23 February 2018

By email

Senate Inquiry into the future of work and workers

The Financial Services Council (FSC) welcomes the opportunity to make submissions to the Senate Inquiry into the Future of Work and Workers.

The FSC has over 100 members representing Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks and licensed trustee companies. The industry is responsible for investing more than $2.7 trillion on behalf of 13 million Australians. The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Securities Exchange and is the fourth largest pool of managed funds in the world.

The FSC makes the following comments:

- There are frequent comments that automation and technological change are causing substantial dislocation to the labour market, but there is limited evidence of a problem to date, except for wages growth which is currently weak.
  - The Financial Services industry provides a case study — productivity has increased in our industry, including through automation, yet employment in the industry has at the same time increased.
- Regardless, historical data provides no guarantee for the future, and the nature of work may be quite different in the future from today.
- Of particular concern to the FSC is potential changes to coverage of the superannuation guarantee (SG), and the effect this may have on retirement incomes.
- In response, the FSC is calling for:
  - options for employers to pay SG contributions to employees who earn below the threshold of $450 per month;
  - a reduction in the red tape applying to individual deductible contributions to super; and
  - an in-depth review of the impact of the future of work on superannuation and retirement incomes.

More details on our comments are below.

Technological unemployment

There are few reasons to believe ongoing automation will result in mass unemployment. While there are no guarantees of the future, predictions of technological unemployment have been around for centuries and have to date proven incorrect.

This is particularly shown by the employment to working age population ratio which is currently at historically high levels (see Attachment). On a range of other measures, there are no clear adverse impacts of automation and other broad economic changes on the labour market. Details of the evidence supporting these observations is in the Attachment:

- Job tenure has not declined.
- Casualisation has remained broadly unchanged for the past 20 years.
- The incidence of long hours of work has declined.
- The proportion of employees wanting to work different hours (either less or more than they currently work) has been declining.
- The proportion of employees hired on temporary contracts or by labour hire firms has not been increasing over the past decade.[1]
- There has been no clear increase in income inequality, and perhaps a decline since 2001.

There has been a substantial increase in part time work but this could be seen as a positive change as it means more parents (particularly women) are able to remain in the workforce. A large majority of employees are working part time by choice, although the proportion of employees who are required to work part time has been increasing.[2]

By contrast, there has been significant weakness in wages growth over recent few years. Both nominal wages and real wages (subtracting inflation) are growing at a slow rate.[3] This might be an important indicator that automation is starting to affect the labour market. However, this weakness is relatively recent and has been attributed to many different factors other than automation and technology, including the end of the mining boom.[4] Of note, some economists attribute slow wages (and economic) growth to a *lack* of innovation – there is *too little* automation rather than too much.[5]

Perceptions of job security have also been declining,[6] perhaps another indicator of the growing impacts of automation and the digital economy.

Regardless, historical figures provide no guarantee for the future. Automation, the digital economy and related changes could have widespread impacts on employment and the economy. This is why we need to be prepared and this inquiry provides a useful mechanism to review the relevant issues.

Technological change in financial services

The financial services industry (represented by FSC) provides an informative case study of the impact of technological change on the economy and labour market.

Technological improvement in the financial services industry is shown in productivity figures – multifactor productivity growth in financial services is one of the strongest in the economy as shown in the graph below.

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[1] See page 25 of Natasha Cassidy & Stephanie Parsons (2017) "The Rising Share of Part-time Employment", *RBA Bulletin*, September Quarter

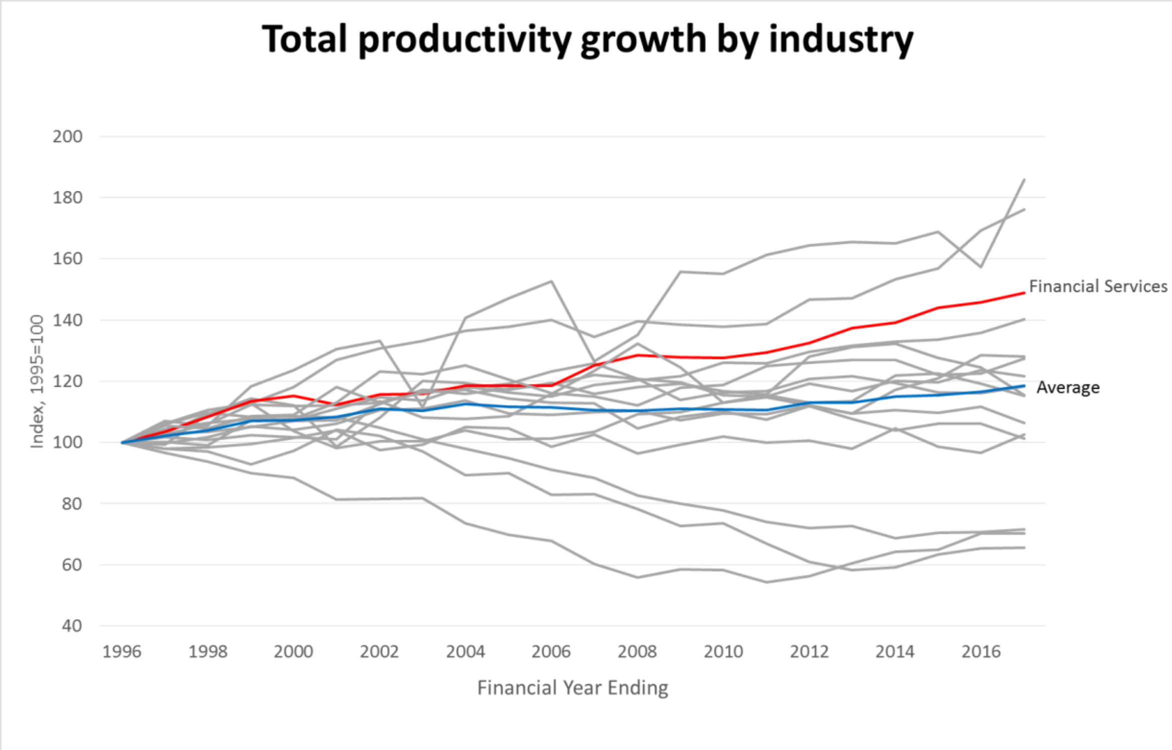
[2] See page 20 of Natasha Cassidy & Stephanie Parsons (2017) "The Rising Share of Part-time Employment", *RBA Bulletin*, September Quarter

[3] James Bishop & Natasha Cassidy (2017) "Insights into Low Wage Growth in Australia", *RBA Bulletin*, March Quarter

[4] See for example Peter Tulip (2014) "The Effect of the Mining Boom on the Australian Economy", RBA Bulletin, December Quarter, which forecast the end of the mining boom would reduce wages by about 3%.

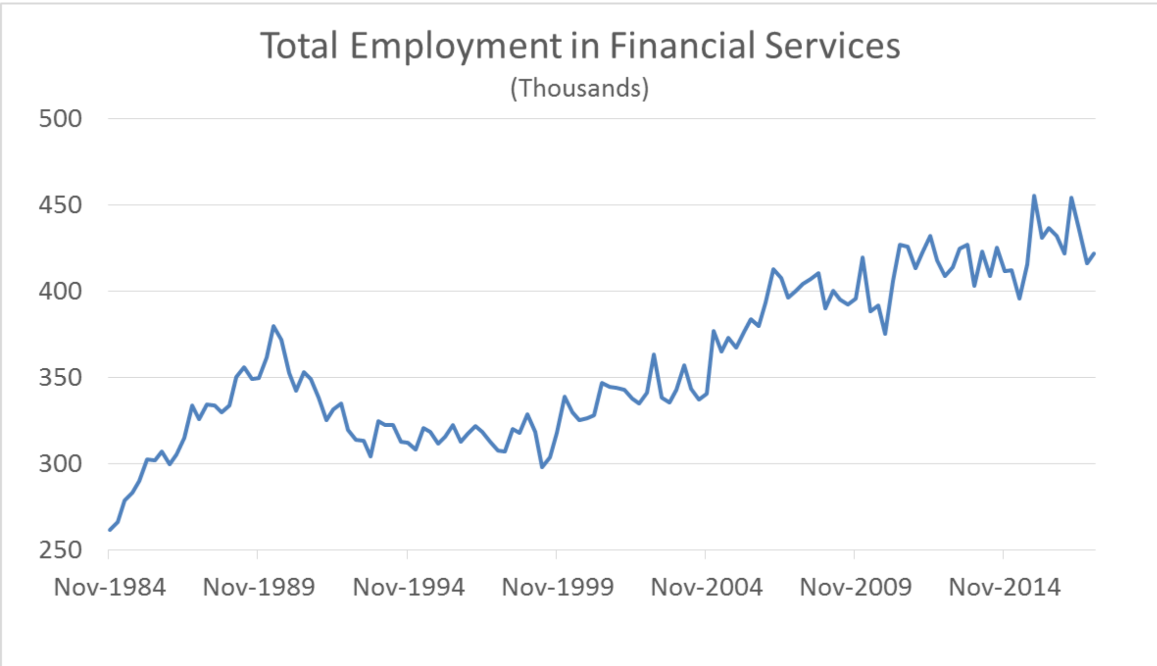
[5] The theory of secular stagnation, as described by Larry Summers here: http://larrysummers.com/2016/02/17/the-age-of-secular-stagnation/

[6] See page 25 of Natasha Cassidy & Stephanie Parsons (2017) "The Rising Share of Part-time Employment", *RBA Bulletin*, September Quarter; and Graph 5 of James Bishop & Natasha Cassidy (2017) "Insights into Low Wage Growth in Australia", *RBA Bulletin*, March Quarter.



Source: ABS Estimates of Industry Multifactor Productivity, 2016-17, Table 1.

Despite these productivity improvements, employment in our industry continues to grow as shown in the figure below.



Source: Labour Force, Australia, Detailed, Quarterly, Table 6.

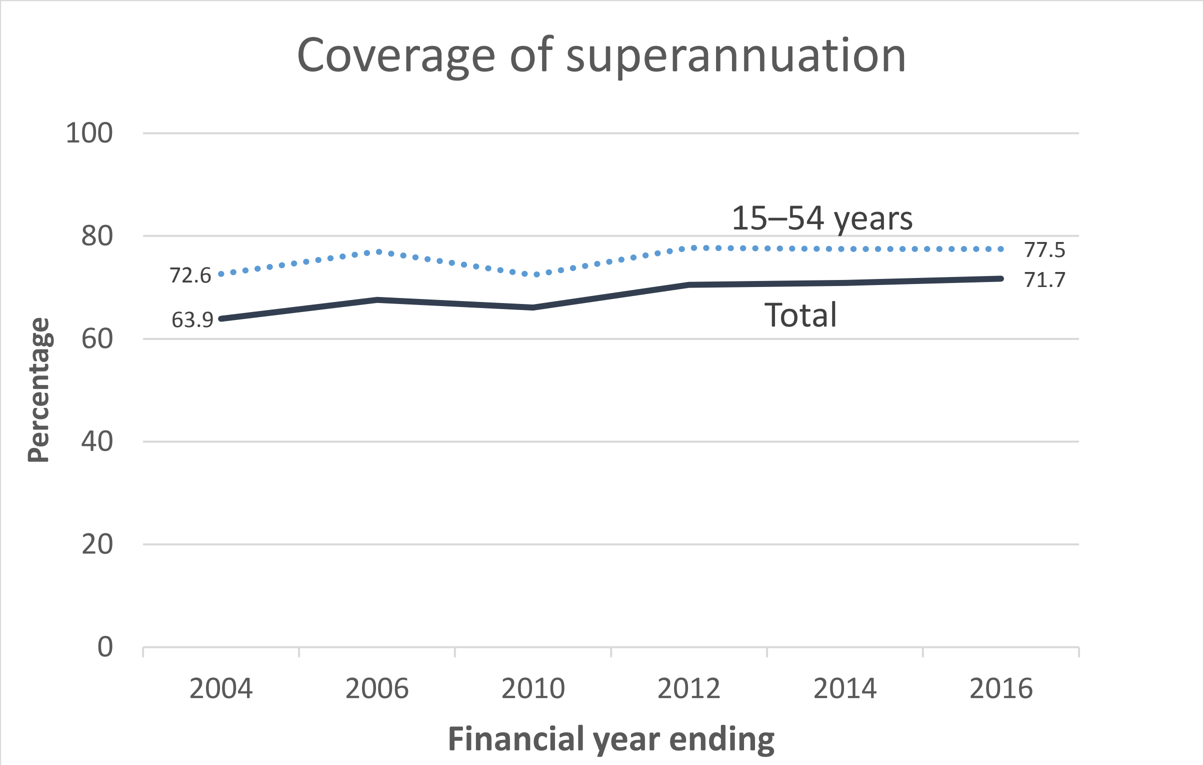
This shows that productivity improvements, including through automation, do not necessarily mean reduced employment. Australians have become richer, with a significant contribution from automation and technological change, and we have used this increased wealth to purchase more financial services.

The future of work & superannuation

Of particular interest for the future of work is the impact of the sharing economy, which describes the use of digital platforms to allow buyers and sellers to trade with each other directly. While physical marketplaces have existed for millennia, digital platforms have greatly reduced the cost, and increased the reach, of these marketplaces. If an individual uses a digital platform to sell their own labour this is sometimes known as the ‘gig economy’.

The potential growth in gig economy employment will have a number of impacts, including on superannuation and retirement incomes. Gig economy work could easily fall outside the definition of employment for the superannuation guarantee (SG) — and even if work in the gig economy is treated as employment, it could easily fall below the $450 per month threshold for application of the SG.

The coverage of superannuation has been increasing for some time, as shown in the graph below. However, the increase has been slow, and has largely levelled off in the past few years. This slow growth could be for a variety of reasons — one could be the growth of the ‘gig economy’.



Source: ABS Household Income and Wealth, Australia, 2015–16, Table 15.2

If some predictions for ongoing growth in the gig economy are accurate, this will mean the coverage of the SG will decline. This in turn cause other problems: a decline in retirement savings; increased reliance on the Age Pension; and a decline in national savings.

This suggests the coverage of SG needs further consideration.

The $450 per month threshold, below which employers are not required to make SG contributions, will have an increasing impact for people working multiple jobs, which will include some employees in the ‘gig economy’.

The threshold equates to $112.50 per week, or approximately seven hours of work at minimum wage. There is no reliable data on the number of employees that would fall within this category or the magnitude of the foregone contributions that result from the threshold.

The threshold is little changed from the advent of the compulsory superannuation system. The threshold has little relevance to current work patterns.

Introducing flexibility around the threshold would have little regulatory impact on Australian employers as most employers have at least one employee to whom they must make superannuation contributions. The contribution rate on an income below $112.50 is less than $11 per week, and therefore adds little to the cost of employment. The introduction of SuperStream is simplifying the processing of contributions for employers, reducing any regulatory impact.

The long-term nature of superannuation and power of compound growth, however, ensures that even modest contributions such as $11 per week may have a significant impact on the quality of an individual's retirement. A contribution of only $11 per week to an individual's superannuation savings, based on annual investment growth of 7.5 per cent, results in a retirement balance of $140,000 after 40 years of retirement.

Some employees below the $450 per month threshold will also receive the Introducing flexibility around the threshold would also interact with the retention of the low income super tax offset to boost retirement incomes.

Recommendation: The Inquiry examine options for employers to pay contributions to employees who earn below the threshold of $450 per month.

To provide for their own retirement, from 1 July 2017, all super fund members have been able to claim a tax deduction on personal super contributions. This includes owners of small businesses, the self employed, workers in the gig economy, and employees.[7] This measure has been a positive change, particularly for employees who may not be offered any salary sacrifice arrangements by their employer. However, FSC members have raised concerns that there are significant red tape barriers to the efficiency of these measures. This currently includes the following requirements:[8]

- a super fund member has to notify their fund in writing of the amount they intend to claim as a deduction, and given a maximum two year limit to do so;
- the fund must acknowledge this notice in writing;
- the fund member must not have rolled over any of the relevant contribution into another fund; and
- the fund must not have started paying a super income stream.

These requirements are also difficult for members to understand and navigate around, particularly the requirement of funds to pro-rata reduce the maximum amount that can be claimed in the event there has been a partial withdrawal from their super account balance. These complex requirements mean a substantial volume of notices need to be rejected as not valid.

[7] Details of who is eligible for tax deductible super contributions is available from: https://www.ato.gov.au/Individuals/Super/Super-changes/Change-to-personal-super-contributions-deductions/

[8] See: https://www.ato.gov.au/Individuals/Super/Super-changes/Change-to-personal-super-contributions-deductions/

These problems would discourage workers in the gig economy from providing for their own retirement.

As a result, the FSC recommends that these red tape barriers be reduced or removed. This will make it easier for people currently not covered by the SG to make contributions and build retirement incomes.

Recommendation: The Inquiry review the red tape barriers that make it harder for individuals to make deductible contributions to super.

There are other substantial issues with the coverage of super guarantee — in particular how the SG could apply to those who are working but have no standard employment relationships. The FSC considers there issues need a detailed, separate inquiry. These issues are best examined by an independent organisation such as the Productivity Commission which has substantial knowledge about relevant issues including population ageing, the labour market, the digital economy and the superannuation system.[9]

Recommendation: The Inquiry recommend the Productivity Commission conduct an inquiry into the impacts of automation, technological innovation and the digital economy on superannuation and retirement incomes.

Please contact me with any questions in relation to this submission on (02) 9299 3022.

Yours sincerely,

[signed]

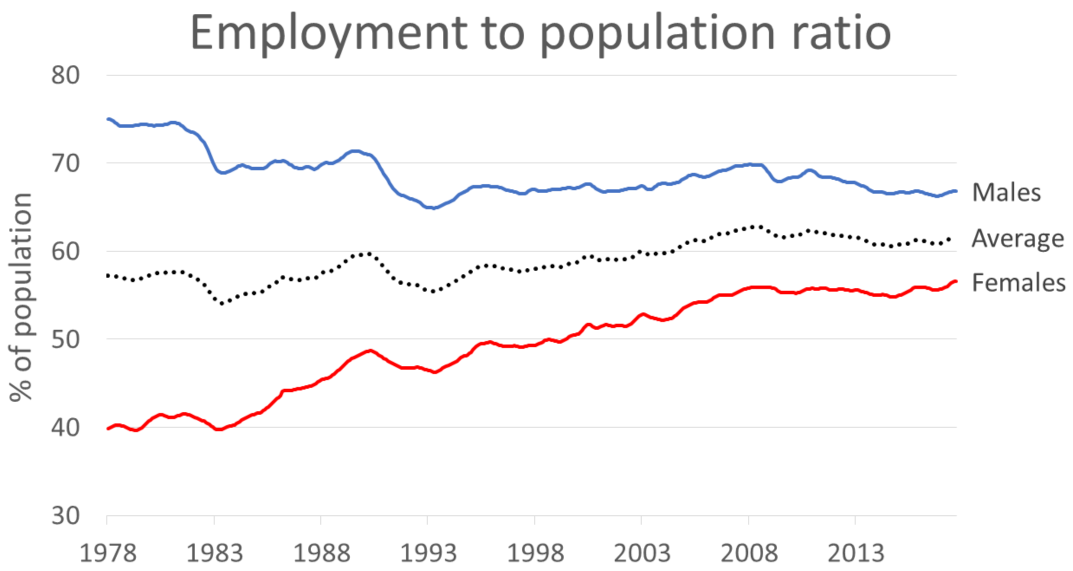
Michael Potter
Senior Policy Manager

[9] Notably, the Productivity Commission's recent report on the digital economy did not consider the impact on superannuation or retirement incomes. See: Productivity Commission (2016) *Digital Disruption: What do governments need to do?*, Commission Research Paper

Attachment: Data on labour market

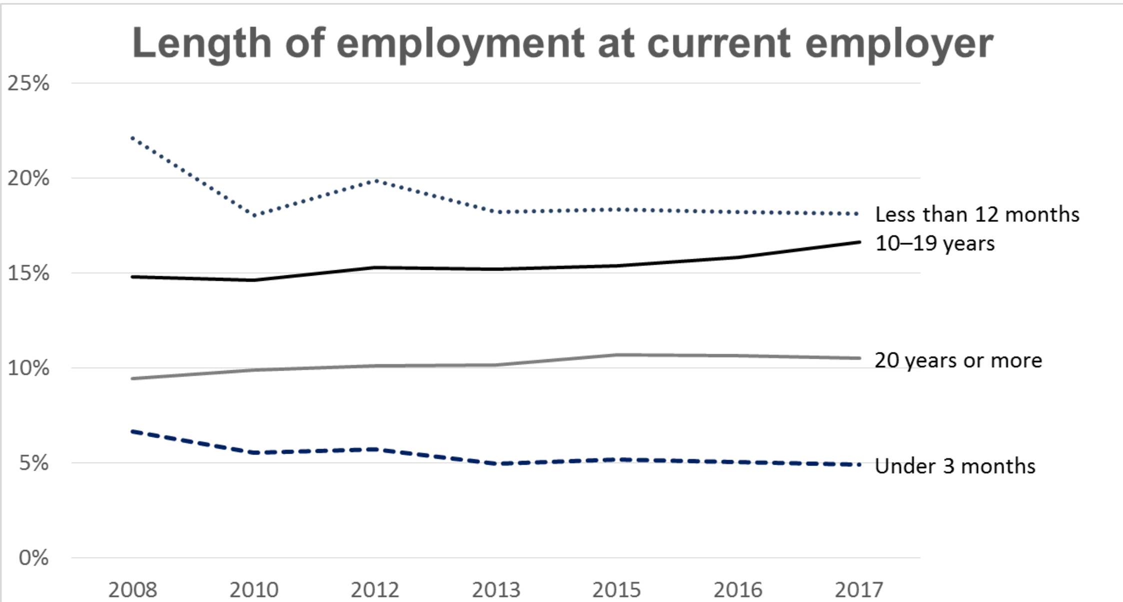
As discussed in the body of this submission, labour market data shows there has been no clear deterioration in many measures of labour market performance.

Employment as a share of population is at historically high levels, as shown in the figure below.



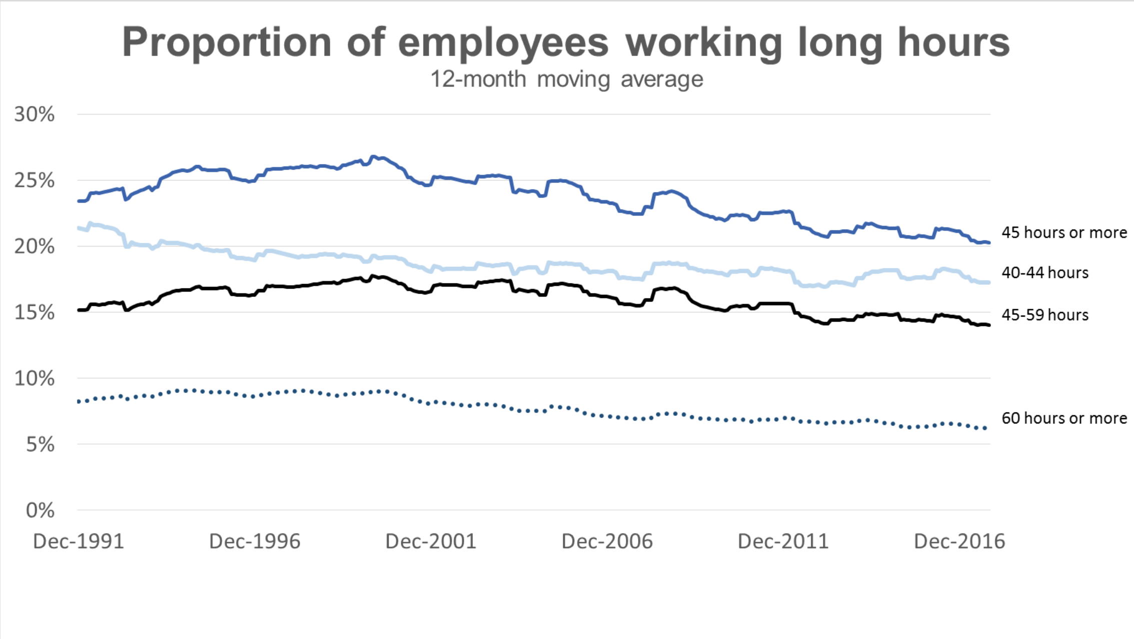
Source: ABS 6202.0 Labour Force, Australia, Table 1.

Job tenure has not declined. As shown in the graph below, the proportion of employees with short tenures at their current employer has fallen (dotted lines) while the proportion of employees with long tenure at their current employer has increased (solid lines).



Casualisation has remained broadly unchanged since about 2001, while the share in permanent employment has increased.[10] The RBA has observed "the share of casual employees in the workforce has been relatively stable since the 1990s at around 20 per cent".[11]

The incidence of long hours of work has declined, as shown in the graph below.



Source: ABS Labour Force, Australia, Detailed - Electronic Delivery, Table 9.

There has been an increase in the proportion of employees wanting to work more hours; but this is more than offset by a reduction in the proportion of employees wanting to work fewer hours. As a result, the total percentage of employees wanting to work either more hours or fewer hours has been declining.[12]

There has been no clear increase in income inequality, and perhaps a decline since 2001:

- Treasury has stated "recent data has supported the notion that income inequality in Australia has improved since the Global Financial Crisis… There has been little net change in income inequality between 2001 and 2014, and in fact all inequality measures are slightly lower in 2014 than their 2001 levels."[13]
- The Productivity Commission has said "Indeed, popular impressions aside, household income inequality does not appear to have risen in Australia this century."[14]
- The HILDA Survey indicates there has been little net change in income inequality between 2001 and 2015.[15]

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[10] See page 10 of https://www.aihw.gov.au/getmedia/ac1e8df0-4f19-4c59-9df8-3211c395bd3f/aihw-australias-welfare-2017-chapter4-1.pdf.aspx

[11] See page 20 of Natasha Cassidy & Stephanie Parsons (2017) "The Rising Share of Part-time Employment", *RBA Bulletin*, September Quarter

[12] See Page 7 of https://www.aihw.gov.au/getmedia/ac1e8df0-4f19-4c59-9df8-3211c395bd3f/aihw-australias-welfare-2017-chapter4-1.pdf.aspx

[13] https://treasury.gov.au/foi/2180/

[14] Page 30 of Productivity Commission (2017) *Shifting the Dial: 5 Year Productivity Review*, Report No. 84.

[15] page 29 of Roger Wilkins (2017) *The Household, Income and Labour Dynamics in Australia Survey: Selected Findings from Waves 1 to 15*, Melbourne Institute, Melbourne

- The latest data from the ABS shows negligible change in inequality from 2007–08 to 2015w16.[16]

[16] see ABS, *Household Income and Wealth, Australia, 2015–16*, Cat No 6523.0.