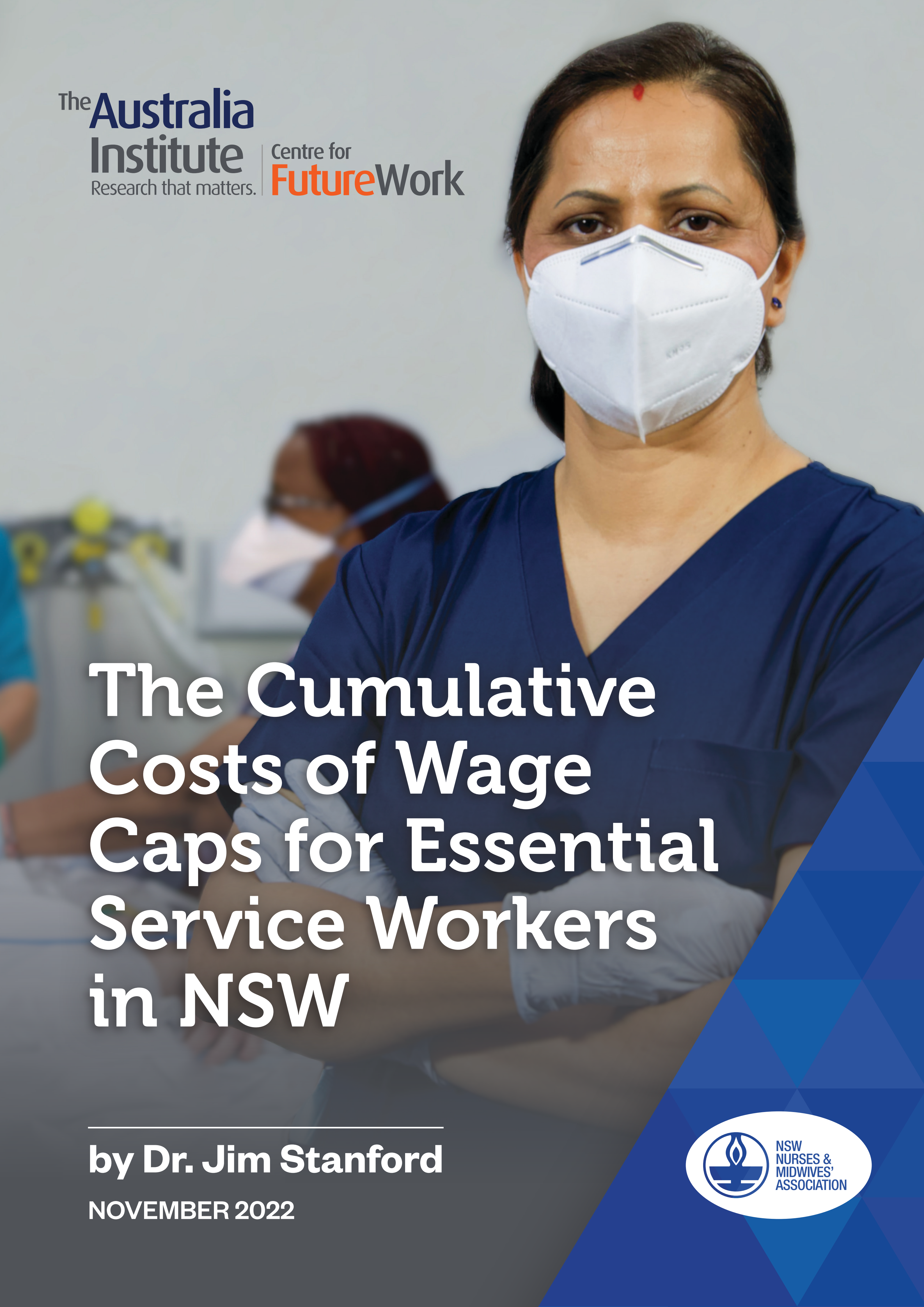

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The Cumulative Costs of Wage Caps for Essential Service Workers in NSW

by Dr. Jim Stanford

NOVEMBER 2022

NSW Nurses & Midwives' Association

The arbitrary pay cap system in NSW has contributed to falling real wages, made it more difficult to attract workers to vital service roles, and undermines wage growth across the broader labour market.

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Summary

For over a decade, the NSW state government has imposed an annual cap on maximum allowable wage increases for workers in state-funded public service activities (including state government workers, and those in state-funded services such as public schools, public health care, emergency services, and many other functions). The cap was set at 2.5% for several years, reduced to just 0.3% during the COVID lockdowns, and modestly increased in 2022 (to a 3% limit on total compensation gains, including changes in superannuation[1]). Initially this cap was justified as necessary to reduce deficits incurred by the state government after the Global Financial Crisis of 2008-09. However, those deficits were quickly replaced by large budget surpluses (running for six consecutive financial years, from 2013-14 through 2018-19), yet the wage caps were retained. A subsequent argument that the wage cap was tied to long-run inflation (represented by the Reserve Bank's 2.5% inflation target) was also jettisoned when inflation rose far above that benchmark – yet wage caps were retained. It is clear that whether economic times are good or bad, the NSW government is happy to unilaterally dictate wage increases for the 430,000 people[2] who work in state public services, rather than participating in a normal and free collective bargaining process.

This ongoing imposition of pay caps imposes large and accumulating costs on essential public service workers in NSW. The immediate loss of wages from a cap imposed in any specific year (compared to how wages would have grown under normal collective bargaining conditions) is significant. But that loss cumulates over time, as the trajectory of public sector wages diverges further and further from its pre-cap path. In addition, workers also lose superannuation contributions as a result of the ongoing suppression of wages – along with lost investment income on those forgone contributions. This undermines their post-retirement incomes, long after they have left their jobs, and is helping to put the dream of a decent, secure retirement out of reach for many state workers.

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1 Because of the state government's policy that increases in the Commonwealth Superannuation Guarantee be counted within the allowable compensation cap, the 3% cap for 2022-23 corresponds to a maximum wage increase of 2.53%.

2 See NSW Public Service Commission, *Workforce Profile Report 2021* (Sydney: State of NSW), https://www.psc.nsw.gov.au/sites/default/files/2022-06/15772_NSW%20PSC_Workforce%20Profile%20Report%202021_DIGITAL_accessible.pdf, p.6.

This paper reports specific quantitative estimates of the cumulating cost of the wage caps for nurses, midwives, and other workers in NSW state-funded public services:

By the 2021-22 financial year, **wages for an experienced nurse/ midwife working full-time were $335 lower per week (or about $17,500 for the year)** as a result of pay caps in place since 2012.

On a cumulative basis, this wage suppression amounts to **a combined loss of $80,000 in wages** since the pay caps were first imposed.

If the pay caps are retained, those losses will cumulate further over the next two financial years: **to $390 per week in lost wages and a cumulative loss of $120,000 per nurse by 2023-24.**

Annual superannuation contributions for an experienced nurse/ midwife were reduced by $1739 in 2021-22, as a direct result of suppressed wages. Super contributions will be $2213 lower in 2023-24 if the caps are sustained.

An experienced nurse/midwife will have lost $12,500 in superannuation (reflecting both lower contributions and reduced investment income) by 2023-24 as a result of pay caps since 2012, implying a reduction in post-retirement income of $1000 or more per year through the rest of their lives. Longer-serving nurses and midwives will lose even more retirement income.

The paper concludes by considering the implications of long-term wage caps for public service workers' prospects of attaining a decent and secure retirement. At current (capped) wage levels, most nurses and midwives will fall well below the thresholds for a 'comfortable' retirement (as defined and measured by the Association of Superannuation Funds of Australia). This is especially true for women, single retirees, and renters; at the extreme, an experienced female nurse/ midwife who is single and rents their accommodation will fall more than 50% below the comfortable retirement threshold. The longer pay caps are retained, the more remote are the chances that nurses, midwives and other essential service workers will be able to retire in dignity.

The paper concludes by recommending the elimination of the arbitrary pay cap system in NSW. It has contributed to falling real wages, made it more difficult to attract workers to vital service roles (in health care, education, and others), and undermines wage growth across the broader labour market (since many private sector employers emulate the state government caps in their own pay strategies). Arbitrary pay caps are also a clear violation of workers' basic collective bargaining rights. They should be abandoned on both economic and democratic grounds.

Introduction

Since 2012, the NSW government has imposed strict caps on wage gains for workers in state-funded public services – including health care, education, and public administration. Initially these caps were supposedly intended to assist in reducing state budget deficits. But those deficits, which were modest, disappeared quickly, succeeded by several years of consecutive surpluses. Nevertheless, the government's pay caps remained in place. Later the government tried to justify the policy with reference to inflation: claiming they were intended to be consistent with the Reserve Bank's target of 2.5% annual inflation. But when inflation leaped well above that benchmark, the government quickly dropped that justification for the caps, as well. After a decade of sustained pay suppression, in good years and in bad, it is now clear the government imposes these harsh restrictions on public sector pay, without free negotiation or consideration of normal wage determinants (like the cost of living, productivity, or wage comparators), as a matter of political and fiscal convenience.

The consequences of this policy for essential public sector workers (including nurses and midwives) are severe, and they get worse the longer the pay caps are in place. Sustained pay caps have a cumulating effect: not only are wage gains in any particular year lower than they would be under normal circumstances, but the base level of pay against which these artificially-low increments are applied falls further and further behind where they would be otherwise.

This report reviews the impacts on NSW public sector workers of 10 years of consecutive pay caps. It provides quantitative estimates of the amount lost by these workers relative to normal (pre-cap) pay gains, by year and cumulatively. It also quantifies the negative impact on superannuation savings and retirement incomes – and shows that because of the pay caps, nurses, midwives, and other essential service workers are falling further and further behind the requirements for funding a decent and comfortable retirement.

While the pay caps have been in place for a decade, their impact has become especially acute now because of the acceleration of inflation which followed the re-opening of the economy after the COVID-19 lockdowns. Since 2019-20, real wages for public sector workers (including nurses and midwives) have been falling, because pay caps now lag far behind the rise in the cost of living. Real wages for nurses and midwives have already fallen over 3% in the last two years, reducing their real purchasing power by $3000 per year per employee. They are set to fall further by that much again in the coming two years, despite the slight relaxation of the pay caps announced recently by the NSW government.[3] This imposes an intolerable and unfair burden on the essential service workers whose dedication and skill is critical to helping NSW residents through the continuing COVID-19 pandemic. This arbitrary and authoritarian practice should be abandoned. The state government should return to free collective bargaining with its employees and their unions, so that fairer and more genuine compensation practices can be restored for this large and vital section of the labour force.

3 The state government's compensation cap will be increased from 2.5% to 3.0% for 2022-23, and 3.5% for 2023-24 – still much lower than expected inflation After deducting superannuation changes, wage increases will be even smaller.

Public Sector Pay Caps and the NSW State Budget

What was originally billed as a temporary, emergency measure to help the state deal with fiscal deficits in the wake of the 2008-09 Global Financial Crisis, has become a seemingly permanent feature of compensation policy governing public sector workers in NSW. The state government initially imposed a cap on annual wage gains for workers in state-funded public services of 2.5% in 2012-13, purportedly necessitated by the modest deficits incurred by the state after the GFC. Those deficits were never large: they peaked at $1.7 billion in 2012-13 (equal to just 0.4% of the state's GSP that year). And those deficits quickly disappeared, due to the combination of fiscal austerity and renewed economic growth. Indeed, starting in 2013-14 the state ran a series of six consecutive annual operating surpluses (amounting to a combined total of over $20 billion). But that return to black ink had no impact on the state government's austere compensation policy: the 2.5% pay cap remained in place, even as the state racked up record surpluses (that reached $5.7 billion in 2016-17 alone).

More recently, as a result of the COVID-19 pandemic and subsequent recession, the state once again experienced deficits – much larger than those from a decade earlier. True to form, the state government quickly imposed an even tighter ceiling on compensation for public sector workers – the same staff who have been providing health care and other essential services throughout this deadly pandemic (now into its third year). Pay rises were limited to just 0.3% in 2020-21. The state's economy reopened quickly after the initial COVID lockdowns, but the government nevertheless kept pay caps in place, at the previous level of 2.5% for 2021-22.[4]

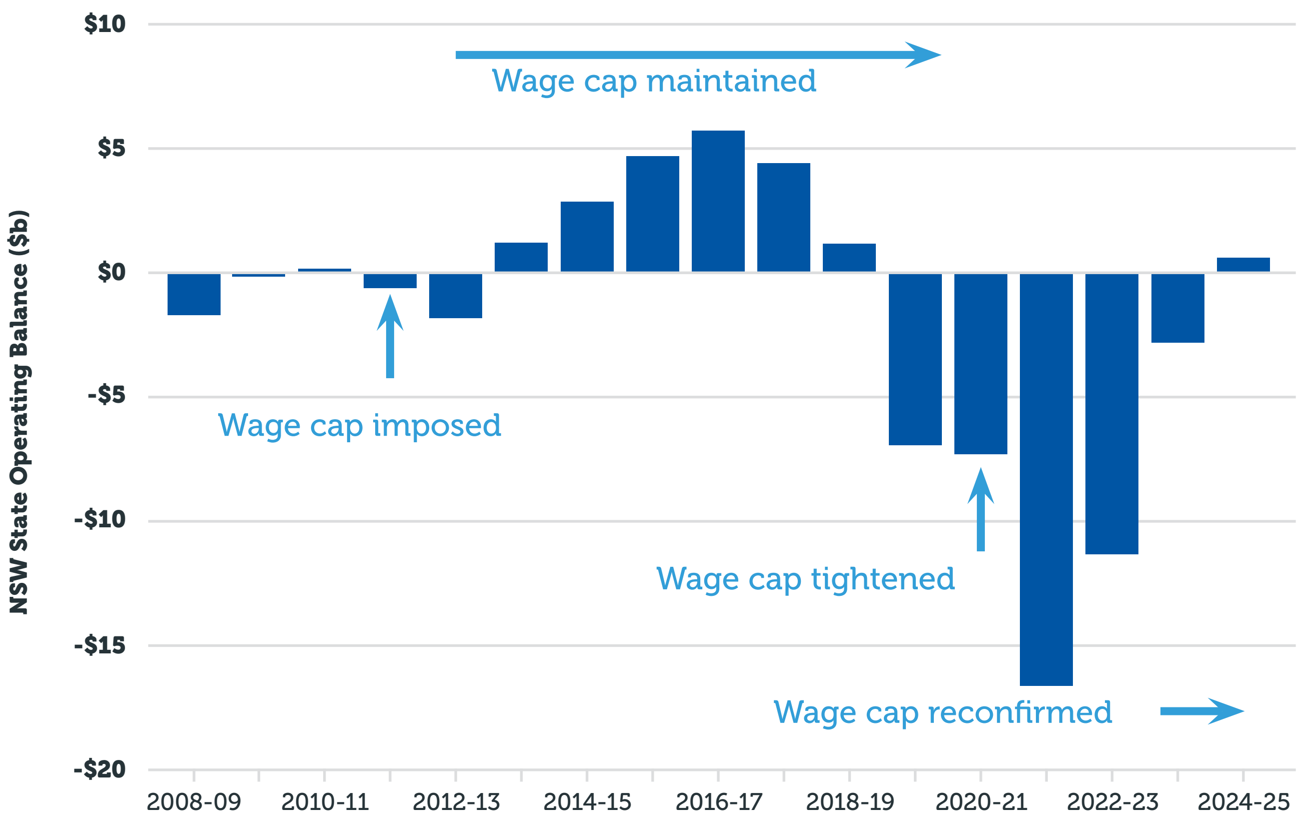
By the 2021-22 financial year, wages for an experienced nurse/midwife working full-time were

-$335 per week OR **-$17,500** for the year

as a result of pay caps in place since 2012.

4 Initially the government announced that the cap would be tightened to 1.5% for 2021-22, but abandoned that benchmark in the face of public protest and rapidly rising inflation; the final wage policy implemented that year, announced in August, allowed for 2.5% increases. From 2020-21 onward, the cap includes the costs of the annual 0.5% increase in the Commonwealth Superannuation Guarantee, meaning that the cap on base wages is actually lower (by about 0.5% each year).

Figure 1. Pay Caps and NSW State Finances



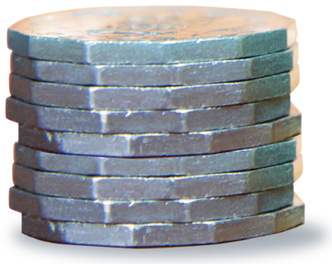
Source: NSW Budget Statement, Budget Paper #1, Table D.1.

More recently, the government has modified the cap in light of rising inflation and public criticism: compensation increases will be limited to 3.0% in 2022-23, and 3.5% in 2023-24 (including increased superannuation contributions). In real terms, compared to soaring prices for consumer goods and services, this revised pay cap is actually more austere than the earlier incarnation. Under the renewed caps, wages for public sector workers in NSW are lagging far behind consumer prices, resulting in a significant decline in real wages and hence living standards for the essential service providers despite their sacrifices during the continuing pandemic.

As confirmed in Figure 1, there is no relationship between the condition of the state's budget balance and the intensity of wage restraint imposed on public sector workers. Whether times are good or bad, the state government has used these extraordinary powers to dictate the pay and conditions of its employees. The initial pay cap was not justified by fiscal necessity: deficits at that time were small and temporary. Rather, the regime of unilateral pay caps was fiscally and politically convenient for the government, and this is why it was maintained through subsequent years of record surpluses. Current COVID-era deficits are forecast to disappear within two fiscal years, according to the state government's most recent budget.[5] But there is no reason to believe that pay restrictions will then be removed when the budget returns to surplus. This unfair policy is motivated by ideology and politics, not fiscal necessity.

5 See NSW Budget 2022-23, Budget Paper No.01, Budget Statement, p. 3-4, https://www.budget.nsw.gov.au/sites/default/files/2022-06/2022-23_03_Budget-Paper-No-1-Budget-Statement.pdf.

The State Wage Cap and Consumer Price Inflation



Under Australia's inflation targeting system, the Reserve Bank of Australia is committed to maintaining inflation near 2.5% per year. The state government has tried to justify its pay cap in relation to that benchmark. For example, past versions of the state's Public Sector Wages Policy stated this link explicitly: "The NSW Government has determined that future remuneration increases will be broadly aligned with the average forecasts for underlying inflation."[6] Assuming that the RBA successfully meets its target (on average) over time, then the 2.5% cap implies a perpetual freeze in real wages for public sector workers in the state.

On its own, this constitutes a punitive and distorting approach to public sector compensation. Freezing real wages for years at a time for an entire segment of the labour market is economically and morally unjustified: like other workers, those employed in public service delivery deserve steady real wage increases over time, commensurate with the overall pace of real labour productivity growth in the broader economy. And over time (assuming normal real wage progress in the rest of the economy), freezing real wages in the public sector would place workers in health care, education, and other essential services at a growing disadvantage relative to workers in private sector roles – whose real wages would be expected to grow over time in line with productivity.

On a cumulative basis, this wage suppression amounts to

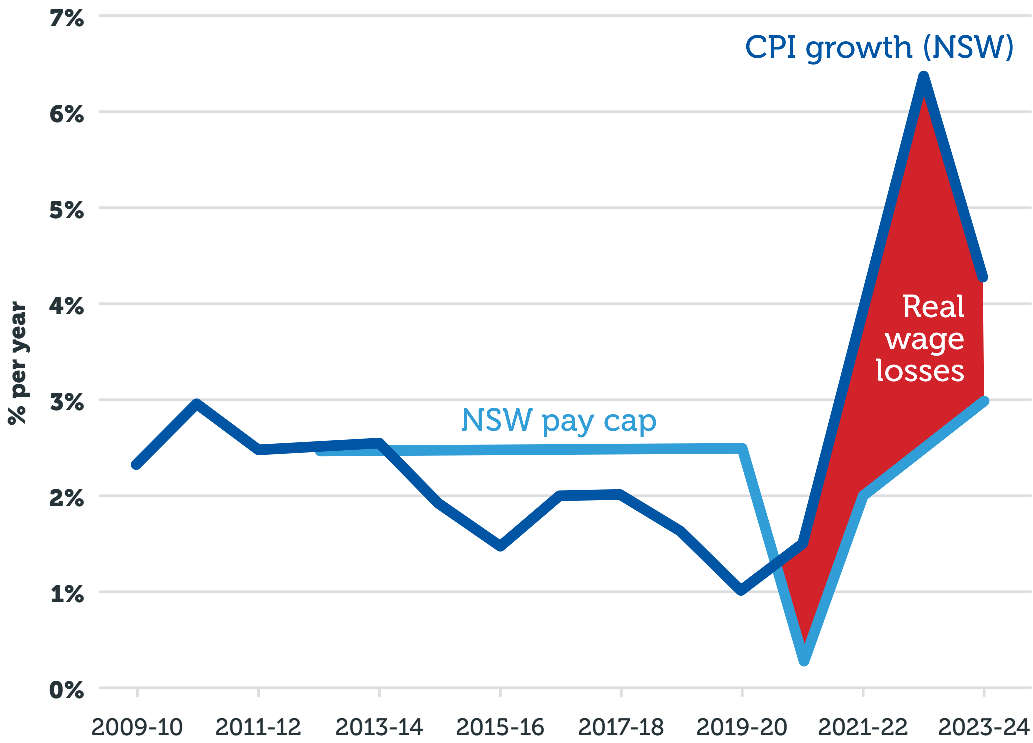
-$80,000

in wages

since the pay caps were first imposed.

6 See *M2021-09 NSW Public Sector Wages Policy 2021*, Employee Relations, NSW Department of Premier and Cabinet, March 31, 2021, https://arp.nsw.gov.au/m2021-09-nsw-public-sector-wages-policy-2021/.

Figure 2. NSW Public Sector Pay Caps and Consumer Price Inflation.



Source: Author's calculations from ABS, Consumer Price Index and RBA forecasts.

Inflation does not always match the RBA's target, however,[7] and the state's initial token effort to link its pay cap to inflation proved no more genuine or lasting than its previous argument that pay caps were necessary to reduce deficits. Figure 2 compares the state's pay caps with the annual growth in consumer prices in the state (as reported by the Australian Bureau of Statistics, based on price surveys in the greater Sydney area).

From 2014-15 through 2019-20, realised inflation in NSW fell below the RBA's 2.5% target. Not coincidentally, a key reason for unusually slow inflation during this period was weak wage growth: after all, labour costs are the biggest component of total production costs, and if wages are growing very slowly then inflation will likely be slower than expected.[8] Because of below-target inflation, from 2014 through 2019 the NSW wage cap still provided for wage gains that were slightly faster than inflation – by accident, not by design. This resulted in small but positive real wage progress for state public sector workers during those years.

That changed dramatically with the COVID pandemic, however. Initially, inflation slowed in 2020 as a result of health restrictions, lockdowns, and the resulting recession.[9] That might have translated into a more significant (albeit unintended) real wage increase for public sector workers – except that the state government quickly and unilaterally changed its wage cap, in a race to the bottom with decelerating inflation. Wage gains during the 2020-21 financial year were unilaterally capped at just 0.3%. This was particularly galling in light of the extraordinary dedication and sacrifice demonstrated by essential service workers during those frightening months – and since then, through subsequent waves of the pandemic. Eventually, consumer prices bounced back when lockdowns ended. Average CPI inflation for the entire 2020-21 financial year was 1.5%: well below the RBA target, but well above the (tighter) 0.3% state pay cap. This produced the first of several consecutive real wage declines for public sector workers.

Later, with the full re-opening of the economy, consumer prices then began to increase rapidly,

7 The RBA allows for a cushion of ±0.5% around its target, aiming to keep inflation between 2% and 3%.

8 The role of weak wages in general, and public sector pay caps in particular, in explaining the RBA's failure to meet its inflation target during these years has been cited by RBA Governor Dr Phillip Lowe. See, for example, Paul Karp, "RBA governor endorses lifting public sector wage caps to stimulate economy," *The Guardian*, 9 August 2019, https://www.theguardian.com/business/2019/aug/09/rba-governor-endorses-lifting-public-sector-wage-caps-to-stimulate-economy.

9 During initial lockdowns in 2020, average consumer prices actually fell – a process called 'deflation'.

for several reasons. Disruptions in global supply chains produced shortages of some critical products (such as semiconductors, cars, and building materials), driving up prices. Pent-up consumer demand, after months of restricted activity (especially in sectors like retail, hospitality, and travel), resulted in a surge of new spending. Extra savings accumulated by many households during the lockdowns (supplemented in some cases by government COVID income supports) reinforced strong demand conditions. Global energy prices began to rise as the world economy recovered– and then, following the Russian invasion of Ukraine, shot up dramatically.

As a result of all these factors, inflation accelerated in Australia (and in other countries) to rates far higher than the RBA's target. By the June quarter of 2022 (latest data at time of writing), prices were up 6.1% compared to year-earlier levels. On an annualized within-quarter basis, prices have been growing faster than that – at over 7% in annual terms. The RBA predicts year-over-year inflation will peak at 7.75% in December 2022.[10]

The acceleration in inflation means the NSW wage cap is now causing substantial reductions in real compensation for public sector workers. Not surprisingly, the government has now conveniently abandoned its previous effort to link pay caps to inflation: the new public sector wages policies issued in August 2021 and June 2022 do not even mention the word "inflation," let alone try to justify the wages cap in relation to it.[11] Neither budget deficits nor inflation are cited any longer as justification for this authoritarian and discriminatory policy. After a decade of dictating annual wage increments for public sector workers, the government now effectively acknowledges that it does so simply because it has the legal power to.

Average year-over-year inflation in NSW for the 2021-22 financial year equaled 3.9%.[12] That produced a real wage decline of 1.4% for NSW public sector workers in one year (on top of a 1.2% real wage cut the previous year). But that real wage loss will get worse in coming months – because year-over-year inflation in the current financial year will be much higher. The RBA forecast implies average year-over-year inflation in the current financial year of 6.9%. That is more than twice the increase in wages allowed under the NSW government's "kinder, gentler" wage cap for this year: after adjusting for the increase in superannuation it would allow wages to grow just 2.53%. In the following financial year (2023-24), average inflation is still expected by the RBA to considerably exceed the wage cap announced for that year (3.03% net of the superannuation change).

The shaded red area in Figure 2 highlights the zone corresponding to real wage reductions for state public sector workers: years in which CPI inflation in the state exceeded the wage cap. The cumulative real wage losses from 2020-21 through 2023-24 will reach 7.5% under RBA forecasts. In other words, by the end of the 2023-24 financial year, the typical real compensation for a NSW public sector worker will be 7.5% lower than when the pandemic hit. Moreover, that loss in real wages since 2019-20 will outweigh the modest (and accidental) real wage gains that occurred from 2014-15 through 2019-20. As a result, real wages for NSW public sector workers will be lower in 2024 than a dozen years earlier. For the state's essential service workers, this represents a lost era, during which their living standards went nowhere – despite their extraordinary sacrifices during the public health emergency caused by the continuing COVID-19 pandemic.

Worse yet, this forecast is optimistic, based on the assumption that inflation does indeed peak this year and then return quickly toward the RBA's target range by 2024. If inflation, as many observers fear, is more persistent, then the cumulative real wage reduction experienced by NSW public sector workers will be even more severe.

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10 Reserve Bank of Australia, *Statement on Monetary Policy*, August 2022 (Sydney: Reserve Bank of Australia), https://www.rba.gov.au/publications/smp/2022/aug/pdf/statement-on-monetary-policy-2022-08.pdf.

11 See *M2021-13 NSW Public Sector Wages Policy 2021*, Employee Relations, NSW Department of Premier and Cabinet, August, 2021, https://arp.nsw.gov.au/m2021-13-nsw-public-sector-wages-policy-august-2021/, and The Premier, Treasurer, and Minister for Employee Relations, "NSW Government lifts wages and recognises health workers," 6 June 2022, https://www.nsw.gov.au/media-releases/budget-2022-public-sector-wages.

12 Calculations from ABS, Consumer Price Index.

Impacts on Average Public Sector Compensation

The preceding analysis of the impacts of the NSW public sector wages cap compared announced annual pay caps to the pace of realised consumer price inflation in the state. In this section, we also review data on actual realised compensation for public sector workers. Average realised compensation is influenced by several factors in addition to the base wage increases permitted by the government; these include changes in the occupational composition of public service employment, the impact of superannuation changes,[13] varying hours of work and intensity of part-time jobs, and other factors. Actual data on average compensation for state public sector workers is available from the ABS up to the 2020-21 financial year. We compare this data on actual average state public sector compensation, against a simulation of what would have occurred in the absence of the unilateral wage caps.

In 2011-12, the average state public sector worker in NSW (including state government workers, and workers in state-funded public services such as health care and education) earned an average of $70,500.[14]

Cumulative loss in compensation for an average public sector worker:

-$87,500 by 2020-21 **OR** **-$150K** by 2023-24

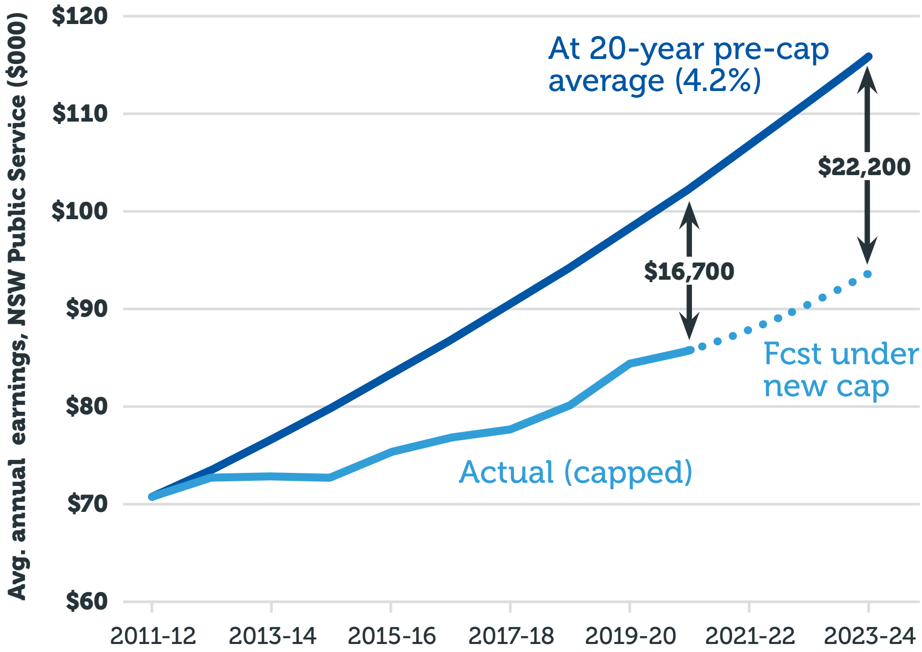
compared to their trajectory in pre-cap years.

13 Superannuation contributions are increasing by 0.5% of wages per year from 2020-21 through 2024-25 as a result of the new Commonwealth schedule for the Superannuation Guarantee. For most workers the NSW government is deducting increases in superannuation from allowable wage increases.

14 Data in this section based on author's calculations from ABS Catalogue 6248.055.002, Employment and Earnings, Public Sector, Australia.

Figure 3. Actual and Simulated Average Compensation, NSW Public Sector.

Source: Author's calculations from ABS Catalogue 6248.055.002, Employment and Earnings, Public Sector, Australia.



The blue line in Figure 3 indicates how actual average compensation changed over the subsequent decade. Held back by ongoing wage caps, and adjusted for other factors (such as new hiring, changes in hours of work, etc.), average actual compensation reached $85,500 by 2020-21. That represents an average annual rate of compensation growth of 2.2% over that 9-year period.[15]

Repressed by the pay caps, average nominal compensation for NSW public sector workers grew at barely half the pace since 2011 as in the two decades preceding the caps. In contrast, from 1991 through 2011, average wages and salaries in the state's public sector grew at an annual average of 4.2%. That was in line with the broader, stronger trajectory of wage growth that prevailed across national and state labour markets during that time.[16]

We simulate the impact of the NSW wage caps with a counter-factual scenario in which the previous trajectory in wage growth was sustained after 2011-12. The red line in Figure 3 indicates average compensation if wages had continued growing at their previous long-term average annual rate (4.2%), rather than being suppressed by pay caps. The gap between those two lines widens over time, since the suppression of nominal wage growth has a compounding effect: wages are lifted each year by a smaller increment, and moreover that increment is applied against a lower base. By 2020-21 (the last year for which actual average compensation data is available), annual compensation was $16,700 lower per worker than if the previous long-term trend in wage growth been sustained. Average compensation in the public sector would have slightly exceeded $100,000 in 2020-21, instead of the $85,500 average recorded in practice.

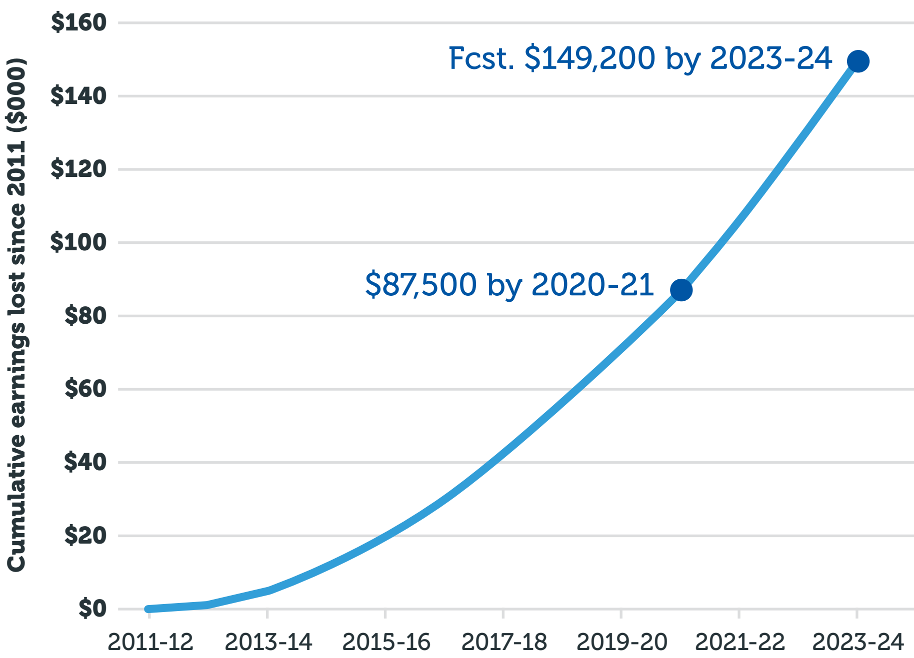
Figure 3 extends the analysis forward to include two further years covered by pay caps already announced by the state government, out to 2023-24. Assuming that average compensation then grows at the same pace

15 That realized actual annual compensation growth is slightly lower than the annual growth implied by the formal wage caps (which were 2.5% in all years other than 2020-21, when it was cut to 0.3% -- amounting to an annual average of 2.3%) for the reasons discussed above: changes in composition of employment, hours of work, wage adjustments to offset superannuation benefits, and other factors.

16 Average weekly earnings in the overall Australian economy grew at an annual average rate of 3.8% between 1991 and 2011 (author's calculations from ABS Average Weekly Earnings).

Figure 4. Cumulative Compensation Losses for Public Sector Workers.

Source: Author's calculations from ABS Catalogue 6248.055.002, Employment and Earnings, Public Sector, Australia.



as specified in those caps,[17] forecast actual compensation reaches $93,400 by 2023-24. The gap between that level, and the compensation that would have prevailed under pre-cap wage policies, swells further, to over $22,000 per worker per year by 2023-24.

The cumulative loss of compensation to state public sector workers is illustrated in Figure 4. Because the amount lost per year as a result of the wage caps grows steadily, the cumulative loss (for public sector workers employed when the pay caps were first imposed) grows at an exponential rate. By 2020-21 (the last year of actual data), the average public sector worker would have lost a cumulative total of $87,500 compared to their compensation trajectory in pre-cap years. The cumulative loss in compensation continues to swell dramatically as time goes by: by 2023-24 the cumulative loss reaches almost $150,000 per worker.

In short, the longer the pay cap system is maintained, the greater will be the cost of foregone compensation for public sector workers in NSW. Because of the compounding effect of smaller annual pay increases, applied to an increasingly suppressed base salary level, the legacy of this policy cumulates into losses in compensation that are measured in the hundreds of thousands of dollars per worker. We cannot know what pay caps the NSW government is likely to impose in future years. If the pattern of the last decade is continued, and caps which freeze or even reduce real wages for state public sector workers are retained indefinitely, then the cumulative cost to each long-service worker will become immense. Recall that the average state public sector worker, who earned $85,000 in 2020-21, had already lost $87,500 in cumulative compensation over the first decade of the pay caps – relative to their earnings if the pre-cap wage trajectory had been retained. But if those caps are sustained for *another* decade, then the cumulative losses become much larger. By 2030-31, that worker will have lost *another* $300,000 in incremental compensation – for a total loss (over 20 years) of some $385,000 in compensation.[18] This is because of the compounding effect of foregone wage increases on income in each successive year. In sum, while a pay cap in any individual year imposes an arbitrary and punitive cost on public sector workers (compared to wages determined through normal, free collective bargaining), over time that cost becomes enormous and transformative.

17 As noted above, actual average compensation in the state's public sector has grown slightly slower even than the restrained pace specified in the pay caps.

18 This estimate assumes that in 2024-25 and subsequent years (on the assumption that current rapid inflation abates) the NSW government reverts to its previous 2.5% annual wage cap.

Public Sector Pay Caps and Overall Wage Trends in Australia

NSW was the first major Australian jurisdiction to impose explicit caps on public sector pay in the current century. Its policy has since been mimicked by other states, by the Commonwealth government, and even by local and regional councils – all of which have been eager to dispense with normal collective bargaining mechanisms in order to achieve short-term fiscal savings. Political leaders have also been attracted by the seeming political benefits of appearing 'tough' on government spending.

However, these arbitrary wage caps have had several negative and far-reaching consequences for Australia's broader economy. There is strong empirical evidence that pay caps on public sector employees have a spillover impact on wage trends in the private sector. After all, governments are the largest employers in Australia's economy,[19] and their wage policies set a high-profile benchmark for private sector employers to copy in their own compensation strategies. Public sector pay caps thus played a major contributing role in the unprecedented slowdown of wage growth across Australia's labour market since 2013. By reducing compensation across a large segment of the labour force, pay caps also undermine consumer spending and hence economic growth and job-creation – especially counter-productive at a time when Australia's economy is still trying to regain stable footing amidst the continuing pandemic.

The negative spillover effects of public sector pay caps on broader wage trends in the Australian labour market can be understood through three distinct channels:[20]

1. **Composition Effect:** Public sector employment accounts for about 15% of total employment in Australia. Suppressing wages for such a large group of workers directly pulls down overall wage trends.
2. **Demonstration Effect:** As the largest and highest-profile employers in the economy, government wage policies establish benchmarks or norms which are imitated by other employers.[21] Private employers can point to government benchmarks to justify wage restraint for their own staff. Firms which sell goods or services to government will also argue they must suppress costs to stay 'competitive' with austere government policies.
3. **Macroeconomic Effect:** Sustained pay caps strip billions of dollars of compensation from the families of public sector workers.[22] That directly suppresses consumer spending

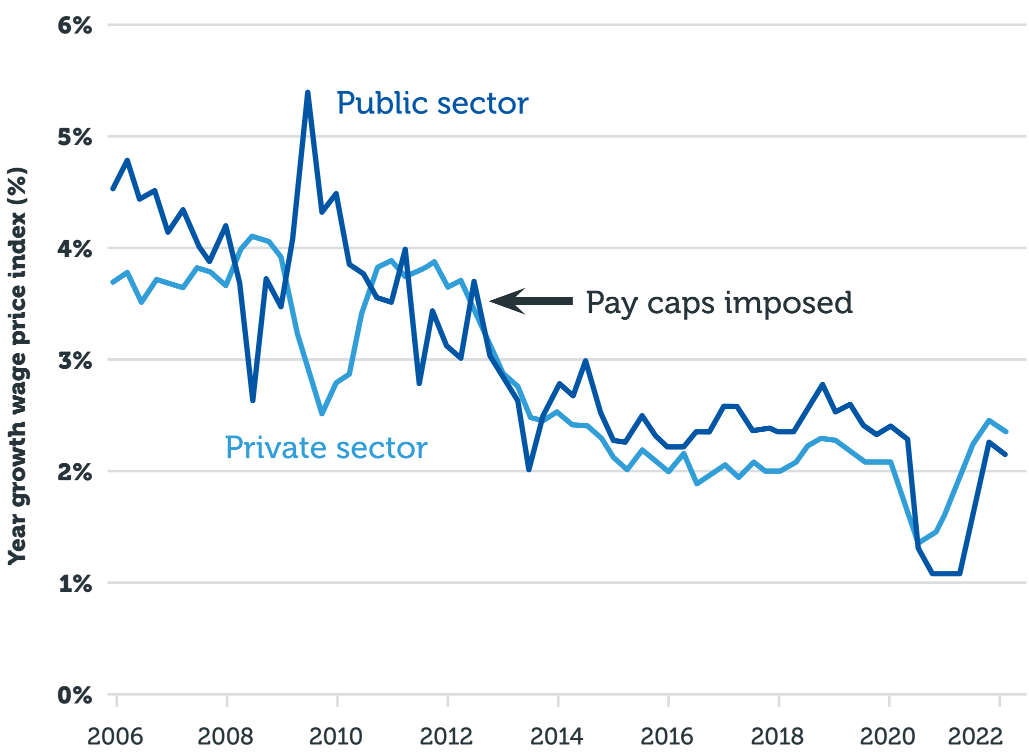
19 And the NSW state government is the largest government employer in the country, making it the largest single employer of any kind in Australia.

20 These spillover effects are explored by Troy Henderson, "Public sector austerity and its spill-over effects," in Andrew Stewart et al., eds., *The Wages Crisis in Australia: What It Is and What To Do About It* (Adelaide: University of Adelaide Press, 2018).

21 The perverse impact of public sector pay caps on overall wage norms is detailed by David Peetz, *Wage Norms and the Link to Public Sector Salary Caps* (Sydney: Unions NSW, 2022), https://www.unionsnsw.org.au/wp-content/uploads/2022/06/WAGE-NORMS-AND-THE-LINK-TO-PUBLIC-SECTOR-SALARY-CAPS_final.pdf.

22 In 2020-21, total compensation for NSW state public sector workers was $8.3 billion lower than if average compensation had increased since 2011-12 at the same average annual rate demonstrated in the 20 years preceding the caps.

Figure 5. NSW Wage Growth, Public and Private Sector.

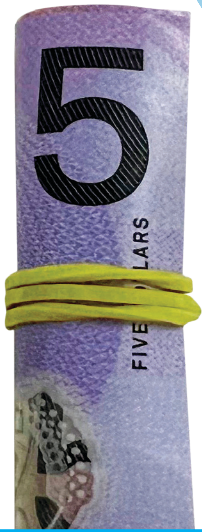


Source: Author's calculations from ABS, Wage Price Index.

across the whole range of goods and services purchased by households, in turn reducing business income and profits. That further discourages private employers from offering better wages to their own staff.

Because it pioneered the current trend of direct suppression of public sector compensation, the NSW pay caps have had a particularly harmful impact on overall wage trends – not just in NSW, but across the country. Figure 5 illustrates the path of average wage growth in NSW, comparing public sector and private sector gains as reported by the ABS. Before the GFC, wages in both sectors were growing at an average rate of close to 4%. During the financial crisis, private sector wage growth slowed dramatically but temporarily; private sector wage growth quickly recovered to pre-crisis levels by 2011. But in NSW, the state government's decision to impose a stringent pay cap on its employees then caused a dramatic deceleration in public sector pay – despite the post-GFC recovery in private sector wage growth. That deliberate deceleration is clearly visible in Figure 5. Unfortunately, the downturn in public sector wage growth was then closely mimicked in the private sector (for all the reasons noted above). Private sector wage growth decelerated in step with the austere standard set by the state government – and by 2014, private sector wages were growing even slower than the state's own pay caps. In this light, the NSW government's pay caps suppressed pay for *all* workers, not just its own employees – and helped set off a historic slump in wage growth which has bedeviled Australia's macroeconomy ever since.

Impacts on Compensation for Nurses and Midwives



The preceding analysis considered ABS data on average compensation for employees across all state-funded public services in NSW, to show the escalating cumulative cost of sustained public sector pay caps. A similar analysis can be conducted, utilising more specific data on compensation for a particular occupation: nurses and midwives in the state's public health system. What follows is based on wage levels specified in collective agreements compiled and reported by the NSW Industrial Relations Commission. Typical compensation for nurses in the state's public health system is similar to average compensation across the state-funded public sector. A representative nurse/midwife in the public health system working full-time hours[23] earned base compensation of $90,000 in 2020-21 – only slightly higher than average annual compensation across the whole public sector. We would expect, therefore, that the loss in compensation for nurses and midwives due to pay caps will be comparable to the estimates reported above for the overall public sector. Indeed, this proves to be the case.

Table 1 summarises compensation trends for several classifications of nurses before and after the imposition of pay caps in 2012. In the 10 years since the pay caps were imposed, pay has grown at an average annual rate of just 2.19% across all classifications. That matches the average annual compensation growth reported above for the overall state public sector over the same period. In contrast, over the twenty years prior to the imposition of the cap, average wages grew at almost 4% per year; again, that was broadly consistent with the trend experienced across the state's public sector. So the compensation experience of nurses is very similar to the wage trajectories reported above for the broader state-funded public service. Average wage growth was cut almost in half as a result of the sustained public sector pay caps.

Table 1

Average Wage Growth for Nurses Before and After the NSW Cap

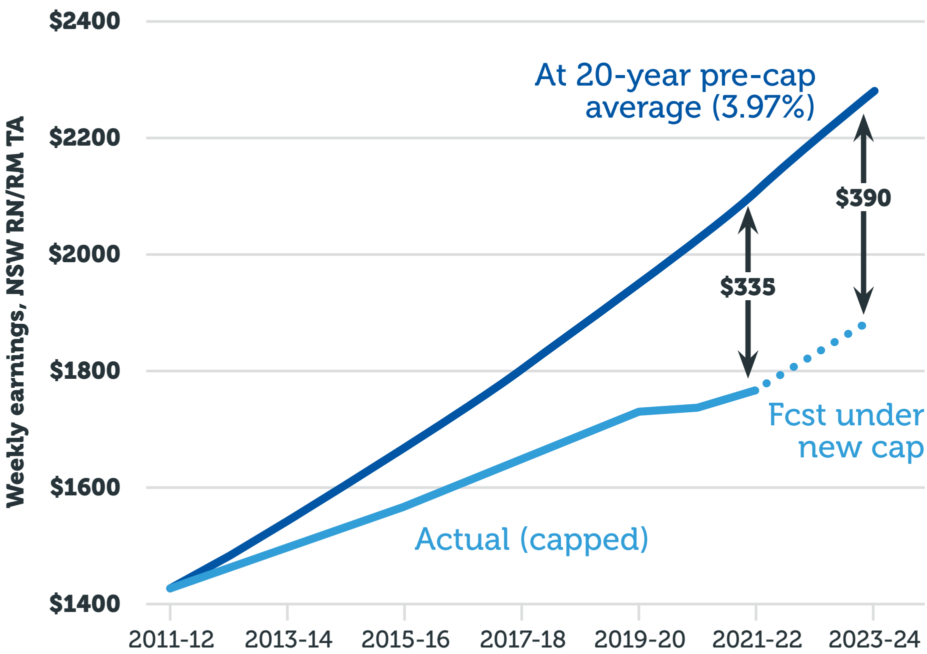
Classification	AIN TA	EN TA	EEN TA	RN/M TA	CN/MS
1991-93 to 2011-12	3.76%	3.89%	3.67%[1]	3.97%	3.97%
2011-12 to 2021-22	2.19%	2.19%	2.19%	2.19%	2.19%

Source: Author's calculations from NSW IRC data.
1. 2005-2011 average.

23 In the analysis that follows we use weekly wages for the "Thereafter" classification for registered nurses and midwives in the NSW public health system (RN/M TA) as a benchmark level of compensation. This is the highest automatic pay grade reached by nurses and midwives, requiring 8 years' full-time service.

Figure 6. Actual and Simulated Average Compensation, NSW Nurses

Source: Author's calculations from NSW IRC data. RN/RM TA classification.



Even a temporary pay cap has surprisingly long-lasting impacts on workers' compensation. Because the policy permanently shifts downward the trajectory of wages in future years, even a one-year pay restriction reduces future compensation by a growing amount as time goes by. In the case of a permanent pay cap, however, those long-term repercussions are amplified dramatically. Each year the pay cap is in effect, suppresses the future trend of compensation further. Compared to the original trajectory of wages (that would have prevailed in the absence of government restriction), the gap between expected and actual compensation widens every year.

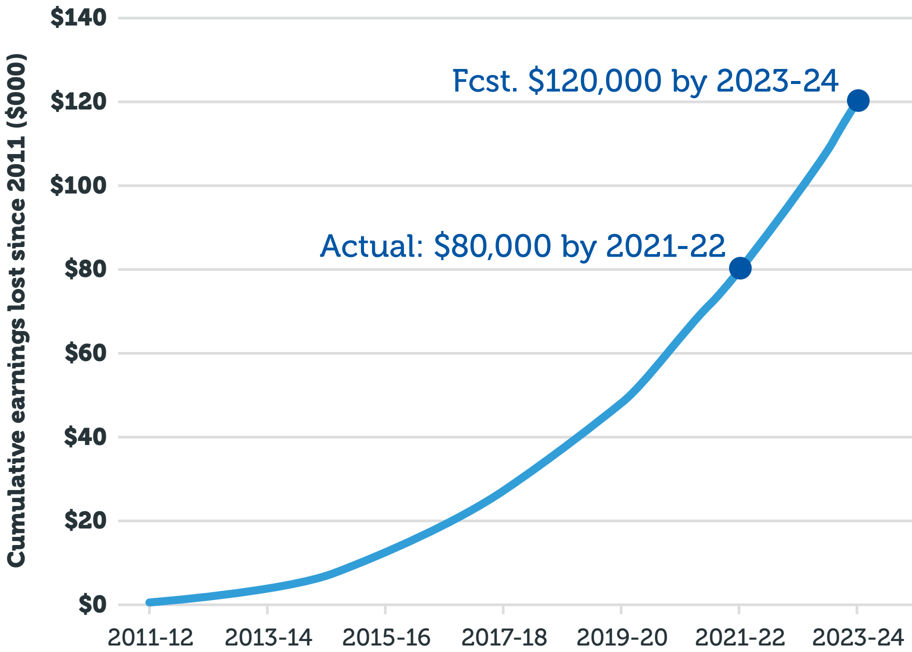
This painful outcome is illustrated in Figure 6, which portrays the trend of weekly wages for a registered nurse or midwife.[24] The blue line indicates the actual trend of weekly wages over the decade since NSW pay caps were first imposed. As above, that actual data is extrapolated to 2023-24 on the basis of pay caps already announced by the state government (3.0% in 2022-23, and 3.5% in 2023-24). The red line shows the path that RN/RM TA pay would have followed had wage trends continued at the same pace experienced in the 20-year period preceding the caps (with average annual increases of 3.97%).

Lest it be argued that those previous 4% wage increases are somehow a 'relic' of a bygone, no longer viable time, keep in mind that the Governor of the Reserve Bank of Australia (similar to other leading analysts) has argued normal wage increases in that range are ultimately necessary to support his bank's efforts to meet the 2.5% inflation target.[25] To support target inflation and maintain stability in the share of total GDP paid to labour, nominal wages need to grow at the *combination* of target inflation (2.5%) *plus* trend labour productivity growth (which has averaged close to 1.5% in the long run, and faster than that since the COVID pandemic). In that context, annual wage growth of around 4% should not be seen as an 'anomaly'. It is, rather, the minimum required to achieve other stated goals of macroeconomic policy: including maintaining inflation at the desired rate, and ensuring that workers receive proportional compensation gains in line with ongoing productivity growth.

24 As elsewhere in this analysis, Figure 6 illustrates the evolution of the "Thereafter" wage category, for registered nurses and midwives with 8 years' full-time experience.

25 See, for example, Philip Lowe, "Recent Trends in Inflation," Address to the Australian Business Economists, Sydney, 16 November 2021, www.rba.gov.au/speeches/2021/spgov-2021-11-16.html.

Figure 7. Cumulative Compensation Losses for Nurses and Midwives



Source: Author's calculations from NSW IRC data. RN/RM TA classification.

Figure 6 illustrates the growing costs for nurses and midwives of long-term wage caps in NSW. Compared to the previous trend in nominal compensation, wages under the pay cap have lagged by a growing margin. After a decade of pay caps, pay for experienced RN/RMs under this policy was $335 per week (or over $17,000 per year) lower in 2021 than if the previous pace of wage increases had been retained.

Once again, making matters worse is the fact that those lost earnings accumulate over time into very large sums of foregone income. Figure 7 shows the accumulating path of foregone earnings for a full-time RN/RM under the NSW wage cap policy. For a nurse or midwife working full-time throughout the period covered by the wage caps, cumulative earnings were $80,000 lower over that decade than they would have been under the previous wage trajectory. Continuing pay caps will extend and expand that cumulative loss, forecast to reach $120,000 by 2023-24.

Cumulative wage loss per nurse by 2023-24:

-$390 per week OR **-$120K** if the pay caps are retained.

Real Wage Losses for NSW Nurses and Midwives

As was the case for the broader public sector workforce in NSW, state wage caps are now resulting in significant reductions in real wages for nurses and midwives. Nominal compensation is lagging far behind the surge in consumer price inflation, and hence the real purchasing power of nurses' and midwives' wages is falling. In the two years from 2019-20 through 2021-22, real wages for nurses and midwives have declined by 3%. That is equivalent to a loss of $54 per week for an experienced RN/RM, or $2800 per year. Based on current RBA forecasts of inflation (which anticipate inflation will peak later this year, then decelerate back toward target by 2024), real wages will fall another 4.3% by 2023-24.

That erodes another $76 per week from the real purchasing power of nurses' incomes – or almost $4000 more per year. All told, four consecutive years of real wage cuts would reduce the real incomes of RN/RMs by over 7%, representing a loss in real purchasing power of almost $6800 per year. Real wages by 2023-34 will be lower than they were when the wage caps were introduced. This is a lamentable way to thank nurses and midwives for their courage and dedication during the COVID-19 pandemic: a public health crisis that continues to stretch the health care system and other public services to the breaking point.

Four consecutive years of real wage cuts would reduce the real incomes of RN/RMs by

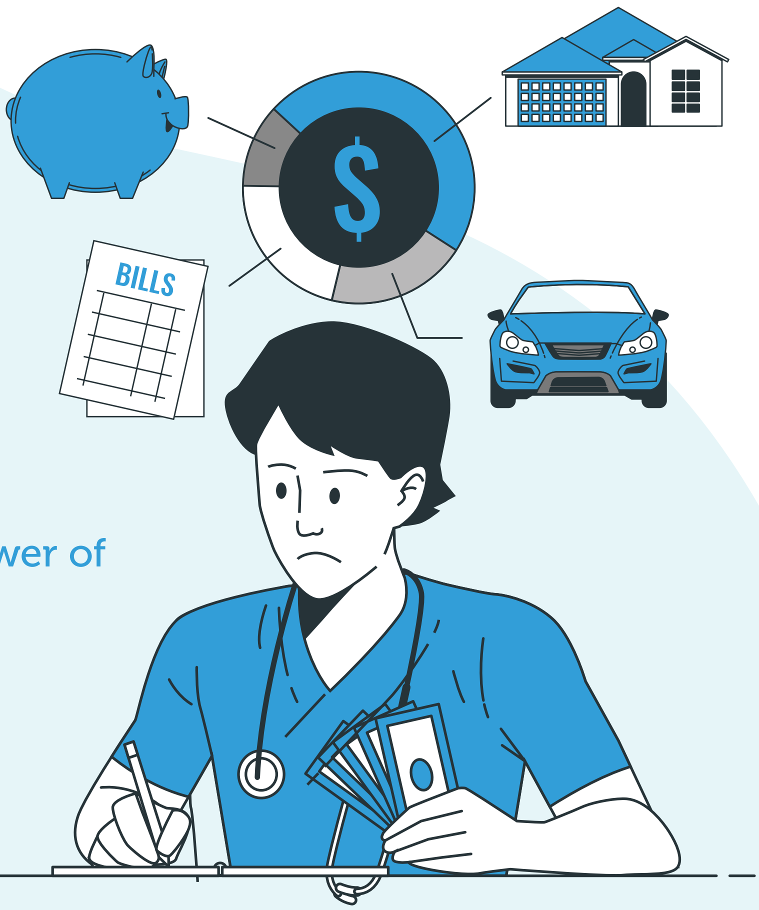
over 7%

▼

a loss in real purchasing power of

±$6800

per year



Wage Caps and Superannuation Accumulation

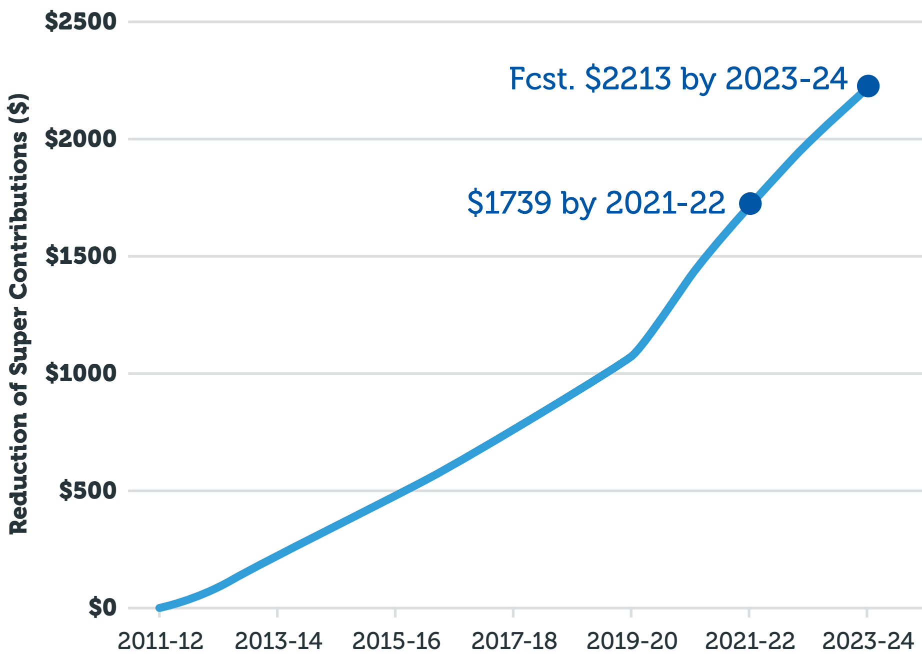
As shown above, the impact of sustained wage caps on public sector incomes lasts throughout a worker's entire career. Indeed, the harm is still felt even after they retire. Because a suppressed wage trajectory translates directly into reduced superannuation accumulations (since employer super contributions are tied to wages), the superannuation savings of nurses and midwives have grown more slowly under the pay cap regime than under normal collective bargaining.

Figure 8 illustrates the loss of superannuation contributions experienced each year by an experienced RN/RM as a result of the pay cap (compared to contributions that would have been received on the pre-cap wage trajectory simulated above, in which wages continued to grow at their long-term pre-cap average rate).

As the wedge between expected pay and actual (capped) pay grows, the amount of income lost in contributions each year rises in tandem. And since the superannuation guarantee contribution rate is increasing this year (and annually until 2024-25, when it will reach 12%), the amount of lost contributions is swelling accordingly. By 2021-22, an experienced nurse or midwife had already lost over $1700 in superannuation contributions – on top of the $17,000 reduction in their wages that year. Forecast forward, that loss of annual contributions swells to over $2200 by 2023-24.

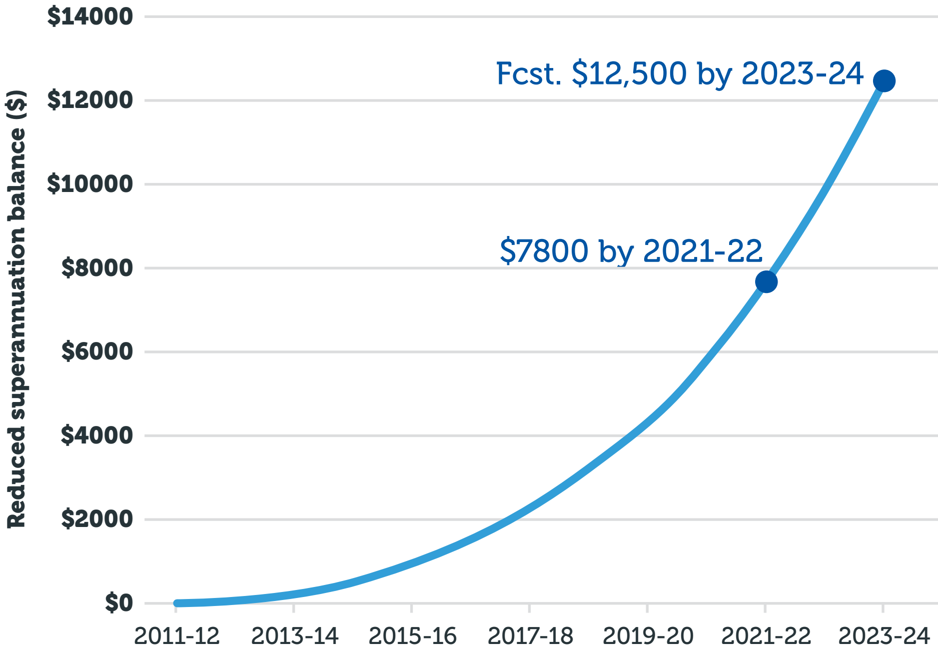
But even this does not tell the whole story. Each year's reduction in employer super contributions cumulates over time into a larger and growing lifetime loss in contributions. Moreover, superannuation savings earn

Figure 8. Suppression of Annual Superannuation Contributions.



Source: Author's calculations from NSW IRC data. RN/RM TA classification.

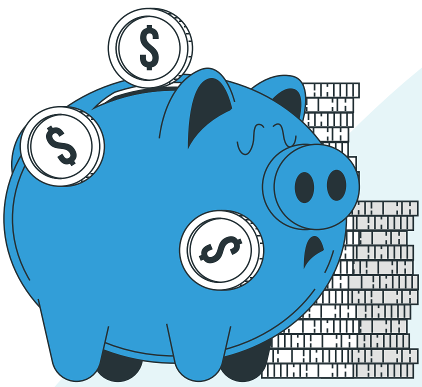
Figure 9. Lost Superannuation Balances for Nurses and Midwives.



Source: Author's calculations from NSW IRC data. RN/TM TA classification.

investment income as workers progress toward retirement. Hence, the reduction in annual contributions and cumulative balances also reduces investment income, which also cumulates over time. Figure 9 illustrates the combined impact of these effects.[26] After a decade of capped pay, super balances for experienced nurses and midwives were almost $7800 lower than if the pre-cap wage trajectory had been maintained. The loss grows quickly in future years: by 2023-24 the typical nurse or midwife will have lost over $12,500 in super balance.

Because of the arbitrary and draconian limits placed on public sector pay for the last decade (still continuing), nurses, midwives, and other essential workers will experience lower incomes after retirement. Even that first decade's wage caps would already reduce a retiring worker's annual pension (funded from their closing super balance) by around $1000 per year. But for a nurse or midwife who began their career coincident with the imposition of the pay caps, decades of wage suppression will translate into much worse damage to their superannuation savings and incomes in retirement. They are making extraordinary sacrifices to protect NSW residents from the effects of COVID-19 (and other emergencies which the state has endured). Yet their pay has been artificially suppressed to meet the fiscal and political interests of a government. And their retirements will be scarred by the legacy of that punitive policy.



Loss in superannuation balances for a nurse or midwife

-$7800 by 2021-22 ▶ **-$12,500** by 2023-24

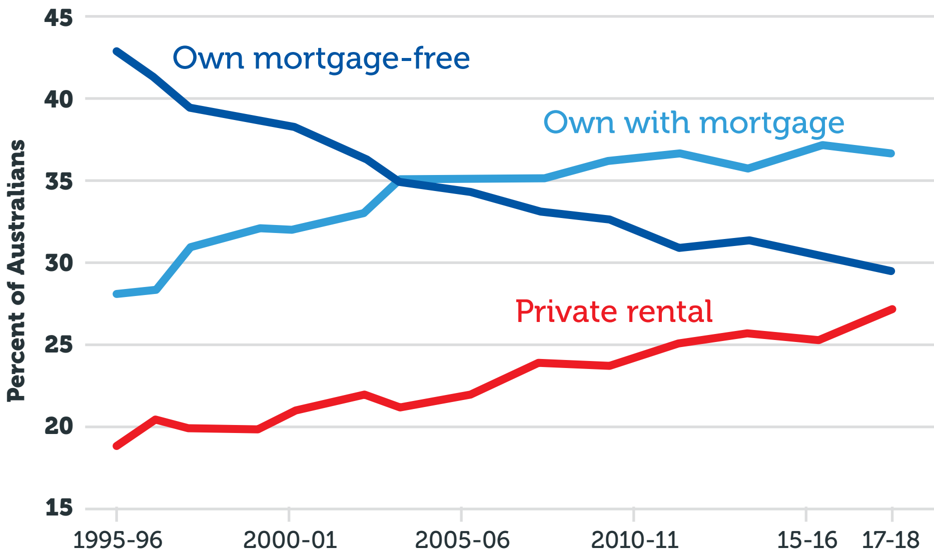
26 This simulation assumes annual return of 7.5% on invested funds, investment fees of 0.85%, and is net of 15% tax on contributions and effective 7% rate of tax on investment income (assumptions consistent with Australian Securities and Investment Commission, "Superannuation Calculator," https://moneysmart.gov.au/how-super-works/superannuation-calculator).

Wage Caps and Adequacy of Retirement Incomes

As a result of the suppression of wages for public sector workers – made worse (in real terms) by the current surge in inflation – a growing proportion of the state's essential service workforce will be unable to afford a comfortable retirement. This is especially true for women, whose superannuation balances are consistently lower than men's, due to lower earnings and more career interruptions to care for family members. Moreover, because women are expected to live longer than men, they need larger superannuation balances to generate the same sustainable retirement income as men (since that balance must last for a longer post-retirement lifespan).[27]

Another dimension of the retirement challenge facing public sector workers in NSW is the growing proportion of the population who have not been able to purchase their own home. Retirement expenses (and hence required superannuation savings) are much greater for Australians who rent their homes after retirement, than for home-owners. Indeed, because of skyrocketing property prices (more painful still in the new era of rising interest rates), a growing share of Australians – including many of those nearing retirement – has been shut out of the property market. Figure 10 indicates the steady decline in the proportion of Australians living in mortgage-free owner-occupied homes. That proportion fell by about one-third between 1995-96 and 2017-18 (most recent data), to less than 30% of adult Australians. The explosion of property prices in recent years[28] has made this situation even worse than indicated in Figure 10.

Figure 10. Home Ownership Rates.



Source: Australian Institute of Health and Welfare.

27 According to the most recent ABS estimates (based on 2018-2020 data), men at age 65 are expected to live 20.3 additional years, while women are expected to live 23.0 additional years. See ABS Life Tables, Table 1.9, https://www.abs.gov.au/statistics/people/population/life-tables/latest-release#data-download.

28 According to the ABS Residential Property Price Index, average home prices in Australia's eight capital cities increased another 25% between 2017-18 and end-2021.

Table 2

Adjusted Comfortable Income Thresholds

NSW, March Quarter 2022

	Single	Couple
Comfortable Income Threshold for Home-Owners	$890.68	$1,253.73
Estimated Age Pension	$93.46	$197.54
Net Private Required	$797.22	$1,056.20
Annual	$41,455	$54,922
Deduct: Home Ownership Expenses		
Building & contents insurance	$33.02	$35.01
Council rates	$41.18	$41.18
Home improvements	$7.25	$7.25
Repairs & maintenance	$21.75	$21.75
Sub-Total	$103.20	$105.19
Add: Rental Expenses		
Median Rent	$450.00	$495.00
Contents insurance	$5.96	$8.94
Deduct: Commonwealth Rent Assistance	**$72.90**	**$68.70**
Adjusted Comfortable Income Threshold for Renters	**$1,077.08**	**$1,386.25**
Estimated Age Pension	$0.00	$96.93
Net Private Required	$1,077.08	$1,289.32
Annual	$56,008	$67,045

Source: Author's calculations as described in text from data in ASFA, Services Australia, NSW Government Communities & Justice, and Compare the Market.

It is now likely that living mortgage-free in an owner-occupied home is the *least* common living arrangement – whereas two decades ago it was the *most* common. In sum, home ownership is out of reach of a larger share of Australia's population, including a larger proportion of retirees.[29] This makes the consequences of sustained wage suppression for public sector workers even worse.

We investigate the emerging crisis of retirement incomes facing NSW public sector workers, in light of the cumulating effect of government wage caps on incomes and hence on superannuation contributions. This section estimates the shortfall that nurses and midwives in NSW are likely to face in retirement given the ongoing suppression of their wages, including differential impacts experienced according to gender, family status, and home ownership status. We start with the annual income benchmarks established by the Association of Superannuation Funds of Australia, which estimate income

29 Data from the Australian Institute of Health and Welfare confirms a steady decline in home ownership rates for successive age cohorts. 81.7% of Australians born between 1947 and 1951 were home-owners by the time they were 65. However, based on lower trend home ownership rates, that proportion will likely be 15-18 percentage points lower for Australians born between 1982 and 1986 by the time they reach age 65 – and a larger proportion of those home-owners will still be paying off mortgages.

requirements for a comfortable retirement for both singles and couples.[30] The ASFA estimates are listed in the first row of Table 2 (on a weekly basis), for both single retirees and couples.

A small portion of that required income (assuming the retiree is able to meet the comfortable threshold) will be provided by the Age Pension. We estimate Age Pension receipts on the basis of existing parameters regarding payment levels, thresholds, and phase-out rates. The remainder is the proportion that must be provided from each worker's personal superannuation savings.

However, the ASFA income benchmarks assume that retirees own their home outright; for retirees still paying off mortgages, or those renting their homes, these estimates underestimate the cost of a comfortable standard of living. The assumption that retirees own their homes outright is unrealistic – and will become even more so, given coincident challenges resulting from wage suppression for public sector workers, accelerating inflation, and sky-high property prices. Therefore, we develop a supplemental set of comfortable retirement income benchmarks for renters.

To do this, we first deduct elements from the ASFA retirement standard that reflect costs of home ownership that would not be borne by renters (including repairs, council rates, building insurance, etc.). Then we add rental expenses, measured by the median rent reported by the NSW government for rental accommodation in the March quarter of 2022.[31] We assume a median 1-bedroom rental unit for a single retiree, and median 2-bedroom rent for a couple. We also add a small margin for contents insurance for renters (since we deducted property and contents insurance from the income standard for home-owners).[32] Finally, we incorporate Commonwealth Rent Assistance, which defrays a portion of rent expenses for retirees who receive the Age Pension (as would be the case for most of our representative retirees[33]). Based on median NSW rents, both singles and couples would receive the maximum Rent Assistance payable. With these adjustments, we generate an estimate of the annual private income (after Age Pension) required to provide a comfortable retirement for renters. As summarised in Table 2, this threshold is 35% higher for single renters than for single retirees who own their own home outright, and 22% higher for renter couples.[34] That dramatises the significant financial impacts of declining home ownership for Australian retirees.

We then estimate the required superannuation balance needed to sustainably fund a comfortable retirement for each of those categories, and compare it to the superannuation accumulations that nurses and midwives in NSW are likely to achieve under the existing policy of sustained wage caps. First, we convert the annual income flow associated with a comfortable retirement into a required

30 See Association of Superannuation Funds of Australia, "ASFA Retirement Standard: Detailed Budget Breakdowns" (Sydney: ASFA, March quarter 2022), https://www.superannuation.asn.au/ArticleDocuments/ 269/2205-ASFA_Retirement_Standard_Budgets_March_2022_quarterV1.pdf.aspx?Embed=Y.

31 See NSW Government, Communities and Justice, "Rent and Sales Report: Interactive Dashboard," Rent Tables, March 2022 Quarter, https://www.facs.nsw.gov.au/download?file=834001.

32 Average contents insurance premiums for average insured amounts in NSW ($59,142) equaled $465 per year, according to Compare the Market, "What is Renters Insurance?", Financial Year 2020-21, https://www.comparethemarket.com.au/home-contents-insurance/renters-insurance/. Contents insurance premiums are reduced by one third for single retirees.

33 In fact, because of the higher income required to meet the same comfortable retirement standard for a single renter, they would be disqualified from Age Pension entirely (under existing parameters), which in turn would disqualify them from the Commonwealth Rent Assistance program. This makes the challenge of paying for a comfortable retirement even harder for this group than indicated in Table 2. See Services Australia, "Rent Assistance," March 2022, https://www.servicesaustralia.gov.au/how-much-rent-assistance-you-can-get?context=22206, for details on parameters of the Rent Assistance program.

34 We have not explicitly modeled the case of retirees who own their own home but are still making mortgage payments after retirement, since a wide range of possible mortgage payments are possible in that scenario; most likely, these households would require an intermediate level of income, falling between retirees who own their homes outright and those who rent.

Table 3
Required Superannuation Balances

	Home-Owner		Renter	
	Single	Couple	Single	Couple
Men	$634,207	$420,114	$856,844	$512,843
Women	$692,308	$458,601	$935,340	$559,825

Source: Author's calculations from ASFA and other sources as described in text. Home-owner case assumes no remaining mortgage payments. Balances for couples are one-half of the combined balance required to fund the income thresholds for couples reported in Table 2.

superannuation balance on retirement.[35] We model that requirement on the basis of the same assumptions utilised by the Australian Securities and Investment Commission's financial planning website.[36] These assumptions include a 6.5% average return on investments,[37] 2.5% inflation rate, and 0.85% annual investment fee. We also assume the superannuation fund must last as long as the life expectancy for the retiree at age 65 (20.3 years for men, 23 years for women).[38] This generates required superannuation balances associated with the comfortable income thresholds, summarised in Table 3. The potential combinations of gender, home ownership status, and family status provide for a total of 8 possible cases. The highest required superannuation balance is for single women renters (since they must cover the extra costs of renting, living alone, and longer life expectancy). That woman should accumulate $935,000 in superannuation savings at age 65, to fund the comfortable single renter's income threshold until 88 (their life expectancy). That is more than twice the superannuation balance on retirement that would be required to support a comfortable retirement for a male home-owner in a couple.

These required superannuation balances are then compared to the superannuation savings that are likely to be accumulated by NSW nurses and midwives in the context of the current pay cap regime. We simulate two scenarios in this regard. One is a new entrant to the profession, starting work in 2022 and then working a 30-year career without interruption. The other scenario is a mid-career worker (aged approximately 50) with 15 years remaining in their work lives. For the new entrant, we assume they begin their career with no existing superannuation balance. For the mid-career worker, we assume an initial superannuation balance equal to the average levels reported for men and women of that age by the ABS in 2019-20.[39] Since existing superannuation balances differ greatly between men and women, accumulation estimates (and resulting income shortfalls) for mid-career workers are reported separately by gender.[40] Our simulations assume that wages for nurses

35 We assume retirement at age 65.

36 See Australian Securities and Investment Commission, "Superannuation Calculator," https://moneysmart.gov.au/how-super-works/superannuation-calculator.

37 The ASIC calculator assumes a somewhat lower investment return during the retirement phase of a superannuation plan (6.5%) compared to the accumulation phase (7.5%), reflecting the shift to a more conservative portfolio composition as typically recommended for retirees.

38 This is a conservative assumption; most financial advisors recommend planning for superannuation income to extend 2 years or more beyond life expectancy, to reduce the risk that the fund will 'run out' before the retiree dies. If that margin were built into this simulation, the required superannuation balances would be higher.

39 See ABS, Household Income and Wealth, Table 12.3, 2019-20, mean superannuation balances for age 45-54 cohort.

40 For the new entrant simulations, since both wages and initial superannuation balances are identical across the genders, there is no difference between the forecasts for male and female workers – although in practice women are still likely to accumulate lower superannuation balances due to career interruptions, greater incidence of part-time work, and other factors.

Table 4
Estimated Superannuation Balances on Retirement

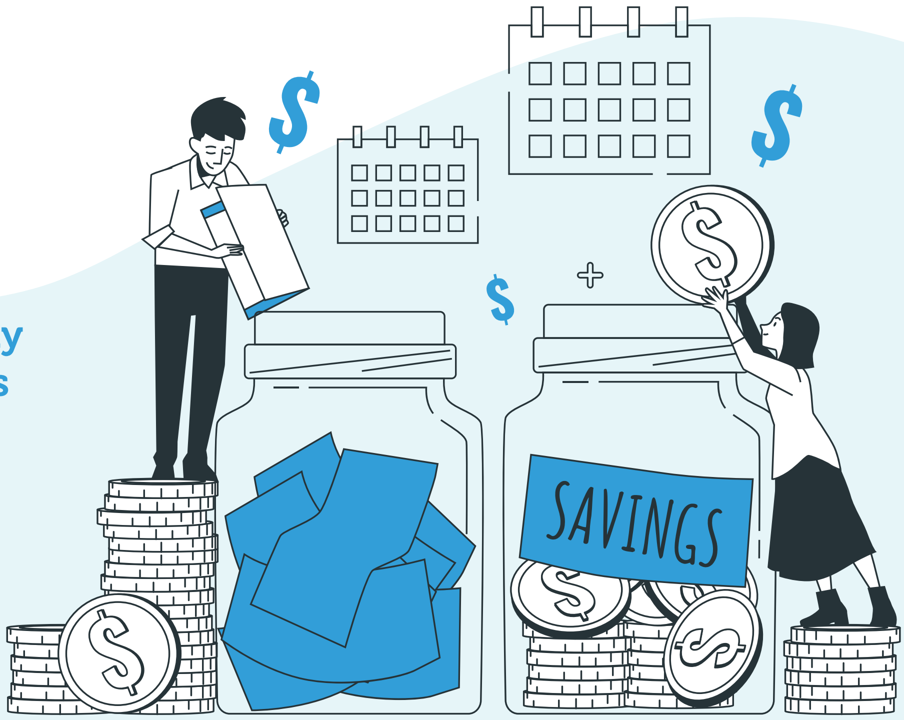
Scenario	Opening Balance	Balance at Age 65
New Entrant	$0	$488,310
Mid-Career Male	$219,300	$572,915
Mid-Career Female	$137,000	$425,908

Source: Author's calculations from ASFA and other sources as described in text.

and midwives remain constant in real terms, as implied by a wage cap that matches long-run inflation (as originally postulated by the state government).[41] This is an optimistic assumption, given that capped wage gains for public sector workers currently lag well behind inflation. The accumulation simulations account for coming increases in the Superannuation Guarantee (rising from 10.5% at present to 12% in 2025), and utilise similar financial assumptions (from the ASIC planning website) as noted above.[42] On this basis we estimate the expected superannuation balances upon retirement (at age 65) of nurses and midwives in the three identified situations. These estimates are summarised in Table 4.

The estimated accumulation of superannuation savings for these three cases ranges from $425,000 for a mid-career woman, to $575,000 for a mid-career man.[43] New entrants are estimated to accumulate roughly $490,000 in superannuation savings by retirement.

Current wages paid to nurses and midwives in NSW must be substantially increased, if workers in these jobs are to have a reasonable chance of attaining a decent and secure retirement.



41 This is consistent with the initial stated justification by the NSW government that those wage caps were intended to match long-run inflation, as per the RBA target.

42 In the accumulation phase, we assume a higher average investment return of 7.5%, and also include a $74 per year contribution administration fee, both as specified in the ASIC website.

43 That large gender difference is due to the assumed higher initial superannuation balance for men, compounded over the remaining work years by investment income.

Table 5

Estimated Superannuation Shortfalls

(% shortfall relative to balance required for comfortable retirement)

	Home-Owner		Renter	
	Single	Couple	Single	Couple
New Worker (30 years to work)				
Men	-23.0%	16.2%	-43.0%	-4.8%
Women	-29.5%	6.5%	-47.8%	-12.8%
Mid-Career Worker (15 years to work, average initial super balance)				
Men	-9.7%	36.4%	-33.1%	11.7%
Women	-38.5%	-7.1%	-54.5%	-23.9%

Source: Author's calculations from ASFA and other sources as described in text.

These estimated balances are inadequate to assure a comfortable retirement for most of the eight scenarios considered in Table 3 (across gender, family status, and home-ownership status criteria). The proportionate shortfall experienced by each category is reported in Table 5. Only home-owners who are members of a couple (the most advantageous situation in which to retire) are able to afford a comfortable retirement on the basis of expected superannuation accumulations under the current wage cap policy – even after working an entire career in a highly-skilled, demanding profession. And for mid-career workers, even women in that situation do not meet the comfortable retirement threshold. For single women renters, their superannuation accumulations under existing wage caps do not even meet half of the requirement for a comfortable retirement.

An obvious implication of these simulations is that current wages paid to nurses and midwives in NSW must be substantially increased, if workers in these jobs are to have a reasonable chance of attaining a decent and secure retirement. For single women renters, the weekly wage for a full-time year-round registered nurse or midwife would need to effectively double, in order for their expected superannuation savings to reach the threshold required for a comfortable retirement. Single women home-owners also need significant wage increases (of 28% to 38%) to reach that threshold, as do single male home-owners (10% to 21%). In short, compensation practices in the public health system need to be enhanced substantially, if these well-trained, dedicated workers are to achieve the fitting reward of a decent and secure retirement.

Keep in mind that these simulations have adopted modeling assumptions that are generally optimistic: including working a 30-year career without interruptions, steady and healthy investment returns, and wages that at least stay constant in real terms (rather than declining as at present). If any of those assumptions are not fulfilled in practice, then the gap between nurses' and midwives' superannuation savings, and the requirements of a decent retirement, will be even greater.

Conclusion

This report has reviewed the significant and growing impact of the NSW government's decade-long policy of pay caps imposed on the state's public servants. There are many reasons why this policy is arbitrary, illegitimate and punitive. It suppresses normal collective bargaining rights, as specified in international labour standards. It will create a growing gap over time between compensation for public sector workers and other employees. It will substantially reduce the incomes of essential workers (including nurses and midwives), and by a widening margin over time, compared to incomes that would be attained under normal collective bargaining practices. Finally, it will also leave far too many public sector workers, despite decades of dedicated service to the people of NSW, struggling to make ends meet during their retirement. For women (who face higher post-retirement expenses, but achieve lower superannuation balances), renters, and retirees who live alone, the challenges of attaining a secure and comfortable retirement are especially daunting.

The NSW government's continuing policy of arbitrary, authoritarian wage suppression for nurses, midwives, and other public servants is exacerbating the financial challenges faced by these workers – not only while they are working, but even after they retire. This policy should be abandoned. Instead, the government should undertake free and fair collective bargaining with its staff and their unions, on the basis of the normal pay determinants (including macroeconomic conditions, productivity, and pay comparators) held to determine compensation in other circumstances.

The state government should return to free collective bargaining with its employees and their unions, so that fairer and more genuine compensation practices can be restored for this large and vital section of the labour force.

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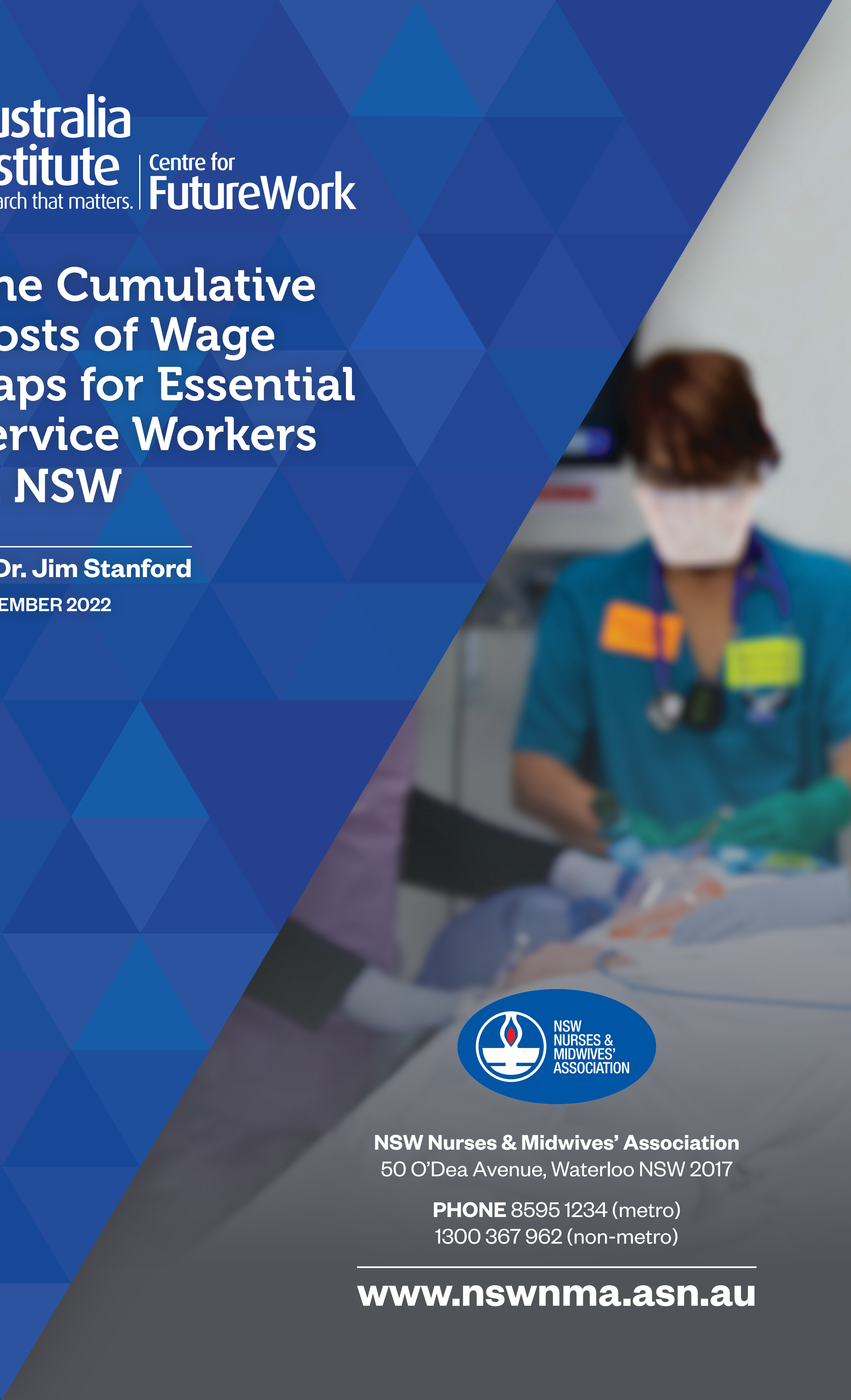
The Cumulative Costs of Wage Caps for Essential Service Workers in NSW

by Dr. Jim Stanford

NOVEMBER 2022



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