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The problems in super the Productivity Commission report won't fix

If the government adopts the recommendations of the Productivity Commission, it will be the biggest shake-up in compulsory superannuation ever.

The epic 500-page report identified two key problems hampering our retirement savings.

First, that the "absurd" method of stapling superannuation to the employer rather than the member has given rise to a plethora of unintended multiple accounts. Members lose out in this scenario because they pay two sets of administration fees and might double up on insurance.

Second, for members going with the default option in their workplace it is a "lottery" whether they landed in a good fund or a bad one.

The Productivity Commission wants to change the system so that members default into a good fund and that stays with them from job to job, unless they actively decide to change funds.

There are plenty of vested interests that will tell you otherwise, but the basic suggestion from the commission is sound. If it gets through, it will be good for members in default options and that ought to be the most important consideration.

There were also some good measures in the federal budget handed down in May, including banning exit fees, protections for low balances, more power and resources for the Tax Office to find and merge multiple accounts, and changes for default life insurance.

But neither the Productivity Commission report nor the budget measures will fix all the problems in superannuation, particularly for young people and women.

We've created a system for creating retirement income that's tied to our participation in the workforce. We take that for granted because that's the way it's always been and we're living inside that reality, but it's not the only possible system.

The big advantage of the system is that the funds are there in an individual's name, rather than it being an unfunded promise that a government will pay you a pension at some time in the future.

The big disadvantage is that it takes all the inequalities of the workplace – casualisation, unscrupulous employers, career gaps for carers and the gender pay gap – and then replicates and amplifies them in retirement.

First, more needs to be done for the thousands of people who aren't paid super.

Last week, when I was calling around looking for a young person with multiple super accounts, the challenge turned out to be finding one being paid super at all.

In some cases, they'd only ever held casual jobs where they were paid below the threshold where employers have to start paying super.

In other cases, they'd only ever held casual jobs where they were paid cash in hand, and weren't even getting the minimum wage.

And then there were the ones who told me their employer was illegally not paying them super, but they didn't want to burn the relationship by naming and shaming until they'd found another job.

The obligation that employers pay 9.5 per cent super on top of an employee's wage or salary only applies once they're paying that employee at least $450 a month. Many young people hold several jobs to make ends meet and may earn a decent income overall, but not earn super on any of it. It also affects parents and carers, most of them women, who take part-time and casual work to fit around their other duties.

The threshold made sense back in the days when administering pay roll and superannuation was complex, but technology has made the job much easier than it once was.

A senate inquiry recommended last year that the government remove the $450 threshold – the budget was a missed opportunity to do that. Perhaps Financial Services Minister Kelly O'Dwyer has it up her sleeve for her planned women's financial security package in spring – but if you know it should be done, why wait?

The problem of underpayment or non-payment of compulsory super is another big concern. The Tax Office estimated that in 2014-15 there was a $2.85 billion-a-year shortfall, or a 5.2 per cent gap, in what employers should be paying their employees in super and what was paid.

At the start of the year, it looked like the government would finally get serious about this very real problem, with talk of jail time for employers who refused to pay super. But now the Tax Office has announced a 12-month amnesty for employers to self-correct superannuation "mistakes" of the past, claim a tax deduction and avoid penalties. It seems a tad generous.

Second, more needs to be done to fix the serious gender inequality in retirement. As women approach retirement age their average super balance is about half that of a man's; $237,022 for men and $123,642 for women.

The reasons are well known. Women are paid less than men, because occupations dominated by women are paid less, and because women are often paid less than men even in the same occupation. Women are also more likely to take career breaks or work part time to have a family or care for relatives.

A good start would be to pay superannuation on the government's paid parental leave and force employers to pay it on corporate parental leave schemes.

But that alone won't be enough to solve the problem.

I see two paths forward here. You could seek to lift women's participation in the workforce; by increasing her income and earning potential, you'd be boosting her superannuation as a result.

This has merit, because it would also benefit the economy as a whole, but how do you do it?

The cost and availability of childcare is an issue of course but an even bigger impediment is the effective marginal tax rates that provide a disincentive to earn more.

The real problem with moving to a higher tax bracket is not that you pay a higher marginal rate on part of your salary, but rather that you lose rebates and offsets and start paying levies that apply to your whole income. So the *effective* marginal rate is higher than the headline figure.

The second way forward is far more radical: to start thinking differently about how we recognise and reward work.

Unpaid work – including domestic work, childminding, caring for adults and volunteer work – has enormous economic value. In fact, it's worth half our gross domestic product.

Those who do it are paying for it twice – once with lost income and once with lost retirement income.

That has to change.