



AUSTRALIAN SENATE
CANBERRA, A.C.T.

SELECT COMMITTEE ON SUPERANNUATION

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32/1
11 May 1995

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Dear Dr Sinha

**WITNESSES APPEARING BEFORE THE SELECT COMMITTEE -
POOF TRANSCRIPTS OF EVIDENCE**

Thank you for participating in the Committee's inquiry on *Super and Women*.

I enclose a copy of the transcript of the evidence that you gave to this Committee in Brisbane on 2 May 1995.

It would be appreciated if you would proof read the transcript of evidence and note any corrections. Corrections should be restricted to typographical errors and errors of transcription or fact. New material cannot be introduced, the sense of the evidence cannot be altered and the evidence cannot be edited to improve expression, grammar, etc.

Should you wish to provide additional information or to elucidate particular points, a separate submission should be provided to the Committee.

Would you please return the corrected copy of the evidence by 25 May 1995 otherwise it will be assumed that you do not have any corrections. The corrected copy should be returned to:

The Secretary
Senate Select Committee on Superannuation
Room SG.64
Parliament House
CANBERRA ACT 2600.

Yours sincerely

Krista Gerrard
Acting Secretary

[11.35 a.m.]

SINHA, Dr Tapen, Associate Professor of Finance, School of Business, Bond University, University Drive, Gold Coast, Queensland 4229, was called to appear before the committee.

CHAIR—Thank you for appearing before this committee. We always enjoy hearing from the tertiary education sector because there is always something challenging there, and you have certainly not let us down in that respect. We are very interested in your submission. Would you mind outlining your particular interests in superannuation, particularly in so far as it affects women, and then briefly speak to the submission itself?

Dr Sinha—I have been looking at superannuation over the last three or four years in different aspects. One of the aspects of superannuation I have looked at in recent times is the economic aspects. This started when we first did a survey of small businesses to see how they perceived the impact superannuation will be on them. We talked to a whole range of small businesses and we had focus group studies and so on.

One of the key factors that emerged, which was of no surprise actually, was that a large majority of small businesses employ part-time and casual workers, of whom a majority happened to be women. That is particularly true in Queensland, certainly south-east Queensland where we have a large hospitality industry which employs a vast number of part-time and casual workers. When we talked to the workers in those industries and so on, most of them happened to be women. We asked them about how they are going into and out of the labour force and so on.

In my submission, I have brought together some of these issues that they have raised and put it more in the context of an economic policy issue. So, I have just amended my earlier submission. Firstly, one of the things we observed is that the participation rates of women are lower than men in every age group. Not only that, if you look at chart 1, at the back of this thing I just handed out, you will see that it remains so for every age group for the next decade as well. In other words, according to ABS's projections, it is not going to change at all. To explain chart 1, if the ratio happens to be equal to one that means that

participation rates for women and men are identical. The rates are uniformly below one for all of them up to the projections that we have for ABS.

Secondly, chart 2 shows the results of the survey that the retirement income policy group did of 1.8 million people with superannuation. I have simply looked at the ratio of superannuation assets for males and females, again by age group and by income group. Again, it shows that for almost all of them, out of 130-odd cells in there, only 30 women had accumulated more wealth than their corresponding male counterparts of the same income and age group. They happened to be concentrated on younger people with very high income, which happens very infrequently. In other words, the total number of people in those categories is very small. So the bottom line is, even when we control for income, women still seem to be accumulating less super wealth.

Thirdly, when looking at the time of divorce settlements, there is some anecdotal evidence to show that women tend to get the more fungible assets. Namely, if there is a choice between a \$10,000 superannuation wealth and a \$10,000 car, women tend to choose the car. As a result, again, they will have less super wealth at retirement.

Fourthly, which was my main point in the original submission, a large proportion of part-time and casual workers are women. When you impose a tax, one of the economic consequences is that it reduces employment quite substantially more than what it would for full-time workers. Another consequence is that the burden of the tax is largely borne by employers rather than employees, which is not the case for full-time workers. Again, I draw your attention to chart 3, which explains the two situations separately.

CHAIR—You mention that after divorce the income of a woman tends to decline unless she remarries. Do most people remarry, or do they remain single?

Dr Sinha—The median length of marriage is about 10 years and a bit, and it tends to vary substantially across different ethnic backgrounds. For example, Chinese women have the highest rate of divorce among all other ethnic groups.

CHAIR—Do they?

Dr Sinha—Yes. That surprised me too.

CHAIR—In Australia?

Dr Sinha—In Australia, yes. Italians have one of the lowest.

CHAIR—Is there any particular reason for that?

Dr Sinha—I really do not know.

Senator FERGUSON—It is probably religious.

Dr Sinha—Yes, probably being Catholic has something to do with it. Although, that is not quite true at all for ethnic Chinese in other countries. I really do not know why that is. Even though there is a 10-year median duration of a first marriage about 60 per cent tend to remarry, and that is with a median gap of five to seven years. So 60 per cent of the time they will probably remarry after five to seven years. It is true that, if they remarry a person who has the superannuation wealth, they are not out by that much. But that still leaves the 40 per cent who remarry either for a very short period of time or not at all.

Senator WOODLEY—I was interested in the issue of unemployment caused by the superannuation guarantee charge. That claim is often made and, quite clearly, some evidence has been given. Have you done any statistical analysis on the amount of unemployment that relates to the imposition of the superannuation guarantee charge?

Dr Sinha—As you would realise, a lot of macro-economic factors impinge on the employment issue so, statistically speaking, it is hard to extricate the pure superannuation effect from the economic recovery. For example, some people have suggested that, since we have had 500,000 jobs created over the last X number of years, we do not see any evidence of the superannuation charge reducing employment. The point is that it may not explicitly reduce employment but, had superannuation not been there, there would have been more employment. In the opportunity cost sense, the impact is there, although the recovery has masked that effect.

I have done some statistical analysis with part-time and casual workers. The proportion of part-time and casual workers who get employment during a recovery was lower in the last recovery than in the past four, so there is some statistical evidence in that sense. Again, I should emphasise that it is very hard to extricate the pure effect of superannuation; a number of other factors could impinge on it as well.

CHAIR—I can understand a greater direct relationship between non-employment and the superannuation guarantee charge when it first came in. But, over time, don't you think the various remuneration tribunals and courts will take superannuation into account in determining the total package?

Dr Sinha—That is true.

CHAIR—Therefore, while particularly small employers may see it as an added impost—compared with their competitors from other regions who do not have superannuation—in effect, do you think we are starting to see some evidence where the tribunals are reducing what would otherwise be larger increases of salaries and wages because they are factoring in a superannuation component? They are looking at the total cost of employment rather than just the wage component.

Dr Sinha—Absolutely. But imagine if you are an employer: what matters to you is how much it costs you for every worker you employ. For example, if I have a choice of setting up a factory in south-east Queensland or setting up a factory offshore, I would take that into account when making my decision.

I was working on a project where one individual was thinking of setting up a factory for making manhole covers in either Australia or Vietnam. One of the things he found was that the cost of employing people here was so much more expensive that it made more sense for him to have the item made in Vietnam and imported into Australia rather than manufacturing it in Australia.

That is obviously not an isolated case. Scores of those sorts of things happen all over the place. At three per cent, the superannuation charge is not that big of a deal but, when it becomes nine or 12 per cent in X number of years, it will be a much bigger deal. Employers can see it coming and, therefore, they factor it into their decisions. I did a spreadsheet for this guy looking at the total costs, total revenues and so on for selling these manhole covers over the next 15 years .

Senator FERGUSON—What is the alternative to a superannuation guarantee charge? If we are thinking about providing for retirement incomes in the future, and nine or 12 per cent will be a disincentive for employment in Australia and force some

employers to go offshore, what is the alternative?

Dr Sinha—I do not think it is an evil that we have to get rid of or anything like that. I am just trying to sort out the effects of providing this against providing something slightly different. For example, I side with the proposal of the Institute of Actuaries, which gave an alternative. I think the institute's alternative makes more economic sense. Having said that, I realise that, politically speaking and so on, it is very hard to jump in and change everything to something completely different. In a sense, we are stuck with it. So I do not have an alternative suggestion to put to you.

Senator FERGUSON—Your submission covers a lot of areas, but particularly it talks about the disincentives that the superannuation guarantee charge has on employment. We have had lots of views expressed on the current inequities of the taxing of superannuation throughout the whole of the superannuation regime; that is, the taxing arrangements tend to favour the wealthy rather than the low income earners. Have you any views on the inequities of the taxation arrangements of superannuation?

Dr Sinha—I do not have a great deal of problem with the fact that taxation arrangements will, in some sense, favour the wealthy. Any tax system you design will allow the wealthy to rearrange their income patterns to their benefit. It is very hard to design something which will prevent that from happening. Again, I do not see any way out of that.

Senator FERGUSON—So you do not think it is an important issue that we should be worrying about. We have had submissions saying that we should make it more equitable for people on low income, yet the realities might suggest that the only people in the foreseeable future who will provide for their own retirement are those who are on higher incomes. Maybe we should be encouraging those people to make sure that they provide for themselves totally because we will always have to partially provide for the people on lower incomes.

Dr Sinha—I completely agree with that view.

Senator FERGUSON—Did you hear the previous witness?

Dr Sinha—No.

Senator FERGUSON—A question to our first witness today related to home carers. They look after relatives et cetera and are paid for it by the government. It really is a substitute job because, if they were not doing it, someone else would be paid for it, yet they do not receive any superannuation guarantee. Do you think there is an argument that people who are doing that sort of work in the caring area—as distinct from the unemployed—should be treated in the same way that any other government employee is treated?

Dr Sinha—Yes. I think that is a good idea on a purely economic ground. Having said that, I am not sure how much money we are talking about.

Senator FERGUSON—We are not either.

Dr Sinha—It obviously has some budget implications. I really do not know what that would be. If that is just small beer, I think we should, on an economic ground, be doing that.

Senator FERGUSON—If they were being cared for in a home, the people providing that service would be with the SGC. Do you have any thoughts on the changing of the aged pension requirements for women from 60 to 65?

Dr Sinha—Given that women live longer than men on the average—although that is somewhat of a misnomer because the age mortality distribution overlaps 95 per cent of the time; so I will say that most women live at least as long as their male counterparts—it makes eminently more sense to have the same age at retirement for men and women. There should have been no difference in the first place, so it is correcting—

Senator FERGUSON—Even though it is more likely that women will have had interrupted work patterns?

Dr Sinha—Yes. It would still allow them to accumulate more super wealth that way than otherwise would have been the case. So I fully support that view.

CHAIR—You have identified a lot of the difficulties associated with providing an income for women in their retirement years, but there is not a lot of focus in your submission on how you would solve the problems. Can you share some of your solutions with the committee?

Dr Sinha—To tell you the truth, I do not have any magic solution to any of these problems per se. The point of my submission was that the problems we are encountering now with respect to women are not because of the transition from one system to the other, because we are adding superannuation to our existing age pension and so on. It is not a transitional problem. It is a problem that is here to stay and, therefore, we have to deal with that as a major issue over the next two decades. That is simply the point of my submission: this is not a problem that is going to be resolved in any way after the transition.

CHAIR—Coming from the finance area, perhaps you might like to speak about some of the tax inequities in superannuation that you perceive.

Dr Sinha—This is with regards to taxation of what?

CHAIR—Of contributions. As you know, in Australia, unlike most of the world, we have three taxing points as opposed to generally two. Would you like to comment on that?

Dr Sinha—Again, it probably makes more sense to have tax at the entry point and perhaps a smaller tax on the exit point. Economically, it makes no sense to have taxes along the way; in other words, taxes on earnings of superannuation. Having said that, it also has implications for government budgets and so on. I really do not see any quick fix or magic solution.

CHAIR—Do you think there is too much imbalance between what employers have to contribute towards superannuation and what employees have to contribute? Very few countries in the world will finally have the imbalance that we have in Australia. Most countries tend to have approximately equal numbers for employers and employees. By the year 2002, while it could be said that there could be some salary sacrifice, it will be three per cent as opposed to nine. Do you think that is unreasonable? Does it accentuate the problems of women trying to get part-time jobs? You suggest that in your submission, don't you?

Dr Sinha—From an economic point of view, it makes absolutely no difference what percentage is contributed by the employer and what percentage is contributed by the

employee. Why? Because, basically, unless people supply the same amount of labour regardless of their wages, in other words, unless the labour supply curve is completely inelastic, from an economic point of view it makes no difference whether we split them half and half or whatever. What matters to the workers is what they get as take home pay and what matters to the employers is what the total employment cost is going to be. And from that standpoint it makes no difference whether it is seven and a half, seven and half of 10 and five and so on and so forth—it makes absolutely no economic difference whatsoever.

CHAIR—If it makes no economic difference why then do most OECD countries have a better balance, or a different balance, to what we have in Australia? Are we smarter than they are?

Dr Sinha—It is a matter of trying to explain that there is no difference to a person who has not trained as an economist. You do not have to actually train as an economist, if you have economics 101 the first thing we do about taxes is we tell them it does not make any difference where the tax is imposed, fifty-fifty or however you split. What matters is the total employment cost to the employer and the take home pay for the employee.

In that sense it makes no difference whether we notionally split them fifty-fifty, 75:25 or whatever. But the idea that people do not necessarily supply the same amount of labour regardless of wage is somewhat difficult to understand for a lay person and, therefore, for politicians, even though they themselves may understand that fully.

CHAIR—But you are saying the consequence of the Australian approach is that it does tend to discriminate particularly against women who are part-time employees.

Dr Sinha—Yes, in the sense that it creates a disincentive for getting employed outside of homes. That is, they find that staying home and working at home to be more attractive, in an economic sense, than going outside of home and working outside.

Senator FERGUSON—Mr Chairman, can I suggest that these graphs in this additional submission be incorporated in *Hansard*, otherwise people will not understand what we have been talking about.

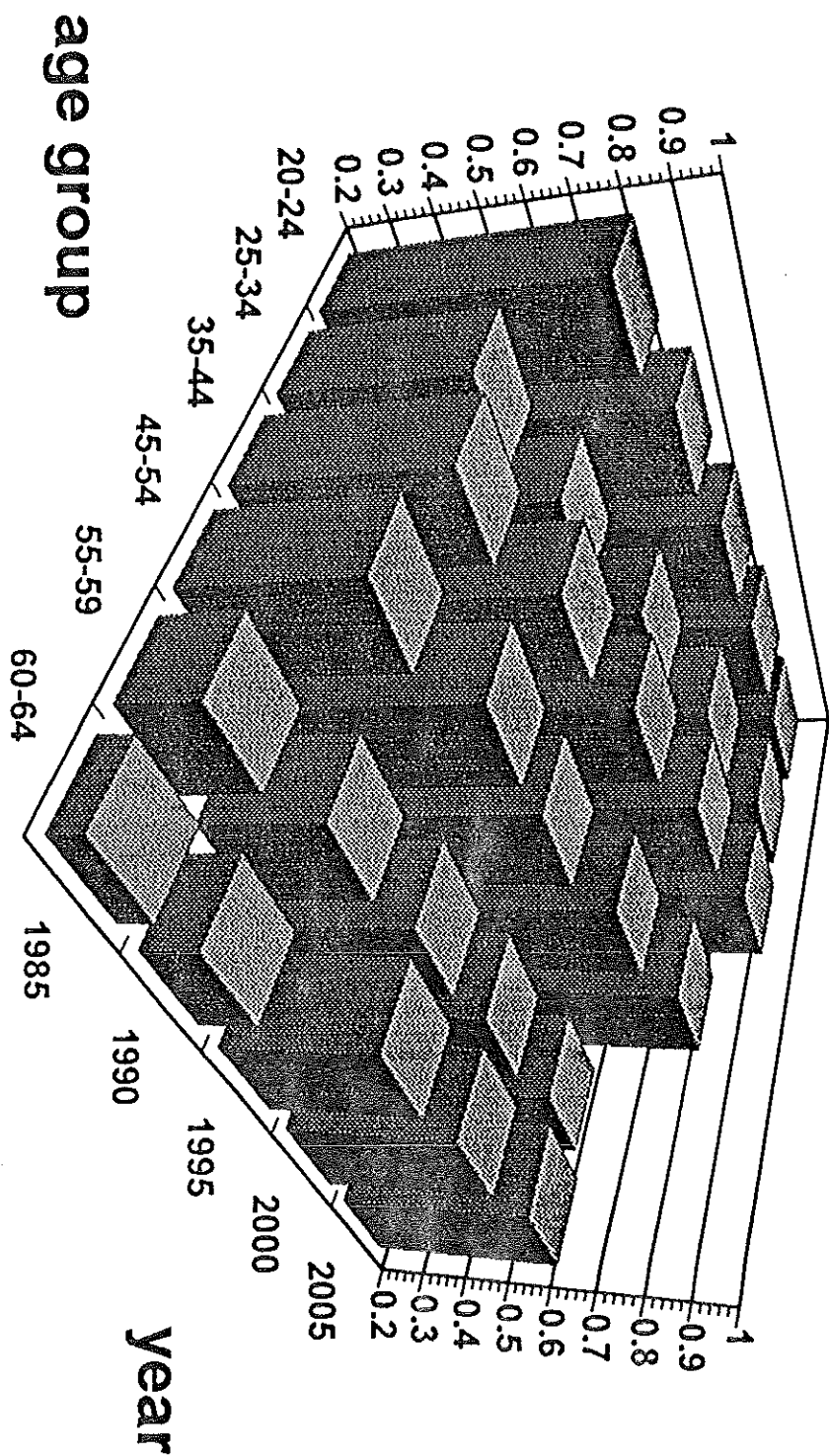
CHAIR—Is it the wish of the committee that the graphs be incorporated in the

transcript of evidence? There being no objection, it is so ordered.

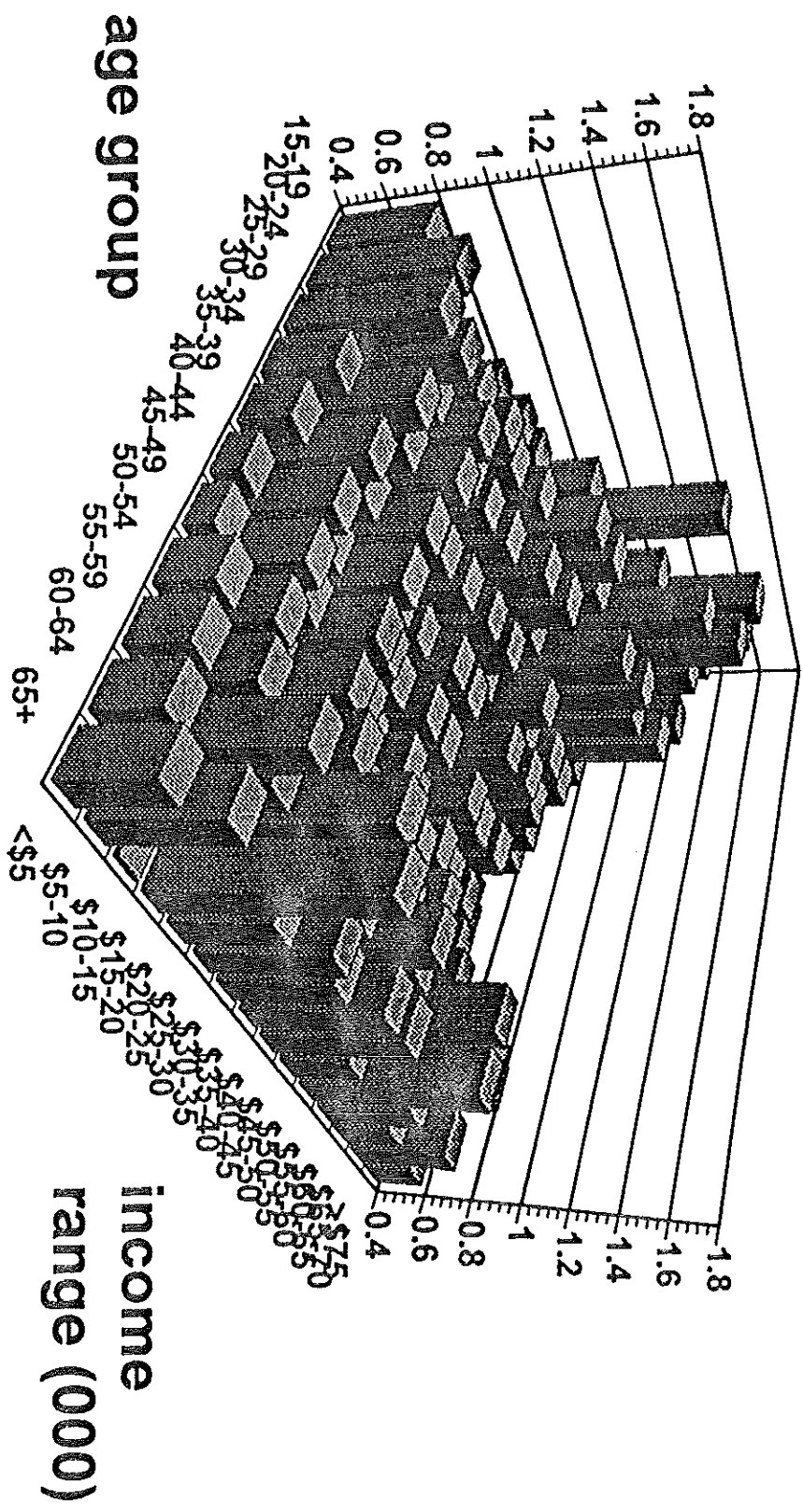
The graphs read as follows—

Chart 1

Ratio of the female to male participation ratios



Female to Male Superannuation Asset Ratio by age group and income group



Senator FERGUSON—Could I ask about your second graph where you are talking about female to male superannuation asset ratios. Do we assume in this graph, the same as in the previous graph, that 1 is the male equivalent and that those—

Dr Sinha—This is female divided by male superannuation asset.

Senator FERGUSON—What level are you using as the male level? I presumed on the first graph, having had some information, that it is in relation to 1, where 1 would be the male participation rate and the female participation rate at age 20-24—

Dr Sinha—Corresponding to male.

Senator FERGUSON—To men.

Dr Sinha—Yes.

Senator FERGUSON—On the next graph is number 1 the male asset ratio.

Dr Sinha—Yes, female to male asset ratio.

Senator FERGUSON—So, in actual fact, the females are higher than the younger age group.

Dr Sinha—For the younger age group, for very high income groups. I really do not know the reason. I do not know why a 15- to 19-year old would have \$75,000 in the first place.

Senator FERGUSON—No, my daughters don't either!

Dr Sinha—You have a very small number there, so those high-rises in the background are really anomalies rather than the norm, I should say.

CHAIR—From a business perspective, what is the reaction of employers to a suggestion that employees should have an entitlement to place the employer's superannuation contribution in a fund of the employee's choice?

Dr Sinha—When we talked to a large number of small businesses, mostly small businesses, most employers were quite happy for employees to take the responsibility of whatever they wanted to do with the money. One guy said, 'I am chasing these five people and I have \$600, \$700—a small amount of money—but I do not know where they are. Here is the cheque. I will write the cheque for the person. Please find the person and give it to them. I just do not have time to go out and chase that person whenever the person

has not left any forwarding address', and so on. They are just trying to get rid of the money. They want to comply with the requirement but they just cannot find the person.

So, generally, at least the small business people do want the employees to take responsibility rather than them carrying around whatever they have to do to comply with the super. In fact, we found that the cost of compliance in time and, in some cases, spending money to comply with these small amounts of money, was quite substantial for small employers.

CHAIR—What would be your view if a person took time off from the workplace and received a partial sickness pension? Do you think the government should set aside superannuation moneys for that person?

Dr Sinha—Sickness as in—

CHAIR—A chronic sickness or an accident that took them out of the work force, say, for six months and during that time the person was paid a Commonwealth benefit. Do you think that Commonwealth benefit should include a component for superannuation?

Dr Sinha—Yes.

CHAIR—How far should that component extend? What sorts of other payments should the Commonwealth contribute to that person in addition to a salary, such as superannuation? I have suggested, and you agree with me, that it should extend for a sickness and accident time. Should there be any time limit on it?

Dr Sinha—The whole point of putting that in, presumably, is that that person does not get disadvantaged when that person retires ultimately. So, pursuing that logic, it would seem that once we agree that the person would be paid there is no reason to put a time limit on it, otherwise it defeats the whole purpose of doing such a thing.

CHAIR—If we accept that logic, therefore, why should not the government set aside moneys for superannuation for people who are unemployed?

Dr Sinha—Again, the problem boils down to what implications that would have for the budget. If, for example, the implication for the budget is that it is going to produce a big hole in the budget and, therefore, have a large consequence for earnings of companies, et cetera, that might be a bad thing overall for the general economy, in which

case we have to draw the line some place.

CHAIR—But is it only the quantum that makes you favour the concept of the government adding to the benefit to include superannuation in the case of accident or sickness disability payments?

Dr Sinha—Yes.

Senator WOODLEY—Do you have an opinion about the reduction in the cost of borrowing because of the increase in savings through the super guarantee charge? Is that in itself offsetting some of the problems of the impost on business of the super guarantee charge? I know it is a bit ephemeral, nevertheless, there is surely a cross-over.

Dr Sinha—I must admit I am rather sceptical as to how much the superannuation guarantee charge is actually going to increase savings overall and, therefore, reduce the cost of borrowing in the first place because, typically, looking at the total savings in Australia, most of it comes from the top 10 per cent of income earners anyway. I seriously doubt that putting three per cent or seven per cent superannuation on them is going to make them save any more. So I am rather sceptical about whether it will have a beneficial effect in reducing the cost of capital and, therefore, deriving some long-term benefit from it.

CHAIR—Thank you very much for appearing before the committee today. If there are any further reports that you would like to submit to the committee, please let us know. If you have any suggestions to improve the superannuation system, certainly advise the secretary.

Luncheon adjournment