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A gender impact assessment of Australia’s retirement income policy

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Plan of presentation

- Key themes in gender impact analysis
- Retirement income policy in Australia
- Gender impacts of retirement income policy
- Policy ideas

Gender impact analysis

- Examines the differential impact of economic policies on men and women
- On **equity grounds** GIA is important because it contributes to fairer outcomes by making visible, and contributing understandings of, the different effects of policies on men and women
- On **efficiency grounds** GIA is important because it helps identify different behavioural impacts of policies on men and women

Gender impact analysis

- Most policies have gendered impacts because men and women have different economic positions, constraints and socially determined responsibilities
- GIA involves taking into account these structural differences
- GIA also demands consideration of the impacts of economic policy on the paid *and* unpaid economies

Retirement incomes policy in Australia

- 3 broad issues are considered here
  1. The generosity of the tax treatment of retirement saving and superannuation disbursements (relative, for example, to the benchmark of standard OECD tax treatments of retirement saving)
  2. The interaction between the taxation of retirement savings and the taxation of income
  3. The interaction between the income and capital tests and the Age Pension

The tax treatment of retirement saving and disbursement

- Highly concessional tax rates or tax expenditures support the Superannuation Guarantee (SG) and voluntary superannuation contributions.
- Australia has a “ttE system” (i.e. low (but potentially positive) taxation of the contributions and accumulation stages of the superannuation program and tax exemption (for most) disbursements)

  Contributions: 15% contributions tax paid by super funds on concessional contributions. Non-concessional contributions are not taxed on contributions.

  Accumulation: 15% tax rate on income earned during the accumulation phase.

  Disbursement: Pensions and lump sums from a taxed fund are exempt where the member is over 60, and income within the fund is exempt where the assets are used to pay a pension. Concessional rates apply in situations where a member is under 60 or over and the withdrawal is from an untaxed fund.

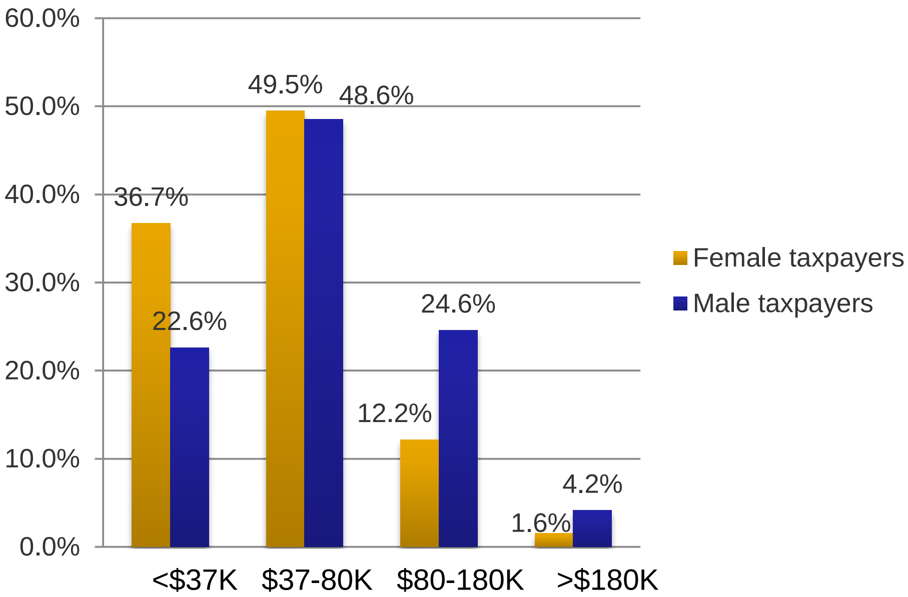
The tax treatment of retirement saving and disbursement

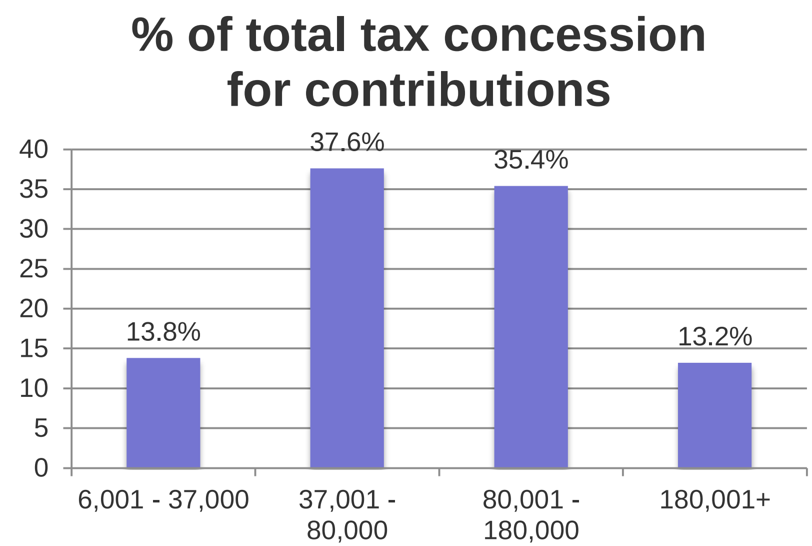
- The generous tax treatment of retirement savings (relative to the standard tax regime for assets in Australia) had an estimated revenue cost in 2013-14 of
  - contributions tax concessions: $16.3 billion
  - superannuation entity concessions: $13.4 billion
- In comparison, the Age Pension is a direct expenditure financed from recurrent revenue ($39 billion in 2013-14)
- Official projections indicate that by 2017-18 the cost of the tax expenditures on superannuation ($48.5 billion) will be nearly equal to the cost of the Age Pension ($49.7 billion)

Gender equity issues associated with the tax treatment of retirement saving and disbursement

- The groups most able to benefit from the tax expenditures on superannuation are high income earners and those with flexible assets that can be moved into the tax-advantaged superannuation system
- Women do not figure prominently in these groups and thus the policy settings worsen gender inequality
- The negative equity effects are closely related to the larger unpaid roles that women undertake, including those associated with caring, as well as structural differences in men's and women's occupational positions and patterns of remuneration

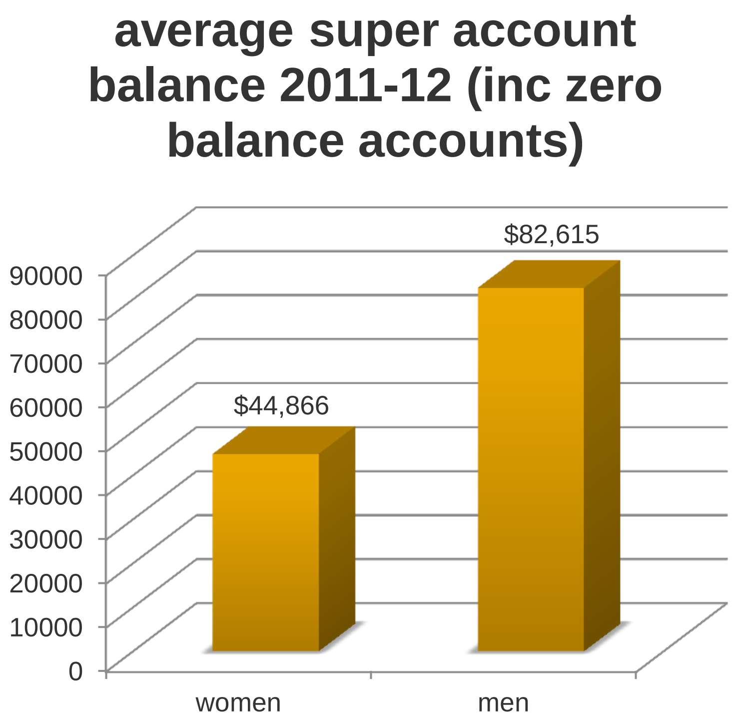
Gender equity issues associated with the tax treatment of retirement saving and disbursement

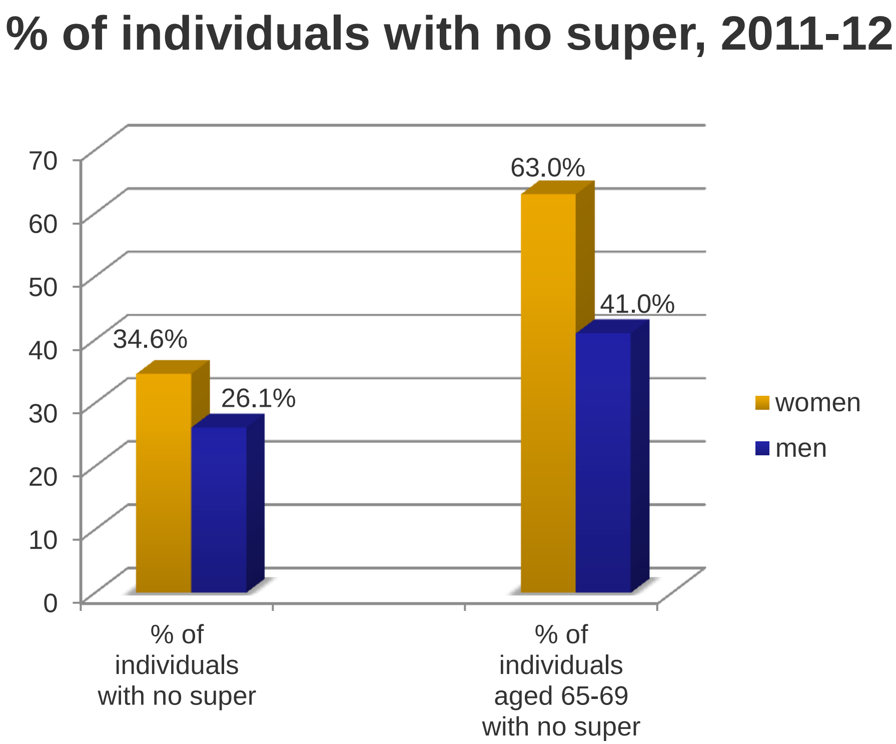




Taxable individuals, by tax bracket and gender, 2011–12 income year

Gender equity issues associated with the tax treatment of retirement saving and disbursement





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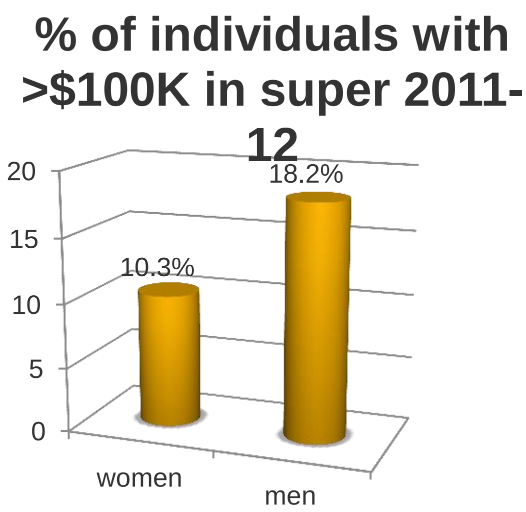

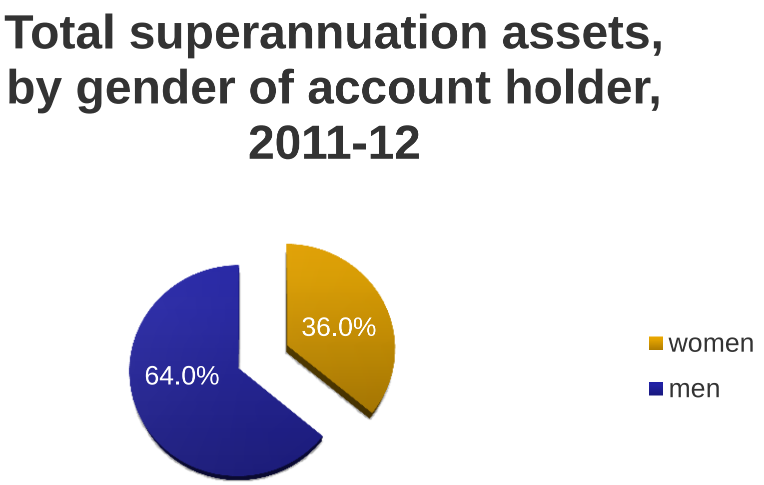

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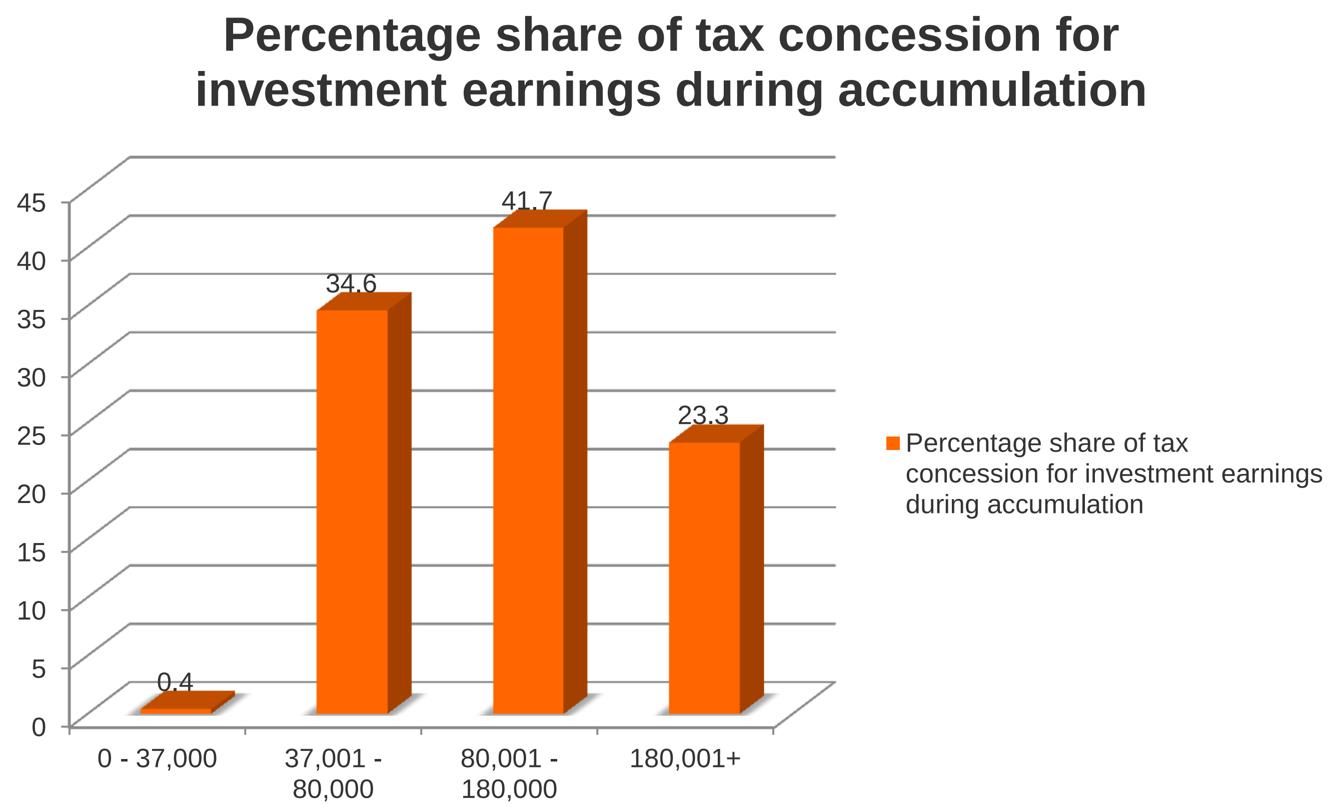

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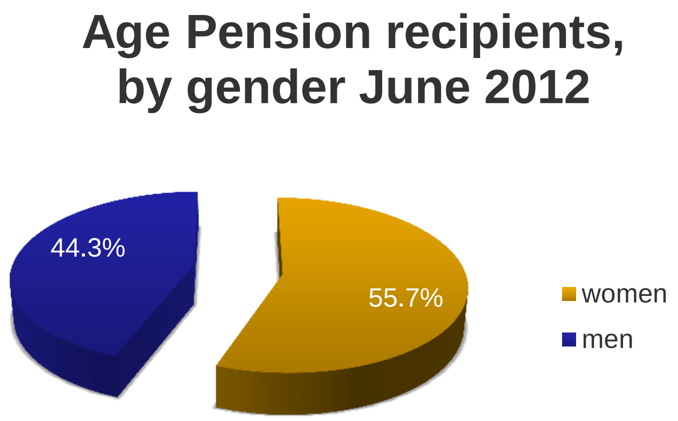
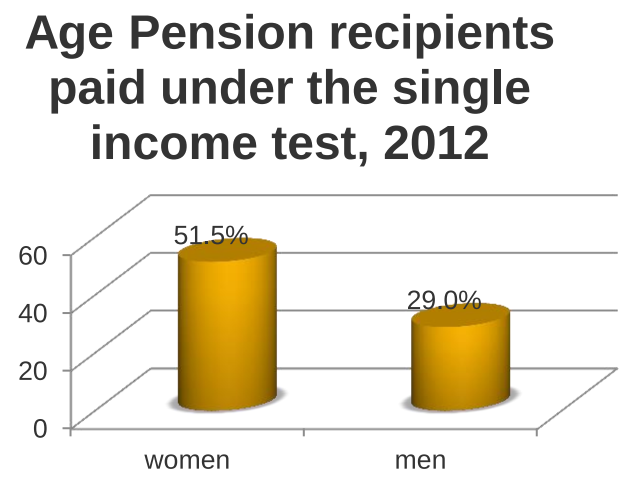
Gender equity issues associated with policy on the Age Pension





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Broad equity issues associated with retirement incomes policy

- The generosity of the tax treatment of retirement saving is adding to **wealth and income inequality, including gender inequality and inequality amongst older Australians**

For example: In 2010, single men's wealth was on average 23% higher than single women's. This is a doubling of the gender wealth gap since 2002, when it was 10%.

Gender impacts of current policy settings: **Efficiency** issues

- To maximise efficiency, the behavioural impacts of a retirement income (and income tax) system generally should be minimal
- From a GIA perspective, key areas of concern with current policy settings include the impact of:

  A) The current income tax/fbt settings on the incentive to engage in paid work – and, thus, on the ability for individuals to accumulate retirement savings; and

  B) The current set of income and asset tests on the incentive to accumulate and use different types of wealth

Gender impacts of current policy settings: Work and savings incentives

- The current income tax/FTB/child care system creates disincentives for many women to participate in paid work, with large consequences for their retirement savings:
  - High rates of tax are imposed on second earners in households (most commonly women) due to the targeting the Medicare Levy (ML) exemption and Family Tax Benefit Part A (FTB-A) on the basis of joint income, and the withdrawal of Family Tax Benefit Part B (FTB-B) on the income of the second earner
  - High child care costs also discourage labour force participation and work hours
  - There is a strong tendency for household savings to track female labour supply (Apps Rees and Wood 2007)

Gender impacts of current policy settings: ‘Choice of asset’ issues

- The asset test for the Age Pension – combined with the exemption of primary home assets from this test – creates an incentive for retirees to divert their assets into primary home assets and/or to drawdown on their savings before retirement
- Combined with the preferential tax treatment of housing wealth and benefits, this contributes to the phenomenon of ‘asset rich-income poor’ older households.

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Policy ideas & conclusions

- The current reform process should incorporate a GIA
- From a gender equity perspective, preserving the integrity of the Age Pension is critical
  - The planned changes to the indexing of the Age Pension are likely to be detrimental for income equality amongst older Australians and gender equity

Policy ideas & conclusions

- From a gender equity perspective, it is also important to limit the generosity of the tax treatment of retirement saving and disbursement
  - ASFA's current recommendations are a good start:
    - Lifetime caps for non-concessional contributions should replace the current annual and three-year bring-forward caps
    - Superannuation tax concessions should not extend to very high account balances (e.g. those over $2.5m)

Policy ideas & conclusions

- A range of other changes would improve gender equity in retirement incomes.
  - Address the barriers created by the income tax/family benefit system (including high child care costs) to women's workforce participation
  - Maintain the Low Income Superannuation Contribution (LISC), to ensure low income earners (more commonly women) receive a tax concession in regard to their superannuation contribution
  - Increase the SG rate to ensure good retirement incomes for average Australians
  - Retain (and increase) Superannuation Co-payments
  - Include super in the Paid Parental Leave scheme