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WORKFORCE DEVELOPMENTS AFFECTING THE ADEQUACY OF SUPERANNUATION

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Australia's existing occupational superannuation scheme originated from a desire by the ACTU to provide access to a comfortable retirement income across the workforce, that is, to extend the perks of the middle class professional and public sector workers to blue collar workers (Gruen and Grattan, 1993, 125). At the same time it addressed concerns about the low rate of private saving in Australia and the supposed twin deficits problem (Indecs Economics, 1995). All round, a 'win - win' situation was envisaged. However, as the compulsory employer contribution has grown to nine per cent and as the total funds under super management have grown to over $500b (Bateman, 2003), there has been a growing unease at many aspects of the scheme. [1]

In this article we highlight the problems of access, coverage and adequacy of the super system arising from Australia's increasingly fragmented employment arrangements. Generating an adequate retirement income is premised on having sufficient earnings in order to make a sufficient contribution to a super fund and having continuity of

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1 Areas of persistent criticism include the size and lack of transparency over management fees, the tax savings provided to the rich through concessions for self funded super contributions, the performance and corporate governance aspects of super funds, the regulatory arrangements governing super funds and the inadequacy of the super vehicles to ever generate an adequate retirement income (Bateman, 2003; Drew and Stanford, 2003; Langmore and Quiggin, 1994: 148; Dawkins and Kelly, 2003: 131; Grenville, 2004).

earnings. These conditions do not apply to large components of the Australian workforce and both are especially pertinent to the position of women and many older workers in the Australian workforce. While super may be an important source of private wealth, it will not be capable of generating an adequate retirement income for those outside of full-time, ongoing and well paid employment. That means that for many Australians a state funded retirement income remains imperative.

It is therefore of some concern that the 'ageing crisis' is being promoted as a reason for not only deferring retirement but for extending employment. There have been several statements from the heads of Treasury and the Reserve Bank on the ageing crisis, emphasising the negative implications of an increasing dependency ratio (population/workforce) and a deteriorating fiscal position associated with the growing demand for state provided retirement incomes and health services (Henry, 2003; Macfarlane, 2003). Federal Treasurer Costello announced that the government intends to extend the working lives of Australians as a way of addressing the crisis (ABC, 2004). This incorrectly assumes that there are adequate jobs available for older Australians. Indeed, there appears to be little recognition of the impact of broken and contingent work patterns on retirement incomes and an absence of recognition of the major problems faced by older workers in maintaining jobs, especially after they have been made redundant.

Fragmented and Irregular Employment Arrangements: the Ongoing Shift Towards Non Standard Employment

The persistent trend towards employment arrangements that are less than full-time, of short-term duration, of ambiguous employment status, and with few employment benefits has been highlighted elsewhere (ACIRRT, 1999; Campbell and Burgess, 2001; Watson *et al.*, 2003). During the last decade of strong economic and employment growth in Australia over two thirds of the additional jobs generated have been non-standard (Burgess and Mitchell, 2001) – that is, they are some combination of part-time, limited duration and non-employee status. Prominent has been the strong growth in part-time and casual jobs, many of which do not qualify for the standard range of employment benefits (Burgess and Baird, 2003), including the employer's superannuation contribution.

Why should these employment arrangements and the changing composition of the workforce be an issue in terms of developing a comprehensive retirement income program? The current national superannuation program is tied to paid employment, and hence employment arrangements do count for a number of reasons:

- Having less than a full-time wage means relatively small contributions and creates problems in building up an adequate retirement income. If part-time employment is for a relatively short duration over a person's working life then this is not necessarily a problem, but more and more workers (especially women with dependents) have long durations of part-time work (Charlesworth *et al.*, 2002: 29), and this means that only moderate contributions to retirement incomes can be accumulated.
- Irregular and discontinuous employment arrangements have the same effect; it is difficult to sustain an ongoing accumulation of contributions if periods of employment are interspersed with periods of unemployment or being outside of the labour force.
- Ambiguous employment arrangements means that those who are not employees do not receive the employer contribution, so they have to fully fund their retirement provision. For many self-employed the super program has limited application since incomes are irregular and unpredictable and it is difficult to sustain a regular contribution flow (Jefferson and Preston, 2003: 83).
- With short term jobs, potentially across many employers and industries, it is possible for contributions to be fragmented into many small accounts that are difficult to track or trace, or to even know whether a super contribution has been made. This is the situation confronting many short-term casuals and agency workers (NSW Labour Hire Taskforce, 1999)

The vision of extending retirement incomes to blue collar and low wage 'battlers' is out of step with the reality of the changing composition of the Australian workforce. The majority of new jobs are in the service sector, are less than full-time and in many cases are casual. In this context there is not only a problem of access and building up adequate contributions, it is often a case of exclusion from a whole range of employment benefits associated with standard work (Burgess and Baird, 2003; Campbell and Burgess, 2001). To compound the crumbling vision is the fact that public sector work is no longer necessarily secure or a standard for model employer behaviour, including benefit access. Over the last two decades the processes of fiscal consolidation, privatisation and contracting out has seen a conversion of public sector jobs into private sector jobs and a conversion of standard jobs into non-standard jobs (O'Brien, 1998; Macdonald and Burgess, 1999). Casualisation, contracting-out and agency employment are becoming just as important labour use strategies for the public sector as they are for the private sector.

While superannuation contributions by employers are supported by legislation, the coverage of employees is not complete, since some sections of the workforce do not have access to super coverage. These include the young and those casually employed, since there are exemptions from the employer contribution for younger workers and for very low paid workers. Another category who escape contributions are the self-employed and contractors, by virtue of their not being employees. In these cases self-funded contributions are supported by tax concessions. Table 1 highlights those characteristics associated with zero superannuation coverage in 2000. Those who are full-time and permanent employees have a very high density with respect to superannuation. Youth, in contrast, have a relatively low density. Likewise, self identified casuals and owner managers of unincorporated enterprises have a relatively low superannuation density.

The transformation of employment arrangements in Australia is only part of the problem facing many women workers and older workers with respect to retirement income generation. Women workers dominate non-standard employment arrangements and often have a workforce absence associated with child bearing and rearing (Charlesworth *et al.*, 2001). For older workers, especially men, the problem is the inability to return to full-time jobs following redundancy (O'Brien, 2001).

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Table 1: Persons with no Superannuation Coverage, April to June 2000 (% of that group without coverage)

Group	Male	Female	Total
15-19 years	45.3	56.8	51.2
Self identified casuals	27.2	28.4	27.9
Owner managers of unincorporated enterprises not working on a contract basis	32.7	45.6	37.4
Owner managers of unincorporated enterprises working on a contract basis	26.0	40.0	29.6
Annual income less than $20000	33.6	30.0	31.4
Employees with leave arrangements and not on a fixed term contract	2.3	2.1	2.3
All	11.0	13.9	12.3

Source: ABS Catalogue 6361.0 Employment Arrangements and Superannuation (2000).

Women Workers, the Life Course and Superannuation

Women workers face a number of obstacles to generating sufficient funds for a comfortable retirement income. They dominate part-time and casual employment (Charlesworth *et al.*, 2001) and they usually have periods of absence from the paid workforce. Occupational superannuation programs are tied not only to employment arrangements but also to continuity in workforce attachment. Jefferson and Preston (2003: 79) demonstrate that for persons born in 1960, women spent 40 per cent less time in paid employment as compared to men. Moreover, those who are outside of full-time and permanent employment are less likely to have employer super contributions above the proscribed minimum (Jefferson and Preston, 2003: 86). This discontinuity in employment in combination with non-standard employment means that for many women workers the accumulated balances from super contributions are very meagre.

Table 2 demonstrates these points, revealing some startling differences with respect to superannuation coverage:

- Labour force status is important in determining accumulated super balances – of those who possess super balances, the unemployed and those not in the labour force have very low balances;
- employment arrangements are also important, the part-time and those employed as casuals (often these are overlapping arrangements) having relatively low super balances;
- women have relatively low balances as compared to men as a result of their non-standard employment arrangements and their on average lower rates of labour force participation (and hence employment discontinuity).

Table 2: Pre Retired Persons with Superannuation Coverage: Total Superannuation Coverage by Gender and Labour Force Status (% distribution)

	Balances $				
	1-4999	5000-9000	10000-19000	20000-39000	40000+
Females	44.2	17.5	15.6	10.0	12.9
Males	29.2	13.8	16.3	14.0	26.7
Full-time	27.5	15.1	18.0	14.4	25.0
Part-time	53.2	16.7	12.1	7.3	10.8
Casual	65.6	15.3	8.9	4.5	5.7
Unemployed	65.1	11.6	10.5	4.2	8.6
Not in labour force	56.2	16.8	10.6	7.4	9.0

Source: Jefferson and Preston, 2003, 87; derived from ABS Catalogue 6360.0

There are a number of caveats that apply to the interpretation of Table 2. It is likely that the distribution is even more skewed than indicated[2], but

2 This is because it represents the position for those with super balances. It is conceivable that among those who are unemployed or not in the labour force there will be those who have zero balances due to a combination of low pay, fragmented and short-term employment experiences. In reality the distribution for all persons unemployed or all not in the labour force would be more heavily concentrated at the low balance end of the table.

against this it should be remembered that the accumulated balances will increase through time[3].

Older Male Workers, Early Retirement and Super Access

The plight of older males also warrants attention. Over recent decades there has been a decline in labour force participation rates for older males. This is the so- called 'early retirement' phenomenon. The decrease in labour force participation rates from 1966 to 2003 is equal to approximately seven, seventeen and twenty nine percentage points for males aged 25-44 years, 55-59 years, and 60-64 years, respectively. This decline in older male labour force participation can potentially be explained from either a labour supply or labour demand perspective. The former implies a healthier and wealthier scenario emerging with older males choosing to retire at an earlier age, presumably because of increased wealth accumulation, potentially linked to super access. That is, newer cohorts of older males are reacting to financial incentives and are able to afford to retire at an earlier age (Hughes 1984, Miller 1983). An alternative explanation is that older males have left the labour force due to poor labour market conditions and a lack of available employment. This latter explanation, based on the *discouraged worker* hypothesis, implies that a large number of older males are *hidden unemployed.* In comparison to the rosy labour supply explanation, a dismal scenario is implied by the labour demand explanation, with prevalent trends being explained by a dearth of available employment and continued fruitless job search for older males.

The latter view is supported by recent research utilising both descriptive statistics and econometric modelling, showing that labour demand

3 The super guarantee had at 2000 been in operation for less than a decade, so through time the balances for all contributors will grow since the average period of contributions will increase. However, with this development the inequalities in the distribution of accrued balances are also likely to grow since those in full-time employment are likely to accumulate greater balances than those outside of full-time employment and the workforce.

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factors, rather than labour supply financial incentives, have predominantly driven down older male labour force participation rates (O'Brien, 2001).

First, there has been a general increase in social security pension reliance that broadly mirrors the decline in labour force participation. Figure 1 illustrates these trends.

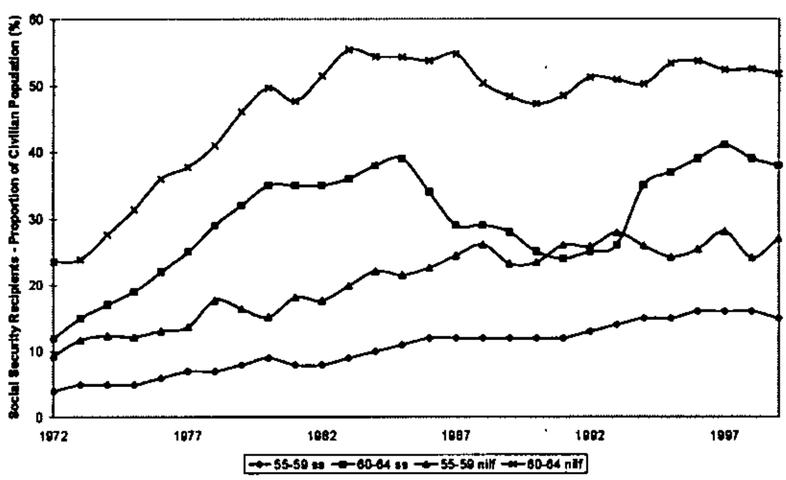
Second, Figure 1 also shows that social security reliance dominates the use of private pension usage for those not in the labour force (NILF).

Third, there has been a changing composition of social security pension receipt over time, especially for males aged 60-64 years. Whereas in the 1970's and 1980's these males predominantly relied on the Age Service Pension (ASP), reflecting that cohort's participation in World War 2, more recent cohorts have relied on either the Disability Support Pension (DSP) or the Mature Age Allowance (MAA). Eligibility for these latter two social security pensions reflects (poor) labour market conditions or long-term unemployment.

Finally, econometric modelling results also confirm that the main forces driving both decreasing older male labour force participation rates and increasing social security reliance have been related to labour market conditions. These findings indicate that, presently and historically, many older males have left the labour force prematurely and have been hidden unemployed, rather than choosing to retire early and enjoy the benefits of privately accumulated wealth. This has obvious implications for policies directed at increasing self-reliance over government pension financing. Many older males will not be able to generate an adequate retirement income due to employment discontinuity and an inability to sustain full-time employment. This is the same problem faced by females, but for different reasons.

The position of older males could be eventually reversed through a combination of improved labour market conditions for older workers and from the extended operating period of the super program for future cohorts (leading to increased accumulated balances). The Federal government sees workforce shortages and the need to increase the retirement age as central to its 'ageing society' policy scenarios (ABC, 2004), yet the reality is that the experience of older males in Australia over the past two decades is one in which economic downturns and structural change have meant an on-going job loss in those areas of traditional male full-time employment (with the exception of housing and construction) (O'Brien, 2001). In turn, it is difficult for older males to obtain full-time employment following a spell of unemployment. The consequence of this is that adequate self-funded retirement incomes elude those who cannot sustain the continuity of full-time employment and growing super-contributions as they approach retirement.

Figure 1: Australian Males Receiving Social Security Pensions and Persons not in the Labour Force (%) – 1972 to 1999



Source: O'Brien, 2001.

Coupled with the move to restrict social security pensions traditionally used by otherwise unemployed older workers, 'ageing society' policy reforms that aim to increase self-reliance for pension financing will severely affect workers who are unable to sustain paid employment in their later working years. In effect, this will create a substantial distributional inequality in income that will extend into later life.

The Case for Maintaining an Adequate State Funded Retirement Income

The biases and gaps in the national occupational superannuation system highlight the need for an adequate state funded retirement income safety net. Not everyone can secure a well paid job with extensive employer super contributions and sustain it over their life course. Increasingly such a scenario is the exception, not the rule. Even those on average weekly full-time earnings cannot expect a comfortable retirement income. Under the present arrangements the accumulated super contributions from someone on full-time average weekly earnings of currently around $40,000 per year for over 30 years will generate a post retirement pension income of $19,000 per year (Dawkins and Kelly, 2003). Super will form an important part of the accumulated wealth of households, but that is different from possessing an accumulated super balance that is capable of generating an adequate retirement income. The access to super and the size of post retirement incomes is very dependent on workforce experience over the life course.

In essence, this means that post retirement income differentials will reflect pre-retirement income inequalities and workforce experiences. To bolster these prevailing inequalities the system has inbuilt highly regressive tax subsidies for those on high incomes (Langmore and Quiggin, 1994: 148). The contributing super program will not generate significant post retirement incomes for the low paid, those with a history of part-time and casual employment, and those with long breaks from the workforce in either unemployment or outside of the workforce. There will remain a strong dependence on a state funded retirement income.

While mitigating factors will improve the super system as a source of post retirement wealth – the longer term of operation of the super scheme for future cohorts and the pooling of family contributions – the inequalities and differences will remain, as will the need for a state funded retirement pension scheme that provides for a comfortable standard of living. The focus on savings and the fiscal implications of an ageing society is currently dominating the policy discussion in Australia. Through time an increasing number of retirees will have self-funded retirement incomes, and a lower proportion of retirees will depend upon state funded pensions (King, Walker and Harding, 2001). At the moment the state funded program is relatively parsimonious by OECD standards (King, Walker and Harding, 2001) (for example, in terms of replacement ratios) and this should be a priority for future public policy deliberations on the ageing society. In this context the research by the International Labour Organisation (ILO) is pertinent. The ILO suggests that policies for full employment, anti age discrimination and the provision of publicly funded pensions (ILO 1995) should be at the core of an effective ageing society policy.

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