Deloitte.

Impact of changes to the superannuation guarantee on forecast labour price growth

Prepared for the Australian Energy Regulator

24 July 2020

Deloitte Access Economics

Impact of changes to the superannuation guarantee on forecast labour price growth

1.1 Introduction

The Australian Energy Regulator (AER) is required to conduct a review of regulatory proposals provided by various companies in accordance with its responsibilities under the National Electricity Rules (NER) and National Gas Rules (NGR). The AER makes revenue determinations for electricity network service providers (NSPs) and access arrangement decisions for gas NSPs. As part of this role, the AER considers forecast operating and capital expenditure, of which expected labour price growth is an important element.

Deloitte Access Economics has been contracted to provide the AER with forecasts of the Wage Price Index (WPI) for use in revenue determinations with NSPs. Deloitte Access Economics has prepared this note to assist the AER in understanding the impact of legislated increases in the minimum superannuation guarantee on forecast labour price growth.

The superannuation guarantee refers to the minimum percentage of each eligible employee's earnings an employer is required to pay into a superannuation fund or retirement savings account. The minimum superannuation guarantee is legislated to increase from 9.5% to 10% on 1 July 2021, before increasing by a further 0.5 percentage points each year to reach 12% from 1 July 2025.

Unlike other broader measures of labour costs, the WPI does not directly include non-wage costs such as superannuation. The WPI measures changes in the 'true' wage and salary costs of employment, abstracting from changes in the composition of the labour market that can have a distorting effect on some of the other wage measures. It does not include non-wage costs such as superannuation, payroll tax, public holidays and workers' compensation.

In the short run, increases in the minimum superannuation guarantee represent an up-front cost faced by employers. Over time the increases in the superannuation guarantee are expected to be primarily borne by employees, affecting the rate of wage price growth.

1.2 Economic incidence of increases to the superannuation guarantee

There is extensive academic literature suggesting that the economic incidence of increases in the superannuation guarantee (who ultimately bears the cost of higher contributions) may differ from the statutory incidence (who is required to pay the higher contributions). As such, it is likely that a proportion of the costs associated with increases to the minimum superannuation guarantee will be passed from employers to employees via slower wage price growth than would otherwise be the case.

The economic incidence of increases in the superannuation guarantee depends on both the value employees place on compulsory contributions and the responsiveness of employees to changes in wages.[1] Employees may place different values on equivalent increases in superannuation and wages. The more employees value superannuation contributions, the more they will bear the cost of increases to the minimum superannuation guarantee in the form of lower wages.

Employees also bear a greater share of the cost of increases to the minimum superannuation guarantee if employment decisions are less responsive to changes in wages. Uncertain economic conditions through 2020 may see greater numbers of employees accept weak wage growth or temporary wage cuts in exchange for job security. The share of employees voluntarily changing jobs

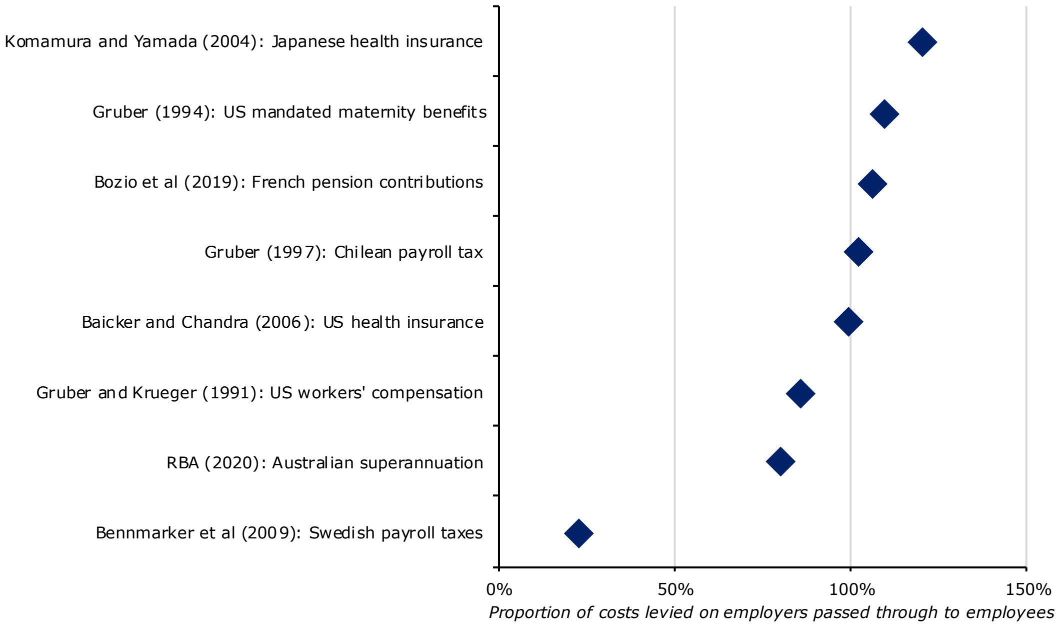
---

[1] Coates, Mackey and Cowgill (2020), 'No free lunch: Higher superannuation means lower wages', Grattan Institute Working Paper, <https://grattan.edu.au/wp-content/uploads/2020/02/No-free-lunch-Higher-superannuation-means-lower-wages.pdf>.

fell in early 2020 and remains well below historical averages.[2] As a result, it is likely that employees are currently less likely to change jobs in response to changes in wage outcomes than would otherwise be expected. This suggests that employees are more likely to accept a higher share of the cost of increases to the superannuation guarantee via lower wage growth.

The academic literature highlights that employees tend to bear most – but not necessarily all – of the burden of compulsory payments by employers. The degree to which costs are passed through to employees varies according to the study and type of benefit examined. Figure 1 includes the results of studies conducted on the economic incidence of various employer contribution schemes that are similar to Australia's superannuation system (where the payment examined has a strong link to employees' benefits).

Figure 1: The economic incidence of various employer contribution schemes



Source: Bozio, Breda and Grenet (2019); Grattan institute (2020)

Several studies find that the majority of the costs of employer contribution schemes are ultimately borne by employees. In some instances, employees bear costs that exceed the costs that are levied on employers.

The Reserve Bank of Australia estimates that approximately 80% of the increase in non-cash benefits, such as superannuation, are passed through to employees in the form of slower wage growth.[3] A significant proportion of the cost is incurred initially by employees with the remainder occurring gradually over several years due to the presence of wage bargaining. Organisations such as the Fair Work Commission are also expected to account for the increase in the superannuation guarantee when making minimum wage and award determinations.

It is expected that this pass through will occur to a greater degree in the private sector compared to the public sector. That is partly due to the fact that many public sector workers receive superannuation contributions in excess of the statutory minimum rate, and is also due to the presence of wage caps in the public sector (which are not expected to be lowered to account for increases in superannuation contributions).

---

[2] Reserve Bank of Australia (2020), *Statement on Monetary Policy – February 2020*, <https://www.rba.gov.au/publications/smp/2020/feb/pdf/statement-on-monetary-policy-2020-02.pdf>.
[3] Commonwealth of Australia, *House of Representatives Standing Committee on Economics*, Reserve Bank of Australia annual report 2019 (7 February 2020).

The extent to which increases in the minimum superannuation guarantee are passed from employers to employees may also be affected by the actual rate of WPI growth. While a high rate of pass through is more likely if the economic outlook is uncertain and employees value job security more than their willingness to change jobs, a high rate of pass through may be less likely if it implied a decline in nominal wage growth for employees. The pass through of an increase in wage costs is expected to be more gradual when the pace of WPI growth is low.

1.3 Impact of increases in the minimum superannuation guarantee on WPI forecasts

The increase in the superannuation guarantee has implications for the use of the WPI as a measure of labour costs in the AER's regulatory framework that applies to NSPs.

The WPI series and forecasts produced by Deloitte Access Economics do not directly include non-wage costs such as superannuation. The minimum superannuation guarantee is legislated to increase annually from 1 July 2021 to 1 July 2025 and the statutory incidence of the higher superannuation guarantee rate is borne by employers. As such, the increases to the minimum superannuation guarantee represent a cost to NSPs that the AER should add to forecast WPI to accurately reflect labour costs when making regulatory determinations. The amounts to be added to forecast WPI growth are outlined in Table 1.

Table 1: Nominal cost escalation factors: methodology

Period	Minimum superannuation guarantee (%)	Percentage point addition to WPI forecast
1 July 2019 – 30 June 2020	9.5	0
1 July 2020 – 30 June 2021	9.5	0
1 July 2021 – 30 June 2022	10.0	0.5
1 July 2022 – 30 June 2023	10.5	0.5
1 July 2023 – 30 June 2024	11.0	0.5
1 July 2024 – 30 June 2025	11.5	0.5
1 July 2025 – 30 June 2026	12.0	0.5

Source: Australian Tax Office

This aligns with the approach proposed by CitiPower, Powercor and United Energy's consultant BIS Oxford.

The addition of the annual superannuation guarantee will only apply to businesses that are paying the minimum contribution rate, or business that are paying above the minimum rate but increase their contribution rate alongside increases to the statutory minimum. That is, the treatment of the change in the superannuation guarantee will depend on the superannuation contribution rate that NSPs pay employees:

- If the NSP pays employees a superannuation contribution rate equal to the statutory minimum, the full increase in the minimum superannuation rate is added to forecast WPI.
- If the NSP pays employees a superannuation contribution rate above the statutory minimum and does not increase the contribution rate, no increase is added to the forecast WPI.
- If the NSP pays employees a superannuation contribution rate above the statutory minimum and does increase the contribution rate, the increase in the contribution rate paid is added to forecast WPI.

Table 2 lists enterprise agreement information for those NSPs for which Deloitte Access Economics' wage price forecasts will be considered over 2020-22. The enterprise agreements listed indicate that the NSPs are currently paying a superannuation contribution above the legislated minimum. Despite making contributions above the legislated minimum, the NSPs will be required to increase contribution rates as the statutory minimum is lifted if it exceeds their current contribution rate. In some cases, the enterprise agreements indicate that the NSPs will increase the superannuation rate as the statutory minimum rises, even if they are currently paying a higher rate.

More generally, however, the enterprise agreements do not provide substantial information regarding how the NSPs will respond to changes in the minimum superannuation guarantee, nor are the listed NSPs necessarily representative of the entire industry. Further, the agreement dates of the enterprise agreements listed above are due for renegotiation in the coming years and new enterprise agreements will likely account for future increases in the minimum superannuation guarantee.

Table 2: NSPs' enterprise agreement information on superannuation contributions

Enterprise Agreement	Superannuation contribution (%)	Notes	Agreement date
Jemena Gas and Water Enterprise Agreement 2018	10.0		19 Apr 2019 to 30 Nov 2021
Powercor Australia Ltd/CitiPower Pty Ltd and CEPU enterprise agreement 2016-2020	11.5	**22.9** The Company will contribute 2% of ordinary time earnings into Division D accumulation account as the Company contribution, for employees in Divisions C. **22.10** The Company shall continue to contribute to superannuation at 1% above the statutory minimum or as per clause 22.9, whichever is the greatest.	31 Jan 2017 to 31 Aug 2020
AusNet Services - ETU Enterprise Agreement 2017	11.0	The company shall contribute 11.00% of salary for employees in Division D of Equipsuper. The amount to be paid in Superannuation will not increase further unless the SGC legislated minimum moves beyond 10%.	2 Aug 2018 to 1 Apr 2021
APA Network Agreement (Victoria & New South Wales) 2018 APA Network Agreement (SA) 2018	10.0	The Company will meet its obligations under the Superannuation Guarantee (Administration) Act 1992 by making superannuation contributions to a level at least as specified in that Act. The Company shall nominate a default superannuation fund for Employees of APA, and whilst contributions are made to that Fund (in either the Accumulation or Defined Benefit Division), they shall be at a level of at least 10% of ordinary time earnings per annum for permanent fulltime staff and permanent part-time staff up to the limit of the SGC Rate applied to the Australian Taxation Office's Maximum Contribution Base where applicable.	24 Jan 2019 to 25 Jul 2021 20 Feb 2019 to 31 May 2021
Working at Powerlink 2018 Union Collective Agreement	10.0	For Energy Super and Q Super members Powerlink will contribute no less than 10% of the employee's base salary or annualised salary level where the employee elects to contribute 5%.	24 Nov 2017 to 28 Feb 2021

Source: Fair Work Commission

The AER's approach is to apply industry-level rather than firm-level wage price forecasts. On that basis, and taking into account the uncertainty regarding how individual NSPs will respond to changes in the minimum superannuation guarantee, it is recommended that the full 0.5 percentage point annual increase to the superannuation guarantee be added to forecast WPI growth.

Over time, the economic incidence of increases to the minimum superannuation guarantee is expected to shift from employers to employees and it is no longer appropriate to include these costs as an additional labour cost for employers. As such, only the increase to the superannuation guarantee in a particular year should be added to WPI growth. For example, in 2024-25, only 0.5 percentage points is to be added to the forecast for WPI growth.

Deloitte Access Economics' WPI forecasts account for the negative impact of increases to the minimum superannuation guarantee rate on WPI growth that is expected to occur over time. Where WPI forecasts provided by other forecasters are used, it is recommended that the AER seek to understand the assumptions that underpin those forecasts. In the absence of a detailed explanation, it would be appropriate to assume that any WPI forecasts provided take into account the expected impact of changes to the minimum superannuation guarantee rate on WPI growth that is expected to occur over time. It may also be the case that the full pass through is expected to occur beyond the regulatory period in question.

Limitation of our work

General use restriction

This report is prepared solely for the use of AER. This report is not intended to and should not be used or relied upon by anyone else and we accept no duty of care to any other person or entity. The report has been prepared for the purpose of considering wage price forecasts in the utilities industry. You should not refer to or use our name or the advice for any other purpose.

Deloitte.

Deloitte Access Economics Pty Ltd
8 Brindabella Circuit
Brindabella Business Park
Canberra Airport
Canberra, ACT, 2609
Australia

Phone: +61 2 6263 7000
www.deloitte.com.au