The 2006 Federal Budget: A Gender Analysis of the Superannuation Taxation Concessions

Rhonda Sharp, University of South Australia
Siobhan Austen, Curtin University of Technology

Abstract

Gender analyses of Australia’s retirement incomes policy have consistently pointed to large inequalities in the benefits received by men and women. These findings are in accordance with feminist theory, which generally identifies how gender impacts of policy measures can arise from the fact that men and women systematically occupy different economic and social positions. This paper provides new information on the gender impacts of Australia’s retirement incomes policy by examining the distributional impacts of changes in superannuation tax concessions announced in the 2006 federal budget. This information indicates that the budgetary changes provided substantial taxpayer-funded benefits to individuals who occupy the economic and social positions typically associated with men, whilst they pose additional risks to the retirement incomes of many women.

1. Introduction

Research has consistently shown that Australia’s retirement incomes policy is characterized by inequalities in the benefits received by men and women (Sharp and Broomhill 1988, Olsberg 1994, Austen and Birch 2001, Kelly and Harding 2002, Jefferson and Preston 2005, Warren 2006). Feminist theory argues that gender differences are often associated with policy measures because men and women systematically occupy different economic and social positions and have different responsibilities that are socially determined. For example, men on average have more financial assets and higher incomes, whilst women have greater responsibility for unpaid care work. Although the changes in the taxation of retirement savings announced in the 2006 federal budget came with a promise of ‘better super for all Australians’ they are unlikely to reduce the inequalities associated with Australia’s retirement incomes policy. The gender analysis of the recent budgetary measures in this paper indicates that they pose additional risks to the retirement incomes of many women, whilst providing substantial taxpayer-funded benefits to individuals who occupy the economic and social positions typically associated with men.

This paper begins by providing a fiscal policy context to retirement incomes
policy. It notes that the shift to privatised retirement income provision in Australia has been accompanied by an increased use of tax concessions for superannuation, which reached new levels and took new forms in the 2006 federal budget. Section 3 describes how a gender analysis of expenditures is not uncommon, however, a gender analysis of the revenue side of the budget (to which tax concessions relate) is both relatively rare and is of growing importance in the light of the increasing cost of revenue foregone to the budget. In the following sections it is argued that the generation of significant ‘tax expenditures’ on superannuation add to the existing gender inequities in retirement incomes. Such measures particularly benefit higher income earners, those with large superannuation balances and those with flexible assets. The gender inequity arises from the ‘upside down effect’ whereby those who arguably need retirement income subsidies the most because of lower incomes, less time in paid work and greater responsibility for unpaid care work (i.e. the majority of women) receive no assistance at all from the tax concession on superannuation or receive less than those with higher incomes. The paper concludes that reliance on tax expenditures as a policy instrument is problematic for governments who seek to promote gender equality and retirement income security for many men and women.

2. Retirement Incomes and Fiscal Policy

Australia’s retirement incomes policy is often described as being based on three ‘pillars’ of retirement funding. The first pillar is the government-funded means-tested age pension, originally introduced in 1909. The second pillar, erected in 1992, is the Superannuation Guarantee Charge (SGC) of compulsory employer-contributed superannuation (currently nine per cent of an employee’s income). The third pillar incorporates voluntary contributions by individuals to their superannuation funds. This element has been a relatively insignificant policy mechanism until recently. In addition, some commentators speak of a ‘fourth pillar’ of tax-concessional non-superannuation investments (shares, equity, trusts, etc), although these are limited to a small proportion of the retired population.

All pillars of retirement incomes policy are supported by fiscal policy. This is obvious in the case of the age pension, which is a direct expenditure financed from recurrent revenue ($22.8 billion in 2006-07). Less transparent are the highly concessional tax rates or tax expenditures that support the SGC and voluntary superannuation contributions. These affect potential government revenues and had an estimated revenue cost of $15.5 billion in 2005-06 (Treasury 2006, 5-48).

A key feature of recent federal budgets has been the marked increase in tax expenditure on superannuation savings; representing a shift in policy focus from the expenditure to revenue side of the budget. Generally, tax expenditures refer to the preferential treatment of certain groups of taxpayers and/or particular activities.¹ In the case of superannuation tax expenditures include measures such as a zero personal income tax payable on lump sum and pension benefits for people over 60 (except for those in ‘untaxed’ public servant schemes). In total, by 2008-09 they are forecast to

¹The concept of tax expenditures developed by Stanley Surrey in 1973 and recognises that tax measures are part of a spending program.
The 2006 Federal Budget: A Gender Analysis of the Superannuation Taxation Concessions

The 2006 Federal Budget cost $21.6 billion, an amount that will be equivalent to 81.5 per cent of the cost of the age pension (Treasury 2005). Together with the mandatory employer contributions, these generous tax expenditures have resulted in superannuation now being the main vehicle for retirement savings in Australia. They have also contributed to the development of a large and powerful private funds industry with a strong interest in maintaining, and expanding, the tax concessions given to retirement savings. The value of superannuation assets was estimated at $1.0 trillion in 2006 (Australian Prudential Regulation Authority 2007, 7). During the 2006-07 financial year, superannuation contributions rose dramatically as a result of the 2006 budgetary changes (ASFA 2007); and by 2015 the Australian private pension market is predicted to exceed the combined size of the markets of Japan, China, India and the rest of Asia (Axiss Australia, reported in The Australian 31-7-07, 28).

The motivation expressed by the Howard government for these measures was to promote Australia’s fiscal outlook, especially in the light of population ageing (Costello 2004, Treasury 2006). They were a key part of the Intergenerational Reports created under the Howard government’s Charter of Budget Honesty Act 1998 and designed to:

… provide a basis for considering the Australian Government’s fiscal outlook over the long term and the sustainability of economic growth in the light of Australia’s ageing population and other factors (Commonwealth of Australia, 2002, 2007, iii).

The measures were specifically intended to limit the growth of expenditure on the age pension and in this way address a projected gap between revenue and expenditure that was forecast to emerge as a result of (but not entirely due to) demographic changes. However, to date, there has been little apparent scrutiny of the revenue consequences of the budgetary changes. The latest Intergenerational Report (April 2007) incorporates an unexplained assumption that the revenue side of the budget will remain a constant share of GDP until 2050. This appears, at face value, to contradict the transparency heralded by the Charter of Budget Honesty Act.

As Clare Young (2000, 8-12) argues, ignoring tax expenditures also contradicts basic principles for the evaluation of budgets: equity, simplicity and neutrality. She asserts that a full assessment is needed of ‘whether the expenditure is target efficient?’ This involves addressing a number of further questions. ‘Does the tax measure accomplish its intended goals?’ ‘Is it cost effective or is there a cheaper way to deliver the program, such as by way of a direct grant?’ ‘Are subsidies delivered by way of a tax expenditure allocated in a fair manner?’ ‘Are there individuals who receive less of that subsidy than others for no good reason?’ (Young 2000, 11). In the remainder of this paper we address the latter questions in particular, focusing on the tax expenditures on superannuation and the gender equity of their outcomes.

As noted by one reviewer of this paper, conceptual problems affect calculations of estimates of the value of tax expenditures and the analyses of the distribution of the associated benefits. Specifically, these cost estimates are based on an assumption of no behavioural change. In other words, that the contributions to superannuation (and the subsequent fund earnings and benefits) would be the same under the new system as they would be in the absence of new tax concessions.
3. Integrating a Gender Perspective into Retirement Incomes Policy

Gender budget analysis is integral to a full assessment of the equity and efficiency of budgetary measures, such as those related to retirement incomes. This type of analysis was a feature of studies of government budgetary processes in Australia in the mid 1980s when the federal, state and territory governments introduced an innovative strategy for scrutinising the annual government budget for its impact on women and gender equality. These ‘Women’s Budgets’, as they were termed then, sought to make gender a mainstream consideration throughout government programs and policies. The Women’s Budget process began to unravel in Australia by the 1990s with the introduction of a neoliberal policy approach that emerged under a federal Labor government in response to the restructuring of the Australian economy (Sharp and Broomhill 2002). In 1996 the newly elected Howard government eliminated the process of budget scrutiny that had taken place within the bureaucracy through the Women’s Budget. The Howard government also began a systematic dismantling of the women’s policy machinery, including the gender disaggregated statistical collections that underpinned gender analyses of the budget. 3

Despite the declining interest by Australian governments and policymakers in what is now termed ‘gender responsive budgeting’ or ‘gender budgeting’, international organisations, foreign governments and civil society groups have increasingly embraced these approaches. The 23rd session of the UN General Assembly, for example, called upon governments to:

Incorporate a gender perspective into the design, development, adoption and execution of all budgetary processes … in order to promote equitable, effective and appropriate resource allocation and establish adequate budgetary allocations to support gender equality … and develop the necessary analytical and methodological tools and mechanisms for monitoring and evaluation (UN General Assembly resolution S-23/3, annex).

By 2005 over 50 countries had introduced some form of gender responsive budgeting (Rubin and Bartle 2005, Sharp 2006). The economic rationale for their increasing use has been cogently put by the International Monetary Fund:

Gender budgeting is just good budgeting – budgeting that properly accounts for the positive externalities that are derived from improving women’s opportunities for health care, education and employment. Studies show that programs and policies designed to improve women’s economic opportunities lead to higher rates of economic growth (Stotsky 2006, 3).

3 Sawer (2002) reported a 40 per cent cut in the funding of the Federal Office of Status of Women in 1996 and noted that, paradoxically, these cuts could not be seen in the budget because of the elimination of the Women’s Budget. She also identified subsequent budgetary decisions that have had adverse gender results that were taken without any attempt to research their effects (Sawer 2002, 61). See Sharp and Broomhill (2002) and Sharp and Austen (2006) for an outline of the different phases of the women’s budget process in Australia.
Integrating a gender perspective into public finance involves analysing expenditure and revenue (and the policies and programs the budget supports) to determine how they differentially affect women and men, and groups of women and men (distinguished by socio-economic status, age, location, ethnicity, race, etc). A central tenet of gender budget analysis is that it is ‘general policies’ (an example of which is retirement income policy), as opposed to programs designed specifically for women or men, that have the largest influence on gender equality. This is because the vast majority of the budget – an estimated 99 percent – is allocated to non-gender specific programs (UNIFEM 2000, Sharp and Broomhill 1990).

The international literature promotes various methods, tools and analytical frameworks for gender budget analysis (Demery 1996, Elson 1998). However, generally there are markedly fewer examples of studies of the revenue side of the budget (to which tax concessions are related) than those of the expenditure side (which is more relevant to, for example, age pensions). Some have argued that this imbalance reflects strong political as well as technical challenges to be overcome (Budlender 2000, Barnett and Grown 2004). It remains the case, however, that Australia’s retirement incomes policy, and specifically superannuation, provides an interesting case study for a gender budget analysis, as it involves a focus on both the revenue and expenditure sides of a non-gender-specific policy area.

A gender budget analysis of retirement incomes policy is also important, given the gendered aspects of the trend towards an older population. The United Nation’s 2002 report on World Population Ageing 1950-2050 notes that in most countries older women greatly outnumber older men, so that ‘concerns of the older population should in fact be viewed primarily as the concerns of older women’. Australia is a case in point. In 2004, 55 per cent of older people (65+) were women. In the group aged over 85 there were twice as many women as men. The importance of paying attention to women’s retirement income becomes even greater when we look to the future and consider the effects of an ageing population. By 2024 it is estimated that the number of Australians aged over 85 (the large majority of whom will be women) will have increased by 143 per cent on current levels (AIHW 2005, 136).

Academic analyses of the how Australia’s retirement income policies influence gender equity have, in recent decades, focused mainly on the inequities associated with the shift in policy focus from the age pension to the SGC. These analyses have been characterized by a high level of agreement: that men, on average, benefit more than women from a retirement income system linked to contributions based on earnings (Sharp and Broomhill 1989, Donath 1998, Olsberg 2004, Kelly 2006). Women tend to experience more broken work patterns, receive relatively low wages and have greater responsibility for unpaid work compared to men, and are, therefore, less likely to accumulate superannuation assets. Research by Jefferson and Preston has estimated that the cohort of female baby boomers will, over their lifetimes, spend 35 per cent less time in paid employment than their male counterparts. This contributes to the lowering of women’s earnings-based retirement incomes by a similar amount (Jefferson and Preston 2005, 95). In the case of Aboriginal women (and men) the superannuation-based retirement incomes policy has been particularly disadvantageous because many never get to collect their superannuation as they have a much shorter life expectancy (approximately 20 years less). The government’s own early modelling showed that if
the SGC was projected over their working lives, women would only accrue about half the superannuation retirement benefit of men because of differences in average earning levels and workforce participation (Retirement Income Modelling Task Force 1994, 6).

The particularly vulnerable financial position of women nearing retirement is highlighted in recent research. Kelly (2006) used the ABS Survey of Income and Housing Cost 2003-04 data to examine the superannuation balances of baby boomers nearing retirement (45-59 years) and found that the average balance ($60,800) was low for both men and women. However, the average female balance was only 40 per cent of the male balance (Kelly 2006: 288). A small proportion of, mostly male, baby boomers have most of the superannuation assets, with half of men in the age group having less than $31,000 and half of the women having less than $8,000.

4. Gendered Impacts of Tax Expenditures on Superannuation

The changes in the taxation arrangements for superannuation announced in the 2006 budget (and implemented from 1 July 2007) will add to these inequalities. The arrangements, which were described by the Australian Treasurer in 2006 as ‘the biggest change to superannuation in taxation terms for at least two decades’ (Costello 2006a) feature large tax-based incentives to encourage additional (non-compulsory) contributions to superannuation, specifically:

- a reduction in taxes on superannuation benefits (pensions or lump sums) from taxed funds to zero for people aged 60 and over4
- new (non-aged based) limits on contributions to superannuation at the concessional tax rate of 15 per cent. These were set initially at $50,000 a year. During a 5 year transitional period (2007-12), people aged 50+ will be able to make concessional contributions of $100,000 a year
- allowance for the self-employed to claim a full deduction for their superannuation contributions and to be eligible for the government co-contribution for their personal post-tax contributions5
- a $150,000 annual limit on post-tax superannuation contributions. People younger than 65 can bring forward two years of contributions, enabling $450,000 to be contributed in one year, with no further contributions in the next two years. In the period between the budget and 30 June 2007, people were able to make up to $1 million in post-tax contributions

4 Benefits paid by untaxed funds (mainly to public servants) would continue to be taxed, but at a lower rate (10 per cent tax offset on pensions and lump sums up to $1 million would be taxed concessationally at 15 per cent).

5 The government co-contribution, introduced in July 2003 is now a maximum of $1,500 pa for eligible individuals with incomes $28,980 and less who make after-tax contributions of $1,000. The co-contribution tapers out at incomes of $58,000. High income earners who salary sacrifice into superannuation can receive the full government co-contribution when their taxable income decreases to $28,980. The salary sacrificed contributions themselves, however, do not count as co-contributions.
allowance for post-tax contributions of:
– proceeds from the sale of small business assets which have been held for
  15 years (up to a lifetime limit of $1 million)
– settlements for injuries resulting in permanent disablement.

Key features of the previous system included:
• ‘Reasonable Benefit Limits’, which acted as a ceiling on the total tax
  concessions available from superannuation (that is, they defined the maximum
  amount of retirement benefit an individual could receive at the concessional
  tax rate)
• ‘Age-Based Limits’ that applied to superannuation contributions. For someone
  aged under 35 the limit was $15,260; for someone aged 35-49 the limit was
  $42,385; and for those aged 50-70 (and 28 days!) it was $105,1136
• no limits on post-tax (undeducted) contributions to superannuation
• limitations on the tax deductibility of superannuation contributions by the
  self employed to $3,000.

The previous system was already considered generous, with Australia ranked
5th out of the 21 OECD countries for the tax concessions given to retirement savings
(Hendy and Warburton 2006, 233). Furthermore, the cost of the superannuation tax
concessions under the pre-existing system was already the largest single tax expenditure
in the federal budget, estimated at $15.5 billion in 2005-06.

The new measures extend this generosity and add to its cost. The Treasury has
estimated that the budgetary measure will cost $7.2 billion to implement over the
2006-10 period and add $2.3 billion to the cost of superannuation tax expenditures in
2008-09 (Costello 2006b). By 2008-09 the expenditure will reach $21.6 billion7, an
amount equivalent to 81.5 per cent of the estimated cost of the government age pension.

It is important to note that the main sources of the high tax expenditure on
superannuation are the concessional taxes levied on employer contributions (15 per
cent) and the concessional taxation of fund earnings (where earnings on investments,
supporting pensions and annuities are not taxed). Treasury (2005, 163) estimated that
together these elements comprised 95.7 per cent of the total tax expenditure on
superannuation in 2005-06.

Other elements of the system – such as the spouse contribution and rebate and
the measures for low income earners (such as co-contributions) do, as Diana Olsberg
has shown, benefit women (Olsberg 2006, 48-49). Moreover, the extension of the co-
contribution to the low income self employed could also be expected to extend these
benefits to another group of women. However, from a tax expenditure perspective
these aspects represent a very small part of the total program.

2&H2&munu=11165&mfp=001/006
7 This estimate is based, first, on the Treasury (2005) projection of superannuation tax expenditures
in 2008-09 under the pre-2006 tax/benefit regime. Added to this is the Treasury projection of the
2008–09 cost of measures introduced in 2006. As noted earlier, the estimates of the budgetary
costs of tax expenditures are difficult for several reasons including realistic assumptions about
behavioural changes.
The groups most able to benefit from the new tax expenditure on superannuation will be high income earners and those with flexible assets that can be moved into the now highly tax-advantaged superannuation system. As noted previously, women do not figure prominently in this group and thus they are likely to receive a disproportionately small share of the benefits generated by these measures. Furthermore, as the changes represent a major re-direction of government resources away from the age pension (expenditure on which is forecast to fall in 2006-07 despite changes to the assets test increasing the number of part and full age pensioners), there are potentially large negative impacts on the many women who will depend on this form of retirement income.

Adding detail to these observations we can note, first, that the removal of all benefits taxes will deliver tax savings only to individuals with very high superannuation balances. The Institute of Actuaries of Australia (2006, 2) has found that only a minority of (very high balance) superannuants would have reached the Reasonable Benefit Limits (RBLs) that triggered the removal of concessional taxes under the previous regime. As such, very few (relatively well off) individuals gain an advantage from the removal of these limits. In 2005-06, the ‘flat dollars’ applying to superannuation benefits were $648,946 for lump sum payments and approximately $1.3 million for pensions (ATO 2006b). In the Institute’s calculations, less than 10 per cent of people (implying even fewer women) have a total super balance of more than $320,000 (i.e. about half the RBL). They also estimate that under a mature SGC (operating for 30-35 years) the RBLs would have only affected the wealthiest of superannuants, as the average account balance (across all individuals) is estimated to only reach $320,000 by this time.

The changes in the age-based limits on contributions are likely to affect two groups of income earners. The clear winners are very high income individuals in their 20s and early 30s. They will now be able to achieve a substantial reduction in their taxes by directing more income to superannuation. There are clear gender differences here. As figure 1 shows, only 10.5 per cent of women taxpayers aged under 35 years (less than 200,000 women) have incomes above the new age-based limits. It is therefore very hard to see how many young women will have the necessary surplus funds to benefit from the budgetary changes. In contrast, more than 400,000 male taxpayers (21.0 per cent) in this age group earn more than the new age-based levels.

A group that will be potentially disadvantaged from 2012 by the move to a ‘flat’ (i.e. non age-based) system of contribution limits is the ‘late bloomers’. These are people whose earnings peak relatively late as a result, for example, of interruptions to their working lives. Many women fit into this category. Under the new system, eligible contributions will be limited to $50,000 per annum and this will restrict the ability to ‘catch up’ on periods of low contribution. The previous maximum (and the limit applying for those aged 50+ until 2012) was twice this.

It is important to note that the distributional effects of the changes in the age-based contribution limits add to a system that is already regressive in nature and poorly suited to the circumstances of most women. The concessional taxation of income deposited into superannuation provides tax relief in proportion to the marginal tax rate (and thus the income level) of the individual. Someone on the top marginal tax rate of 45 per cent (earning more than $150,000 per annum), effectively receives a government-funded subsidy on the income they direct to super of 30 per cent (45 per cent less 15 per cent).
per cent contributions tax). However, the taxpayer on the 30 per cent tax rate ($25,75,000) only receives a subsidy of 15 per cent and the taxpayer on 15 per cent ($6,25,000) receives no subsidy from this part of the system. The benefits to high income earners can be further enhanced if, by salary sacrificing to super, they are able to lower their taxable income and thus reach a lower tax rate.

Figure 1 - Percentage of 18–34 year old taxpayers with taxable incomes greater than $50,000 (2004-05)

Table 1 contains information compiled by the Australian Tax Office from the 2004-05 tax returns. It shows the numbers of men and women who fall into the various income tax ranges. Clearly demonstrated is the very small number of women eligible for the largest tax subsidies. Only 5.3 per cent of female PAYG taxpayers (just 219,555 women) are in the two tax brackets that attract the highest tax subsidies; whilst 35.1 per cent (1.45 million women) are in the lowest tax bracket where deductible contributions have no tax advantage. For men the pattern is similar, however, a much larger number of men have taxable incomes that give them access to the superannuation subsidies. 13.8 per cent of male PAYG taxpayers (690,365 men) are in the highest tax brackets, whilst 22.0 per cent (1.1 million men) are in the lowest bracket.

Table 1 - Australian Taxpayers by Taxable Income Categories, 2004-05 Income Year

<table>
<thead>
<tr>
<th>Grades of Taxable Income</th>
<th>Men No.</th>
<th>% of Taxpayers</th>
<th>Women No.</th>
<th>% of Taxpayers</th>
</tr>
</thead>
<tbody>
<tr>
<td>$8,266–25,107</td>
<td>1,098,425</td>
<td>22.4</td>
<td>1,446,195</td>
<td>35.2</td>
</tr>
<tr>
<td>$25,108–74,891</td>
<td>3,201,725</td>
<td>64.1</td>
<td>2,455,120</td>
<td>59.8</td>
</tr>
<tr>
<td>$74,891–144,151</td>
<td>550,085</td>
<td>11.1</td>
<td>178,775</td>
<td>4.2</td>
</tr>
<tr>
<td>&gt; $144,151</td>
<td>140,280</td>
<td>2.4</td>
<td>40,780</td>
<td>1.1</td>
</tr>
</tbody>
</table>

Source: ATO 2007b
A further important aspect of the new retirement income policy is the large increase in the opportunity for self-employed Australians to gain a tax concession from their superannuation contributions. As noted above, under the previous arrangements only contributions up to $3,000 were fully tax deductible; now contributions are fully tax deductible up to the new age limits.

Insights into the gender equitability of these changes are provided in the recent AMP-NATSEM (2005a) report on small business. A relatively low proportion of small business operators (SMOs) are women: in 2004 30.4 per cent of SMOs, as compared to 47.9 per cent of employees, were women. Furthermore, many (42.0 per cent) of female SMOs work only 0-20 hours in a typical week (the equivalent figure for male SMOs is 8.7 per cent). In sum, it appears that there are relatively few self-employed women who will be able to take advantage of the new, extended ability to make tax deductible contributions to superannuation.

The final aspect of the new system discussed here are the rules for post-tax contributions to superannuation. The benefits of this part of the tax regime are delivered to individuals in proportion to the assets they can direct towards superannuation. This was especially the case during the 12 months to June 30 2007, when large ($1m) post-tax contributions were allowed. This continues a pattern created by the other policy changes, in that it exacerbates the gender and class inequalities in retirement incomes. Only the wealthiest Australians are fully advantaged by the changes and the nature of women’s asset holdings reduce their relative ability to respond to the new set of initiatives.

Data on the distribution and composition of the wealth of Australian households collected in the wealth module of the 2002 HILDA survey can be used to elaborate on these themes. The RBA (2004) used the data to show the high level of inequality in the wealth of Australian households. In 2002, the average net wealth of a household in the top 20 per cent of the household net worth distribution was $1.28m. In extreme contrast, the average net worth of households located in the lowest 20 per cent of the distribution was only $4,500. Not surprisingly, the data also show that the ownership of assets beyond the family home is heavily skewed towards the top of the wealth distribution. Whilst only nine per cent of households in the lowest quintile of the distribution held an equity investment (such as shares, managed funds and property trusts), 78 per cent of households in the top quintile did so. Whilst only two per cent of households in the lowest quintile had assets in residential property other than their own home, 42 per cent of those in the top quintile did. In sum, whilst the wealthiest Australian households have sufficient assets to be able move resources into tax-advantaged investments such as superannuation, it is very hard to see how those at the other end of the wealth distribution will be able to do so.

The HILDA wealth data was collected at the household level and thus it is difficult to use it to establish gender differences in wealth positions for the whole community. However, a recent AMP-NATSEM (2005b) report on the financial impact

---

8 Headey et al. (2006, 55), using the same data source as the RBA (i.e. the HILDA 2002 wealth survey), reported that the wealthiest five per cent of households had a median net wealth of $2.5m in 2002 and held 31.0 per cent of total household wealth.

9 Headey et al. (2006, 55) reported that the median net wealth of the least wealthy 10 per cent of households was zero in 2002.
of divorce provides some important insights. Its primary context is data on trends in the divorce rate, which show that by 2015 more than half of Australian marriages will end in divorce. Of particular relevance to the current discussion is its data on the wealth positions of lone parent divorcees (of whom 80 per cent are women) as compared to single person divorcees (of whom 75 per cent are men). These two groups are shown to have similar average net wealth ($153,700 for lone parents and $155,200 for single persons). However, the importance of the family home in determining this wealth position differs markedly; from 77.7 per cent for lone parents to 39.0 per cent for single persons. In sum, the large majority of divorced women in Australia have low wealth holdings and the wealth that they do have is typically ‘bound up’ in their home – and not easily re-directed to tax advantaged superannuation schemes. Many women also experience falls in their disposable income post divorce. As a group, then, they have a very limited capacity to invest in superannuation and very little opportunity to benefit from the changes in retirement income policy announced in the 2006 budget.

5. Additional Gender Effects of the 2006 Budgetary Changes

An important addition to the discussion of the gender effects of the recent changes to the policy settings on retirement income concerns their likely consequences for the age pension. Women, more than men, rely on the age pension for their economic security in old age (currently over half of age pensioners are women and, of these, 63.1 per cent are on the full pension compared with 59.5 per cent of men (Department of Families Community Services and Indigenous Affairs 2006)). This pattern is expected to persist in the future (see Jefferson 2005 for an overview of projections). Indeed, the Treasury’s own estimate is that only 25 per cent of the pension age population will be self-funded retirees by 2050 under the SGC, although a greater percentage of the retired population will receive a part pension (Treasury 2006).

Although the Howard government appeared to be committed to maintaining the real value of the age pension, its increased use of tax concessions for superannuation were deliberately targeted at reducing total expenditures on the pension. For example, the Treasury has commented that the increased tax expenditures on superannuation ‘will help to reduce budgetary expenses in future years, particularly in government age pension payments, through encouraging private provision for retirement’ (Treasury 2006: 158, emphasis added). This implies that women who rely on the age pension are likely to suffer a reduction in their relative economic status in coming decades. If account is taken of the large number of women projected to be aged 65+, these economic inequalities are a further and highly important negative consequence of the recent budgetary changes.

This scenario contrasts with the potential impact of the 2006 budget reform to the age pension asset means test which enables those with flexible assets to convert such assets into superannuation and enjoy a tax free retirement along with some support from the age pension. Hazel Bateman and Geoffrey Kingston note that $2.4 billion

10 Both groups have much lower net wealth positions than couple household types (that comprise a greater number of divorced men). For example, the average net wealth of the couple-only household type was $278,800 in 2002.
over 4 years of the estimated $7.2 billion budgetary costs of the superannuation reforms are for higher age and service pension payments. In their view this is ‘presumably as a consequence of the halving of the taper rate on the assets test to $1.50 per fortnight for every $1000 of asset above the asset test free area’ (which includes the family home) (Bateman and Kingston 2007:8). In their view the high estimated cost of this change is probably linked to the previous policy where assets held outside the superannuation system were subject to RBL’s, capital gains tax and age tests that reduced the size of large after-tax transfers into superannuation. They give the example of a large windfall accruing to someone who has pursued negative gearing and enjoyed the tax benefits of that strategy, then makes an after-tax contribution of up to $1m to super between 2006 and 2007 to superannuation, and at the same time arranges their assets in such a way that they meet the assets test of the age pension and even defer capital gains tax liability for decades (Bateman and Kingston 2007, 8). Such windfalls are questionable from several perspectives including its negative gender consequences.

A further cause for concern is the pressure being exerted by some in the superannuation industry to challenge what is perceived to be the ‘privileged’ status of the family home. They argue that further taxation and benefit changes are required to encourage households to shift their asset holdings to more liquid post-retirement asset types (such as superannuation). The following comments by Craig Dunn, Managing Director, AMP Financial Services are illustrative:

In Australia the family home is also a tax haven. And while family homes continue to receive such favourable tax treatment, people will continue to drive cash into them – even when that cash could be invested in other assets that provide real income in retirement (Dunn 2004).

Specific suggestions put forward by AMP include removing the current exemption of homes from the age pension eligibility test (see, Dunn 2004). However, the data assembled in this paper clearly demonstrate that such a change would have a strongly negative effect on gender equity. It is clearly the case that women, much more so than men, rely on housing for economic security in old age. The importance of access to the age pension is also a clear determinant of women’s income chances in old age. Our assessment is that the family home is effectively a ‘fifth pillar’ and changes to its tax exempt status, including AMP’s proposed changes in the age pension asset test, would be especially detrimental to women.

6. Conclusion: Tax Expenditures and Gender Responsive Budgeting

This gender analysis of Australia’s retirement income system indicates that preexisting inequalities in benefits are likely to be exacerbated by the measures introduced in recent federal budgets. In particular, the shift in retirement policy towards the provision of greater taxpayer-funded incentives for private, non-compulsory contributions to superannuation are shown to advantage economically privileged individuals. These individuals are much more likely to be male than female.

The gendered nature of ageing populations, as well as the significance of this
demographic change, makes this policy direction particularly concerning. It will contribute to high levels of economic inequality within the older community. The majority of women are likely to remain dependent on the age pension and their relative economic position is undermined by the shift in retirement incomes policy from direct expenditures on the age pension to tax expenditures on private pensions. Furthermore, by eliminating taxes on superannuation benefits the redistributive capacity of the superannuation taxation system has been removed. Previously the progressivity of the superannuation taxation system was ensured with the RBLs, the taxation of lump sums and the taxation of income streams under personal income tax (Bateman and Kingston 2007). It has been argued that if progressive tax rates are maintained and tax expenditures on private retirement savings ended then the options for a more generous state provision could be pursued for women in retirement (Kingford-Smith 2001, 541).

The findings in this paper can be applied to a number of policy areas. We consider that reliance on tax expenditures as a policy instrument should be avoided by governments aiming for gender responsive budgets. The reasons for this negative assessment are several. First, tax concessions add to prevailing gender and class inequalities by delivering the greatest gains to higher income earners who are disproportionately men. Second, the increased use of large tax expenditures has implications for government revenue and the capacity to provide services, many of which are important to women’s wellbeing. Third, while tax expenditures are effectively equivalent to direct government spending for public policy purposes11 they largely escape the detailed parliamentary scrutiny and accountability processes associated with budget outlays’ (Smith 2003, 2). As such it becomes more difficult for affected groups and individuals to identify and respond to the consequences of policy changes for their economic wellbeing.

In summary, this paper argues the importance of continuing gender analyses of budgetary measures applied to retirement income policy. Budgetary decision making is rarely gender neutral, and policy decisions that are of great consequence to the largest proportion of the population (i.e. women) can take place without any research into their potential effects. This approach to policy fails the standard policy tests of efficiency, effectiveness and equity. Further research is needed on the actual (rather than predicted) impacts of the recent budgetary measures on the retirement incomes of men and women, and on the level of retirement income inequality within these two groups. Additional research and policy development work is also required on policy measures that will protect and advance the relative economic position of older women. This work should, at a minimum, reflect the key characteristics of women’s lives that affect their economic wellbeing in retirement. These characteristics include, importantly, a limited ability to accumulate superannuation; a high probability of divorce; the importance of the family home in the asset portfolio; and continuing dependence on the age pension.

11 This is underlined by Federal Treasury in its Tax Expenditure Statement 2002 with its comment that ‘the apparent size of government could be reduced simply by pursuing the objectives of expenditures programs through tax expenditures’ (Treasury 2002, 2).
References


HILDA (2002), Melbourne Institute of Applied Economic and Social Research.


*Household, Income and Labour Dynamics in Australia (HILDA) Survey*, accessed on October 26 2006: melbourneinstitute.com/hilda


Treasury (2006), Budget Paper No 1, Canberra, Canprint.