2025-26 Pre-Budget submission

January 2025

Introduction

HESTA is a specialist industry super fund with deep connections to health and community services and those who, like them, make our world better. HESTA invests $92 billion on behalf of more than 1.05 million members, around 80% of whom are women.

We want to make our retirement system fairer and more equitable for everyone

Australia's retirement system is world-class however there are limitations in part due to changes in how we live and work since its inception. Australians are now retiring with more savings than any previous generation, however, the inequities within the system have become clearer.

Members' retirement savings are inextricably linked to how much they earn and how long they spend in the paid workforce, with our super system rewarding higher earners and those who have not had to reduce their paid work to care for others. Female HESTA members are more likely than their male counterparts to have their paid workforce participation reduced as a consequence of their unpaid care responsibilities. We see directly that it is more difficult for women and those on lower incomes to save and benefit from the system that was intended to assist them the most.

The link between workforce experiences and the retirement system is critical, and there is work to be done to create a fairer system for everyone, including closing the gender super gap.

The tough reality for HESTA members

The typical HESTA member is 42, she works in health and community services and earns $64,000 a year[1]. Female HESTA members earn around 16% less on average than their male counterparts, with women facing a gender pay gap of around 21% in health and community services.

This sector, which around 70% of HESTA's members work in, is Australia's second largest industry, contributing $175 billion (gross value added) to the economy in 2022[2]. It is forecast to be Australia's fastest growing sector for employment[3].

Yet, despite the high economic and social value of their work, HESTA members are doing it tough on many levels. The combined impact of low wages and time away from paid work to provide unpaid care means many HESTA members struggle to save money to meet unexpected expenses.

From our recent Work and Life Survey[4], we know that:

- 44% of HESTA members have less than 10% of household income left (after bills) for savings or discretionary spending.
- 27% of HESTA members earn less than $45,000, meaning many pay more tax on super than their wages; and are unable to take advantage of super tax concessions like the low-income superannuation tax offset (LISTO).

HESTA's priority action plan

1. More equitable distribution of super tax concessions

a) Adjust the LISTO so low-income workers are not taxed more on their super than on their wages.

b) Tax investment earnings on accounts of $3 million or more at the top personal income tax rate to ensure super tax concessions are more equitable and are not used as a vehicle to create inter-generational wealth.

2. Value care work

a) Reduce the burden of childcare costs on families and improve workforce participation through implementation of universal childcare starting with the removal of the Child Care Subsidy Activity Test.

b) Pay superannuation contributions on the Carer Payment.

c) Encourage more women to return to the paid workforce by providing a worker tax credit within the income tax system[5].

3. Reimagine retirement design to reflect the modern experience

a) Index the Work Bonus payments thresholds to keep pace with Average Weekly Ordinary Time Earnings (AWOTE), making sure retirees' incentives to work are not diminished.

b) Enable changes to retirement income stream products to better reflect changing member needs, including:

- enabling funds to implement member opt-out default into retirement products,
- top-up of existing retirement income streams,
- streamline proof of identity,
- and enable cash components in the pension phase.

c) Improve access to affordable, quality advice through implementation of Tranche 2 of Quality of Advice reforms.

4. Identify and address unintended gender-blind spots in policy making

a) Legislate a consistent framework of gender impact assessment to ensure all new and existing government policies, services and programs are developed using a consistent intersectional gender lens to ensure unintended gendered disadvantages do not persist.

b) Commit to reporting annually on the implementation of the recommendations in the Women's Economic Equality Taskforce Report (2023).

HESTA recommendations

1. More equitable distribution of super tax concessions

Introduction

Superannuation is taxed at a lower rate than take home pay as a trade-off for putting savings aside until retirement. However, because super is taxed at a flat 15% rate, low-income earners in the bottom tax bracket are taxed more on their super than they are on their wages, while workers in the second lowest tax bracket receive no tax benefit on their super.

This also means high income earners benefit more from super tax settings than low- and middle-income earners as they pay less tax on their super than on their salaries.

To illustrate the outsized benefit higher income earners derive from the current tax settings, in 2020—2021:

- The top 20 per cent of income earners received more than 54 per cent of superannuation tax concessions[6].
- The 7.5 per cent of Australians who have balances over $500,000 contributed 49% of all voluntary personal super contributions into the system[7].

Women are more likely than men to be low-income earners, yet government support for super savings overwhelmingly benefits men, who already have more super savings than women overall.

Recommendation 1(a)

Adjust the low-income superannuation tax offset (LISTO) so low-income workers are not taxed more on their super than on their wages.

We recommend the government restore the intent of the LISTO by realigning the LISTO to the second income threshold of $45,000 and lifting the maximum payment in line with the increases to the superannuation guarantee (SG), to ensure low paid workers are not left with a tax penalty on their superannuation.

The LISTO was introduced in 2018 to offset the penalty applied to workers in the lowest two tax brackets who pay more tax on their super contributions than on their wages. The LISTO is the only tax concession more likely to be paid to women than men, as they tend to have lower incomes than men and face higher effective marginal tax rates than men.

However, changes to tax brackets and the proportion of SG mean the LISTO no longer corrects the penalty experienced by low-income workers.

Through the LISTO, those earning under $37,000 are repaid up to $500 of tax paid in super. At the time, this was equal to the tax paid on super contributions for those up to the top of the second marginal tax bracket. However, both the tax brackets and the SG rate have changed since 2018.

While the marginal tax rates have been lifted to mitigate bracket creep, the LISTO threshold has remained unchanged.

While 130,537 HESTA members earning less than $37,000 received LISTO contributions in FY24, members with incomes between $37,001-$45,000 continued to pay a tax penalty. In FY24 that amounted to more than 70,000 HESTA members missing out on more than $35 million in contribution 'refunds'.[8]

Modelling by Laneway Analytics estimates that over the past four financial years, the LISTO misalignment has led to HESTA members missing out on more than 200,000 LISTO payments with a value exceeding $102 million[9].

Recommendation 1(b)

Tax investment earnings on accounts of $3 million or more at the top personal income tax rate to ensure super tax concessions are more equitable and are not used as a vehicle to create inter-generational wealth.

HESTA supports the redistribution of savings from the proposed Division 296 changes to lower-income earners as a step towards fairness and better targeting of super tax concessions. This is evidenced by Treasury estimates that the tax changes would affect fewer than 80,000 Australians, who are some of the highest earners in the country.

The changes would also support the newly legislated Objective of Superannuation, that is, to support savings to deliver income for a dignified retirement, in an equitable and sustainable way, rather than providing tax concessions for the wealthy.

2. Value care work

Introduction

Australia has a significant gender gap when it comes to unpaid care work compared with other OECD countries[10] which contributes to the gender retirement gap. Australia has one of the highest rates of part-time work among OECD countries with around one-third of Australian women working less than 30 hours a week to balance paid work with unpaid care responsibilities. The rate of part time work amongst HESTA female members is even higher at 35% (with a further 11% reporting casual work)[11].

HESTA members are even more likely than the average Australian to provide unpaid care.[12] Around 42 percent of HESTA members are providing unpaid care – for their children, parents and in-laws, family members with disability and others[13]. HESTA modelling shows unpaid care decreases our members' superannuation savings at retirement by around 16%[14] - a significant impact on their future financial position.

The unpaid care work of HESTA members impacts retention in the health and community services sector where job vacancy ads are the highest of any sector[15]. Key reasons for HESTA members leaving paid work who are aged between 45 and preservation age[16] (and who have not received Super Guarantee into their HESTA account for 6 months) include the high cost of external caregiving services. Key barriers to returning to paid work for HESTA members include the high cost of childcare (33 percent of women aged under 45)[17] and for women aged over 45, the lack of flexible working arrangements or alternate caregivers[18].

Recommendation 2(a)

Reduce the burden of child care costs on families and improve workforce participation through implementation of universal childcare starting with the removal of the Child Care Subsidy Activity Test.

Australia's maternal labour force participation remains low when compared with other OECD countries[19]. To encourage workforce participation, HESTA supports the introduction of a universal early childhood education and care system, with the first step being the removal of the Child Care Subsidy Activity Test (Activity Test), as recommended by the Productivity Commission, the ACCC and prominent economists[20].

The Activity Test imposes an unnecessary administrative burden on families - especially First Nations families and those in insecure work - to update their activity regularly in order to be eligible for the subsidy and contributes to the 'search costs' of finding work.[21] This operates as a barrier to greater workforce participation by parents of young children. As a result, children miss out on the developmental benefits of early childhood and care, and parents are limited in their ability to search for and undertake paid work.

Removing the Activity Test will enhance women's workforce participation, facilitating the resumption of superannuation contributions, and helping to close the gender superannuation gap.

Recommendation 2(b)

Pay superannuation guarantee contributions on the Carer Payment

The Commonwealth Carer Payment provides basic income support based on the provision of constant care, but there is no superannuation contribution on this payment.

12 percent of HESTA members report they receive a Commonwealth Carer Payment or Allowance in recognition of the care they provide for a loved one[22]. Paying the Superannuation Guarantee on the Carer Payment would increase the average super balances of carers by $52,000 and reduce Age Pension costs by up to $84,000.[23]

I work permanent part-time, 4 days a week in disability services. I needed that one day per week to take Mum to her appointments. I'd make all her appointments on that day and drive her around. During that time I was missing out on $500 a fortnight of paid work – and the super on top of that. Which is quite a lot in the grand scheme of things. I do get the Carer Payment. When I was working 4 days a week the Carer Payment was down to about $150 a fortnight. The maximum I ever got was $261 a fortnight for taking 2 days a week off work! It's not a replacement wage.

Things are tough. I'm trying to save for a house. Taking career breaks affects my ability to apply for a home loan – I'm caring for my mum and wiping her arse just like someone would be paid to do. I wish the stigma wasn't there - that I'm seen as a 'Centrelink bum' for taking money from the government to care for my mum. I chose to put my mum first and over my career. There are positive and negatives about it. Being a person earning a low income is tough already and then I have to take more time off, unpaid.
(Rachel, age 30, carer and Disability Services worker, super balance: $6k)

It was my husband's illness. He had gotten increasingly unwell; I'd been caring for him at home for a long time and it had become obvious that I was going to have to care for him full time. It was increasingly impacting on my work and the way that I was able to work. It was shocking. Because no, I didn't get to prepare and it was not something that had ever occurred to me that I might suddenly have to retire unexpectedly. I just had no way of organising it. You're trying to deal with your retirement stuff. And here's, like, here's my husband saying, Did I brush my teeth this morning? You don't get to sit down and work your way through this stuff. And you just have to keep going and deal with stuff as you can.
(HESTA member, age 63, retired, Community Services worker, low super balance)[24]

Recommendation 2(c)

Encourage more women to return to the workforce by providing a worker tax credit within the income tax system.

To help value the unpaid work performed primarily by women, and to encourage carers to return to paid work, HESTA strongly supports the Women's Economic Equality Taskforce recommendation that the government 'reduce the financial penalty from caring responsibilities, such as carers' tax offsets upon re-entering paid work.' (WEET Report 2023, Rec 6.6).

Many of our members are faced with the difficult decision to take time off work to care for their children and elderly parents. This comes at great sacrifice to their working careers and retirement savings potential.

This means the earning capacity of our members can be inconsistent as they take time out of the paid workforce to do unpaid care work. There is no reprieve from income tax payable for these workers on their return to the workforce.

Introducing a carers tax offset puts an economic value on unpaid care work, allowing people to bank care 'credits' to be used to offset their future income. KPMG suggested a fixed rate of $100 per week or $5200 per year. This would boost their savings through reduced income tax, would recognise their unpaid care work and incentivise their return to the workforce.

3. Reimagine retirement design to reflect the modern experience

Introduction

While globally recognised as a world class retirement system, Australia's ranking in the Melbourne Mercer CFA Institute Global Pension Index recently dropped from 5th place to 6th[25]. The drop happened because, according to Mercer, Australia needs to encourage more older Australians to use their savings through a retirement income stream.

Our recommendations below are aimed at making the retirement experience more seamless by evolving to meet the changing needs of members by:

- Supporting members to take advantage of retirement accounts by enabling default into income streams, with member opt-out.
- Making it easier for members to use retirement income streams.
- Better enabling those who have retired to return to work should they so wish.

Recommendation 3(a)

Index the Work Bonus payments thresholds to keep pace with AWOTE, making sure retirees' incentives to work are not diminished.

To help more retired people return to work and add to their income, the existing Work Bonus system needs to be indexed to keep pace with wage rises and the cost of living. The work bonus enables people at or over Age Pension age – especially those doing part time, shift and casual work – to earn income from working and keep more of their Age Pension.

HESTA notes and supports the Government's amendments to the Work Bonus implemented from 1 January 2024. HESTA also believes that continued improvements to the Work Bonus are needed to help mature workers wanting to return to work.

HESTA member feedback is that even though they would have liked to undertake some paid work in retirement, they don't because the income would adversely affect their spouse's Age Pension income.

I think I will always want to do something, even if it is just a couple of shifts in disability. … Two shifts a week would make the difference. I've still been, you know, doing things to keep my self-worth and independence.[26]
(HESTA member post-Preservation Age)

Recommendation 3(b)

Enable changes to how retirement income streams operate to better reflect changing member needs, including enabling funds to implement member opt out default into retirement products, members able to top-up existing retirement income streams, streamline proof of identity, and enable cash components in the pension phase.

HESTA's Superannuation in Retirement submission details the reasoning behind each item in Recommendation 3b). A summary of our recommendations is provided below:

Funds should be enabled to have the option of establishing a **member opt-out automatic default** from accumulation to a retirement income stream with the ability for members to opt out. Members are increasingly being asked to take responsibility for their own retirement but observed behaviours demonstrate that member actions are not aligned with optimising their retirement outcomes[27].

One such example is that members are losing valuable retirement money by remaining in the accumulation phase rather than moving or being moved into the retirement phase:

- **HESTA members staying in Accumulation were over-taxed to the tune of $31.5m in FY24.** HESTA estimates that members who are eligible to take out a retirement income stream but remain in the accumulation phase have paid an additional $31.5m tax on investment earnings in the last financial year.
- It has been estimated[28] that approximately 1.3 million superannuation accounts totalling $225 billion for members aged 65 years or more have not been moved to the pension phase. Moneys within the accumulation phase of superannuation are taxed at 15 per cent while the pension phase is not taxed.

Top up an existing retirement income stream - Mature workers are increasingly returning to work from retirement, with around 20 percent of new employment from 2019 being from people aged 55 or more[29]. Currently, as identified in the 2016 Retirement Incomes Review[30], additional moneys cannot be added to a retirement income stream once it has been established. Given the ever increasing need to make establishing a retirement account easier, HESTA believes that a greater focus is needed to help remove these barriers, while taking into account tax and administrative issues.

Proof of identity issues. Whether a super fund establishes an automatic opt out default or a member chooses to establish a retirement income stream account, there are several practical difficulties arising within Australia's mandatory superannuation system. Many superannuation accounts are initially established through an employer remitting superannuation guarantee contributions to a superannuation fund.

With HESTA's membership comprising of over 80 per cent female membership, many women in health and community services occupations use their maiden name in a working environment which doesn't match their name on their super or bank accounts. These matters need Government, regulatory and industry focus.

Enable cash components in the retirement phase. One of the three objectives of the Retirement Income Covenant relates to 'flexible access to funds.' HESTA believes such access is valuable to members for matters such as emergencies or helping with aged care. Such an approach would also enable the issue of incomes to be examined separately.

HESTA research found 'There is also a need to have a cash reserve (especially for financially vulnerable households – unable to access money easily in an emergency)'.[31] The survey found the reasons for this need includes that the value of an income stream is too hard to assess.

Recommendation 3(c)

Improve access to affordable, quality advice through implementation of Tranche 2 of Quality of Advice reforms by expanding intra-fund advice to include Transition to Retirement, Retirement Income Stream, household view, age pension, and implementation.

HESTA strongly supports the 3 December 2024 announcement by the Hon Stephen Jones MP, the Assistant Treasurer and Minister for Financial Services, that the Government will release further details of its next package of advice reforms.

HESTA strongly supports the reforms which will help super funds to consider a member's personal and household circumstances, such as any partner's income and super as well as any entitlements to Centrelink benefits such as the Age Pension.

We look forward to seeing the detail in draft legislation.

4. Ensure policies are gender responsive

Introduction

The retirement savings gender gap for women in the lead-up to retirement age remains persistently high at 25%, when compared with men.[32]Superannuation balances are a lagging indicator for the systemic inequities that women face throughout their working lives due to gender-blind systems and gendered cultural norms that continue to adversely affect their economic security.

A wholistic assessment of the multiple intersecting contributors to women's lower retirement outcomes is required, to expose the adverse impact of gender-blind policies and improve policy making and government service delivery. This is required across new and existing policies.

The Victorian Public Sector Equality Commission has developed an approach[33] that could serve as a model for more efficient and equitable use of resources, and innovation in service delivery, based on gender-disaggregated data.

Recommendation 4(a)

Legislate a consistent framework of gender impact assessment to ensure all new and existing government policies, services and programs are developed using a consistent intersectional gender lens to ensure unintended gendered disadvantages do not persist.

HESTA believes that all new and existing policies impacting women's economic security must be viewed through a gender lens by way of a gender impact assessment using gender disaggregated data. This requires a wider scope than the current APS Gender Impact Assessment process, as follows:

- Encompassing new *and existing* policy proposals[34].
- A wider scope of application than the five threshold criteria, which rely on a policy having a readily identifiable impact on gender equity, a disadvantaged cohort or a gender segregated industry.[35] For example, policies related to housing are unlikely to be captured by the current framework.
- The development of a consistent and transparent framework, using accepted definitions, and clear measures so that progress can be determined over time.

Recommendation 4(b)

Commit to reporting annually on the implementation of the recommendations in the Women's Economic Equality Taskforce Report (2023).

The Women's Economic Equality Taskforce (WEET) was established to "provide advice to the Government to support the advancement of women's economic equality and achieve gender equality". To realise the potential in WEET's final report *Women's Economic Equality: A 10-year plan to unleash the full capacity and contribution of women to the Australian economy,* the Government must measure and report on implementation progress for this comprehensive and first of its kind roadmap to equality.

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