Bankwest Curtin Economics Centre and UniSuper

ABORIGINAL AND TORRES STRAIT ISLANDER AUSTRALIANS AND THE SUPERANNUATION SYSTEM

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About BCEC

The Bankwest Curtin Economics Centre is an independent economic and social research organisation located within the Curtin Business School at Curtin University. The Centre was established in 2012 through the generous support of Bankwest, a division of the Commonwealth Bank of Australia. The Centre's core mission is to deliver high quality, accessible research that enhances our understanding of key economic and social issues that contribute to the wellbeing of West Australian families, businesses and communities.

The Bankwest Curtin Economics Centre is the first research organisation of its kind in Western Australia, and draws great strength and credibility from its partnership with Bankwest, Curtin University and the Western Australian government.

The Centre brings a unique philosophy to research on the major economic issues facing the state. By bringing together experts from the research, policy and business communities at all stages of the process – from framing and conceptualising research questions, through the conduct of research, to the communication and implementation of research findings – we ensure that our research is relevant, fit for purpose, and makes a genuine difference to the lives of Australians, both in WA and nationally.

The Centre is able to capitalise on Curtin University's reputation for excellence in economic modelling, forecasting, public policy research, trade and industrial economics and spatial sciences. Centre researchers have specific expertise in economic forecasting, quantitative modelling, micro-data analysis and economic and social policy evaluation. The centre also derives great value from its close association with experts from the corporate, business, public and not-for-profit sectors.

Cover artwork: 'Growing'

About the Artist
Rickiesha Deegan is a proud Kariyarra and Nyikina woman from Port Hedland, a small regional town in the Pilbara, currently living on Whadjuk Noongar boodjar in Perth, Western Australia. Art and design has been Rickiesha's way to connect with her culture, express her mental health and explore her identity as an Aboriginal woman living in this modern world. She is also a UniSuper member and works for People and Culture at Curtin University.

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Foreword

It is remarkable how little existing literature there is on outcomes for Australian Aboriginal and Torres Strait Islander people in retirement and old age.

This is even more remarkable given that Indigenous Australians often face different challenges and life trajectories, and have different cultural preferences and aspirations compared to the non-Indigenous population.

This report helps to fill this void, and offers some important insights that improve our understanding of the financial security - or otherwise – that the current retirement system offers to Indigenous Australians and their families.

Importantly, this report offers a set of recommendations that, if implemented, could go some way to rebalancing the support provided to Indigenous superannuation fund members in making the transition to retirement and older age.

As with much of our research, this report is in no sense the last word. Rather, it provides a basis for key stakeholders to start important conversations on the design of the superannuation system as it relates to Indigenous Australians, and to challenge the *status quo* in policy.

The timing of the report is especially pertinent, with the Royal Commission into Aged Care and Treasury's Retirement Incomes Review both taking evidence to inform their final recommendations. Key findings from this report are an important and timely addition to that evidence base.

I would especially like to acknowledge UniSuper for their role in sponsoring and initiating the project, and their commitment to deliver meaningful change that will benefit Aboriginal and Torres Strait Islander people. Their support reflects a vision in which all Australians, irrespective of gender, ethnicity or socio-economic background can enjoy a comfortable, confident and secure retirement.

I'm proud that the Centre has been able to share in such a valuable partnership in delivering these new findings. This partnership reflects our mutual commitment to deliver meaningful change that will benefit Aboriginal and Torres Strait Islander people.

I would like to thank Professor Marion Kickett from the Centre for Aboriginal Studies and Ian Jackson, Director of People and Culture at Curtin University, for their great support and advice.

On behalf of the research team, I would like to extend a special note of appreciation and thanks to the Indigenous participants in this study. We recognise the exceptional commitment to the project, and extend our thanks for the invaluable insights provided to help shape this research.

The release of this new report stands as another important contribution to Bankwest Curtin Economics Centre's growing program of research on issues of direct relevance to Aboriginal and Torres Strait Islander Australians.

It is our sincere hope that this research will lead to positive changes for Indigenous peoples across the length and breadth of Australia.

Professor Alan Duncan
Director, Bankwest Curtin Economics Centre
Curtin Business School, Curtin University

List of recommendations

Whether an account holder identifies as a person of Aboriginal and/or Torres Strait Islander descent be included as part of the standard information collected by all superannuation funds when new accounts are established.

The Australian superannuation industry as a whole, possibly through consultation between the Association of Superannuation Funds of Australia (ASFA), the Indigenous Superannuation Working Group and the Australian Transaction Reports and Analysis Centre (AUSTRAC), develop and implement a strategy for retrospectively collecting and validating the Aboriginal and Torres Strait Islander status of existing account holders.

More widespread and concerted efforts be made by superannuation funds to comply with and train staff in the identification procedures developed by AUSTRAC for persons who identify as being of Aboriginal or Torres Strait Islander descent.

As soon as the proportion of accounts for which the Indigenous status of the account holder is known reaches a sufficient level:

- the industry monitor and regularly report through ASFA on outcomes for Indigenous clients, including average balances and the number of multiple and lost accounts.
- relevant data by Indigenous status be made available and incorporated into the Overcoming Indigenous Disadvantage reporting framework under the 'Economic participation' headline indicator, and to relevant government inquiries.
- targeted initiatives be undertaken to assist Indigenous people (and their beneficiaries) to locate lost accounts and consolidate existing accounts through coordinated data-matching by the Industry, the Australian Taxation Office and Centrelink.

Individually or collectively, funds work with suitably qualified Indigenous people and Indigenous representative organisations to produce a set of informational resources on superannuation and retirement targeted specifically to meet the needs of Indigenous Australians in terms of their content and communication styles. These should be visual, accessible online and feature Indigenous presenters.

A cross-industry Indigenous support and advocacy unit be established to assist Indigenous people with issues and inquiries relating to superannuation. The unit should be:

- manifestly independent.
- staffed by Indigenous persons to the extent possible, and all staff required to have a high degree of cultural competence.
- accessible by person-to-person online communication (such as web chats, video links).
- supported by an industry code of conduct ensuring Indigenous persons dealing with sensitive matters, such as those relating to utilising hardship provisions and the deaths of relatives, are offered a referral to the unit.

List of recommendations (continued)

ASFA, the Indigenous Superannuation Working Group and the Commonwealth Government work together to identify ways of amending existing legislation to relax the hardship conditions for early provision to superannuation for Indigenous persons and/or the costs and tax penalties associated with early access. Potentially, this may be achieved by establishing the Indigenous advocacy unit recommended above as a statutory authority, with certain powers to grant waivers or variations of existing provisions for Indigenous persons.

A differential preservation age be introduced such that Aboriginal and Torres Strait Islander Australians can access their superannuation from age 50 years on the same conditions that other Australians can do so at age 65. The preservation age be reviewed on a five-yearly or 10-yearly basis, and a schedule for raising the Indigenous preservation age over time be set out conditional upon the gap in life expectancy of Indigenous and non-Indigenous Australian closing, and guided by the general principal that equivalent proportions of those populations reach the preservation age.

At a broader level, the government consider reforms to the retirement incomes framework to redirect support towards a stronger safety net for those in old age with lower means, financed by a counter-balanced reduction in tax concessions for superannuation, including refocussing of tax concessions for superannuation towards lower income earners. There are many potential ways of achieving such a rebalancing, including some combination of an increase in the Age Pension, lower caps on concessional superannuation contributions, and reductions in the threshold at which superannuation balances and/or the value of the family home are exempt from the Age Pension assets test.

Executive summary

The Australian retirement income framework consists of 'three pillars': a non-contributory Age Pension; superannuation linked to employee earnings and voluntary savings. Since 1992, the centrepiece of the superannuation system has been the Superannuation Guarantee, in which employers make compulsory contributions to a fund on behalf of employees as part of their employment entitlements. Superannuation funds now manage around A$2.7 trillion in investments, representing almost 20 per cent of the total assets of Australian households.

Indigenous Australians face multiple barriers in achieving the outcomes they have a right to value and, on average, experience substantial disadvantage relative to the Australian population as a whole, including lower life expectancy. While the causes of this disadvantage are complex, much of it arises from historical government policies and laws, including massacres, dispossession of land, forced removal of children, racism and destruction of culture.

Reconciliation requires reforms to value and accommodate Indigenous cultures and acknowledge past injustices, and the pursuit of equitable outcomes for Indigenous people by institutions such as the Superannuation system, which plays a substantial role in shaping outcomes for Australians and their families. In this light, this report assesses the appropriateness of the superannuation system for Indigenous Australians.

While disadvantages faced by Indigenous Australians have been extensively analysed, there is a surprising lack of research that has looked at comparative outcomes in retirement incomes and quality of life in old age.

Across the life-course, Indigenous males and non-Indigenous females have very similar earnings patterns. Compared to these two groups, non-Indigenous males have around 50 per cent higher incomes in the prime working years, and Indigenous women around 30 per cent lower incomes, leading to lower average superannuation balances for Indigenous Australians.

We estimate that the existing superannuation balances of non-Indigenous Australians upon retirement are, on average, more than double that of Indigenous Australians. Approximately 62 per cent of Indigenous males and 71 per cent of females have incomes below a benchmark 'modest standard' for a couple at age 65-69 years, and even higher proportions for those aged 85-89 years. More women than men have incomes below the modest standard. Indigenous Australians do typically experience a sharp decline in incomes at around age 65, but there is evidence their sense of financial wellbeing actually improves post-retirement.

Executive summary (continued)

Modelling outcomes given key existing parameters of the superannuation system, including the 9.5 per cent compulsory employer contribution, it is estimated that the average Indigenous male will accumulate a superannuation balance of $308,000 by age 65 years compared to $483,000 for non-Indigenous men; and Indigenous females $205,000 compared to $313,000 for non-Indigenous women. Around two-thirds of the non-Indigenous to Indigenous gap can be attributed to lower Indigenous labour force participation over the life-course. The higher incidence of unemployment for Indigenous persons participating in the labour force accounts for another one-fifth of the gap.

In engaging with superannuation funds, Indigenous people face challenges around proof of identity, financial literacy, conditions for early access to superannuation, consolidating multiple accounts, access to services, settling accounts of family members who have passed away and the cultural appropriateness of those services. These issues are often accentuated for Indigenous persons living in remote communities, but also affect those living in urban areas and who make up the majority of superannuation clients.

To improve service delivery and access for Indigenous clients we recommend the establishment of an industry-representative, specialised Indigenous advocacy unit or help-line staffed by specialist Indigenous advisors. This is particularly important for dealing with issues that are personally and culturally sensitive, such as those relating to hardship provisions for early release and in settling the superannuation affairs of people who have passed away.

For improving services for Indigenous clients, and for ongoing evaluation of the performance of the superannuation system in meeting the needs of Indigenous Australians, it is critical that all that superannuation funds include an identifier for Indigenous status in administrative data.

Under the current system most benefits of superannuation accrue to those with stronger engagement with the labour force and with higher earnings. This is seen to be unfair to women, who shoulder more of the burden of child care and other unpaid work. On similar grounds, it can be argued the system fails to adequately accommodate Indigenous cultural aspirations, roles and obligations to the extent that these work to reduce opportunity for paid employment.

On principles of equity and fairness, there is a very strong case for the introduction of a lower preservation age for Indigenous Australians, so that superannuation can be accessed earlier if chosen. It is already government policy for Indigenous Australians to access aged care services at the age of 50 years, rather than 65 years, in recognition of the shorter life expectancy and poorer health status. A preservation age of 50 years for Indigenous persons would mean a further 9 per cent of the current cohort of Indigenous men and 6 per cent of Indigenous women would live to access their super, with expected balances at age 50 of $152,000 for those Indigenous men and $101,000 for the women. Even with this differential preservation age, a slightly lower proportion of Indigenous than non-Indigenous Australians would live to access their superannuation.

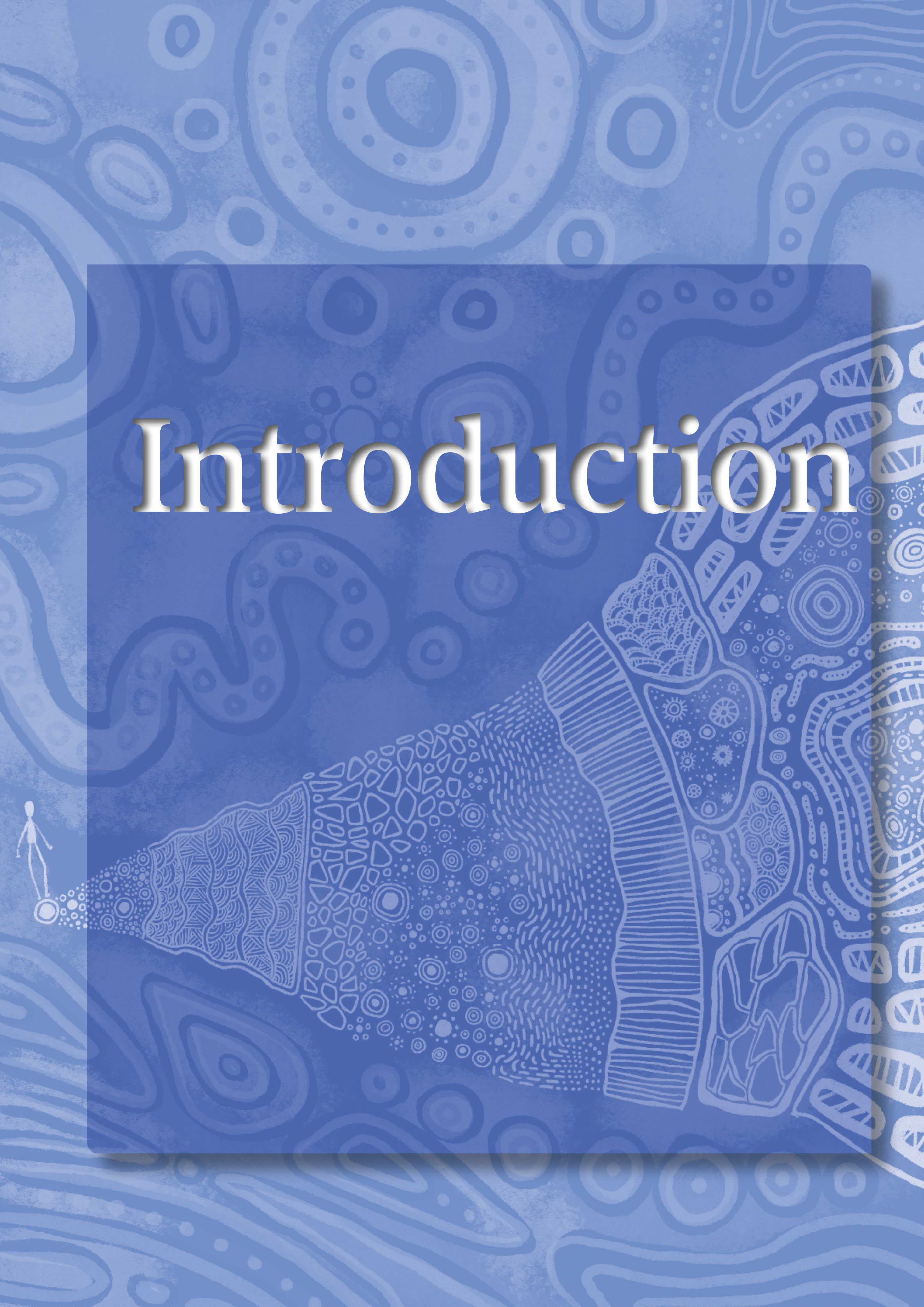
Under the current system, Indigenous Australians and other groups who face socio-economic disadvantage will have lower incomes in retirement, and almost all will rely on the Age Pension should they reach the eligibility age of 67. The system also generates more tax concessions for higher income earners. With the lower expected superannuation balances, and even accounting for the low income superannuation tax offset, we project that Indigenous Australians will receive around half the tax concessions of non-Indigenous Australians. In retirement, relatively few Indigenous people will benefit from the advantages of the exclusion of the family home from the asset test for the Age Pension. There are grounds to reconsider whether, on balance, the current parameters offer too much in the way of tax concessions to higher income earners, and too little in the way of a safety net underpinning retirement incomes.

Evolution of the retirement incomes system over time has worked to replace support for the aged by families with individual self-provision and institutionalised aged care. In light of cultural norms among Indigenous peoples for the elderly to remain with family, we believe a more culturally aligned system would instead have strengthened support for a social norm of families caring for their elders.

Abbreviations

ABS	Australian Bureau of Statistics
AIHW	Australian Institute of Health and Welfare
ANAO	Australian National Audit Office
ASFA	Association of Superannuation Funds of Australia
ATO	Australian Taxation Office
AUSTRAC	Australian Transaction Reports and Analysis Centre
CPI	Consumer Price Index
FSRC	Financial Services Royal Commission (Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry)
GDP	Gross domestic product
HILDA	Household, Income and Labour Dynamics in Australia Survey
ISWG	Indigenous Superannuation Working Group
MTAWE	Male total average weekly earnings
NATSISS	National Aboriginal and Torres Strait Islander Social Survey
NILF	Not in the labour force
RCACQ	Royal Commission into Aged Care Quality and Safety
SCRGSP	Steering Committee for the Review of Government Service Provision

Introduction



Introduction

Achieving reconciliation with Aboriginal and Torres Strait Islander peoples, the original occupants of the Australian continent, remains one of the most pressing challenges facing our nation. Meeting that challenge will require a commitment to seeking and acknowledging the true history of colonisation and its impacts; to valuing and celebrating Aboriginal and Torres Strait Islander cultures; and striving to address existing inequalities in opportunity between Aboriginal and Torres Strait Islander peoples and other Australians. These commitments need to be broadly embraced by Australian society and incorporated into institutional settings, policies and practices at all levels.

Inequalities faced by Indigenous Australians throughout the life-course have been extensively documented. These include higher child mortality rates, lower rates of school completion and post-school educational attainment, markedly higher juvenile and adult incarceration rates, poorer physical and mental health status and lower life expectancy (see, for example, SCRGSP 2016). However, relatively little attention has been paid to the quality of life for Indigenous Australians in retirement or the institutional settings and policies that impact upon quality of life in old age. Australia's superannuation system is an internationally unique economic institution. Along with the Age Pension and voluntary savings, superannuation is one of the 'three pillars' of the system through which Australians are financially supported in old age. Australian superannuation funds now manage around A$2.7 trillion in investments, representing almost 20 per cent of the total assets of Australian households (Productivity Commission 2018a: 82).

Hence, the parameters of the superannuation system have important implications for the quality of life experienced by Indigenous Australians in retirement, and its compulsory nature impacts upon choices throughout working lives. Existing institutional arrangements to provide for incomes in retirement evolved to meet the needs of the 'mainstream' Western capitalist society and without reference to different cultural preferences and aspirations of Indigenous Australians, or to life circumstances. This report provides an assessment of how appropriately the parameters of the current superannuation system and the services it provides meet the needs of Indigenous Australians. It arises from a research project initiated by UniSuper, one of Australia's largest superannuation funds, as part of its commitment to reconciliation, and undertaken with support from Curtin University and the Bankwest Curtin Economics Centre. The objectives of the collaboration include:

- To improve understanding of inequities facing Indigenous Australians that are inherent in the existing Australian superannuation system and in the more general retirement incomes framework;
- To identify the needs of Indigenous superannuation clients and ways policies and practices can be more responsive to those needs, with respect to both UniSuper's own clients and the superannuation industry systemically.

The appropriateness of the superannuation system in meeting the needs of Indigenous Australians can only be assessed in reference to individual experiences within the broader retirement incomes framework. Consequently, the following chapter provides an overview of the evolution of aged care and retirement incomes policy in Australia and its objectives. The report then provides assessment of the superannuation system from two broad perspectives.

The first looks at how well Indigenous Australians are currently being serviced by superannuation industry funds, taking the existing parameters of the system as given. This relates to Indigenous Australians' capacity to make full use of the system to their advantage, covering aspects such as financial literacy and accessibility, and draws upon findings from focus groups undertaken with Indigenous superannuation clients.

The second, contained in Chapter 5, models the implications of the parameters of the current system, such as contribution rates, tax treatment and eligibility conditions, for outcomes and equity in retirement incomes given the typical work and earnings patterns of Indigenous and non-Indigenous Australians over the life-course. Estimates are provided separately by Indigenous status and gender.

The results of the qualitative research and quantitative modelling provide novel insights into the challenges faced by Indigenous Australians in preparing for retirement and help to fill a manifest gap in the literature on socio-economic outcomes for Aboriginal and Torres Strait Islander Australians. The final chapter discusses the findings in the context of the key debates surrounding equity in retirement outcomes for Indigenous Australians, and offers recommendations for reforms in the delivery of services and of the wider policy framework.

Support

for the aged and the evolution of superannuation in Australia

Support for the aged and the evolution of superannuation in Australia

A reality that all societies must plan for is the temporal mismatch over the life cycle between the pattern of human beings' consumption and their productivity. In general, the needs of the very young and the very old are much greater than they themselves can provide for, while in the prime working years people can generate substantially higher output than is needed to sustain themselves. Some system of wealth transfer is required, whether that transfer is a redistribution between individuals who are at different stages of the life cycle; individuals redistributing their own wealth over time via borrowings and savings; or some combination of the two. Redistribution across individuals occurs through resource sharing within family units and more widely through budgetary transfers and institutional arrangements. In his Life Cycle Hypothesis, Nobel Prize winning economist Franco Modigliani demonstrated how consumption smoothing over the life cycle could account for observed variation in aggregate saving rates of countries given their income levels and rates of economic growth. Under this model, the length of retirement is a critical determinant of the rate of savings (Modigliani 1986).

The established social norm in Western society is for parents to provide the bulk of resources to raise their own children, but the mechanisms and responsibilities to provide for the elderly are not so clearly delineated. Once people retire and as their capacity for independent care diminishes, people must draw on some combination of private savings, returns from investments, family support and social transfers. Such support for the aged comes in a range of forms, including care provided by family and friends, income support (pensions) aided by pensioner concessions and housing subsidies, subsidised healthcare and pharmaceuticals, care provided residentially or in aged care facilities, and income and other support for carers (Cullen 2003: 1). In Australia, mandated superannuation has become a key component of private savings for retirement, along with home ownership, reinforced by a public welfare safety net. In Aboriginal and Torres Strait Islander cultures, extended kinship networks and local community play a greater role in care for the elderly (see Box 1).

This section reviews the development of the superannuation system as one of the components of Australian society's system of support and income for those in retirement and old age.

Box 1: Indigenous culture and support for the elderly

Since relatively early in Australia's colonial history, the State has played a major role in supporting people in old age through the provision of retirement incomes and other welfare functions. In determining eligibility for that support, there is no requirement for contributions from other family members. There is an acknowledged lack of academic literature on the role of older Indigenous peoples in Indigenous culture and communities (Warburton and Chambers 2007). However, there is a general acceptance that a key difference between traditional Indigenous cultures and Western society is the greater emphasis Indigenous cultures place on immediate and extended kinship networks and their associated obligations in social and economic relations (Christie 1985; Thompson, Gifford and Thorpe 2000). Elders, and grandparents in particular, play an important role in childcare and in passing on cultural knowledge (Warburton and Chambers 2007).

In the spirit of reciprocity that characterises Indigenous kinship relations, there are strong cultural obligations on family to support the elderly, especially in Aboriginal communities that are culturally driven through their families, language and kinship systems. In Aboriginal culture, looking after an elderly person is an accepted part of everyday life and it is a cultural norm to encourage the aged to remain at home. Many families live with three generations, appreciating the effects of grandparents and grandchildren on each other's wellbeing. Of course, these preferences are subject to practical limitations of overcrowding, finances and logistics, and often families do need to turn to non-Indigenous institutional support.

Qualitative research on the meaning of poverty for Indigenous people supports this centrality of the family. Lahn (2012) notes that in interviews with Aboriginal people in urban settings the value of work, money and home ownership was consistently framed in terms of their importance within family or community life, rather than individual needs. As one respondent puts it: "I'm not poor but I can't afford luxuries. We can always have a feed, we've always got family to feed us." (p. 300).

In broader Australian society the trend has been away from the private family as the first and foremost source of support for the aged, and toward individual reliance underpinned by institutionally based aged care. It is a trend that further shifts social norms, policy perspectives and service delivery models relating to support for the aged away from Indigenous cultural norms. However, such cultural differences were already evident in early debates on the introduction of the pension. A proposed 1903 amendment to the NSW Old Pension Act sought to require 'near relatives' to support pension applicants where they had the means, and a proposed Victorian bill sought to "... compel children who are able to do so to maintain their aged parents." (Kewley 1969: 41). Other debates concerned whether support for the aged should be seen as an 'entitlement' or a 'charity', and the pros and cons of framing it so. Such discourses would likely seem somewhat peculiar to those coming from an Aboriginal or Torres Strait Islander cultural standpoint.

Colonial beginnings

The early colonial governments indeed saw care for the elderly as primarily the responsibility of their own families. Those without adequate means and who could not be cared for were institutionalised or left to the mercy of charitable organisations. Recognition of the inadequacy of these arrangements saw government taking on an increasing role over time. Support for the concept of an aged pension with the aim of alleviating poverty was growing in several Australian States in the late 1800s, but the issue of how such schemes should be financed delayed their introduction. 'Old-age' pension schemes first came into effect in New South Wales and Victoria in 1901, and in Queensland in 1908. Aged pension payments were means tested to ensure assistance was targeted to those most in need while limiting the budgetary impost (Cullen 2003, Kewley 1969).

With Federation in 1901, the Constitution granted the Commonwealth power to legislate for the provision of aged pensions and the first Commonwealth scheme was introduced through *The Invalid and Old-age Pensions Act 1908*, coming into effect in 1909. Women became eligible from age 60 years and men from age 65 years. As one of the few non-contributory schemes in the world, Commonwealth expenditure on the Age Pension as a proportion of GDP increased steadily to peak at almost 3 per cent in the late 1970s, due primarily to the rising number of Age Pensioners (Cullen 2003). Although there have been many amendments to the scheme over the years, the aged pension remains in place in the same essential form of a means tested payment, with the pensioner's home exempt from the means test. The non-contributory nature of the scheme and the means test have featured prominently in the debates for proposed amendments over the years. Kewley (1969: 91) observes that, by the 1940s, workers who had begun contributing to superannuation schemes, largely public servants, became the most vocal in calling for the removal of the means test.

One of the eligibility restrictions for the Old-age Pension provided for in the 1908 Act was the explicit exclusion of 'aboriginal natives' of Australia (Commonwealth Treasury 2001[1], Daniels 2011). This remained the case until 1942, when eligibility was extended to Aboriginal natives who were not subject to a State law relating to the control of 'Aboriginal natives', or were otherwise of 'sufficient character, standard of intelligence and development'. In 1947 the Old-age Pension was renamed the Age Pension and further exclusions based specifically on race were removed, but not those relating to Aboriginal and Torres Strait Islander Australians. Amendments enacted in 1960 extended eligibility to all Aboriginal Australians other those who were 'nomadic or primitive'. The exclusion of Indigenous peoples on the basis of being 'nomadic or primitive' was removed in 1966 (Daniels 2011). All differential eligibility provisions between Indigenous and non-Indigenous Australians presumably ceased to have effect with the 1967 referendum endorsing Constitutional amendment to remove clauses discriminating against Aboriginal people and providing for Aboriginal people to be '... counted in reckoning the population'.

1 The Commonwealth Treasury's review of the history of the aged pension draws heavily on Dixon (1977) and Kewley (1973, 1980).

The Age Pension today

For women the age of eligibility for the Age Pension was incrementally increased from 60 years to 65 years between 1995 and 2013 to bring it into line with that for men. Largely in response to budgetary pressures associated with an ageing population, legislation was passed in 2009 to further increase the age of eligibility for men and women from 65 to 67 years. This change is being phased in through increases in the eligibility age by 6 months every 2 years commencing from July 2017 (Daniels 2011). Hence qualifying people currently become eligible for the Age Pension when they turn 66, but those born from 1957 onwards will become eligible at age 67. It's appalling to think that, as of today and for another 14 years to come, Indigenous people reaching the age of eligibility will have been born at a time when Indigenous Australians did not have access to the Age Pension on account of not being considered full citizens of this country.

Age Pension rates are indexed twice annually in line with changes in the consumer price index. Since 1997 a benchmark equivalent to 25 per cent of male total average weekly earnings (MTAWE) has underpinned the Age Pension rate for a pensioner who is single. If the rate of indexation for inflation was not sufficient to maintain parity with that benchmark, the pension would be increased to 25 per cent of MTAWE. Combined with the treatment of some supplements, this means that the Age Pension rate for singles is maintained slightly above 25 per cent of MTAWE, and the rate for couples is one-and-a-half times the single rate (Daniels 2011). At the time of writing, these amounted to full basic rates of $850 per fortnight for a single Age Pensioner, and $1,282 combined for a couple.

Aged care

While this report is concerned primarily with superannuation and its role within the framework for the retirement incomes of Indigenous Australians, social support for the elderly also comes in a number of non-income forms. Most older Australians live in their own homes, and informal carers, such as family, friends and neighbours provide the majority of direct care for older Australians (see Productivity Commission 2011a,b). Non-income support provided by the government includes subsidised health services and pharmaceuticals, housing support, residential and community care services and associated infrastructure and payments for carers. Income support – primarily the Age Pension – accounts for around one-third of all Commonwealth Government support for older Australians. Subsidised health services comprise the largest expenditure category, representing around half of Commonwealth support for the elderly (Cullen 2003)[2].

As noted, in the emerging settler society of the late 1800s and early 1900s, care for the elderly was primarily the responsibility of families. With the State reluctant to take responsibility for those without private support for fear of undermining self-reliance and encouraging pauperism, a significant role for religious and charitable organisations emerged, while 'asylums for the destitute' provided housing of last resort (Cullen 2003; Kewley 1969, 1980). Since that time, there has been declining family acceptance of caring for aged people in the home, and a growth in opportunity for alternative arrangements for that care (Kewley 1980: 144).

Rather than providing aged housing directly, the Commonwealth's Aged Persons Home Act 1954, enabled capital grants to be made to religious, charitable and other not-for-profit organisations for the purchase or construction of homes for the aged. People were eligible for subsidised housing once they reached pensionable age. As organisations solicited contributions or donations from the residents, Kewley (1980) suggests the system acted to increase the supply of accommodation for aged persons who were 'comfortably off' more than for the aged poor. The Aged Persons Hostels Act of 1972 sought to expand the supply of hostel type accommodation for the elderly, following a Department of Social Services report indicating the need for this form of accommodation as well as cost savings through diversion away from nursing homes designed to provide more intensive care. The Parliamentary debates at the time of the introduction of the Act record the government's concern that "... many people, whose only infirmity is the frailty of advancing years, are sometimes being admitted to nursing homes and other similar institutions unnecessarily" (cited in Cullen 2003: 59).

Over time the Commonwealth has progressively broadened assistance to pension recipients, including programs for those renting privately (now known as Commonwealth Rent Assistance); per-resident personal care subsidies and per-patient nursing home payments; and subsidies for in-home nursing services and other in-home care, such as 'meals-on-wheals' and support for carers, culminating in the current day means tested Carer Payment (Cullen 2003, Kewley 1980). The sector has been subject to constant reviews and reforms with concerns over quality of care, proper targeting of assistance, fine tuning of funding models to avoid perverse incentives and cost-shifting, including the unification of the hostel and nursing home sectors in 1997. It remains the case that aged places are limited and many in need cannot afford nursing home care.

2 Cullen's estimates relate to 2000-01. While we have not been able to identify more recent estimates that include a valuation of subsidised health services, the relativities between expenditure in other categories of support appear to have remained broadly similar.

In the literature reviewed on the evolution of aged care in Australia, no mention has been found of when eligibility was extended to Aboriginal and Torres Strait Islander Australians. We do know that many were removed from traditional country to missions and reserves and, again, any legal exclusion would presumably have ceased with the passing of the 1966 referendum. The Aged Care Act of 1997 designated Aboriginal and Torres Strait Islander peoples as a group of 'people with special needs' in recognition of the complex health care needs and current policy provides for Indigenous Australians to access aged care services from age 50 years, compared to 65 years for the broader population. The current Act also specifies that providers must deliver services with regard to social and spiritual needs of recipients and the challenge of delivering appropriate services to Indigenous people living in remote areas is acknowledged (AIHW 2019, ANAO 2017, Department of Health 2019). However, the interim report of the Royal Commission into Aged Care suggests Indigenous Australians are not being well serviced by the current aged care system, noting Indigenous people's deep distrust of government institutions due to historical experiences and trauma, and challenges for service delivery to accommodate the importance to Indigenous people of connection to wider family, cultural practices and to country (RCACQ 2019: Chapter 7).

The evolution and role of Superannuation

Retirement income systems are widely characterised as comprising of 'three pillars': poverty alleviation; income replacement linked in some way to income earned prior to retirement, and individuals' or families' voluntary savings to provide for their own retirement. The parameters of any such retirement-savings system will need to reflect key demographic characteristics of the society, such as the age profile of the population, and the number of years people can expect to spend in work and in retirement. In Australia, provision for retirement incomes above the level offered by the safety net of the Age Pension has been through private savings, and this has been facilitated by superannuation and associated favourable tax treatment. Hence the corresponding three pillars of the Australian retirement incomes system are the non-contributory means tested Age Pension, compulsory private superannuation savings and voluntary savings (Commonwealth Treasury 2001).

The Commonwealth Treasury (2001: 74) identify four main eras in the development of superannuation in Australia:

- From 1800s to 1940 - superannuation limited to a select group of salaried employees and provided mainly by large companies (Clare and Craston 2017).
- 1950s to 1970s - superannuation provided a supplement to the Age Pension for mainly white collar, male workers following relaxation of the Age Pension means test.
- 1970s to 1992 - superannuation expanded as an employment fringe benefit, including through the introduction of a 3 per cent employer contribution into award determinations in 1986, but continued to be concentrated among professional and white collar workers.
- From 1992 - introduction of compulsory superannuation.

The Superannuation Guarantee and the current system

The introduction of compulsory superannuation with the *Superannuation Guarantee (Administration) Act 1992* followed a number of previous failed attempts, from as early as 1928, to establish national schemes covering retirement incomes and insurance for sickness and disability (Treasury 2001: 75). However, debate continues over the exact objective of the system that was established in 1992. The Superannuation Guarantee initially provided for employer contributions of 5 per cent of the employee's earnings for large employers and 3 per cent for small employers, rising to 9 per cent for all employees by 2012. The evolution of superannuation had led to a piecemeal set of arrangements that provided little in the way of enhanced retirement incomes for all but a limited number of high wage earners. Part of the momentum can be attributed to the union movement's push to broaden access to this form of employment benefit beyond white collar and professional workers (Jefferson 2012: 235). The superannuation guarantee transferred enforcement and administration functions from industrial tribunals to the Australian Taxation Office (ATO) with significant improvements in employer compliance through the Commonwealth's taxation powers (Kingston and Thorp 2019). As Clare and Craston (2017) note, the 'guarantee' part of the superannuation guarantee did not refer to guaranteed income in retirement, but to a guarantee that contributions would be made by employers. Coverage increased steadily from 80 per cent of employees in 1992 (Treasury 2001) to 91 per cent in 2007 (Australian Bureau of Statistics [ABS] 2009).

In part, the imperative for the broadening of superannuation and ultimately the implementation of the superannuation guarantee has been described in terms of economic challenges facing the government at the time, namely a need to lift national savings and dampen wage pressures in a time of a widening current account deficit, growing foreign debt and high inflation, as well as preparing for the budgetary challenges of an aging population (Clare and Craston 2017; Kingston and Thorp 2019). FitzGerald's (1993) review of national savings, commissioned by the Treasurer, raised the question of whether the objective of compulsory superannuation was to make most Australians independent of the Age Pension, something he estimated would require contributions of around 18 per cent of earnings (Kingston and Thorp 2019: 143). In a 1991 speech, a year prior to the introduction of the superannuation guarantee legislation, the Treasurer and soon-to-be Prime Minister, Paul Keating, proposed

> ... a comprehensive National Retirement Income Scheme. Such a scheme should be based on the Aged Pension and be augmented by a privately funded and employment related National Superannuation Scheme fuelled by a fully mature level of contributions. Such a scheme would maintain the Age and Service Pensions as the foundation of equity and adequacy in retirement income arrangements, but be complemented by the income of private superannuation with the dual systems integrated through to tax and social security systems. ... For most Australians this level of income will be at least double the retirement income they can now expect to receive if they rely upon the Age Pension.

In the Second Reading speech introducing the bill to parliament, Treasurer John Dawkins, said the superannuation guarantee would "... lay the foundation for income security and higher standards of living in retirement for future generations of retirees." but went on to add "I should stress that this mechanism is not intended to be the principal vehicle for the funding of employee's superannuation contribution entitlements. It is intended, instead, to be an incentive for employers to meet their own obligations, and to be a support mechanism for employees where those obligations are not met." (Dawkins 1992).

Recent budget speeches have indicated that the purpose of superannuation is to provide income to 'substitute or supplement' the Age Pension. This seems inconsistent with the Age Pension acting as a safety net, and FitzGerald and others have argued the primary objective of superannuation should be to replace workers' incomes upon retirement and thus to preserve living standards in old age (Kingston and Thorp 2019: 143). The historical development and the narrative at the time of the introduction of the Superannuation Guarantee clearly point to the enhancement of living standards in old age as the principal objective behind the current superannuation system.

Through the Superannuation Guarantee employer-contributed superannuation has now become an entrenched and integral component of workers' employment benefits and their retirement savings. While initially scheduled to increase to 12 per cent of employees' salaries by 2019, the rate of legislated increases has been more gradual, with the current compulsory contribution paused at 9.5 per cent of salary until 2021. An exemption from the employer superannuation contribution remains in place for employees who earn less than $450 per calendar month, although there have been calls to both remove this exemption and to increase it. Superannuation can potentially be taxed at three points: at the point of contributions being made to a fund, on fund earnings and upon withdrawal from fund. Employer contributions are taxed at 15 percent, and voluntary contributions are also encouraged by favourable tax treatment, although caps apply to the level of concessional contributions. Withdrawals are generally not taxed for people who have reached the preservation age, however income drawn (and deemed) from superannuation funds counts towards the Age Pension means test. Superannuation balances above a threshold are included as assets for the purposes of the Age Pension assets test[3].

3 There are also exemptions from the Superannuation Guarantee for workers aged under 18 and working less than 30 hours per week. Regulations governing superannuation and its taxation are highly complex. The intention here is not for a thorough discussion, but only to highlight key features of most relevance in the following assessment of outcomes for Indigenous Australians.

Summary

Temporary budgetary issues associated with the aging of the population and concerns with the macro-economic implications of Australia's low savings rate did serve as a catalyst for today's superannuation system, including with the intent to limit future reliance on the Age Pension. However, it is now generally accepted that the primary objective of the superannuation system, as it has evolved, is to enhance retirement incomes and living standards of the elderly. It exists within a wider framework for retirement incomes and aged care underpinned by the non-contributory Age Pension and aged care services as a safety net. As the main means of self-provision for retirement, superannuation is mandated through compulsory employer contributions, and encouraged by the relatively low level of the Age Pension, at around 25 per cent of average male weekly earnings, along with favourable concessions relating to tax, income testing and means testing.

The objective of enhancing retirement incomes and quality of life in old age is also the most relevant to consider when appraising the appropriateness of the superannuation system for a specific group of individuals, as we do here. As a group facing significant socio-economic disadvantage and marginalisation, the interface between these 'pillars' of self-provision and the safety net is of critical importance to Aboriginal and Torres Strait Islander Australians. Hence, Section 3 initially considers the limited available evidence on income adequacy and quality of life in retirement for Indigenous Australians, before turning specifically to the role and adequacy of the superannuation 'pillar' in Sections 4 and 5.

Indigenous

Australians in old age and retirement incomes

Indigenous Australians in old age and retirement incomes

The relative quality of life afforded to citizens in old age can be seen as a marker of a society's compassion and aversion to inequality. Aspects of Australia's performance in this regard are currently under the microscope through the *Royal Commission into Aged Care Quality and Safety* and the Commonwealth Treasury's *Retirement Income Review*. Australia's poor record in terms of equality of outcomes between its Indigenous and non-Indigenous populations across a broad range of domains is already well-documented (Cooke *et al.* 2007, SCRGSP 2016). Yet, remarkably few existing studies appear to have looked at the adequacy of Indigenous Australians' incomes in retirement and comparative standard of living, or how the superannuation system and other institutional settings and policies impact upon them. This section provides an overview of outcomes for Indigenous Australians in old age, with a focus on retirement incomes and key factors across the life-course that shape retirement outcomes.

While already well known, an important contextual difference between Indigenous and non-Indigenous Australians that deserves reiterating is the stark contrast in the population age-profiles. As shown in the 'age pyramid' below (Figure 1), based on ABS estimates for 2016, the Indigenous population is much more youthful than the wider Australian population, due to a combination of higher mortality rates at each age and higher fertility rates. In 2016, 15.2 per cent of the total Australian population were aged 65 and over (16.1 per cent of females, 14.3 per cent of males). In contrast, only 4.3 per cent of Indigenous Australians were aged 65 and over (4.7 per cent of females, 3.8 per cent of males). Just 0.2 per cent of Indigenous Australians were aged 85 and over, compared to 2.0 per cent of the wider population.

Figure 1 Population (%) by age category, 2016

Note: Bars show the within-gender percentages.

Source: ABS catalogue 3238.0 *Estimates and Projections, Aboriginal and Torres Strait Islander Australians 2006 to 2031* and ABS Catalogue 3105.0.65.001 *Australian Historical Population Statistics, 2016.*

Retirement Incomes for Indigenous Australians

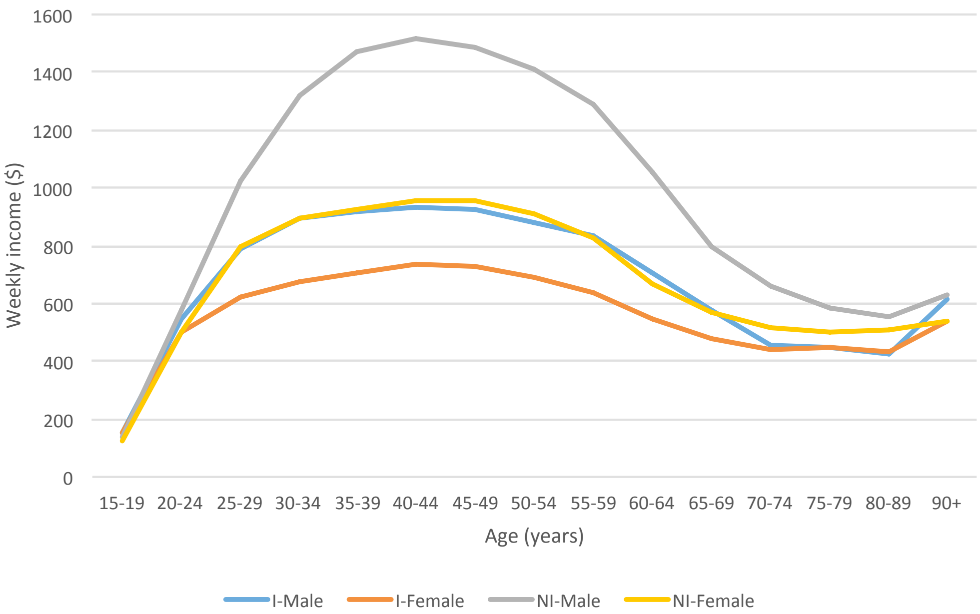
Numerous studies provide evidence that Indigenous Australians in general live in more precarious financial circumstances than other Australians. Based on data from 620 Indigenous respondents to a 2018 financial resilience survey, Weier *et al.* (2019), for example, find that nearly half of Indigenous respondents were experiencing severe or high financial stress, compared to 11 per cent for the population overall. Based on 2014-15 NATSISS data, the Australian Institute of Health and Welfare (2017) estimates that 36 per cent of Indigenous persons aged 15 and over lived in households in the bottom two deciles of household equivalised income[4]. At $556 per week, median equivalised household income was estimated to be one-third lower for Indigenous adults. However, specific evidence on incomes and financial security for Indigenous Australians in old age and in retirement seems surprisingly limited.

We identified only one existing study of the retirement incomes of Indigenous Australians, Bianchi *et al.* (2016). In that paper, retirement incomes are simulated assuming individuals commence with a superannuation balance of $5,000 at age 25 and work full-time for 40 years making contributions of 9.5 per cent of their pre-tax income. In their model, differences in superannuation balances at retirement arise due to lower typical earnings of Indigenous workers, and are estimated at $143,000 lower (or 27 per cent) for Indigenous workers compared to non-Indigenous workers at age 65. Converting those balances to annuities and comparing the incomes to the Association of Superannuation Funds of Australia (ASFA) benchmarks for 'modest' and 'comfortable' retirement incomes, suggests a significant proportion of the Indigenous full-time worker cohort would require additional support to achieve a modest retirement income, while only 10 per cent would achieve a comfortable retirement, compared to over 20 per cent of non-Indigenous workers. Access to the Age Pension is estimated to boost the average Indigenous worker's income in retirement by 38 per cent, compared to 22 per cent for the average non-Indigenous worker, but still leave the average Indigenous worker's income 17 per cent below the 'comfortable' standard.

[4] Equivalised income is a standardised, per person measure of total household income adjusting for the number and age of household members.

In focusing on continuously employed, full-time workers, these simulations made no allowances for differences in working patterns, care obligations, and other factors that affect Indigenous Australians' accumulated savings for retirement. We address this in the modelling reported in Section 5. Several data sources are available to provide an indication of the adequacy of retirement incomes for Indigenous Australians, though each with its limitations. Income data are collected at the individual level in the Census, but in quite broad categories and with no further distinction by source of income (such as wages, government benefits or pensions). We therefore approximate mean weekly incomes for Indigenous and non-Indigenous males and females based on the proportion of people within each income category and using the midpoint of the category. Average incomes across the life-course are shown in Figure 2[5]. The markedly higher individual weekly earnings of non-Indigenous males compared to the other groups from around age 20 stands out, while Indigenous females clearly have the lowest individual income during the working ages. Non-Indigenous male incomes peak at $1,515 per week at age 40-44 years. Non-Indigenous female incomes reach $954 per week for both 40-44 and 45-49 years, Indigenous male incomes slightly less at $935 per week at age 40-44 years, and Indigenous women $736 at the same age. Note the Census data include incomes from all sources – separate estimates by source (such as earnings and any benefits) are not collected.

Figure 2 **Average weekly income across the life-course: Indigenous (I) and non-Indigenous (NI) males and females, 2016 Census**



Source: Authors' calculations from 2016 ABS Census of Population and Housing, accessed through the ABS online TableBuilder facility.

The census data indicate that in the ages of 65-74 years Indigenous men have around 30 per cent lower incomes than non-Indigenous men, and around 24 per cent lower from age 75-89. Indigenous females have roughly 15 per cent lower incomes than non-Indigenous females from age 65 through to age 89 (we put little store in

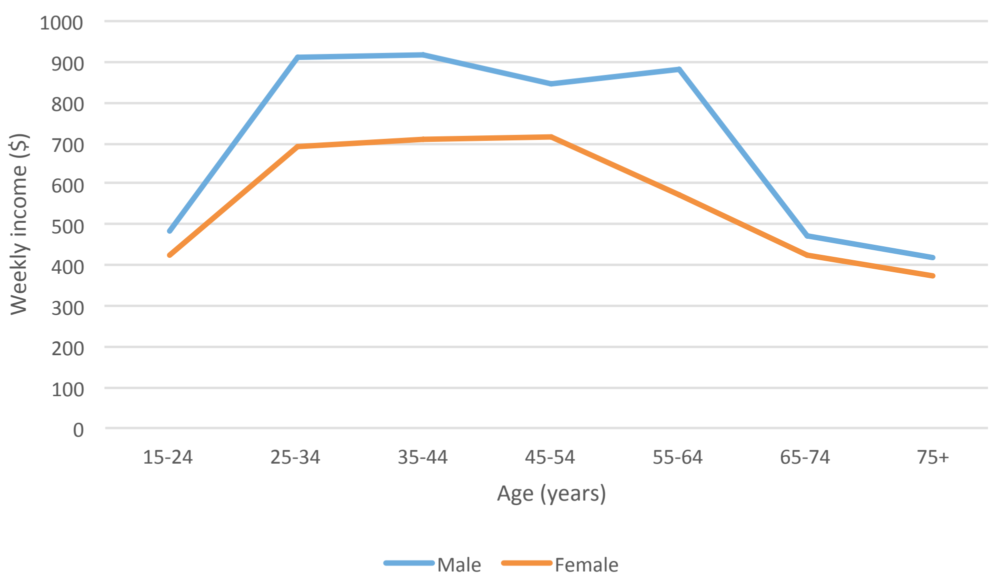
5 Weekly income of minus $50 per week was assumed for the category of 'negative income', and $3,500 per week for to top-coded category of $3,500 per week or more. Due to small cell counts for Indigenous persons in the older age groups, means are calculated for five-yearly cohorts up to 75-79 years, then 80-89 years and 90 years and over.

figures for those aged 90 years and above). Overall, the Census data suggest weekly incomes for Indigenous persons are roughly 20 per cent lower from age 65 compared to non-Indigenous Australians. These data echo Bianchi *et al.'s* (2016) simulations which found that retirement incomes of Indigenous men are quite similar to that for non-Indigenous females. Here we find both Indigenous men and Indigenous women have lower incomes than non-Indigenous females from around age 65, but Indigenous males and non-Indigenous females have remarkably similar income profiles over the 'working-ages' of 15 to 64 years, albeit potentially from different sources.

The National Aboriginal and Torres Strait Islander Social Survey (NATSISS), undertaken by the ABS at around 6 yearly intervals, provides another source of data on the financial circumstances facing Indigenous Australians. Collecting data on a broad range of social and economic circumstances and issues, NATSISS is a survey of Aboriginal and Torres Strait Islander persons living in private dwellings in Australia. Importantly the sampling frame encompasses discrete Aboriginal communities in remote Australia that are excluded from many other surveys. The most recent NATSISS was conducted in 2014-15 and surveyed 11,178 Aboriginal and Torres Strait Islander respondents from 6,611 households. Self-reported data was collected from 7,022 adults aged 15 and over, while information was provided by a proxy for 4,156 children aged 0 to 14 years.

The NATSISS data confirm the general picture of Indigenous people's income over the life-cycle as portrayed by the 2016 Census. Due to sample constraints it is not possible to report data in the detailed age categories possible from the census. Figure 3 shows mean weekly income from all sources for Indigenous persons by 10 year age categories from age 15 to 64, and for persons aged 75 and above. Both sets of results indicate incomes peak at around age 40 years, at just under $1000 per week for Indigenous males and around $725 for females.

Figure 3 **Average weekly income across the life-course: Indigenous Australians, 2014-15 NATSISS**



Source: Authors' calculations from 2014-15 NATSISS data, accessed through the ABS virtual datalab.

Within the retirement incomes framework the Age Pension provides a non-contributory and universal 'safety net', while compulsory superannuation and voluntary savings combine to promote 'income replacement', with the goal of providing "... individuals and families with a standard of living in retirement that is not too dissimilar to what they experienced before retirement" (Pragnell 2002: 33). The Treasury (2019: 14) suggest replacement ratios of 60 to 70 per cent of pre-retirement incomes are generally appropriate, and possibly higher for those with low initial incomes (Burnett *et al.* 2013). The NATSISS data imply a large decline in gross income from age 55-64 years to age 65-74 years for Indigenous males of almost 50 per cent, and smaller decline of 26 per cent for Indigenous females. There is a much more modest decline of 11 per cent for both genders from age 65-74 years to the 75 years-and-over bracket. The Census data suggest a smaller decline from age 55-64 to 65-74 for Indigenous males, of around 33 per cent, but a similar decline for females, and a levelling off from that age.

The Census data permit a closer look at the fall in income at around the time of retirement as well as comparison to the non-Indigenous population. For Indigenous males, average weekly income is estimated to drop by 18 per cent from age 60-64 to age 65-69 and then by a further 20 per cent by age 70-74. Non-Indigenous males experience a sharper initial fall (24 per cent, then 17 per cent), albeit from considerably higher initial incomes. Indigenous females experience a decline in average income from 12 per cent from age 60-64 to age 65-69, and then a further drop of 8 per cent by age 70-74, a comparable decline to that of non-Indigenous women (15 per cent and 9 per cent) but again from a lower base.

Sources of retirement income

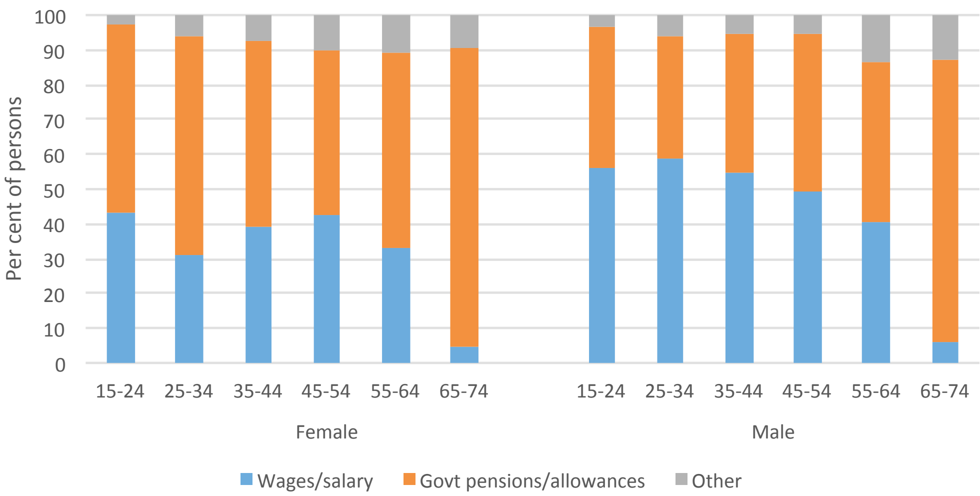
The life circumstances facing Indigenous Australians contribute to a high degree of welfare dependency across the life-course. The NATSISS records respondents' main source of personal income, and this is summarised in Figure 4. Government allowances or pensions are the main source of income for more than 50 per cent of Indigenous females at all ages, with the exception of 45-54 year olds where the proportion fell to 47 per cent. Wages and salaries from employment are the main source of income for the majority of males until age 45-54. It can be seen that the proportion for whom pensions and allowances are the principal source of income increases sharply once people turn 55: estimated at 86 per cent of Indigenous women aged 65-74 and 81 per cent of Indigenous men[6]. Estimates from NATSISS also suggest that 78 per cent of Indigenous persons aged 65-70 and 92 per cent of those aged 75 and over were in receipt of the Age Pension.

The Household, Income and Labour Dynamics in Australia survey (HILDA) collects more detailed information on incomes, wealth holdings and households' financial circumstances, but the sample sizes are quite restrictive when it comes to estimates for Indigenous Australians by age. HILDA is an annual panel survey of individuals from a representative sample of private households in non-remote Australia (Watson and Fry 2002, Watson and Wooden 2010). Initiated in 2001, data from 18 annual waves of the survey (to 2018) were available at the time of writing. Within selected households all occupants aged 15 and over are surveyed. Around 13,000 individuals from over 7,000 households have responded each year, with year-on-year attrition

6 Confidentiality restrictions associated with the sample size preclude reporting the corresponding results by gender for persons aged 75 and over.

rates averaging below 10 per cent. Even pooling the sample across waves 1 to 18 there are just 267 respondents aged 65-74 identifying as Indigenous, 90 aged 75-84, and only 13 aged 85 and over. Importantly, the HILDA sampling frame does not include households in remote Aboriginal communities.

Figure 4 **Main source of income by gender and age, Indigenous persons, 2014-15**



Note: Bars indicate the proportion of persons for whom the income type is their main source of income, and sum to 100.
Source: Authors' calculations from 2014-15 NATSISS data, accessed through the ABS virtual datalab.

Given these limitations we present key indicators of income sources and income adequacy for Indigenous and non-Indigenous persons aged 65-74 and for those 75 and over. Results suggest a similar proportion of Indigenous and non-Indigenous persons aged 65-74 receive the Age Pension once they reach eligibility, both at around 64 per cent[7]. For those 75 and over, a higher proportion of Indigenous persons is estimated to receive the Age Pension, at 76 per cent compared to 71 per cent for non-Indigenous Australians. These figures seem substantially lower than implied by NATSISS, although the NATSISS figures cited above include all forms of government pensions and allowances. AIHW (2017) estimates that in the June quarter of 2016, 58.7 per cent of Indigenous Australians aged 65 and over were receiving the Age Pension.

For persons receiving the Age Pension, the average amount of benefit reported in HILDA, indexed to be expressed in 2019 dollars, was quite similar for Indigenous persons aged 65-74 years ($633 per fortnight) and those aged 75 years and over ($621 per fortnight). For non-Indigenous Age Pension recipients the amount was lower for the younger pensioners ($576 per fortnight), but comparable for those aged 75 and over, at $632 per fortnight. This is likely to reflect higher initial alternative sources of income for non-Indigenous pensioners, which reduce over time. We estimate that, averaged across all retirees, the Age Pension comprises approximately 56 per cent of disposable income for non-Indigenous retirees and 62 per cent for Indigenous retirees. When restricted to those in receipt of the Age Pension, the pension then comprises 88 per cent of disposable income for Indigenous retirees and 78 per cent for non-Indigenous retirees.

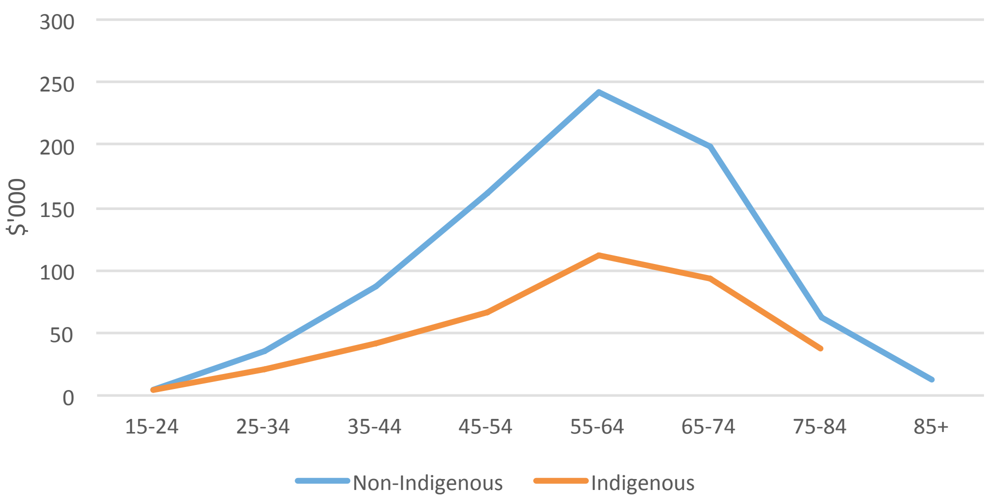
[7] All estimates derived from HILDA and cited in this section are calculated using the HILDA responding person weights.

Indigenous retirement incomes and superannuation

Every four years the HILDA survey questionnaires include a wealth module collecting detailed data on the value of individuals' assets and debts. This includes collection of data on total holdings in all superannuation funds. To date, wealth modules have been included in Waves 2, 6, 10, 14 and 18. Where the exact balances of superannuation accounts are not provided, respondents may provide estimates and, in other missing cases, a methodology is used to impute superannuation balances. To our knowledge, HILDA is the only publicly available dataset that collects information on superannuation balances and permits this data to be analysed simultaneously by Indigenous status and other key demographic characteristics.

By pooling the data from the 5 wealth modules and indexing all reported amounts to current (2019) dollars using the Australian consumer price index (CPI), it is possible to generate estimates of superannuation balances over the life-course. Average superannuation balances by 10 year age groups are shown for Indigenous and non-Indigenous persons in Figure 5. By the HILDA estimates, average superannuation holdings rapidly diverge with age in favour of non-Indigenous Australians up until age 55-64 before then converging again. Sample numbers preclude estimates for age groups beyond age 84 for Indigenous persons. The gap reaches a peak in relative terms at age 45-54, with non-Indigenous Australians' superannuation balances 2.4 times higher on average; and in absolute terms $131,000 higher by age 55-64 years.

Figure 5 **Mean superannuation balances by 10 year age cohort, Indigenous and non-Indigenous Australians**



Source: Authors calculations, HILDA waves 1-18.

Table 1 reports average superannuation balances for older Australians in more detail. The average value of superannuation holdings of all Indigenous persons aged 65 and over is estimated to be $74,000. Balances of non-Indigenous Australians aged 65 and over are, on average, 1.8 times larger. For both Indigenous and non-Indigenous persons, superannuation balances are far lower for females, and this gender gap is more pronounced within the Indigenous sample. Estimated superannuation holdings of Indigenous women are around one-third that of Indigenous men, while among the non-Indigenous population balances for females are around one-half that of men. Consequently the ratio of non-Indigenous to Indigenous balances is the highest for females, at 2.7. Among those aged 65 and over, balances are higher in the younger 65-74 year old cohort, which is to be expected as people draw down on their superannuation in retirement. For this cohort, average holdings of non-Indigenous Australians are estimated to be more than twice that of Indigenous Australians. Due to the limitations of the size of the Indigenous sample, we do not attempt to make further inferences of superannuation balances by gender for the separate age cohorts of 65-74 years and 75 years and over.

Table 1 **Average superannuation balances: Indigenous and non-Indigenous Australians aged 65 and over (expressed in 2019 dollars)**

	Indigenous	Non-Indigenous	Ratio: Non-Ind. to Indigenous
Persons aged 65-74	$93,851	$198,645	2.1
All persons aged 65+			
Female	$33,383	$90,583	2.7
Male	$114,935	$186,517	1.6
Total	$73,977	$134,011	1.8

Source: Authors' calculations, HILDA Waves 2, 6, 10, 14 and 18.

Income adequacy and financial stress

The most recent (2019) ASFA estimate of income required for a 'modest' lifestyle for a single retired person in Australia is $542 per week at around age 65, declining to $511 at age 85. The corresponding estimate per person within a retired couple is $390 at age 65, and $365 at age 85[8]. These standards assume the retiree owns their home outright and are relatively healthy – both of which apply to a lower proportion of Indigenous persons. The highest of our estimates above for actual incomes of elderly Indigenous persons is $574 per fortnight for Indigenous males aged 65-74 from the 2016 Census. Using 2016 Census data on the distribution of persons across income brackets by marital status, we can approximate that around 62 per cent of Indigenous males and 71 per cent of females have incomes below the modest standard given for a couple at age 65-69 years, and even higher proportions for those aged 85-89 years (see Table 2). More women than men had incomes below the modest standard. It can be seen that a far higher proportion of the Indigenous than non-Indigenous population had incomes below the threshold: 19 percentage points, or almost a one-fifth of the population more. While these estimates are necessarily approximate due to the broad income categories reported in the Census, it should also be noted that our calculations based on NATSISS data imply lower Indigenous weekly incomes than those derived from the Census.

Table 2 **Approximate proportion of persons with incomes below the ASFA standard for a 'modest' lifestyle in retirement: Indigenous and non-Indigenous Australians**

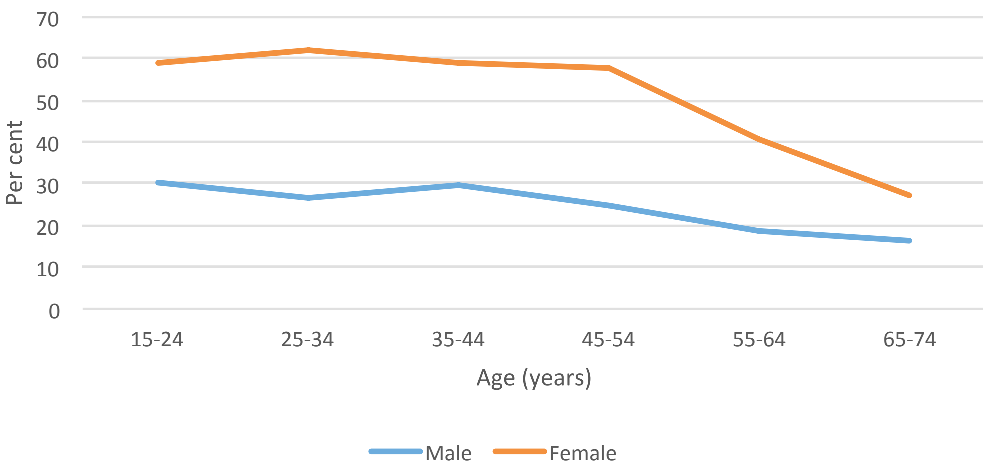
	Indigenous	Non-Indigenous
Aged 65-69[a]		
Female	71%	55%
Male	62%	41%
Total	67%	48%
Aged 85-89[b]		
Female	83%	66%
Male	71%	59%
Total	79%	63%

Note: Proportion includes persons with incomes in the $300-399 categories and below for married persons and in the $400-499 category and below for singles.

Data from both HILDA and NATSISS provide a number of potential indicators of income adequacy or financial wellbeing to provide an additional perspective to simple dollar amounts of income. In the NATSISS, the household respondent is asked whether the household members ran out of money for basic living expenses in the past 12 months. Figure 6 shows that a much higher proportion of Indigenous women reported this form of financial stress, possibly reflecting a more active role of women in the budgeting and purchasing of basic household necessities. However, for both genders, the incidence of this form of financial stress actually declines with age, and is lowest at age 65-74.

8 https://www.superannuation.asn.au/resources/retirement-standard

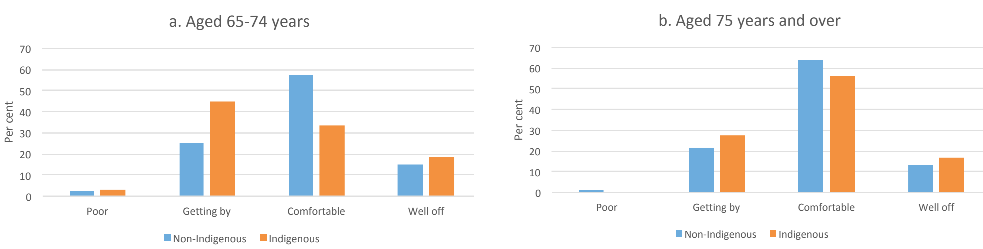
Figure 6 Household ran out of money for basic living expenses: proportion of Indigenous persons by age (up to 74 years)



Source: Authors' calculations from 2014-15 NATSISS data, accessed through the ABS virtual datalab.

In each wave, HILDA asks individuals to assess their 'prosperity given current needs and financial responsibilities' on a 5-point scale ranging from very poor to prosperous. Taking simple means of those responses also suggests Australians' sense of financial comfort actually steadily improves with age once beyond the prime working years: for both Indigenous and non-Indigenous Australians it is higher, on average, for those aged 75 years and over than for those aged 35-40. To identify retirees in the HILDA sample, we include persons aged 65 and over and who are not participating in the labour force. Figure 7 shows the responses recoded as poor (original scale very poor or poor), getting by (just getting along), comfortable (reasonably comfortable) and well off (very comfortable or prosperous). These data suggest fewer Indigenous retirees aged 65-74 feel that they are financially comfortable and more consider themselves to be 'just getting by'. For retirees aged 75 and over, however, there is little difference in sentiment between Indigenous and non-Indigenous Australians.

Figure 7 Financial situation given current needs and obligations



Source: Authors' calculations, HILDA waves 1-18.

Financial stress can also be assessed in HILDA through a series of questions relating to experiencing money troubles. Specifically, respondents were asked whether, in the current year and 'due to a shortage of money', they could not pay bills on time, could not pay the rent/mortgage, pawned or sold something, went without meals or heating the home, sought financial help from family and friends, or asked for help from a charity. Classifying people as in financial stress if any one of these conditions applied, 24 per cent of Indigenous retirees aged 65 to 74 years experienced financial stress compared to just 8 per cent for non-Indigenous retirees. However, rates of financial stress are lower and similar for Indigenous (6 per cent) and non-Indigenous retirees (8 per cent) aged 75 and over.

Finally, with HILDA, individuals are asked if they would have difficulty raising a certain amount of money in an emergency: the reference amount was $2,000 from waves 1 to 9, and $3,000 thereafter. Among 65-74 year olds, substantially more non-Indigenous retirees (74 per cent) indicated they could easily raise the money compared to Indigenous retirees (42 per cent). The greater reported access to money in an emergency also applied for older retirees (non-Indigenous 77 per cent; Indigenous 57 per cent).

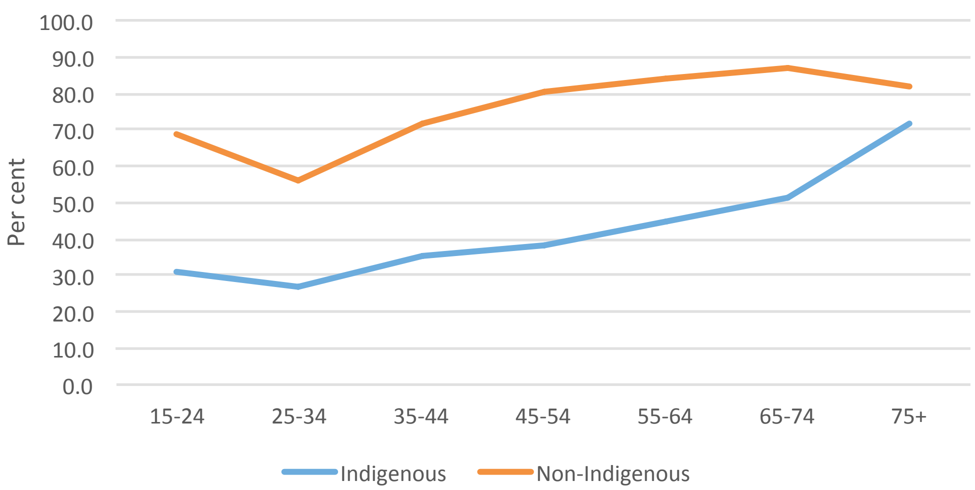
Housing tenure and accommodation

Along with compulsory superannuation and the Age Pension, voluntary savings are considered one of the 'three pillars' of the retirement incomes framework. The major vehicle for voluntary savings in Australia is in the form of owner-occupied housing. Homeownership is important as the current system generates significant incentives to invest in owner-occupied housing over other forms of savings through exemptions from assets testing and capital gains tax. However, Indigenous Australians are largely excluded from this critical form of saving for retirement. This is particularly so in remote communities, where homeownership is extremely rare. Data from the 2016 Census indicate that among Indigenous households – defined as households with at least one Indigenous usual resident – the home ownership rate is 40 per cent compared to 68 per cent for other households. It is 17 per cent for Indigenous households located in remote and very remote Australia.

Figure 8 shows that at age 45, there is a 42 percentage point gap in the proportion of Indigenous people living in home-ownership when compared to non-Indigenous Australians, and this persists to stand at 36 percentage points at age 65-74. While the proportion of Indigenous persons living in an owner-occupied home appears to increase for those aged 75 plus, we caution again that this estimate will be highly variable due to the limited sample size.

Further, whether or not one owns their own home has substantial implications for financial comfort in retirement. Drawing on HILDA data pooled over the 18 waves from 2001 to 2018, retirees aged 65 to 74 who did not own their home were about 4 times more likely to be in financial stress than those who did own their home (whether outright or paying a mortgage) – 24 per cent as opposed to 6 per cent. When asked to rate their 'prosperity given current needs and financial responsibilities' on a scale ranging from 1='very poor' to 6='prosperous', the average response was 3.9 for home owners (close to the 4='reasonably comfortable' point on the scale) compared to 3.4 for non-home owners (closer to the 3='just get along' point). Retirees owning their own home were twice as likely to indicate they would have no difficulty raising $3,000 at short notice (79 per cent versus 39 per cent).

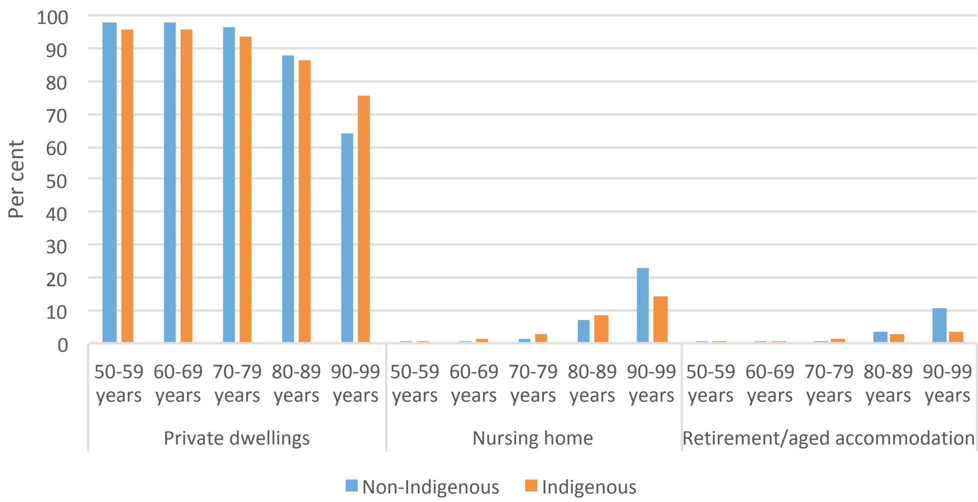
Figure 8 **Proportion living in owner-occupied housing, Indigenous and non-Indigenous Australians**



Source: Authors' calculations, HILDA Waves 1-18.

The more detailed 2016 Census data available for persons in older age groups show that the vast majority of Australians continue living in private dwellings until well into their old age (Figure 9). Around 95 per cent of persons aged 70-79 years live in private dwellings, and this applies to Indigenous and non-Indigenous persons. From age 80 there is a significant transition from private dwellings (which include residences in self-contained retirement homes) to nursing homes and to non-private retirement or aged accommodation, but a substantially lower proportion of Indigenous people transition into nursing homes or aged accommodation. Among those aged 90-99 years, 76 per cent of Indigenous people were still living in a private dwelling, but for non-Indigenous persons this had fallen to 64 per cent. Given Indigenous Australians typically face poorer age-specific health status one might have expected a higher rate of transition into nursing homes. The tendency for Indigenous people to remain in private residential dwellings in old age may in part reflect a combination of stronger family connections and obligations toward caring for the elderly (see Box 1), lower access to nursing homes and retirement accommodation in more remote areas, and a preference to remain on country.

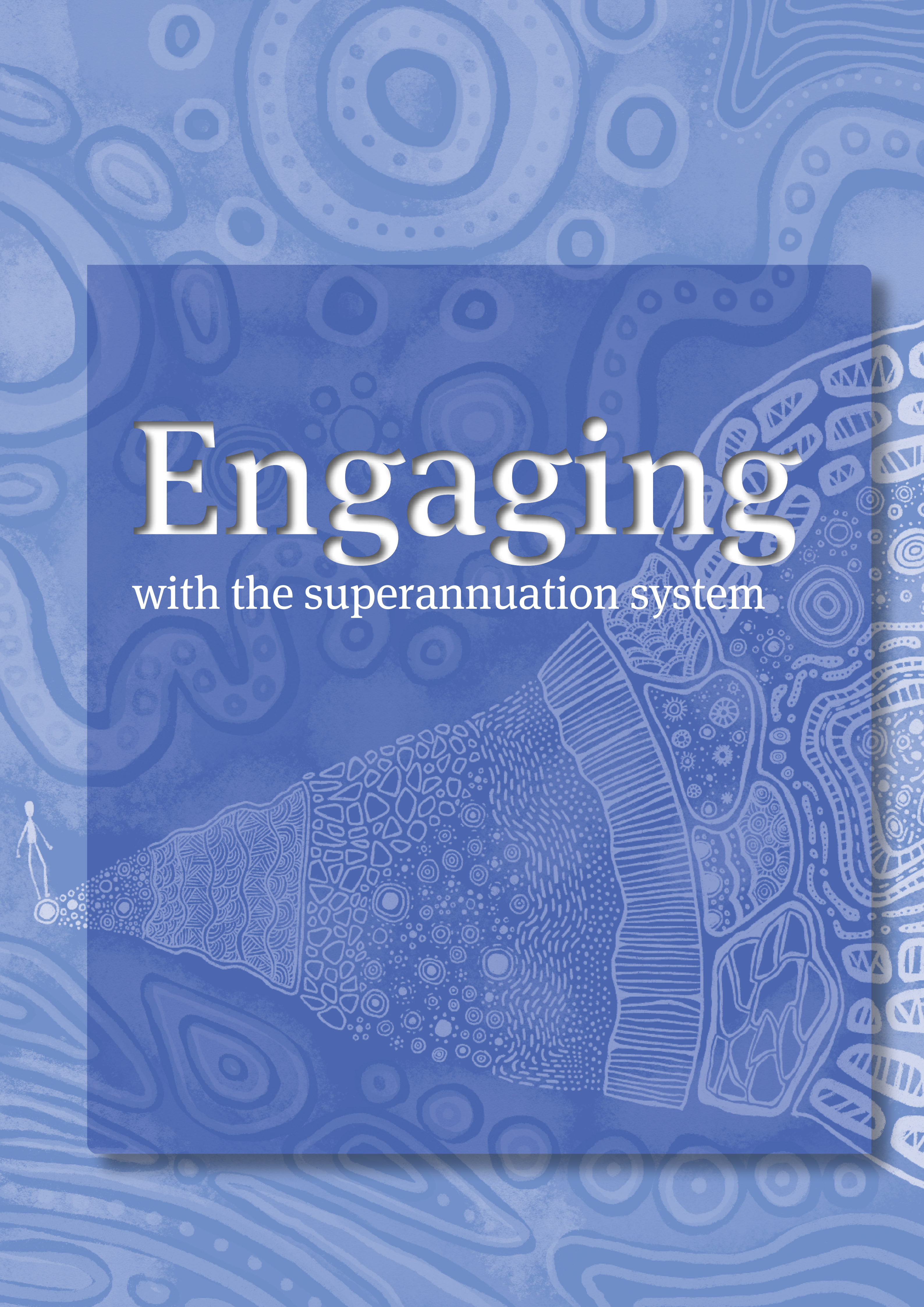
Figure 9 Type of dwelling lived in, older Australians by Indigenous status, 2016



Note: Private dwellings include self-contained residences in retirement villages.
Source: Authors' calculations based on 2016 Census data.

Engaging

with the superannuation system



Engaging with the superannuation system

It has been widely recognised that Aboriginal and Torres Strait Islander Australians face unique barriers and challenges in engaging with the superannuation industry and in utilising the system to their own advantage and to the benefit of their wider families. A cross-industry Indigenous Superannuation Working Group was formed in 2013 with the aim of improving superannuation outcomes for Indigenous people. Related issues have been highlighted in the recent Financial Services Royal Commission (FSRC 2019). While Pragnell (2002) canvassed the need for superannuation policy reform to address issues for Indigenous Australians around the turn of this century, there have been very few contributions in the literature outside of these government and industry assessments of how well the superannuation industry responds to the needs and preferences of Indigenous Australians.

Many of the issues canvassed relate to the poorer levels of access and cultural misalignment of services in remote Australia, and particularly for people living in remote Aboriginal communities. In proportionate terms, Indigenous Australians are much more likely to live in remote Australia than non-Indigenous Australians. However, in terms of absolute numbers it should not be forgotten that most Indigenous Australians live in urban areas (Gerrans *et al.* 2009: 419). Based on 2016 Census estimates, just over 60 per cent of Indigenous Australians lived in the major cities and inner regional Australia, and around 20 per cent lived in each of outer regional Australia and remote/very remote Australia[9]. In contrast, 90 per cent of the non-Indigenous population live in major cities and inner regional areas, and less than 2 per cent live in remote and very remote Australia. So the focus of improving services for Indigenous persons must look beyond issues relating to remoteness. At the same time, remoteness does pose unique challenges and often compounds issues faced in urban settings.

A number of structural parameters or features of the superannuation system have been identified that result in less appropriate services and lower access for Indigenous Australians. These include the age of access to superannuation, given the lower life expectancy and poorer health status of Indigenous Australians; lower accumulated balances given more intermittent labour force participation and lower earnings; and the relative benefits of tax concessions to Indigenous and non-Indigenous clients (Pragnell 2002, Gerrans *et al.* 2009). These are assessed in detail in the following section. Here we provide an overview of challenges relating to the provision of, or access to, adequate services that have been highlighted in the existing literature, and then expand on these drawing on findings from focus groups conducted as part of this project.

9 The Census uses the remoteness structure of the Australian Statistical Geography Standard, in which areas are classified into one of five remoteness categories: major cities, inner regional, outer regional, remote, and very remote.

Access and service challenges – existing evidence

Financial literacy and knowledge of superannuation

There is a growing appreciation worldwide that financial literacy can be a significant factor in determining socio-economic outcomes and financial literacy programs can be a potent tool in addressing social disadvantage. An accepted definition of financial literacy is "The ability to make informed judgements and to take effective decisions regarding the use and management of money" (Gerrans *et al.* 2009: 420). The available evidence indicates that Indigenous Australians have, on average, relatively low levels of financial literacy (Productivity Commission 2018a: 255)[10] and, given the complexity of the superannuation system, this will diminish their capacity to take effective decisions where needed and increase their reliance on third parties.

Commencing from 2003, the ANZ has undertaken a series of surveys investigating adult Australians' financial literacy and, in later surveys, financial wellbeing. The 2014 survey found Aboriginal and Torres Strait Islander respondents scored lower on measures relating to planning ahead, being informed and financial control, with caveats over the small number and representativeness of the sample of Indigenous respondents (ANZ 2015). Gerrans *et al.* (2009) analysed interviews from a pilot study with Indigenous participants in the Perth metropolitan area, designed specifically to explore knowledge of superannuation and to enable comparison with results for the general population from the ANZ surveys. They found their Indigenous sample to have a poor knowledge of superannuation, for example, with relatively few knowing about favourable tax treatment of superannuation, while qualitative comments indicated cynicism about the system. Based on interviews in regional and remote communities, Daly and Preece (2007) find that low numeracy and literacy skills contributed to low financial literacy, and that many Indigenous people lacked a general understanding of banking, credit cards and consumer rights. They did also acknowledge that some families had "developed good money management skills".

Applying a survey adapted from the existing Financial Resilience Survey to a sample of 620 Indigenous respondents, Weier *et al.* (2019) find that a high proportion of Indigenous people are using high cost and unregulated forms of credit, such as pay day loans, rather than mainstream credit. Worthington (2013) reports on a range of programs implemented to improve financial literacy, including programs targeted specifically at Indigenous Australians or with Indigenous specific components.

Meeting requirements for personal identification

It has been widely recognised that for many Indigenous Australians, and particularly those in remote communities, meeting the requirement for identification by superannuation funds can be extremely frustrating. The establishment of a superannuation fund requires a customer's name, date of birth and address, and these need to be verified either through 'reliable' documentation or electronic sources with protocols having been made more onerous due to anti-money laundering measures (ISWG 2015, Gordon and Boyle 2015). Meeting these requirements is more difficult for Indigenous Australians as many do not have birth certificates, which can lead to further complications of inconsistencies in birth dates recorded on other documents, some have multiple names (such as a traditional name, birth name, and an adopted name) and variations in spellings occur across documents. Indigenous

10 Remarkably, this is the only reference to challenges facing Aboriginal and Torres Strait Islanders in the Productivity Commission's Inquiry Report on superannuation, other than a recommendation for an independent member advocacy body whose roles would include to 'develop tailored outreach and intervention strategies for specific groups, including Indigenous and Torres Strait Islander people' (2018a: 291).

people's names can also change, for example, following the death of one person their name will not be spoken and those with the same name will adopt a different name, particularly affecting the process for claiming death benefits (ISWG 2015, Gordon and Boyle 2015, Scheerlinck 2019). In a survey of funds conducted by the ISWG, a number of funds reported having difficulty identifying Indigenous members and their beneficiaries (ISWG 2015).

New guidelines for identification procedures for persons who identify as Aboriginal or Torres Strait Islander were developed by the Australian Transaction Reports and Analysis Centre (AUSTRAC) and widely endorsed by industry. Despite this, the 2019 report of the Financial Services Royal Commission found identification issues continued to be a significant problem for many Indigenous Australians, and more widespread application of the AUSTRAC guidelines was recommended: 'There is no reason for any entity not to have practices and procedures of these kinds and there is no reason for any entity not to have trained staff to use them.' (FSRC 2019: 253).

Multiple and lost accounts

The Productivity Commission's recent inquiry into superannuation highlighted the inherent problem of the current superannuation system leading to individuals holding multiple accounts:

> "Structural flaws have led to the absurdity of unintended multiple accounts in a system anchored to the job or the employer, not the member. These unintended multiple accounts (one in three of all accounts) are directly costing members nearly $1.9 billion a year in excess insurance premiums and $690 million in excess administration fees. For an individual member holding just one unintended multiple account throughout their working life, the projected reduction in their balance at retirement is 6 per cent (or $51,000)." [PC 2018a: 58].

It is clear that this issue disproportionately disadvantages Indigenous Australians, given identification and name change issues. A number of funds participating in the ISWG survey reported having difficulty maintaining contact with Indigenous members (ISWG 2015).

These same issues will contribute to superannuation clients unnecessarily paying for multiple insurance policies, not making insurance claims for which they are eligible, and having difficulties in settling insurance claims. The Financial Services Royal Commission raised concerns that Indigenous people were being sold funeral insurance policies of limited value to them, particularly those living in regional and remote Australia (FSRC 2019: 286). On the positive side, the introduction of the MySuper default accounts in 2013 is likely to have substantially benefitted Indigenous clients by way of reduced fees and charges, and the prevalence of unwanted services. Additionally, legislation came into effect on 1 April, 2020, designed to protect clients from the erosion of accounts by premiums for insurance they may not have wanted. Funds are prevented from providing insurance on an opt-out basis for account balances less than $6,000 or for new members under the age of 25[11].

11 The legislation is the Treasury Laws Amendment (Putting Members' Interests First) Act 2019.
See: https://www.apra.gov.au/putting-members%E2%80%99-interests-first-%E2%80%93-frequently-asked-questions

Conditions for early release of superannuation

People can access superannuation from the preservation age if they are retired, or from age 65 years irrespective of retirement status. There are provisions for early access in the event of severe financial hardship or compassionate grounds, such as a terminal medical condition. Gordon and Boyle describe the requirements and processes to be 'extremely complex and time consuming' (2015: 13). If they successfully navigate that process, there is a $10,000 limit on the amount that can be withdrawn in a 12 month period and lump sum withdrawals are taxed.

With a starkly higher proportion of Indigenous Australians experiencing acute health issues and at an earlier age, financial stress and a range of other adverse life events, these stringent conditions designed to strengthen the preservation conditions work substantially against those in genuine need (Pragnell 2002). However, delegates to the 2019 Indigenous Super Summit warned of the need to ensure hardship claims are a 'last resort' and should not undermine long-term outcomes (ISWG 2019: 9).

Communication styles

For Indigenous people, notably those living in remote communities, English is often not their first language, and concepts relating to superannuation are not easily translated. Many of the issues discussed above could potentially be alleviated by the provision of better communication via dedicated Indigenous phone lines or, even better, face-to-face communication, and the involvement of Indigenous peoples in service delivery. However, few funds provide face-to-face communication, particularly outside of the major capitals, and doing so in regional and remote areas is considered economically infeasible (Gordon and Boyle 2015; ISWG 2015, 2019). Many Indigenous persons will also have difficulty accessing online forms. Scheerlinck (2019) reports how field visits to four remote communities accompanied by officers from the ATO and Department of Human Services enabled them to assist around 400 people to locate lost accounts, consolidate accounts, adjust beneficiary and insurance arrangements and track down unclaimed death benefits.

Perspectives from Indigenous superannuation clients

To gain first-hand accounts of UniSuper's Indigenous clients' experiences with the superannuation system, their views on how well it met their needs and what changes they would like to see, Indigenous staff from Curtin and Murdoch universities were invited to participate in focus groups held on each campus in February and March of 2020. Additional focus groups scheduled to take place at the University of Notre Dame's Broome campus, aimed at capturing perspectives from Indigenous persons in remote settings, were unfortunately cancelled due to travel restrictions and uncertainty surrounding the Covid-19 virus. The Curtin and Murdoch University focus groups were facilitated by an Indigenous researcher from Curtin's Centre for Aboriginal Studies to ensure cultural sensitivity. The discussions were semi-structured in the sense that the facilitator had a list of potential discussion points, but aimed to allow the participants to explore topics most relevant to them. A total of 16 Indigenous participants attended the focus groups. A short survey designed primarily to gauge participants' awareness and understanding of their superannuation arrangements was also distributed at the commencement of the focus groups, and was completed by 15 of the 16 participants (see Appendix 1).

The concerns expressed by the participants echoed many of those raised in the existing literature as canvassed above, but provide added insights and context. We identify the following key themes, and summarise the associated discussions, in approximate order of the frequency and duration the participants afforded to those issues.

Early access/hardship conditions

By far the most common concern and area of dissatisfaction expressed by the participants related to the conditions for access to early release of superannuation. Many of the participants seemed to have had either first-hand experience or knew of others who had tried to access their superannuation due to hardship. There was, at least, widespread awareness that provisions for early access on compassionate or hardship grounds did exist. The survey distributed at the beginning of the focus groups included a question on whether participants knew superannuation could be accessed prior to retirement in special circumstances. Eight out of 15 respondents indicated they that thought it was possible but were unsure of the rules, while six respondents indicated they had a reasonably clear idea about the circumstances for early access, and only one indicated they did not realise it was possible. However, there was clear sentiment in the discussions that the conditions and processes for doing so were unjustly prohibitive and unnecessarily obstructive.

The stories told by the participants included examples of people with chronically ill relatives and those struggling to avoid foreclosure on their mortgage. Others discussed potentially needing to access their superannuation to help with mortgage payments, to cover extended periods out of work, to pay for coffins and funerals, and for dental expenses for other family members.

> *But like, with the hardship payment, because I know somebody very close to me, who's actually had a great working history and has built up her super.*

> *However, her husband has become really, like chronically ill … And she has tried to access her super just to lighten the load, because she's like carrying everything, and they said no, you can't do it; that's not a good enough reason. However, she's like, struggling really, …*

> *.. all of a sudden she [my friend] was $9,000 in arrears on her mortgage. … She was making payments to the bank … whether that was $500 a week, or whatever, but it didn't meet the whole amount of her mortgage, so at least she was still contributing, but she had to pay for everything else. But in the end, it was after three or four months that the bank actually told her that she could apply for a hardship payment through the tax office out of her super. So, but that was three to four months down the line … she shouldn't be told that at that point where the bank were like, we're going to take your house.*

> *like my grandmother can't afford it at the moment, so we're trying to put money together to get her dentures, because she's only got – like, my poor nan has only got like, four teeth left, and it's not – she can't afford it, and my mum, we're trying to, my sister and I – but could I do that for my grandmother?*

Participants suggested that superannuation funds may deliberately not provide that type of information to prevent clients from attempting to access their superannuation, and felt there was a need for more appropriate and independent advice. This sentiment and frustration is reflected in the comments below:

> *really our super fund is not giving us information that is important to when we do go through hardship, because obviously, they're not going to offer that information up, because they don't want you to touch it.*

> *They try to make it as hard as possible.*

> *Always got their own interests at heart.*

> *I think that the super fund should just be really forthcoming at the beginning when you sign up with this, if you need to access it early, this is what you do, and you're explained that.*

Another participant spoke of the 'hoops to jump through' for her mother to access her superannuation during a period of stress leave, involving regular doctors' appointments with a representative of the superannuation fund in attendance, describing the experience as 're-traumatising'. In addition, several participants had the perception that accessing superannuation under hardship provisions would incur high fees and would be highly taxed.

Administration and multiple accounts

In the survey, the majority of respondents (10 of 15) indicated that they had multiple accounts. Most indicated that they received regular statements and knew how to locate them (8 of 15), while 6 suspected they might have lost track of some of their accounts. The survey responses indicated that participants had a relatively high level of awareness about the level of contributions made by their employer and the fund(s) into which those contributions were made. No major dissatisfaction was voiced with respect to communication contained in regular statements. Although some indicated the wording could be confusing and/or they paid little attention to those statements, in general this was not an area of focus in either group.

> *I find the terminology a little bit overwhelming at times and I just don't have the time to be able to decipher what's what.*

> *… and just being able to scrutinise the statements as well. And it's always on my list of things to do but, I'm just too busy really at this point.*

However, when clients did need to contact their superannuation funds for specific requests, a definite preference for alternative communication methods was expressed, as discussed below.

A number of participants also expressed frustration at having ended up with multiple accounts, the added fees this incurred and difficulties associated with trying to consolidate funds. This included a lack of knowledge on how to assess which funds to consolidate into.

> *I'm with [super fund], and – well one of them, I've got three – and what I found really difficult with [super fund] … you have so many hoops that you need to jump through, before they give you any answers, and so, you've got to ask, you know, they've got to – your birthday, your name, your address, how long you've worked at your job, and then you can actually ask about stuff. It was very – it was an intimidating phone call, and I just never called them back.*

> *Well I've been trying for the last couple of weeks to ring – same – but I get put on hold for so long that I end up just giving up. So, it is really difficult.*

> *I just totally agree with what you're saying. Different fund, but same attitude.*

A number of participants spoke of lost accounts, including one who believed that she had provided the ATO with the associated Tax File Number:

> *I know I've had lots of different jobs, and I don't know where all that super is, and I've searched for it. … I've tried, but I cannot find it, and obviously, it's the same tax file number. Like I've been known by two different names, and I've always had the same tax file number*

A number of participants expressed awareness and/or concern at the additional fees associated with having multiple accounts:

> *I had in one [account] … for a little, little contract job and it was $500, I thought, oh yeah that'll come in handy I'm not working. And by the time I started the process to the end, they'd taken out 50 bucks a month to … And I got left with about $120.*

One participant reported successfully getting one account rolled over into another superannuation fund without any complication, and myGov was noted several times as the resource to be used to consolidate funds. Another recalled being charged an excessive fee to consolidate his/her funds.

> *I think I, rolled over one fund to another and I ended up, they ended up taking $3,000 out … I had no understanding why but it was unclear to me, had I known that previously I wouldn't have done it, I would have just left it. $3,000 I thought wow you're … [interrupted]*

Communication

A strong theme to emerge from the focus groups was a need for culturally appropriate communication in the form of information resources and in person-to-person contact, an issue also highlighted by the Indigenous Superannuation Working Group (2019). There were suggestions for dedicated Indigenous help lines, face-to-face communication (such as via webcam), and informational materials, such as videos, designed in communication styles that Indigenous people could easily relate to and featuring Indigenous presenters or personalities. This is evidenced in the following selection of comments:

> *There needs to be more Aboriginal people in that space, because they can speak the language, they can speak in Aboriginal English, there's currency right across Australia. You start speaking in financial type lingo then straightaway people become disarmed, because they become, they just can't get engaged with it.*

> *I like talking face-to-face. Emails and phones and Facebook and all that, it just goes over my head. I like to talk to somebody face-to-face.*

> *I think, a web chat just for general questions would be great. So, just to be able to pull up a live chat, and just ask a question, and then go back to your work.*

> *The idea about face-to-face is, that's one thing you know what I mean that they can do better, to talk with Aboriginal people. So and really help break down, not dumb down the information, but break it down into clear … just clear language.*

> *I know this with all superannuation is that it's all words, there's no, there's no clear illustrations which could show the process. And take like the snapshot of the form and this is what we're talking about, as an illustration, because we just get overwhelmed with text, text and more text.*

Having an Indigenous person to liaise with was seen as being important to ensure Aboriginal people can effectively engage with the superannuation industry. This would be particularly helpful when dealing with personal and sensitive issues, such as applications to access funds under hardship provisions or managing deceased estates. Several participants expressed that they felt intimidated or traumatised in the course of their dealings with superannuation funds.

> *There'd be a lot of non-Indigenous people would most probably feel the same, don't talk to me in percentages. But generally speaking most Aboriginal people sit back in shame and not say I don't know.*
>
> *I know [as an Aboriginal person, I would] be much more relaxed if there was an Aboriginal person.*

Age of access to superannuation

There was clear agreement among the participants that the superannuation preservation age should be lower for Aboriginal and Torres Strait Islander Australians due to their lower life expectancy – evidence of which the participants were witnessing around them all too frequently.

> *I'm just thinking about the lifespan, I've only ever had 2 relatives in my whole entire life that have lived over 70 years of age. Which is one is my father, and then my grandmother's brother so, I've only had 2 relatives live over 70 years of age … everyone else has passed between 50 and 55. And my grandmother, grandmother's sister, all my aunties, uncles …*
>
> *Same*
>
> *You look back and you look at those people that have gone around you, like what, I was talking about a couple of school mates we used to knock around, there's about 8 of us, only me and one another bloke are left. … and they're not even counting family, who, who are dead before 50. So early to mid-40's.*

This caused many to view their superannuation as an inheritance for their children or family, with limited interest in superannuation as a means to improve their own standard of living in retirement. For several this was compounded by an existing diagnosis of a chronic disease.

> *For me I personally just see superannuation as a formality, I don't actually see myself enjoying it, I actually don't even see myself retiring full stop. I'll probably work until I die and then the money will just go to my son. I understand the value of it, however, for me I just don't think that I will benefit from it at all to be honest.*
>
> *But there's a whole new mentality that we have to learn, about the importance of super that, that is there for us when we retire. If we live to retirement, a lot of us think, I myself think I'm nearly 70 and I think to myself, well I might cark it tomorrow … that's how we think, that's how I think that. So I've got this super here, can I use it now because I don't know what's going to happen in 10 years? In 10 years I most probably won't be here, I most probably will be gone.*

From both of the focus group discussions and the responses to the survey there was evidence of confusion between the superannuation preservation age (the age at which superannuation can be accessed) and the age at which people become eligible for the Age Pension. The preservation age would range from 55 years for the older participants to 60 years for others, meaning people could access their super from that age if they retired. All people can access their super from age 65, irrespective of their retirement status. Eligibility for the Age Pension ranges from 65 years to 67 years. Most (10 of 15) people thought they would be able to access their super between the ages of 65 to 70, with only four people indicating a plausible value (ie. between 55 and 60). As several participants intimated, there appears to be a requirement for greater transparency, communication, information and proactivity around retirement planning. Predictably, there was a noticeable difference in interest and knowledge of superannuation issues by age, with older participants having much keener awareness. In the words of a younger participant "Because at 19 you don't care"; and of an older participant "As you get older, you're always looking at your super".

Nominated beneficiaries

Several participants shared stories of difficulties associated with the settlement of superannuation accounts of relatives who had passed away. The survey included a question asking if people knew what would happen to their superannuation if they were to pass away before they retired. Seven of 15 indicated that they had nominated a beneficiary, while one participant assumed that their next of kin would be identified by the superannuation fund and the benefit would go to the next of kin. One respondent indicated that it would go to the government and 6 respondents selected the 'I'm not sure' option, suggesting a high degree of uncertainty around this aspect of people's arrangements. One participant warned of the importance of having correctly completed paper work nominating a beneficiary or next of kin:

> *Yes depending on the forms if we don't fill in the correct form, the money doesn't go to our kids and that's happened previously. I've heard other people's stories that they didn't fill in the correct form, with the superannuation and the money didn't go to the children.*

Others noted that, even with the correct arrangements initially in place, relationships can change over time, as well as names, and there can be conflict within families.

> *My dad passed away when I was 20, and he, basically because he didn't have a will, his super went to Public Trustee, and it sat for three years until it was sorted out ... three years of us going back and forth with my step-mum, with my sister, myself with them ... all those meetings, and it just, it didn't need to take three years. And that really, nearly broke us. We got to a point where it nearly broke us.*

Other Issues

A range of other issues were canvassed, while not a major focus of the discussion. Issues surrounding proof of identification were raised several times. It was noted that it could be difficult for Aboriginal and Torres Strait Islander people from the Stolen Generation to generate proof of identity since they were never issued with birth certificates and/or did not have a definitive or unique family name as presumed in mainstream culture. Some had found the process of having to prove their heritage to be demoralising. In addition, the need for greater financial literacy was acknowledged:

> *I love my mother and father, but I didn't get good financial literacy from them ... but a lot of my friends, they all knew stuff from their parents. I'm not saying that's an Aboriginal thing, but I think if you don't have financial literacy, this stuff is really, really difficult.*

> *And it's not just super it's how you live with money, how you live with finances. And ... with Aboriginal people when you look at why we don't, it's because our parents, didn't learn it, and neither did the parents before that. My parents came from stolen generations and I was part of that. So there's no, there's, they're not going to teach you financial literacy on a mission.*

Several participants felt the compulsory nature of superannuation was unfair given their immediate needs 'to survive day-to-day' or to get a deposit on a home, while for other participants, it was beneficial in promoting savings they otherwise 'would have blown'. There were also conflicting views on the value of insurance included as part of their superannuation policies, but most participants admitted to having little idea about what was covered. This was confirmed in respondents' survey results, with a high degree of uncertainty over the existence and coverage of insurance included with their superannuation, if any.

Modelling

superannuation balances

Modelling superannuation balances

The data presented in Section 3, providing an overview of superannuation balances for Indigenous and non-Indigenous Australians, essentially reflect the outcomes of past policies and superannuation arrangements, not the outcomes that the current system and parameter settings can be expected to generate. As the Productivity Commission points out, it will be another 20 years or so before the retirement of the first cohorts to have had the compulsory superannuation system in place over their full working lives (2018a: 90).

In order to assess both the efficacy and the equity implications of the current settings of the superannuation system, this section presents results of modelling of the accumulated superannuation balances over the life-course for Indigenous and non-Indigenous males and females. The estimates are based on the most recent population life tables, patterns of labour force participation and relative wages over the life-course by Indigenous status and gender, and assumes the existing key parameters of the superannuation and tax system persist over individuals' working lives. Detailed data reflecting differences in life expectancy, labour market engagement and wages by Indigenous status and gender are used to calculate the average (mean) outcomes for people in each of the four groups: Indigenous males, Indigenous females, non-Indigenous males and non-Indigenous females. Distributional analysis - looking at how outcomes for the four groups vary around those means – would provide added richness to the picture and offers a potential avenue for future research. However, it would require detailed longitudinal data for each group and is beyond the scope of the existing analysis.

We first provide an outline of the model, and present data for some of the key underlying determinants that shape outcomes. The results relating to the projected accumulation of superannuation over the life-course by Indigenous status and gender are then presented, and their implications for equity on a range of dimensions are discussed. Additional details on data sources and assumptions are contained in Appendix 2.

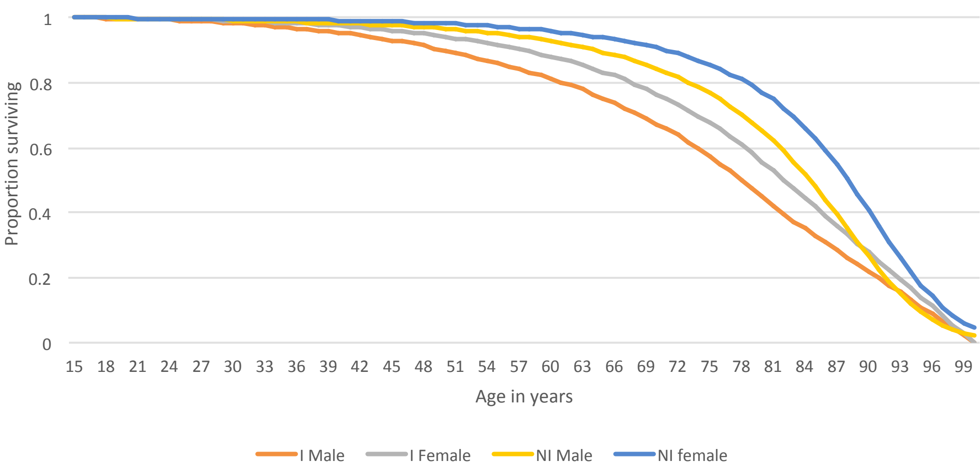
The model - assumptions and key baseline data

Population by age

We develop a life-cycle model of earnings and the associated accumulation of retirement savings for Indigenous and non-Indigenous Australians. We commence the model at age 15, the standard minimum age considered to be of 'working age', and take 2019 estimates of the Indigenous and non-Indigenous 15 year old population for Australia as the starting cohort. In 2019, there were an estimated 8,773 Indigenous males, and 8,228 Indigenous females aged 15, compared to around 142,000 non-Indigenous males and 133,000 females. Using the latest Australian Bureau of Statistics life-tables, we then calculate the population that progresses to each single year of age, after allowing for age-specific mortality, thereby creating a synthetic cohort. The resulting survival rates from age 15 to 100 years are plotted in Figure 10. Commencing from 1 (or 100 per cent) at age 15, the curves show the proportion of each of the initial cohorts that survives to the age represented on the horizontal axis. The lower survival rates – or higher rates of mortality - of Indigenous Australians can be seen. It should be stressed the rates are highly uncertain for Indigenous persons beyond the age of around 80, but as the modelling focuses on labour force status and earnings up until retirement age, this does not affect the key results.

As one potential comparison, for Indigenous males one-half of the initial cohort aged 15 are projected to have passed away by age 78 compared to by age 84 for non-Indigenous males. The respective figures are 82 years for Indigenous females and 88 years for non-Indigenous females.

Figure 10 **Indigenous and non-Indigenous survival rates; by gender**



Source: See Appendix 2.

Labour force status and working hours

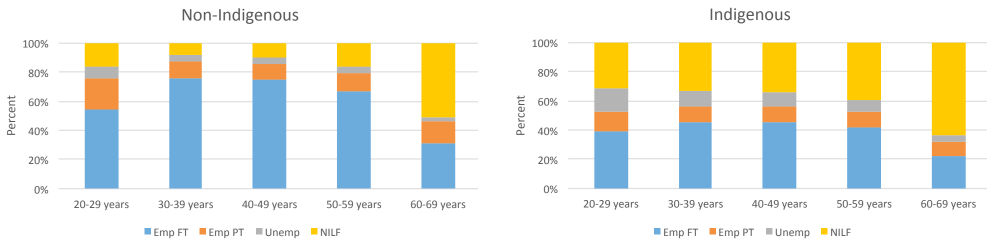
To project the proportion of persons at each age that are working and the number of hours worked, the pattern of labour force engagement by age as recorded in the 2016 Census data is imposed on the cohort. The data are specific to each of the four groups. Initially persons by single year of age are allocated to one of three labour force states: employed, unemployed or not participating in the labour force (NILF). Beyond age 65 years all persons recorded in the Census as unemployed were reclassified as NILF. Due to small cell counts in the older ages, the series for the proportion of Indigenous persons employed were smoothed using a five-year moving average from age 70, with the series declining to zero at age 84 for Indigenous men and at age 82 for Indigenous women.

The group of employed persons at each age was then allocated across categories of hours worked per week, again using 2016 Census data to determine the share in each category. The available categories are: no hours worked[12], 1-15 hours, 16-24 hours, 25-34 hours, 35-39 hours, 40 hours, 41-48 hours and 49+ hours. Data were downloaded by 5-year age groups, with shares in single year categories interpolated linearly between the midpoints of those categories. For example, in the 2016 census data, 19.4 per cent of employed Indigenous males aged 20-24 reported working 35-39 hours per week, and 21.8 per cent of 25-29 year olds. Hence, in our synthetic cohort, we assume 19.4 per cent of 22 year old Indigenous males worked 35-39 hours and 21.8 per cent of 27 year olds, and that the proportion changed in constant increments between age 22 and age 27.

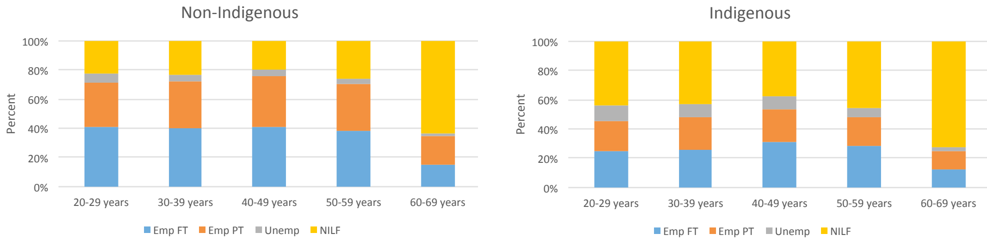
Differences in the patterns of labour force engagement by age are summarised in Figure 11. What is particularly noticeable is the lower proportion of Indigenous persons participating in the labour force, including a very big gap in the proportion of males in full-time employment over the prime working ages from 30 to 59.

Figure 11 **Labour force status by 10-year cohort, Indigenous and non-Indigenous Australians, 2016**

(a) Males



(b) Females



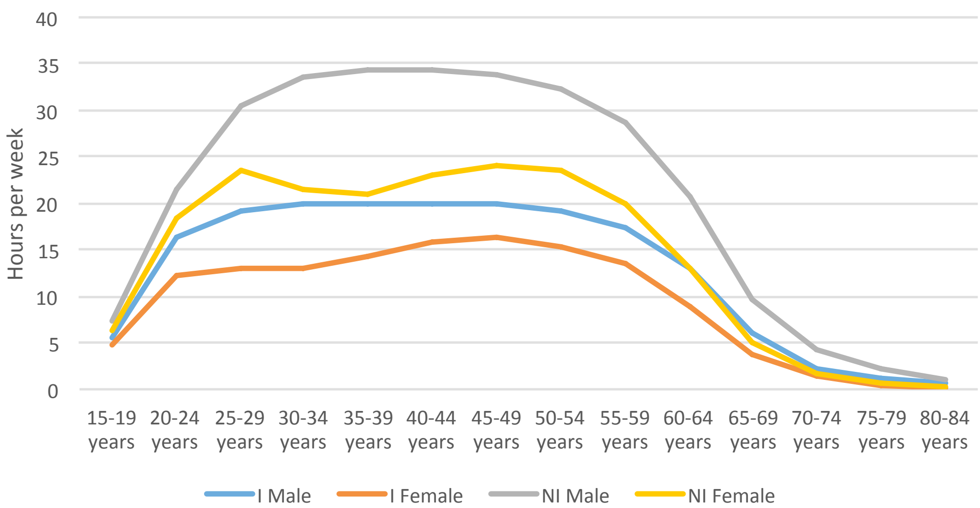
Note: Emp FT – employed full-time, Emp PT – employed part-time, Unemp – unemployed, NILF – not in the labour force.
Source: Authors' calculations from 2016 Census data, downloaded from the ABS online TableBuilder facility.

12 Persons can be classified as employed but work no hours if they have a job from which they were absent during the reference week, or a casual worker allocated no shift that week.

The implications of this for the number of hours in paid employment across the life-course can be seen in Figure 12. Note that in this graph, the weekly hours worked are averaged across all persons in the relevant age group – not just across those in employment. It is the relatively higher proportion of Indigenous people who are not participating in the labour force that really drives the differences in accumulated hours of paid work over the life-course. As with estimated actual weekly income across the life-course (Figure 2), average hours worked for Indigenous males follows a similar pattern by age to that for non-Indigenous women, with non-Indigenous males working many more hours and Indigenous women the least.

One factor contributing to lower labour force participation and access to paid employment of Indigenous Australians is caring obligations. For the cohort aged 30-39 years, 21 per cent of Indigenous women were caring for a person with a disability on an unpaid basis, compared to 12 per cent of non-Indigenous women of the same age at the time of the 2016 Census. For males aged 30-39 years, the figures are 13 per cent compared to 8 per cent for non-Indigenous males. While rates of unpaid caring converge for Indigenous and non-Indigenous Australians by age 55, they are substantially higher in relative terms for younger cohorts of Indigenous Australians, at an age where such responsibilities will impact substantially upon educational attainment and career paths.

Figure 12 Average hours worked per week by age: all Indigenous and non-Indigenous Australians, 2016



Note: The average is across all persons, including those not working.
Source: Authors' calculations from 2016 Census data, downloaded from the ABS online TableBuilder facility.

Wages and earnings

Estimates of average hourly wages by gender, Indigenous status and age are generated by estimating a multivariate wage equation using data pooled from the 18 waves of HILDA. For each working individual, hourly wages in their main job are calculated by dividing weekly gross wages and salary by the number of hours usually worked each week. These are indexed by the CPI to be expressed in real 2019 dollars. The dependent variable is the log of hourly earnings, and explanatory variables are included for Indigenous status, gender, part-time status, age and the quadratic of age. The regression results are given in Table 3. In all, there were over 112,000 pooled observations available for the estimation, of which 2,776 were observations on wages of Indigenous workers. The average hourly wage for the full sample was $32.80 in 2019 dollars. The coefficients indicate that Indigenous workers earn, on average, 4.1 per cent lower wages than non-Indigenous workers, after controlling for gender, age and part-time status of the jobs. Males are observed to earn 7.3 per cent higher wages than women, and there is an hourly wage penalty associated with part-time jobs. All variables are highly significant.

As the regression model gives the estimated effect of each variable, it is possible to then use the coefficients to generate an estimate of the hourly gross wages of every individual given their age, gender, Indigenous status and whether they work full-time or part-time. For our synthetic cohort, we can therefore estimate earnings for each of the four groups in each category of hours worked and for every single year of age. This is a preferable approach given that there is no dataset that is large and detailed enough to allow reliable, direct estimates of wages at this detailed level. For example, we can impute wages in single age categories because we can estimate, with quite some precision, the average effect of age on wages - they increase by 6.8 per cent per year, but at a declining rate - without the need for actual observations on persons at every age.

Table 3 **Wage equation results: dependent variable = log of hourly wages, HILDA data pooled from 2001 to 2018**

	Coefficient	Pr > |t|	Mean
Constant	1.927	<0.01	
Male	0.073	<0.01	0.51
Indigenous	-0.041	<0.01	0.02
Works part-time	-0.070	<0.01	0.33
Age	0.068	<0.01	37.3
Age-squared	-0.001	<0.01	1573.8
Adjusted R-squared	0.18		
Observations	112,036		

Source: Authors' calculations, HILDA waves 1-18.

Finally, gross weekly earnings are calculated as the number of hours worked multiplied by gross hourly wages. The number of hours worked is taken as the midpoint of the hours intervals given above. Workers in the category of 49 hours and over are assumed to work 58.6 hours per week. This was arrived at by downloading the data in single hours for the full population to calculate the actual average hours worked for those in this category. Persons who are unemployed, not participating in the labour force or working zero hours are assumed to have no earnings.

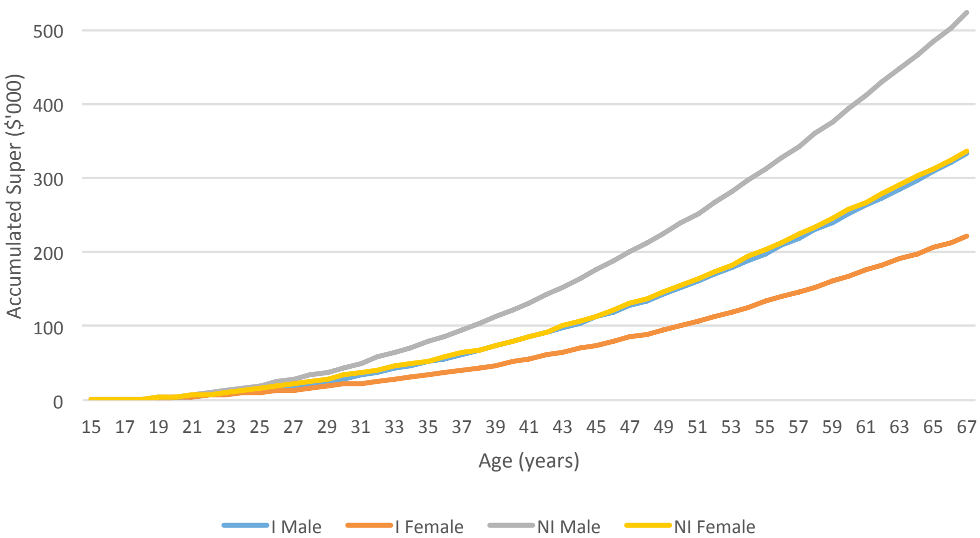
Accumulation of superannuation

Having derived average weekly earnings for workers in each category of hours worked, the employer superannuation contribution payable under the superannuation guarantee is calculated, using the current legislated rate of 9.5 per cent, and allowing for the minimum threshold of $450 per month and assuming all eligible workers receive the low-income tax offset. Based on the proportion of workers in each category of hours worked, average annual employer superannuation contributions per person are calculated separately for Indigenous males and females and non-Indigenous males and females.

Annualised balances are accumulated commencing with the contribution at age 15. In each subsequent year the individual's balance is increased by the amount of new contributions plus the return on investment on the existing balance. The Productivity Commission's Inquiry into the effectiveness of the superannuation system estimated that the sector delivered net returns (after taxes and fees) of an average 6.1 per cent p.a. over the 13 years to 2017 (2018a: 107). With inflation averaging 2.5 per cent per annum over those 13 years, this meant a real net return on investment of 3.6 per cent p.a. This real rate of return on existing balances is assumed. Note that while returns on investment earned by superannuation funds are taxed, it is difficult to assess the effective tax rate due to a range of concessions, discounts and imputation credits that apply across asset classes (PC 2018b: 43-44). We circumvent this issue, as well as the issue of account fees, by applying this estimate of returns that is net of taxes and fees.

The resulting profiles of average superannuation balances from age 15 to 67, assuming no drawdown on accounts, are presented in Figure 13. The actual projected dollar balances are reported in Table 4 for two key ages: age 60 years, the point at which people in our cohort will be able to access their super when they retire, and age 67 years, the eligibility age for the Age Pension. Consistent with Bianchi *et al.'s* (2016) findings, the projected superannuation balances are very similar for Indigenous males and non-Indigenous females, and we demonstrate that this applies across the life-course. However, for both males and females the projections are that non-Indigenous people will accrue over 50 per cent more super than their non-Indigenous counterparts.

Figure 13 **Simulated average superannuation balances over the life-course by gender, Indigenous and non-Indigenous persons ($'000s – real 2019 dollars)**



Source: Authors' calculations.

These gaps by Indigenous status are significantly larger than those estimated by Bianchi *et al.* (2016), reflecting the fact that we have incorporated differences in labour force status rather than focusing on outcomes for continuously employed full-time workers. On a more positive note, they are substantially lower than the actual gaps observed for persons in their 60s, observed from the HILDA sample from 2001 to 2018 (see Figure 5), which show non-Indigenous Australians to have superannuation balances more than double those of Indigenous Australians. Hopefully, this is a sign that the superannuation guarantee and subsequent evolution of policy settings is improving relative outcomes for Indigenous people in retirement.

Table 4 **Projected average superannuation balances at age 60 and 67 by gender, Indigenous and non-Indigenous Australians ($'000s)**

	Indigenous	Non-Indigenous	Ratio: Non-Ind. to Indigenous
Age 60			
Male	$251	$393	1.57
Female	$167	$256	1.53
Age 67			
Male	$333	$521	1.57
Female	$221	$337	1.53

Source: Authors' calculations.

Equity considerations

The Treasury's consultation paper for its review of retirement incomes poses a number of considerations in assessing equity: whether outcomes for individuals in different circumstances are fair and adequate; whether individuals in similar circumstances achieve similar outcomes; and whether public support is appropriately targeted (Treasury 2019). With respect to fairness of superannuation outcomes for individuals in different circumstances, the literature has primarily focused on gender equity, pointing to the inferior retirement savings outcomes for women as a result of their lower wages, propensity to work part-time, career breaks and shouldering a greater proportion of child care and other non-market activities (Austen, Sharp and Hodgson 2015; Hodgson and Marriott 2013; Jefferson 2012). Essentially, the rewards of the superannuation system and tax concessions are directly linked to engagement in the market economy, which can be seen as unfair to women given social norms that are still strongly shaped around the 'male breadwinner' model.

Many of these same factors affect outcomes for Indigenous Australians. As noted, projected superannuation balances at retirement age for Indigenous males and non-Indigenous females are very similar, around 50 per cent higher for non-Indigenous males, and markedly lower for Indigenous women. To recap, these are the projected average balances for all persons in that age group, not just workers. The differences arise between the four groups because:

a. For workers in any given hours category (eg. 35-39 hours or 40 hours per week) wage rates differ by gender and Indigenous status.

b. Among those employed, in addition to (a), there are differences in the number of hours worked (eg. far more women than men work part-time).

c. The proportion of persons in employment varies.

The principal cause of the gaps in accumulated superannuation by Indigenous status is the lower rates of labour force participation for Indigenous men and women as shown in Table 5. To assess the contribution of different factors, we conducted a number of simulations in the model, and recalculated retirement balances at age 65 years. Starting with men, we first adjusted Indigenous wage rates to be equal to that of non-Indigenous males in all hours categories and at all ages. The effect of this would be to increase Indigenous males' expected superannuation balance by $13,000, from $308,000 to $321,000, still a long way shy of the expected balance of non-Indigenous males of $483,000. Imposing the non-Indigenous distribution across the categories of hours of work for Indigenous males in employment leaves the balance unchanged. If we assign the age-specific non-Indigenous unemployment rate to Indigenous males who are participating in the labour market, there is a $42,000 increase in the estimated superannuation balance. However, if labour force participation rates were equal, even with the higher rate of unemployment experienced by Indigenous men, their superannuation balance at age 65 would be $101,000 higher.

Table 5 **Labour market contributions to the Indigenous/non-Indigenous gap in superannuation balances at age 65: model simulations**

	Males	Females
Projected balance at age 65 years:		
Non-Indigenous	$483,000	$313,000
Indigenous balance	$308,000	$205,000
Indigenous balance assuming equal:		
Wage rates	$321,000	$213,000
Hours of work by employed persons	$308,000	$203,000
Unemployment rates	$350,000	$228,000
Rates of labour force participation	$409,000	$273,000

Source: Authors' calculations.

A similar story applies for Indigenous women. Equal wage rates to non-Indigenous women would lead to a modest ($8,000) increase in their superannuation balance at retirement, while the existing distribution across categories of working hours actually marginally favours Indigenous women. Equality of unemployment rates would lead to an additional $23,000 balance, and equal rates of labour force participation a boost of $68,000. Hence, the higher rate of unemployment faced by Indigenous men and women when they are participating in the labour force does have a non-trivial impact on accumulated superannuation balances. However, lower labour force participation rates of Indigenous men and women, relative to their non-Indigenous counterparts, accounts for over half of the difference in accumulated superannuation balances at age 65: 58 per cent of the gap in the case of men and 63 per cent in the case of women.

Tax concessions

With employer superannuation contributions taxed at the concessional rate of 15 per cent, the tax benefits of superannuation contributions, relative to receiving the equivalent amount as income, are greater for those with high marginal tax rates, and in fact those with marginal tax rates below 15 per cent are penalised. Tax benefits of superannuation are therefore concentrated among high income earners (Austen *et al.* 2015, Jefferson 2012).

The low income superannuation tax offset was introduced to address this apparent inequity in the system, providing persons with incomes below $37,000 per annum an offset payment of up to $500 from the ATO against tax on superannuation contributions. Even accounting for this we calculate from the projections that, on average, up to age 65, non-Indigenous male workers will receive around $55,900 in tax concessions on their contributions, 5.1 per cent higher than Indigenous male workers. For females the difference is 2.6 per cent in favour of non-Indigenous workers ($37,100 compared to $36,200). Again, however, the stark contrast occurs when we take into account the lower employment rate of Indigenous persons. The average tax concession on superannuation contributions across all non-Indigenous males is estimated to be $44,100 to age 65, 59 per cent higher than the $27,700 accruing to Indigenous males. For non-Indigenous women the average tax concession received is estimated to be 51 per cent higher ($25,700 compared to $17,000).

Age of access

It is argued that a lower preservation age should apply to Indigenous Australians in light of their shorter life expectancy, and this sentiment was shared by participants within our focus groups. While ultimately this is a normative question, the data and modelling can offer important insights relevant to that judgement. By the time the cohort reaches 60 years of age, the preservation age that will apply to this cohort assuming current settings, 19 per cent of the initial Indigenous males at age 15 are projected to have passed away, and 12 per cent of the Indigenous females. The respective figures for non-Indigenous males and females are 7 per cent and 4 per cent, less than half the accumulated mortality. On average, those Indigenous men who pass away before age 60 will have left $128,000 in untouched superannuation, and Indigenous women $90,000. These amounts are lower than the figures for non-Indigenous Australians projected to pass away before age 60, as a result of both the lower rates of accumulation and earlier mortality of Indigenous men and women.

Among non-Indigenous Australians, the latest life tables suggest that 93 per cent of men and 96 per cent of women survive to access their superannuation at the preservation age of 60 years. To set an Indigenous specific preservation age that would see the same proportion of Indigenous persons live to access their superannuation, the age would need to be around 14 years earlier, at 46 for both Indigenous men and women. On this basis, current government policy to allow Indigenous people access to aged care services from 50 years – 15 years earlier than for the broader population – seems reasonable (ANAO 2017: 17). A preservation age of 50 years for Indigenous persons would mean a further 9 per cent of our male cohort and 6 per cent of our female cohort would live to access their superannuation, with expected balances at age 50 of $152,000 for Indigenous men and $101,000 for women.

In addition to the effect of the preservation age on the proportion of people who do get to access their superannuation, there is the question of how long they will have remaining to enjoy the rewards. Of those Indigenous males who reach 60 years of age, we estimate that just over half (52 per cent) can expect to survive past 80 years of age, while 60 per cent of Indigenous women who reach 60 years can expect to live past 80. The rates are substantially higher for the broader population, with two-thirds of men reaching 60 also living past 80, and 78 per cent of women.

In terms of access to the Age Pension, around 70 per cent of Indigenous males and 80 per cent of Indigenous females are projected to reach the eligibility age of 67 years, respectively 16 and 12 percentage points below the figure for non-Indigenous Australians.

Multiple accounts and differential fees

We have not attempted to model the effects of holding multiple accounts and the associated differential fees and returns by account size. As we have used estimated average returns on investments after fees and taxes, this will take into account the average fees across all superannuation accounts. However, where clients hold multiple accounts for a given accumulated amount of superannuation, by definition the average balance in each of those accounts is lower. Fees and charges are typically proportionately higher on smaller accounts and this can have a dramatic effect on returns. As noted above, the Productivity Commission has estimated that one in three accounts are unintended multiple accounts, and holding one of these over a working life could reduce balances by 6 per cent, or $51,000, by retirement (2018a: 58). In assessing the introduction of MySuper, Jefferson (2012: 244) cited claims that fund administrative costs of 1.35 per cent could erode final superannuation balances by as much as 27 per cent for a worker on average wages.

There are no data sources we know of to show the extent to which Indigenous Australians hold multiple accounts. Given their more intermittent labour market engagement, however, it is reasonable to presume that they change jobs and employers relatively often and disproportionately incur the higher costs of smaller and multiple accounts within their superannuation portfolios. In the HILDA sample, for example, the average duration people had been with their current employer was 5.0 years for Indigenous workers compared to 7.2 years for non-Indigenous workers. Both Indigenous men and women had average job durations about 2 years shorter than their non-Indigenous counterparts. Identification problems highlighted above will compound the likelihood of Indigenous persons holding multiple accounts.

Conclusion

Conclusion

The path to genuine reconciliation with Aboriginal and Torres Strait Islander Australians calls for Australian society to reconsider all of its policies, institutions and service delivery practices with regard to whether they adequately respect cultural differences, acknowledge and seek to address past injustices, work to reduce inequality between Indigenous and non-Indigenous Australians and empower Indigenous peoples to have control over their own futures. In this context, this report considers the appropriateness of the superannuation system in meeting the needs of Indigenous Australians. This is particularly important given the very substantial role that the superannuation system plays in shaping life outcomes for Australians and their families. We discuss the findings and policy recommendations with respect to two broad aspects of the 'appropriateness' of the system. The first relates to how well the industry services Indigenous clients within the current framework. The second critically assesses the parameters of the existing system in terms of equity in the outcomes it generates for Indigenous Australians.

Servicing Indigenous clients

Previous contributions have highlighted problems Indigenous people face in engaging with superannuation funds around proof of identity, financial literacy, conditions for early access to superannuation, access to services and the cultural appropriateness of those services. These issues are often accentuated for Indigenous persons living in remote communities, but also affect those living in urban areas and who make up the majority of superannuation clients. Qualitative evidence provided by participants in the focus groups reinforced the view that the superannuation industry still needs to do more to address these problems.

Improved, culturally sensitive communication by service providers would help to address these issues. From listening to the experiences of the focus group participants we believe there is a strong case for the establishment of an industry-representative, specialised Indigenous unit or advocacy group to deal with Indigenous superannuation clients. Ideally, this would be staffed by specialist Indigenous advisors given that issues are often highly personal and to counter communication barriers and feelings of intimidation Indigenous people can feel in dealing with superannuation funds. In light of the strong distrust in institutions that many Indigenous people feel, including scepticism that superannuation funds will offer advice in their (the Indigenous clients') best interests, an industry representative body would have the advantage of being independent of the client's own fund. We also recommend consideration of more use of face-to-face communication, such as through online platforms, rather than communication by phone, and the development of Indigenous specific informational videos addressing commonly asked questions and accessible through funds' websites. These should be developed by Indigenous persons to ensure a communication style that is appealing to Indigenous clients and feature Indigenous presenters.

A major theme to arise from the focus groups was frustration around accessing superannuation under the hardship and compassionate provisions. While there are mixed views around whether these conditions should be relaxed, for many of the same equity considerations discussed below there is a strong case for at least a more streamlined process and, possibly, adoption of an industry code of practice offering special consideration for Indigenous persons in light of the greater hardships they encounter. At a policy level, the case could be made for more generous tax concessions for lump sums withdrawn under the hardship and compassionate provisions given the existing concentration of tax concession benefits of the superannuation system on higher income earners.

Other service issues affecting Indigenous clients include difficulties experienced in the settlement of accounts of family members who have passed away and in trying to consolidate accounts. Again, an Indigenous specific advocacy unit would be valuable in helping Indigenous clients navigate these processes, particularly so in the case of hardship/compassionate provisions and accounts of deceased family members, which require added cultural sensitivity.

A critical first step to facilitate efforts to improve service delivery, and to enhance the capacity of researchers and regulators to critically assess the performance of the superannuation industry in servicing Indigenous peoples is to ensure that superannuation funds record their clients' Indigenous status. The Indigenous Superannuation Working Group's survey of 27 superannuation funds in 2013 found that only two funds collected that data (ISWG 2015: 6). The absence of that data is likely to be a major reason behind the paucity of existing academic research on Indigenous superannuation issues and the lack of attention to Indigenous issues in reports by ASFA and in the Productivity Commission's Inquiry into the superannuation system (PC 2018a, b). Although the collection of such data would need to rely on self-identification, Indigenous identifiers would assist in the targeting of information and in the provision of additional services such as those noted above.

Superannuation within the retirement incomes framework

Any retirement incomes framework faces a trade-off between seeking to 'equitably' maximise the quality of life in old age while at the same time minimising the impost on individuals of working age. This requires mechanisms to redistribute wealth across individuals, across different life stages and across generations, and equity refers to concepts of fairness in both the burden of contributions and the level of support provided in retirement. The unique system that has evolved in Australia seeks to achieve this through the non-contributory Age Pension that acts a safety net to ensure a minimum level of retirement income, plus health, accommodation and other supports for the aged. This is complemented by self-provision for retirement through compulsory employer contributions on behalf of workers through the Superannuation Guarantee and voluntary savings.

While the key objective of the superannuation system is to promote quality of life in retirement, this needs to be understood in the context of the wider policy logic of the framework. The modest payments under the Age Pension, and the application of means testing and assets testing, constrains costs and promotes self-provision. Self-provision is mandated for workers through the compulsory Superannuation Guarantee and is further supported by favourable tax concessions. Voluntary superannuation contributions are also encouraged by tax concessions, subject to caps, and voluntary savings in the form of investment in owner-occupied housing are encouraged through favourable tax treatment and exemption of the family home in the assets test.

Within this general approach a continuum of settings are possible in terms of the generosity of the Age Pension safety net, the level of compulsory contributions and the generosity of tax concessions. When we consider people along the earnings distribution, it is clear that the lower the safety net and the larger the tax concessions for superannuation, the more the system favours higher income earners in terms of relative retirement incomes. A lower safety net and higher tax concessions also work in favour of those who spend more time in paid employment. It is important that policy makers question and constantly monitor the equity of retirement income outcomes and the redistributions inherent in current settings, both in aggregate and for particular groups within society. It is estimated that the value of tax concessions to superannuation is now approaching what the government spends on the Age Pension (Austen *et al*. 2015).

Indigenous Australians are disproportionately found in lower deciles on the earnings and incomes distributions and spend significantly less time in paid employment across the life-course. On average, Indigenous Australians are therefore strongly disadvantaged by a policy mix of a relatively low safety net and higher tax concessions on superannuation. On the available evidence we estimate that the existing superannuation balances of non-Indigenous Australians upon retirement are, on average, more than double that of Indigenous Australians. Modelling the outcomes of the current policy settings, today's cohort of Indigenous Australians are projected to accumulate around two-thirds the superannuation balances of non-Indigenous Australians. It is differences in the rates of labour force participation between Indigenous and non-Indigenous Australians – and the implications this has for the accumulated number of hours in paid employment - that makes the largest contribution to the gap in superannuation balances.

The equity of Australia's superannuation system has most commonly been assessed from a gender perspective. There is, in fact, a remarkable similarity in the projected profile of superannuation balances over the life-course for Indigenous men and non-Indigenous women. However, there is an important difference in their implications for equity and quality of life in retirement. To a large extent, gender differences in accumulated super balances are a result of partnered women spending less time in paid employment[13]. This largely represents intra-household decisions where partnered women, on average, do a greater share of the unpaid child-care and home production, and partnered males focus on a paid career. We completely accept that there are valid arguments that this is inequitable for women because it arises through historically grounded social norms, rather than unconstrained choice. However, intra-household specialisation at least has the compensating effect in that those women, in theory, have an equal claim on the partner's accumulation of superannuation, and this should contribute to their retirement incomes. In general, there is no such compensating effect associated with the lower labour market engagement and lower superannuation balances of Indigenous males. Of course, Indigenous females have lower labour market engagement and lower accumulated superannuation balances again, but there is no existing data that would support examination of intra-household superannuation holdings for Indigenous people.

The debate around gender equity points to the priority given by the superannuation system to those in paid employment, to the neglect of non-market production. Equally, the existing system neglects the value of non-market cultural production of Indigenous Australians. Engagement in culture, attachment to country, passing on stories and songs, maintaining kinship networks and fulfilling the associated reciprocal obligations all have legitimate value to Aboriginal and Torres Strait Islander people. Their maintenance is just as legitimate a source of value and wellbeing to Indigenous Australians as is the production of iron ore, financial services, school education or cinematography to the economy. However, the fact that they are not marketised, and to the extent that Indigenous people face a trade-off between paid income and these cultural priorities, the same argument implies a culturally-grounded inequity inherent in the superannuation system.

We believe there is a very strong case for introducing a lower preservation age for Indigenous Australians, so that superannuation, if chosen, can be accessed earlier, on the same terms as non-Indigenous persons at the current preservation age. It is hard to argue this would not improve lives for many Indigenous Australians. Achieving equity in terms of the proportion of Indigenous and non-Indigenous persons that live to the preservation age would require bringing the preservation age for Indigenous Australians forward from 60 years to 46 years. Hence, an Indigenous specific preservation age of 50 years would seem reasonable, and would be consistent with current government policy to allow Indigenous Australians access to aged care services at 50 years rather than 65 years in light of their shorter life expectancy and lower heath status. We further propose that the Indigenous specific preservation age be linked to improvements in life expectancy, so that it is incrementally increased only as the gap in Indigenous and non-Indigenous life expectancy is reduced.

13 This is not to dismiss the important labour market constraints faced by sole parents, who are also primarily women.

Rather than reducing the preservation age, Gordon and Boyle (2015: 13) suggest a better way of recognising the lower life expectance of Indigenous members would be to broaden the scope of early access provisions for those in poor health. As noted above, this is also an area in need of reform in service delivery to improve outcomes for Indigenous Australians. In the same way the structure of the existing system generates inequality in outcomes for persons with low earnings, it also negatively effects those with pressing current needs and high personal discount rates. This is most obviously the case with the compulsory nature of Superannuation Guarantee, when many more Indigenous people face financial stress and are unable to achieve home ownership. The rationale for compulsory super largely rests on arguments of market failures due to myopia or moral hazard adversely affecting incentives to work and to save under conditions of a publicly funded safety net (Kingston and Thorp 2019). These have limited relevance to Indigenous Australian who already face significant barriers to employment, including caring obligations for family members with a disability. Discussions in the focus groups suggest many Indigenous people see their superannuation more as inheritance for their family and do not expect to live to enjoy it in retirement. For them, the carrot of access to the Age Pension at age 67 would seem unlikely to substantially shape their work, spending and savings decisions in earlier life.

A further feature of the existing retirement incomes framework that effectively disadvantages Indigenous Australians is the exemption of the family home from the Age Pension assets test. This has contributed to owner-occupied housing being the main vehicle for voluntary savings alongside the compulsory superannuation system. Not only are Indigenous Australians markedly less likely to attain home ownership, but compulsory superannuation contributions potentially mitigate against them saving for a home. In addition to lower superannuation balances in retirement, relatively few Indigenous Australians will enjoy the benefits of this exemption. In terms of the redistribution inherent in the current retirement incomes framework, this effectively provides a cross-subsidisation to retirees owning their own home, when the state of home-ownership is already associated with a lower incidence of financial stress. While seemingly sacrosanct in Australian policy, the exemption of the family home from assets tests does generate substantial and perverse outcomes in encouraging 'under-occupancy' among older Australians. It has been estimated that around 30 per cent of post-2014 residents of age care homes retain ownership of a home unoccupied by a spouse or dependent (Aged Care Financing Authority 2017).

Finally, we note there is evidence of a strong cultural norm among Indigenous peoples for the elderly to remain in private homes with family. Evolution of the retirement incomes system has worked to replace support for the aged by families with individual self-provision and institutionalised aged care. A more culturally aligned system would have worked to support a social norm of families caring for their elders. Indeed there have been previous recommendations to incorporate superannuation contributions into support payments for carers (Hodgson and Marrriott 2013).

In sum, there is substantial scope to improve the cultural appropriateness of services provided to Indigenous clients by superannuation funds. There are also numerous inequities inherent in the current superannuation system and retirement income framework but, of course, this will be true of all systems. The stronger the policy settings lean towards minimising the cost impost of the Age Pension and mandating and incentivising superannuation linked to earnings, the worse the relative outcomes will be for Indigenous Australian and other socio-economically disadvantaged groups. There are options to reform the system as a whole, or to provide special concessions for Indigenous Australians. While there is undoubtedly room for both types of reform, we believe the latter should be the priority, particularly with respect to the introduction of an Indigenous specific preservation age and hardship and compassionate provisions for early access to superannuation.

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Appendix 1

Survey Questions

Appendix 1 – Survey Questions

ABOUT THE QUESTIONNAIRE

The aim of this short questionnaire is to collect additional information on people's awareness about their superannuation. Before completing this questionnaire, you must have read the Participant Information Statement and signed the Consent Form.

1. Aboriginal and Torres Strait Islander status

- ☐ I identify as a person of Aboriginal or Torres Strait Islander descent, or both
- ☐ I do not identify as Aboriginal or Torres Strait Islander

2. Gender

- ☐ Female
- ☐ Male
- ☐ Other/don't identify as male or female

3. Age

- ☐ 29 years or under
- ☐ 30-39 years
- ☐ 40-49 years
- ☐ 50-59 years
- ☐ 60 years or over

4. Employment - are you currently ... ?

- ☐ An employee within the university sector
- ☐ An employee, but not in the university sector
- ☐ Self-employed (go to Question 8)
- ☐ Not employed (go to Question 8)

5. Does your employer make contributions into a superannuation fund on your behalf?

- ☐ Yes, definitely (go to Question 6)
- ☐ Yes, I think so (Go to Question 6)
- ☐ I'm really not sure (go to Question 8)
- ☐ No, definitely not (go to Question 8)

6. As a percentage of your salary, how much does your employer contribute? ________ %

7. Do you know which superannuation fund your employer currently contributes to on your behalf?

- ☐ Yes, I know for sure
- ☐ Yes, I think I know which fund
- ☐ No, I don't know

8. Do you currently make voluntary contributions to a superannuation fund?

- ☐ Yes, definitely
- ☐ Yes, I think so
- ☐ I'm really not sure
- ☐ No, definitely not

9. Including any fund that your current employer contributes to, how many different superannuation accounts do you have in total?

- ☐ I don't have any superannuation accounts (go to Question 16)
- ☐ I'm really not sure
- ☐ Just the one
- ☐ Two or three
- ☐ Four or five
- ☐ More than five

10. Do you have a good record of which funds these are and your account balances?

- ☐ Yes, I receive regular statements on my accounts and know how to locate them
- ☐ I may have lost track of some of my superannuation accounts
- ☐ I don't receive any statements and don't know how to locate my superannuation accounts

11. Do you know how much money you currently hold in superannuation accounts in total?

- ☐ Yes, I have a pretty clear idea
- ☐ I know roughly how much
- ☐ No, I really couldn't say

12. Do you have any insurance included with your superannuation?

- ☐ Yes, definitely
- ☐ Yes, I think so
- ☐ I'm really not sure (go to Q. 14)
- ☐ No, definitely not (go to Q. 14)

13. Do you know what your insurance covers and how much you pay for it?

- ☐ Yes, I have a pretty clear idea
- ☐ I know a bit about it
- ☐ No, I really don't know

14. At what age will you be eligible to access the money that is held in your superannuation accounts?

I think I will be able to access my super when I am ________ years of age

- ☐ I really couldn't say

15. If you were to pass away before you retire, do you know what would happen to your superannuation?

- ☐ It would go to the government
- ☐ The fund would keep it
- ☐ I've nominated a beneficiary who it will go to
- ☐ They would identify my next of kin and it would go to them
- ☐ I'm not sure

16. Do you think superannuation funds offer a good return on money invested with them?

- ☐ I really couldn't say
- ☐ Yes, I think they offer good returns compared to most other investments
- ☐ I think they just offer similar returns to other investments
- ☐ No, I think they offer low returns compared to most other investments

17. Which of the following do you think best describes how employer contributions to superannuation get taxed compared to wages?

- [ ] You get a good tax break on superannuation contributions
- [ ] Superannuation contributions are taxed about the same as wages
- [ ] You pay more tax on superannuation contributions than on wages
- [ ] I really couldn't say

18. Did you know that in some special circumstances people are able to access their superannuation before retirement age?

- [ ] No, I didn't realise it was possible to access your super before retirement
- [ ] Yes, I have a pretty clear idea about the circumstances in which you can access your super before retirement
- [ ] I thought it might be possible, but I don't really know about the rules

END OF QUESTIONNAIRE

(Please return your completed questionnaire to the focus group facilitator)

Appendix 2

Additional modelling notes and sources

Appendix 2 – Additional modelling notes and sources

Initial 15 year old population

ABS (2019), Estimates and projections, Aboriginal and Torres Strait Islander Australians, 2006 to 2031, ABS Catalogue No. 3238.0, Table 9 (8,773 males & 8,228 females).

ABS (2019), Population Projections, Australia, ABS Catalogue No. 3222.0, Table B Population projections by age and sex, Australia, - Series B (150,670 males and 141,697 females, less the above Indigenous populations (series B is based on current trends in fertility and life expectancy).

Population by single age

Indigenous: Gender and age specific mortality rates taken from ABS Cat. No. 3302055003DO001_20152017 Life Tables for Aboriginal and Torres Strait Islander Australians, 2015–2017; Table 1.1 (life expectancy estimates adjusted for age specific identification rates). Life tables are in 5 year cohorts. Taking those life expectancies to apply at the midpoint of those cohorts (eg. at age 17 for 15-19 years olds), single year rates are approximated by linear interpolation. Final midpoint figure available is for 82. We assume a linear trend from there to 100% morbidity by age 100.

Non-Indigenous: gender and age specific mortality rates taken from ABS Cat. No. 3302055001DO001_20152017 Life Tables, States, Territories and Australia, 2015-2017, Table 1.9 – in single year ages groups up to age 100.

Labour force status

For both Indigenous and non-Indigenous persons, taken from 2016 Census (Table builder) – employed, unemployed and not in the labour force (NILF) by single age up to age 100.

From age 65 onwards all unemployed persons are treated as NILF. In the older ages, cell counts are very small, and often zero, particularly for the Indigenous population. When tables contain cell counts that are small, the ABS applies an automatic random adjustment process to those counts to eliminate potential for breaches of confidentiality. Cell counts in some of the sub-categories (consisting of full-time, part-time and away from work) of employment fall below 10 from the age of 70 for Indigenous males and females, and from the ages of 98 for non-Indigenous males and 96 for non-Indigenous females.

Visual inspection of employment rates suggest male rates decline rapidly but at a diminishing rate from around age 60, and first reach zero at age 84, but become ‘noisy’ from age 70. To smooth the series we assume an employment rate of 0 from age 84 and impose the midpoint of a 5 year moving average to the series from age 70.

A similar approach is followed to smooth the employment rate series for Indigenous females (assumed zero from age 82, 5-year moving average imposed from age 70). For non-Indigenous males the series is convex and smooth until around the age 95, and then increases again sharply. We assume a continuation of the nadir of 1.7 at age 93 and impose a 5 year centred moving average from age 90. Similarly for non-Indigenous females we impose a continuation of the nadir of 0.5 at age 92 and a moving 5-year centred moving average from age 90.

The resulting rates are applied to generate estimates of the number of persons employed, unemployed and NILF in each single year age group for Indigenous and non-Indigenous males and females.

Hours worked

Assumptions for hours of work are also based on 2016 Census data. Due again to limitation of small cell sizes, these were downloaded in 5 year age groups and in hours intervals (no hours worked, 1-15, 16-24, 25-34, 35-39, 40, 41-48 and 49+ hours). The share of persons working in each interval was then calculated.

For the top coded category of 49+ hours, we use the distribution of single hours worked within that category for the full population (Indigenous and non-Indigenous) to calculate that the average worker in this category worked 58.6 hours.

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