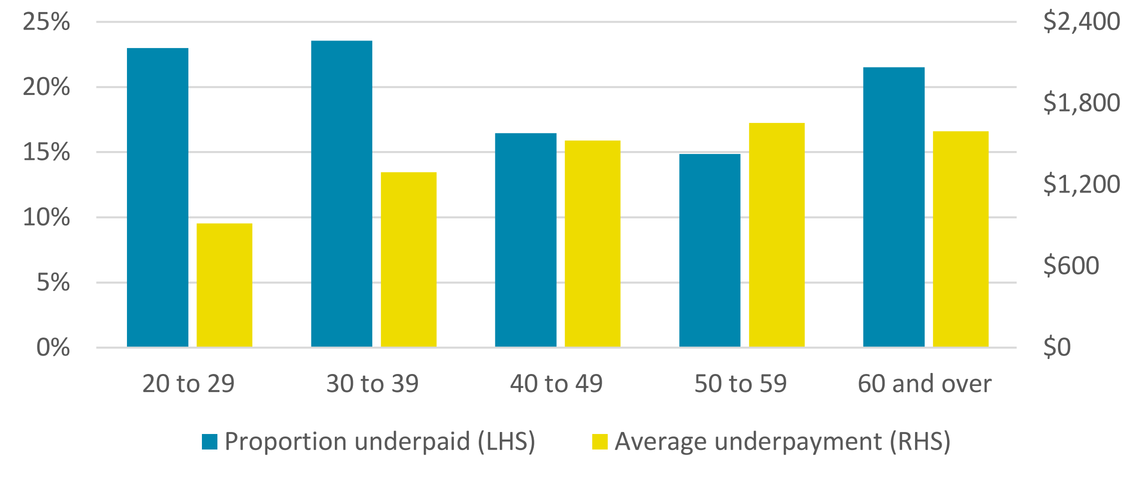
Source: ISA analysis of ATO's 2 per cent confidentialised unit record files, 2013-14 to 2019-20.

Impact by age and wages

Women who are young or on lower incomes are more likely to be affected by unpaid super. There are a range of reasons why this is the case – they have less bargaining power and are also less likely to notice if their super has not been paid, or to pursue it if they do.

Chart 2 looks at the impact of unpaid super on women by age and shows that in 2019-20, almost one quarter of women aged between 20 and 39 did not receive their full super entitlement. The average underpayment for this cohort was $1,110.

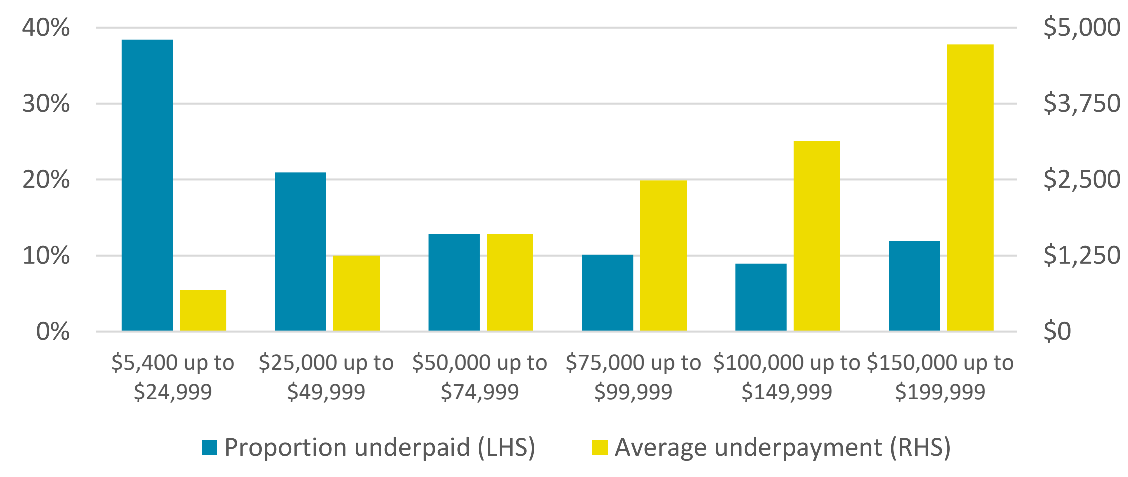
Chart 2: Percentage of female population underpaid and average value of underpayments by age group



Source: ISA analysis of ATO's 2 per cent confidentialised unit record file, 2019-20.

Chart 3 looks at the impact of unpaid super on women by wage. It shows that in 2019-20, 38 per cent of women on lower incomes (earning between $5,400 and $24,999 per annum) were underpaid super. In contrast, 21 per cent of women earning between $25,000 and $49,999 per annum were underpaid super.

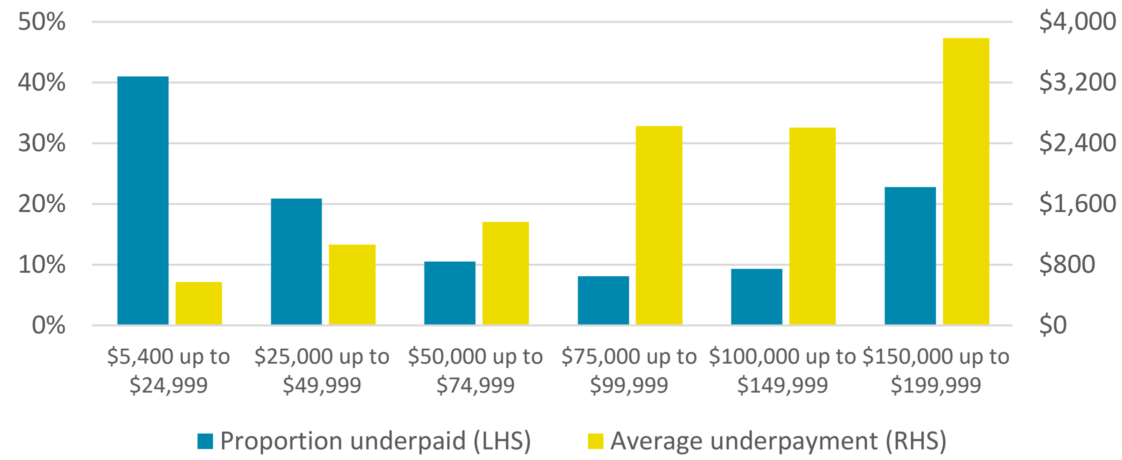
Chart 3: Percentage of female population underpaid and average value of underpayments by wage



Source: ISA analysis of ATO's 2 per cent confidentialised unit record file, 2019-20.

For women who are both young and on lower incomes, the likelihood of being underpaid super increases significantly. In 2019-20, 41 per cent of young women (aged 20 to 29) who earn less than $25,000 per annum were underpaid super (see Chart 4). The average underpayment for this cohort was $570, which is significant given their wage – this underpayment amounts to around 40 per cent of their correct super entitlements.

Chart 4: Percentage of females aged 20 to 29 underpaid and average value of underpayments by wage



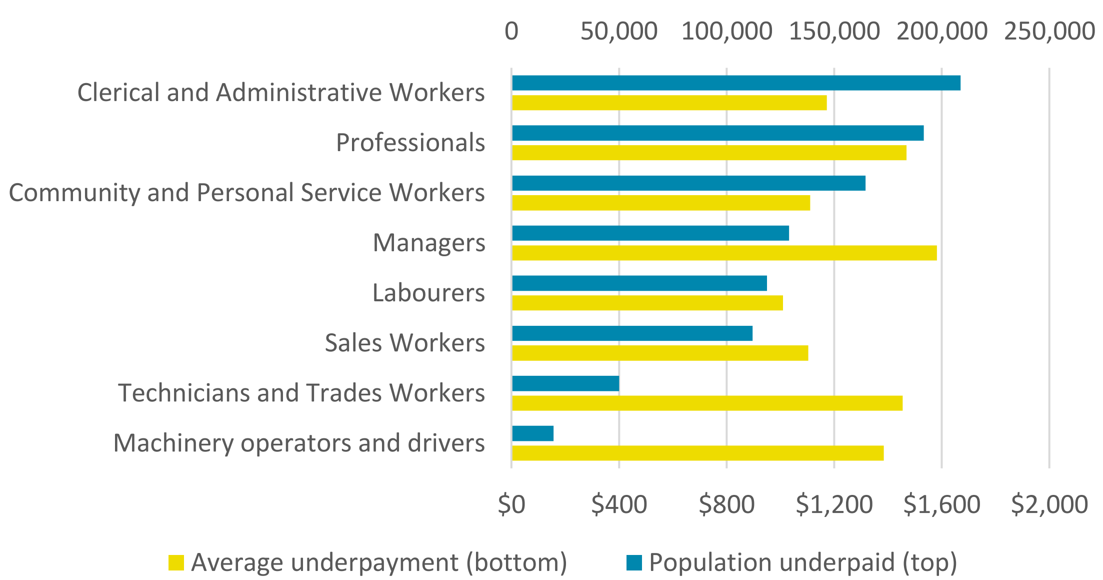
Source: ISA analysis of ATO's 2 per cent confidentialised unit record file, 2019-20.

Impacted occupations

Chart 5 provides an occupational breakdown of the estimated number of women affected by unpaid super. It shows that in 2019-20, the number of women affected by unpaid super was highest amongst those employed as clerical and administrative workers, professionals, and community and personal service workers – which includes childcare workers, aged care workers and nurses.

The cameo examples on the next page further illustrate the impact of unpaid super on women working in these occupations.

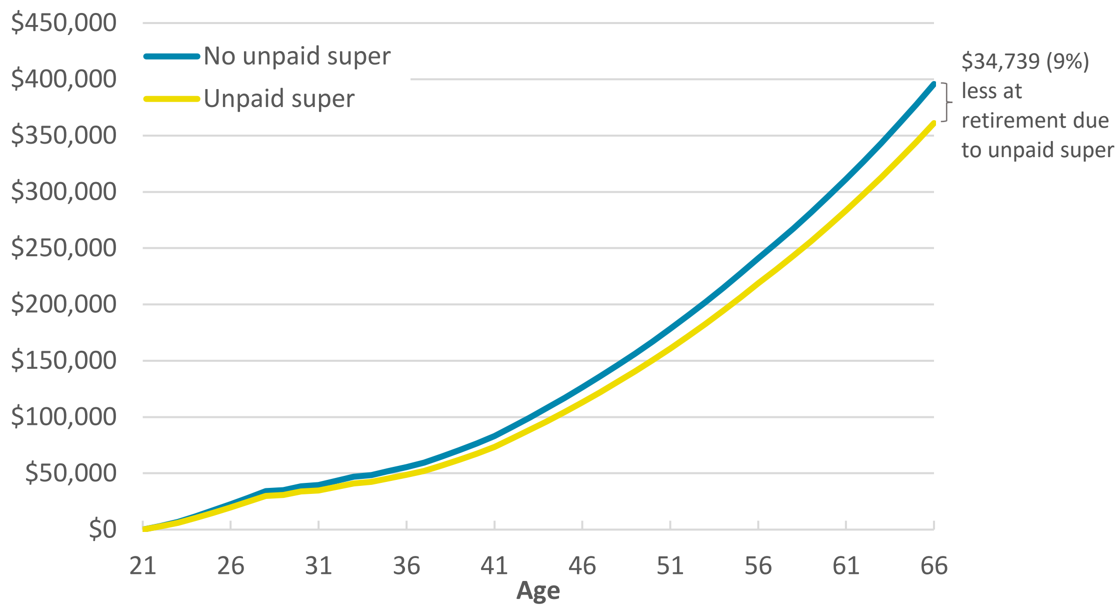
Chart 5: Female population underpaid and average value of underpayment by occupation



Source: ISA analysis of ATO's 2 per cent confidentialised unit record file, 2019-20.

Cameo 1: Childcare worker

A childcare worker who is underpaid super could retire with $35,000 less in super. This would reduce her lifetime disposable income in retirement by $28,000 and increase her reliance on the Age Pension (and the cost to future taxpayers) by $15,000 if single.



Source: ISA analysis of ATO's 2 per cent confidentialised unit record file and ABS 2021 Census.

<u>Description</u>: The cameo is for a childcare worker who commences work at 22 and retires at 67. She takes time out of the workforce to care for 3 children, working part-time between the ages of 29 and 41, and working a total of 37 full-time equivalent years over her career. While working, she earns the median wage of childcare workers for her age. Around a quarter of female Community and Personal Service Workers are unpaid super. We model the effects of unpaid super over a lifetime by calculating the median SG rate by age of female Community and Personal Service Workers who are underpaid super, and multiplying the SG gap in each year by the age-based probability that a female Community and Personal Service Worker is unpaid super. The modelling assumes a high-quality industry 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). All figures are wage deflated.

Table 1: Projected impacts of unpaid super on selected female-dominated occupations

Occupation	Retirement savings	Lifetime disposable income	Age Pension expenditure
Aged care worker	-$35,200	-$28,400	$15,100
Childcare worker	-$34,700	-$28,300	$14,600
Enrolled nurse	-$43,900	-$28,200	$26,000
Hospitality worker	-$28,600	-$28,000	$7,300
Personal assistant	-$37,400	-$22,800	$23,400
Sales assistant	-$29,300	-$28,600	$7,700

Source: ISA analysis of ATO's 2 per cent confidentialised unit record file and ABS 2021 Census.

Mandating the payment of super with wages

The most effective solution is to amend the law so that employers are required to deposit super guarantee contributions into employee accounts at the same time that they pay the employee's wages. This will address the main causes of unpaid super, including poor business practices by employers, insolvency, and super contributions not being visible to employees.

Women would be better off, now

Implementing this solution could result in an additional $300 million in super guarantee contributions being made to women over the next four financial years.

It is therefore an important change that the Government needs to make to improve retirement outcomes for women now, while it considers the best timing to make super payable on the Commonwealth Parental Leave Pay scheme.

The estimated increase in contributions is based on an assumed 15 per cent increase in ATO compliance activity, due to:

- employees having greater visibility over their super contributions, leading to an increase in instances of non-compliance being raised with the ATO, and
- businesses making less use of super guarantee payments for cashflow management, which may lead to non-compliance.

This is a conservative assumption as to the impact of payday super on unpaid super entitlements and is also broadly consistent with the experience of some ISA member funds which shows that the incidence of non-payment is lower for employers that pay super more frequently.

Recent consumer research[4] also indicates that there is strong support for the government acting on unpaid super by requiring employers to pay super with wages. The research showed that:

- 84 per cent of respondents agreed that it was important for the Government to stop the underpayment of super by requiring employers to pay super with wages in the upcoming 2023-24 budget, and
- 79 per cent of respondents agreed that acting on unpaid super would particularly benefit women.

On top of addressing unpaid super, another benefit of mandating the payment of super with wages is that it will result in investment earnings on super contributions beginning to accrue sooner, which will boost members' retirement savings.

Our analysis shows that an individual earning the age-based median wage would be $8,000 better off in retirement if they received super fortnightly instead of quarterly. Based on Treasury analysis, this would benefit at least an additional 27 per cent of employees (4.2 million in 2020-21) who are currently paid super on a quarterly basis.[5]

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[4] UMR Research, January 2023.

[5] Treasury, FOI 3188.

Better for business

With businesses already using electronic payroll and payment systems, mandating the payment of super with wages would not involve any new red tape for employers. In fact, it would remove the burden of time-consuming quarterly reconciliations, and can help many small and medium sized businesses avoid large unpaid super liabilities at the end of each quarter, which can be difficult to manage.

It would also put all employers on the same level playing field, eliminating the unfair advantage that some get by holding back super contributions or not paying them at all.

Impact on the Federal budget

In addition to being a simple and effective change, mandating the payment of super with wages is affordable to introduce.

ISA analysis shows that paying super with wages would be revenue neutral over the forward estimates and produce significant long-term fiscal savings. While there would be a modest reduction in company tax collections in the short term, this would be more than offset by higher super tax collections.

Conclusion

In the upcoming 2023-24 budget, our politicians have an opportunity to end the scourge of unpaid super by mandating the payment of super with wages.

This change will help women – particularly younger women and those on lower incomes – build their retirement savings and can make a critical difference to their standard of living in retirement.

Our analysis shows that implementing this reform now could add an additional $300 million in super guarantee contributions to women's super accounts over the next four years.

Aligning the payment of super and wages also boosts government revenue, lifts investment returns and puts all employers on a level playing field.

ISA therefore strongly urges the Government to deliver this reform as part of its upcoming budget, while it considers the best timing to make super payable on its Parental Leave Pay scheme.