Saving (and) Care

Closing the Gender Gap in the Australian Superannuation System

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Executive Summary

Australia's current system of retirement income has many strengths. It mandates that working individuals commit to saving a certain amount of their income for retirement, it does so in a tax-advantaged manner, and it permits individual choice over asset-allocation. In doing so, it helps reduce economic insecurity, and increase economic self-reliance, for older Australians.[1] Many suggest it also helps reduce strain on the national budget bottom-line.[2]

But among its weaknesses is that it is associated with a significant gender-gap in retirement savings. The causes of this gap are many but include the gap between male and female earnings in the workforce; time spent by women outside the paid workforce to undertake care work; and the non-payment of superannuation during maternity leave. But whatever its causes, the gap is significant, persistent and an important contributor to economic insecurity among older Australian women. It also arguably contributes to gender inequality in Australian households prior to retirement.

In this report, we focus on one key cause or aspect of this problem: the failure of our current superannuation system to recognize the value of unpaid care-work. We attempt in this context to redress the gap in the current system by proposing new ways to provide those who engage in unpaid care work with equal access to retirement savings and the economic security they guarantee. Specifically, building on prior proposals and existing policies both in Australia and overseas, we propose two key policy reforms to the current system of superannuation in Australia:

1. A policy of strong government support, through model employer practices and concessional tax treatment, of contributions to superannuation made during periods of parental leave.
2. A policy of universal and equal concessional tax-treatment for superannuation contributions made by working spouses or partners, for the benefit of a person engaged in work inside the home;

These ideas provide a useful platform for serious debate and reform efforts by both sides of politics in Australia, at a national and state level.

Australia's Retirement Income System

There are three pillars in Australia's retirement income system: the Age Pension, mandatory employer superannuation contributions (the 'Superannuation Guarantee') and personal savings including tax-concessional voluntary superannuation contributions.[3]

The Age Pension

The Age Pension is available to Australians who are at least 65 years of age, although this will rise to 67 years of age by July 2023.[4] Entitlement to the Age Pension is means-tested: if a person's assets or income exceed specified levels, the Age Pension is withdrawn at specified rates. The pension's current maximum basic rate is approximately $33,067 per annum for couples and $21,934 per annum for singles.[5] Despite the greater efficiency of a means-tested pension as against universal alternatives,[6] the fiscal sustainability of Australia's system is challenged by an ageing population caused mainly by declining fertility rates and higher life expectancy.[7] This demographic pressure increases the need for the other two pillars to operate efficiently and equitably.

Mandatory Contributions

The Superannuation Guarantee is the mandatory defined contribution made by employers into their employees' default or nominated superannuation accounts. Currently, the contribution rate is set at 9.5% of the employee's gross salary, though legislation provides for this to rise to 12% by the year 2025.[8]

An important milestone is the 'preservation age', being the age at which a person is first entitled to draw income from the funds in their superannuation account; the applicable age ranges from 55 to 60 depending on when a person was born.[9] In general, a person must also be retired to access a superannuation income stream, although there are exceptions to this: for example, a transition to retirement income stream ('TRIS') can be set up in certain circumstances (such as by a trustee of a self-managed super fund ('SMSF')), allowing a pension to be drawn from the fund while the beneficiary is still working.[10] The preservation age is an 'important policy lever' in Australia's retirement income system and—when used in conjunction with the eligibility age for the public pension—can incentivise individuals to work longer in life, partially offsetting the fiscal consequences of population ageing and demographic imbalance.[11] These two 'milestone ages' also dovetail with a third, being the age (currently 60 years) at which income from superannuation ceases to attract income tax liability.[12]

There are also a variety of funds for super accumulation, the key ones being: retail funds, usually run by banks or investment companies, which can be joined by anyone, although they are often default funds chosen by private employers not bound by the industry awards system; industry funds, access to which is usually open to anyone but often occurs by default as part of the industry awards system; and self-managed superannuation funds (SMSFs.)[13] This bifurcated way in which default funds are determined creates two main problems for consumers:[14] first, they can end up holding multiple superannuation accounts, resulting in the payment of multiple sets of fees and even insurance policies, leading to reduced returns overall;[15] second, they can end up in under-performing funds with little knowledge of whether and if so how they ought to move their balance to better performing ones.[16] This underperformance can be because of poor returns or, importantly, because the fund may have an inappropriate asset allocation and hence risk profile for the individual in question.

The basic tradeoff between current income and retirement income—the fact that the superannuation system reduces take-home pay because of the mandatory contributions—has been criticised by a number of commentators.

For instance, *The Australian's* Judith Sloan observed: 'it forces many people to forgo valuable current consumption — think buying a house, paying school fees and the like — in order to knock off their full entitlement to the Age Pension. In other words, it is essentially a tax — and an inefficient one at that.'[17]

"The Grattan Institute found that the increase in compulsory super will strip $20 billion a year from workers' wages."

And Simon Cowan of the Centre for Independent Studies noted: 'There is no question from an economic perspective that superannuation is paid for by reductions in workers' take-home pay ... The Grattan Institute found that the increase in compulsory super will strip $20 billion a year from workers' wages... For low income people in particular super is a bad deal. High fees, low returns, multiple accounts, useless insurance and a reduction in much needed take home pay leading to difficulty in buying a home and supporting a family — all for what? A mediocre super balance and a lifetime on the Age Pension.'[18]

- Perhaps the starkest illustration of the tradeoff between current and retirement income is the fact that more than half a billion dollars in superannuation benefits are withdrawn in a typical year on financial hardship grounds.[19]

Australia's superannuation system is large relative to retirement-savings schemes around the world. Australia's $2.7 trillion asset pool is equal to 150% of GDP, the seventh largest in the OECD.[20] This is in no small part due to the current system of mandatory contributions.

Voluntary Contributions

Employees, however, can also make tax-advantaged *voluntary* contributions to their super. There are two main ways that an employee may do this: by 'salary-sacrificing' from gross earnings, which attracts a low rate of taxation (currently 15%); or by making contributions from after-tax earnings, for which tax is payable according to defined marginal rates.[21]

- Salary-sacrifice arrangements are concessional contributions from before-tax income made by the employer. These incur 15% tax.[22] which is less than the lowest marginal tax rate.[23]
- Personal super contributions are non-concessional payments from after-tax income, made by the employee.[24] Subject to meeting eligibility criteria a person who makes such contributions can claim a tax deduction.[25]
- The concessional contributions cap, which applies to both salary sacrifice arrangements and personal super contributions for which a tax deduction has been claimed, is currently $25,000 per annum.[26]
- The non-concessional contributions cap, including personal super contributions for which a tax deduction is not claimed, is currently $100,000 per annum, or nil if you have a super balance that exceeds the transfer balance cap (currently $1.6 million).[27]
- Exceeding the caps may attract tax liability in the form of the 'excess contributions tax', the rate of which differs for each type of cap.[28]

This preferential tax treatment is designed to incentivise retirement saving, although as the Productivity Commission has pointed out this incentive is necessarily greater for higher-income individuals.[29] This is perhaps one reason why, as CEPAR notes in its research brief, only a small proportion of Australians make voluntary contributions—less than 10% at age 25 and only climbing above 20% of people relatively close to retirement.[30] Nevertheless, tax-advantaging voluntary retirement saving reflects the 'public–private balance' at the heart of Australia's retirement income system—each element is designed to relieve pressure from the other.[31]

The concessional contributions cap of $25,000 per annum is problematic for many people whose income varies from year to year. Women who take maternity leave or further time out of the workforce—particularly those who are in fairly highly remunerated jobs— certainly fall into this category. They could fall well short of the cap for a number of years and then exceed the cap in others.

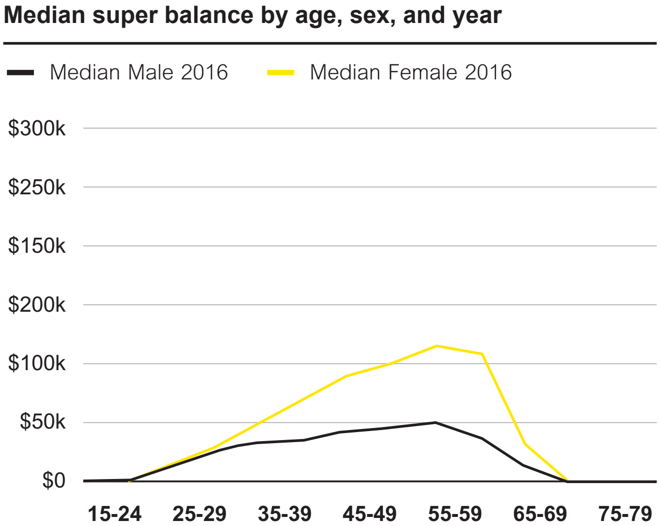
It would therefore make more sense for the cap to be able to be spread over a number of years to accommodate "contribution smoothing". Using the current rate, a 10-year cap of $250,000 would make more sense. This is analogous to the so-called "tax averaging" provisions relating to income tax obligations for primary producers in Australia.[32] We do not explore this proposal in detail in this report, but it is a measure that would be complementary to—not just a partial substitute for—the measures we propose.

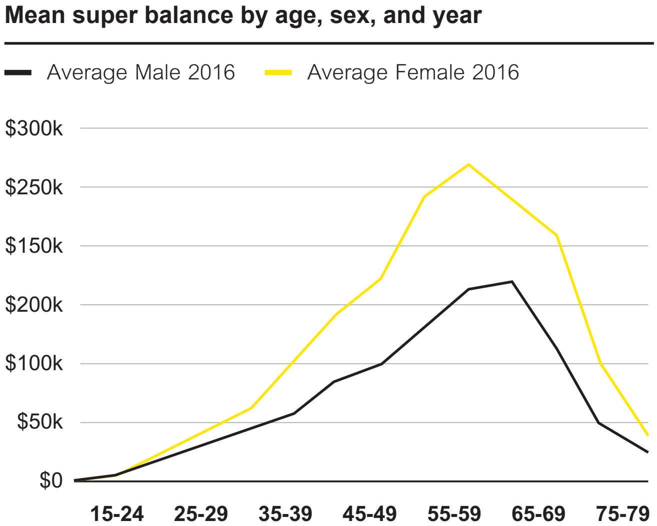
"Only a small proportion of Australians make voluntary contributions—less than 10% at age 25 and only climbing above 20% of people relatively close to retirement."

The Gender Gap in our Current System

This picture of the general health of the Australian superannuation system, however, overlooks one key gap in the operation of the system—i.e. the way in which it creates gender disparities in retirement savings. Despite having narrowed in recent years, the gender gap in superannuation balances remains stark.[33] In 2016, the average superannuation balance of women aged 60 was roughly $150,000, compared with over $250,000 for men. The median was approximately $50,000 and $100,000, respectively.[34]

Figure 1[35]: Super balances





Perhaps unsurprisingly, as the above figure shows, these gaps widen with age.

The Effects of a Gender Gap

This gap in retirement savings also has a number of potential adverse impacts for women: they are more likely to face economic insecurity during retirement; and to have reduced bargaining power within a household, both prior to and/or during retirement. While some of these effects are offset by the public pension system, not all are, and thus they remain a source of concern for Australian leaders and citizens committed to full gender equality.

Economic security

The Australian Government's Workplace Gender Equality Authority ('WGEA') usefully defines economic security as the state of being 'financially secure through a steady income and/or other resources to *support a decent standard of living*'.[36] The WGEA explains that because women retire with on average half (on 2017 figures) the superannuation balances of men, they are more prone to living in poverty in retirement.[37]

Roughly half of women aged 45 to 64 have less than $40,000 in superannuation or none at all;[38] women are less likely to achieve home ownership during their working life;[39] and, as CEPAR points out, Australia's retirement income system is skewed heavily towards the presumption that retirees will own their own home.[40]

The current divorce law system also often increases women's vulnerability to economic insecurity in later life. The law clearly aims to create just and equitable outcomes in the division of superannuation assets in the event of divorce, or a de facto couple separating. It allows for the negotiation of a 'superannuation agreement', whereby a couple agrees to the splitting of a superannuation interest, or a court makes orders for the 'just and equitable' division of such assets.[41]

But in practice, the long-term impact of divorce tends to be greater for women than men, especially where children are involved, as is the case in half of divorces.[42] A study by AMP and the National Centre for Social and Economic Modelling ('NATSEM') shows that 'within the same age group, a divorced mother has 68% less superannuation than a married mother from a similar socio-economic background'; by contrast, 'there is no significant difference in superannuation balances held by a divorced father compared with a matched married father either immediately or five years after divorce'.[43] The upshot is that: 'within the same age and socio-economic group, a divorced mother has 37% less superannuation than a divorced father'.[44]

Perhaps the biggest factor from the point of view of female economic security that divorce law does not satisfactorily address is the impact of human capital—that is, lower future earning potential of women post-separation begets a worse position in retirement. If a woman remains single, this effect will be exacerbated because, as CEPAR shows, single people (male and female) tend to have lower superannuation balances.[45]

There are other troubling indicators of economic insecurity for older-age female Australians. A recent report by the Australian Human Rights Commission found that women over the age of 55 are the fastest growing cohort of homeless persons in Australia.[46] As the Australian Bureau of Statistics reported: 'The number of older homeless females increased by 31% to 6,866 in 2016, up from 5,234 persons in 2011'.[47]

CEPAR notes this heightened susceptibility but offers two important qualifications: first, the means-tested public pension operates as a safety net to partially offset imbalances in private savings. Thus, in 2016 the average woman over 65 years of age received roughly $2,000 p.a. more in government pensions than her average male counterpart; secondly, generational improvement in workplace equality assists in bridging the retirement income gap—in 1990, for example, 70% of Age Pensioners were women, but this number is now closer to 55%.[48]

But even with these improvements, women's economic security during retirement is likely to continue to be a real concern for the foreseeable future.

Household Stability and Bargaining

The current superannuation gender gap is also arguably at once a consequence, and cause, of gender inequality in Australian domestic and social life. As the Nobel-prize winning economist, Amartya Sen, has shown, there is a close connection between women's empowerment in an economic context and their empowerment in the domestic sphere.[49]

Women's economic opportunities and assets can affect their risk of experiencing family violence. Women of all backgrounds clearly experience family violence; and the key policy response to this should be an increased emphasis on prevention and protection by governments at every level.[50] But Sen and other scholars' work in this area suggests that if women have a degree of economic security through ownership of property—such as retirement savings—this may support their ability to leave an abusive environment, and thereby reduce the risk that they will experience ongoing forms of family violence.[51]

Women's economic security can likewise support their capacity—if so desired—to achieve a more equitable division of labour within the household, in areas such as child-care and household work. This may also lead to measurable increase in female and male well-being;[52] and less gendered labour market-outcomes for women.[53]

Of course, the superannuation system should not be structured or designed to provide incentives for women (or men) to remain in failing marriages and relationships that they would otherwise like to dissolve. As we noted above, current law permits the judicial allocation of superannuation assets upon divorce in a way that does not trigger adverse tax consequences. This is an important principle that should be preserved in all areas of retirement-savings policy.

But the superannuation system should be designed to complement, rather than undermine, these other legal mechanisms designed to promote gender equity in the allocation of marital assets and opportunities.

Explaining the Gender Gap

The sources of this gender superannuation gap are complex. In this section, however, we outline three key factors as contributory: the gap between male and female earnings in the workforce ('gender pay gap'); time spent by women outside the paid workforce to undertake care work; and the non-payment of superannuation during maternity leave.

These factors inevitably overlap: periods of maternity leave and time caring for small children often go together, and time out of the paid workforce tends to lead to lower lifetime earnings. Baker notes that the magnitude of this wage penalty varies between studies however, on average, 'women returning to work within 12 months of taking leave suffered a wage penalty during the first year back at work of almost 7%, increasing to almost 12% the following year. [And] [t]his disparity is maintained in the third year back at work'.[54]

But each also plays a distinct, if variable, role in contributing to the current gender gap in the Australian superannuation system.

The Gender Pay Gap

The current average full-time weekly wage in Australia is 15.3% less for women than for men.[55] Over the last 20 years, the gap has also fluctuated between a high of 18%, in 2014 and low of 14.1% in 2018.[56]

By comparison, the average among the OECD-35 countries is 13.5%.[57]

Moreover, this pay gap is pervasive across the economy: both the 'ABS and WGEA data both show a gender pay gap favouring full-time working men over full-time working women in **every industry and occupational category** in Australia'.[58]

Since Australia's retirement savings system is earnings-based, this form of income inequality is also directly correlated with inequality in superannuation balances.[59]

Care Work

Care work serves an extremely important, if often under-valued, contribution to social and economic well-being in Australia. For that reason, any policy response to the current gender superannuation gap should seek to increase, and certainly not decrease, respect for the value of that work.

It is also important, however, to appreciate the current gender(ed) dimensions to the allocation of paid and especially unpaid care work in Australia.

Figure 2: Gender Pay Gap

Source: WGEA, 'Australia's Gender Pay Gap Statistics' https://www.wgea.gov.au/data/fact-sheets/australias-gender-pay-gap-statistics (published 22 February 2019)

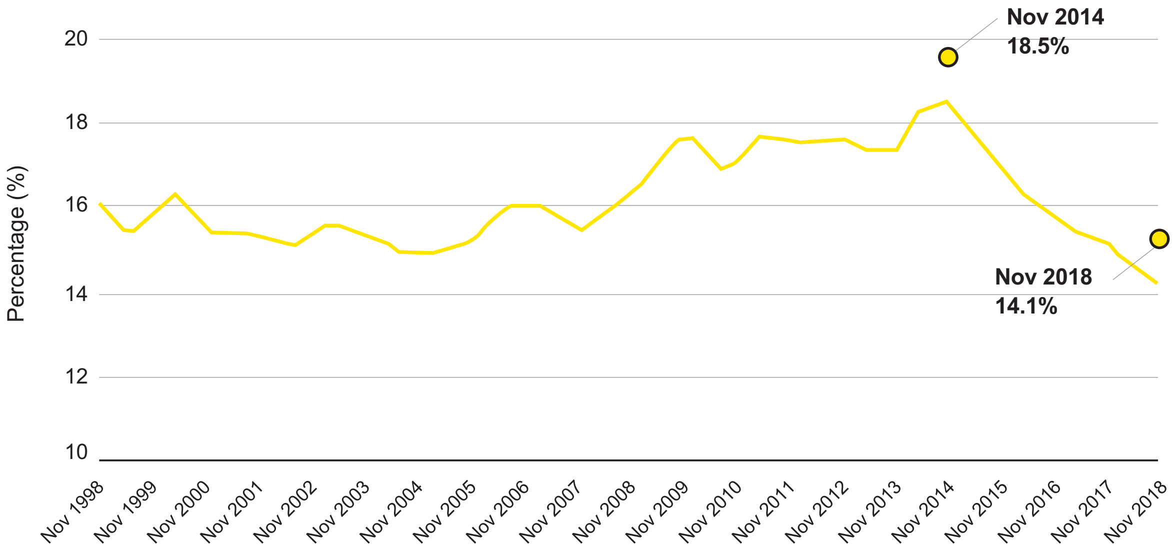
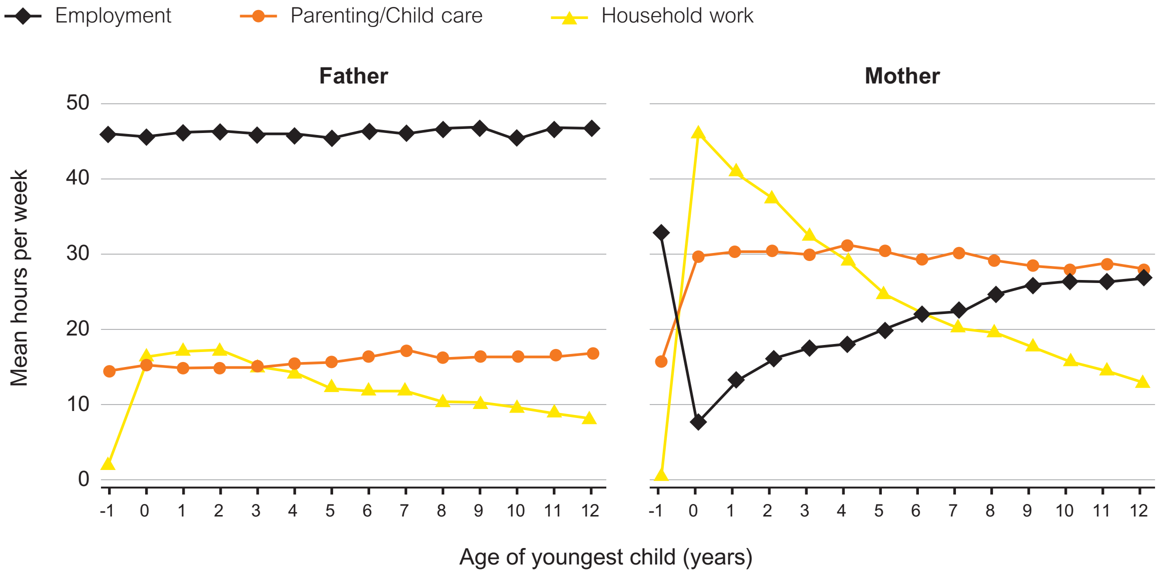


Figure 3: Mother and father's time use up to and after the birth of first child

Source: Jennifer Baxter, 'Fathers and Work: A Statistical Overview' (AIFS Report, May 2019), 2.



Note: Age of youngest child = -1 is the year before the first birth.
Source: HILDA, pooled Waves 2 to 16

In its statistical study entitled 'Fathers and Work', the Australian Institute of Family Studies ('AIFS') draws attention to the differential impact of children on the time use and work patterns of men and women.[60]

Significant time in unpaid care-giving activities is also highly correlated for many women with part-time or casual forms of work. Of those female carers who remain in the workforce, many do so on a part-time, intermittent or casual basis.[61] The key difficulty with this, from a retirement savings perspective, is that an employer is not obliged to pay the Superannuation Guarantee unless an employee earns $450 in one month. For women holding multiple casual jobs so as to work flexibly while caring for children, there is the risk that some or all of their income does not attract any superannuation payments.

Non-Contributions for Maternity Leave

The National Employment Standards ('NES') guarantee minimum entitlements to parental leave to all employees in Australia, male or female and whether married or in a de facto relationship.[62]

There are two factors which, together, ensure parental leave adversely and disproportionately affects women's capacity to accrue superannuation. First, paid parental leave does not attract the Superannuation Guarantee, so if employers make a contribution to their employees' superannuation during such leave it is entirely voluntary.[63] This is true whether the leave is funded privately or through the government's Paid Parental Leave scheme.[64] For government employees, their entitlement to superannuation during periods of paid or unpaid parental leave will depend on the applicable enterprise agreement.[65] For example, the enterprise agreements for the Department of the Environment[66] and the Australian Public Service Commission[67] contain provisions that employees are entitled to be paid super during paid and unpaid parental leave up to a maximum of 52 weeks; there is no equivalent provision in the agreement applicable to the Department of Defence.[68]

Second, despite the fact that parental leave (paid and unpaid) can be taken by either member of a parental couple, it is overwhelmingly taken by women. Recent research by the AIFS analysing Australian Bureau of Statistics ('ABS') data demonstrates that women account for 95% of the parental leave taken in Australia.[69] Earlier research by the Australian Human Rights Commission showed that 85% of fathers take less than four weeks' leave,[70] which is 'low by global standards'.[71] The AIFS attributes the imbalance to three main factors: 'a lack of legislated "shared parental leave," continued adherence to traditional gender roles and the gender pay gap'.[72]

A Proposal for Change: Contributions for Care-Work

Not all of these factors can be addressed directly through the superannuation system: the gender-gap is a large and enduring structural problem in the Australian economy and not a problem that the retirement saving system is itself able to resolve.

In thinking through options for reform, we also focus specifically on one aspect of the current system—i.e. its failure adequately to value, or reward, periods of care giving for children—during paid parental leave, and subsequently in an unpaid capacity. Specifically, we consider two proposals for reform:

A. A policy of strong government support, through model employer practices and concessional tax treatment, of contributions to superannuation made during periods of maternity leave;

B. A policy of universal and equal concessional tax-treatment for superannuation contributions made by working spouses or partners, for the benefit of a person engaged in work inside the home.

Employer Contributions During Parental Leave

One important, if modest, means of addressing the current gender superannuation gap is to close the gap during periods of parental leave and part-time work.

Employer-led change

Some organisations have already shown leadership in this context in voluntarily implementing leave schemes which incorporate superannuation entitlements. Professional services firms and financial institutions are among the best performers in this respect. For example:

- Maurice Blackburn has implemented superannuation payments for primary carers receiving Federal Government paid parental leave scheme payments, and has also increased its primary carers leave allowance to 18 weeks at full pay;[73]
- Several other law firms, including Baker McKenzie, Corrs Chambers Westgarth and Gilbert + Tobin, have begun making superannuation payments to employees taking paid- and in some cases unpaid-parental leave;[74]
- Westpac has since 2010 had a policy that the AHRC describes as 'leading practice', paying its employees a 9.5% super contribution while on unpaid parental leave for up to 39 weeks.[75]
- Similarly, employees of ANZ can receive up to 30 weeks of superannuation payments while on parental leave.[76]

Measures like these are also consistent with the Fair Work Ombudsman's best practice guidance, especially the payment of superannuation during unpaid leave.[77]

Government (support for) employer contributions

Many employers, however, do not yet have policies of this kind, and there is thus an important role for both industry leaders and government in continuing to encourage their growth and implementation.

Government in particular could also support such policies in two ways: first, by adopting such policies as employers, as a form of 'best practice' or guide to model employer behaviour;[78] and second, by adopting tax policies that encourage such contributions.

We do not propose making contributions of this kind compulsory, in part because there is some evidence suggesting that increasing the cost of parental leave can reduce the willingness of employers to hire female workers and have a wage-penalty effect.[79] The best response to this is to strengthen the enforcement of anti-discrimination law, which prohibits discrimination based on sex and pregnancy. But absent this, we are cautious about recommending mandatory changes to the current system of employer contributions.

Government parental leave scheme

A third important potential response by government could also be to increase the current system of government-funded parental leave, to include payments toward superannuation. This remains an important part of the policy response to this issue that should be considered by both sides of the political spectrum.

Concessional Contributions for Care Work

Our second, and even more economically significant option, focuses on periods of unpaid care-work extending beyond an initial period of paid parental leave. Others in Australia have also focused their reform proposals on rewarding unpaid care work, including former Sex Discrimination Commissioner Elizabeth Broderick.[80] And as we note below, our proposal builds to a significant degree on existing policies both in Australia and elsewhere. It is, in this sense, simply a specific elaboration of a broad set of existing ideas to equalize the superannuation treatment of care work.

Our specific proposal in this context is as follows: we propose allowing a working spouse to make tax-concessional contributions on behalf of a spouse or de facto partner engaged in unpaid care-work, up to the same tax-free threshold currently available for contributions in their own name—i.e. up to $25,000 per annum. This contribution would go into the superannuation account of the partner, be legally and beneficially owned by that partner, and be subject to their control, choice of funds manager, and other aspects of their own employer-contributed superannuation.

Under the approach we propose, this contribution would receive the same tax treatment as an employer-based superannuation contribution for an individual: it would be taxed at 15% on the "way in", be subject to the standard preservation-age rules, and would be tax free on withdrawal subject to those preservation rules. The current $1.6 million total lifetime taxexempt withdrawal (the so-called "transfer balance cap") would also apply. Earnings in the superannuation fund would be taxed in the standard (concessional) way, including the 12-month plus capital gains discount and the application of franking credits where applicable.[81]

It can be noted that this model, which focuses on concessional contributions, offers a greater benefit to couples in higher levels of the income distribution. Alternative proposals such as means-tested childcare subsidies would likely have a broader operation but would also be more expensive. Our proposal is one which seeks to leverage the existing logic of concessional tax treatment in a way that appropriately values care and also addresses inequalities in intra-household bargaining.

Legal Complexities

To be fully effective, non-working spouses and de facto partners[82] must enjoy both legal and beneficial ownership of the relevant superannuation accounts. This would also require that federal legislation authorizing such a policy be clearly drafted so as to preclude the operation of any resulting or constructive trust that may arise in favour of the contributing partner. In this respect:

- It is unlikely that a resulting trust could arise in favour of a husband who made the contribution to his wife's super account. This is because the 'presumption of advancement' would likely view the contribution as an absolute gift and this would be unaffected by subsequent divorce or separation.[83] However, while this principle also applies in the context of transfers from a male fiancé to a female fiancé,[84] it does not apply to transfers from a wife to a husband,[85] or from one de facto partner to another.[86]
- A constructive trust might arise in favour of the contributing partner in the event of separation if it would be unconscientious for the benefited partner to retain the contribution,[87] but the exact contours of this principle remain unclear and somewhat controversial.[88]

Given these ambiguities, legislation giving effect to our proposal should ensure that partner contributions are treated as either unrecoverable or as joint contributions in the event of separation.

The superannuation splitting laws[89] will thus need to be amended accordingly. Specifically, 'just and equitable' property division orders under section 79 of the *Family Law Act 1975* (Cth), which currently take into account each partner's contribution to superannuation and non-superannuation assets as well as a party's unpaid carer or 'homemaker' contribution,[90] should exclude concessional amounts made pursuant to our model, or treat those contributions as deemed to have been jointly made or made by those engaged in care-work.

It should be remembered that the impact of divorce and separation is greater on the retirement outcomes of women and augments the other structural disadvantages contributing to the super gap.[91] This is why careful design to ensure the reform's maximal effectiveness is critical.

Budget Impact

It is, of course, important to consider the budget impact of a proposal of this kind. To calculate the budget impact of the scheme we also consider three different cases regarding the take-up rate of the plan: a 50%, 75% and 100% take-up rate among eligible households.

What is common to all these cases is the tax shield to individuals generated by the 15% concessional contribution rate compared to the marginal rate of the income-earning contributor. The calculation also takes into account the Morrison Government's recent income tax reform such that the majority of taxpayers pay a top marginal tax rate of no more than 30%, while 2% of taxpayers earn more than $200,000 per annum and their marginal tax rate is scheduled to be 45%.[92]

Gross Impact on Budget

There are currently 579,130 stay-at-home parents, 80,000 of whom are stay-at-home fathers.[93] Our scheme is gender neutral in the sense that stay-at-home fathers are eligible, as well as stay-at-home mothers. A natural question is whether, given the tax benefits involved, more parents would elect to stay at home rather than work outside the home. While that is certainly possible, and would have an additional budgetary impact, because of the uncertainty of the behavioural response we do not explicitly take this into account.

An obvious issue, in addition to the take-up rate of our scheme, is the income mix of those availing themselves of it. There is a natural skew towards higher-income earners taking up the scheme since they have more income with which to afford the voluntary contribution.

For simplicity we assume that no taxpayers taking up the scheme have a marginal tax rate of less than 30% and that the current mix of those earning more than $200,000 per annum adopt the scheme. This gives an "average marginal" rate of 30.3% for those making the contributions under the scheme. To the extent that there is a further skew toward higher income earners, this is mathematically equivalent to a higher take-up rate, as modelled in scenario 3, below.

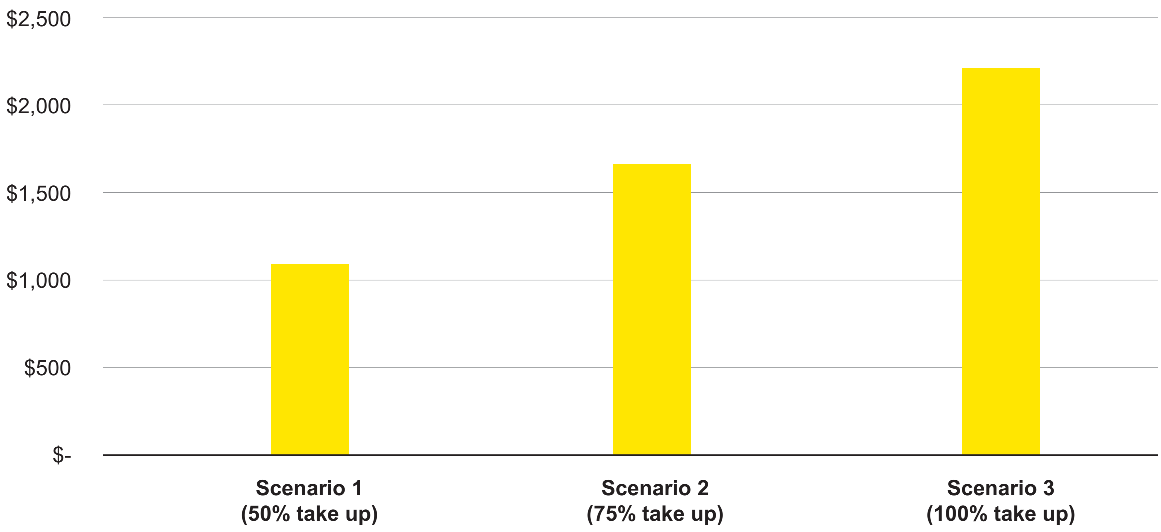
There are two broad additional observations to make. First, the budgetary impact scales linearly with the proportion of additional parents who choose to stay home. That is, if an additional approximately 58,000 parents chose to stay home then each scenario's budget impact would increase by 10%. Second, the current number of stay-at-home parents (579,130) includes some parents who are currently unemployed and seeking work. They are essentially "temporary" stay at home parents.

This pushes in the other direction in terms of the cost of the scheme. Again, we do not take this into account, but note that of the 80,000 stay-at-home fathers it is estimated that 23,800 (30%) are "unemployed" and 12,500 "away from work" (16%).[94] These proportions—amounting to nearly half of all stay-at-home fathers—are significant, but may be higher for stay-at-home fathers than stay-at-home mothers. In any case, we treat the full 579,130 stay-at-home parents as not seeking employment and therefore as fully eligible for the scheme.

The chart below illustrates the annual budgetary cost under three different scenarios regarding the take up rate of the scheme.

Another possibility would be to expand the eligibility rules for tax-preferred contributions, and allow contributions of this kind of any domestic partner engaged in unpaid care-work— including on a part-time basis, in combination with paid employment. For example, the same deductibility threshold could be adopted for contributions on behalf of a partner earning up to $40,000. This would have the advantage of making the scheme broader and more progressive, though it would increase its cost, and somewhat dilute the extent to which it targets unpaid care work (as compared to low-paid market-based work, combined with unpaid care work).

Figure 4: Annual Budget Impact ($ million)



Long-Term Net Impact: Savings on Pension

In either event, in the long run, the additional retirement savings generated by the scheme would have the potential to put some households in a financial position where they no longer need to rely on the Age Pension or part pension, and are no longer eligible to receive it. This indicates an obvious improvement in the economic security of those households at the point of retirement, but also a budget benefit to the government. And this suggests that the figures we provide are a higher bound on the likely long-term budget impact of such a policy.

Domestic and Global Analogies and Precedents

Our proposal builds on an important existing policy initiative in Australia, known as the 'spousal super tax offset' (SSTO).[95] The SSTO provides for a tax offset of up to $540 per year for Australian resident-taxpayers who:

- contribute to the eligible super fund of a spouse, whether married or de-facto, and
- whose spouse's income is $37,000 or less.

The tax offset amount reduces when your spouse's income is greater than $37,000 and completely phases out when your spouse's income reaches $40,000. The SSTO is also not available to taxpayers with a total super balance equal to or exceeding the 'transfer balance cap' immediately before the start of the financial year in which the contribution was made (which for 2018–19 was $1.6 million).

Our proposal also builds on similar global schemes, which allow for a somewhat higher offset or deferral amount:

- In the United States, traditional individual retirement accounts ('IRAs'), held with retail banks, are tax-advantaged because income tax is deferred until the funds are withdrawn – that is, in retirement when an individual's tax-assessable income will be lower. There is an IRA contribution limit of $6,000 per annum (or $7,000 for people over 50 years of age), representing the maximum yearly deduction to tax-assessable income.[96] However, an exception is made for spousal contributions, such that a working spouse can also make a tax-deferred contribution of up to $6,000 (or $7,000 if over 50) to the IRA of a non-working spouse, effectively doubling the working spouse's tax deduction for that year.[97]
- In Singapore, the Central Provident Fund ('CPF') is the national retirement savings fund contributed to by employers and employees and of which each employee is a member. Like Australia, Singapore's system features both a mandatory employer contribution and tax-concessional "cash top-ups". Individuals are entitled to make cash top-ups to the accounts of their spouses and receive tax relief of up to $7,000 per year.[98]
- In Spain, individuals can receive a tax deduction of up to EUR 2,500 per year for contributions made to their spouse's private pension plan where the spouse's net income is less than EUR 8,000.[99]

The difference in our proposal is thus largely one of scale only: it simply attempts to build on these existing schemes and show how and why they should be scaled-up to give parity of tax-treatment to contributions made on behalf of those working inside and outside the home.

Conclusion

This report does not deal directly with the problem of the gender pay gap. Nor does it tackle the under-valuation of care-work at a systemic level.

Some commentators have argued that the failure of mainstream economic approaches to value care is itself a reason to doubt those approaches and radically rethink how we define and measure economic value and prosperity. Marilyn Waring, for example, a former New Zealand MP and feminist economist has argued that care-work is economically essential, and yet completely omitted from current measures of GDP, if unpaid rather than paid.[100] This, she argues, is a reason to move toward a quite different approach to measuring national economic output.[101]

On many levels, our proposals are ultimately too modest, and indirect, a means of tackling the under-valuation of care to satisfy critics such as Waring. Instead, they would no doubt support efforts, such as those of PwC, to conduct a thorough audit of care-work—by engaging in a form of 'Geospatial Economic Modelling' ('GEM'), which includes both paid and unpaid economic activity.[102] Using this approach, PwC's estimate is that that unpaid childcare is *'Australia's largest industry',* and that Australia's economy would be a third larger if unpaid work was included in total productive output.[103]

But our proposals may offer a useful first step toward a better accounting for care-work. By allowing care to attract tax-deductible superannuation contributions both from employers and at a household level, we create new and powerful incentives for care to be reported by those undertaking it—and in ways that figure directly in the government's accounts of economic activity. And while limited and imperfect, this is an important first step toward both rewarding and supporting the economic value of care-work and making it more economically salient and visible. It may not be 'counting everything' that matters when it comes to care work. But it is certainly a way of 'counting something'. In this sense, it promises a way of both saving care-work, and caring more about our current approach to economic management.

About the New Economic Policy Initiative

The New Economic Policy Initiative (NEPI) is a UNSW-based initiative aimed at promoting research and engagement around new public policy ideas—by current and future generations of Australian leaders. It is based in the Centre for Applied Economic Research (CAER), and continues previous work by UNSW scholars in these areas, under the auspices of the UNSW Grand Challenge on Inequality.

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Endnotes

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2. Ibid; see also our comments on the differing budget impact depending on any eligibility requirements and income threshold for concessional tax treatment under our model: Part IVB below (‘Gross Impact on Budget’); see also Australian Government, The Treasury, ‘How Much Does Super Cost The Nation?’ <https://treasury.gov.au/programs-and-initiatives-superannuation/charter-of-superannuation-adequacy/report/part-2#P247_29239> (accessed 29 July 2019).
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tal leave as a uniform standard. For example: in New South Wales, the Government's 'Public Service Industrial Relations Guide', which consolidates information on employment conditions applying to NSW Public Service employees, states that superannuation is only payable during periods of paid and unpaid parental leave if the employee is a member of the State Superannuation Scheme or State Authorities Superannuation Scheme, and it is only payable during periods of paid leave if the employee is a member of another complying fund (e.g. First State Super) <https://www.industrialrelations.nsw.gov.au/sites/default/files/2019-01/psir_guide_jan_2019_v2.0.pdf>, [6.8.7] (accessed 25 June 2019); in Victoria, the parental leave policy common to Victorian Public Service enterprise agreements, 'clause 51', makes no provision for the payment of super, see <https://vpsc.vic.gov.au/wp-content/uploads/2018/09/Parental-Leave.pdf> (accessed 25 June 2019); in Queensland, the Minister for Industrial Relations' *Directive: Paid Parental Leave* (Directive 17/18) makes no provision for super <https://www.forgov.qld.gov.au/system/files/documents/1718-paid-parental-leave.pdf?v=1526281187> (accessed 25 June 2019); and the same is true in Tasmania, where employees of the Tasmanian State Service are referred to their super fund for advice on their entitlement to be paid super during parental leave: <http://www.dpac.tas.gov.au/divisions/ssmo/leave_and_other_entitlements/parental_leave#superannuation>.

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