

The Association of Superannuation Funds of Australia Limited  
ABN 29 002 786 290  
ASFA Secretariat  
PO Box 1485, Sydney NSW 2001  
p: 02 9264 9300 (1800 812 798 outside Sydney)  
f: 02 9264 8824  
w: [www.superannuation.asn.au](http://www.superannuation.asn.au)



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Super System Review  
GPO Box 9827  
Melbourne VIC 3001

by email: [info@supersystemreview.gov.au](mailto:info@supersystemreview.gov.au)

## **ASFA Supplementary Submission – Super System Review**

The Association of Superannuation Funds of Australia is pleased to provide this supplementary submission to the Review by the Australian Government into the Governance, Efficiency, Structure and Operation of Australia's Superannuation System (the Review).

This submission supplements our recent responses to the Panel's preliminary reports on 'MySuper', 'SuperStream' and 'Self-Managed Super Solutions', and contains ASFA's recommendations on specific issues we believe require further consideration. We acknowledged that this submission is "late in the day" but we want to ensure that the Panel has the opportunity to address continuing outstanding issues for the industry and fund members.

ASFA is a non-profit, non-political national organisation whose mission is to advance effective retirement outcomes for members of superannuation funds through research and advocacy. We focus on the issues that affect the entire superannuation industry. Our membership, which includes corporate, public sector, industry and retail superannuation funds, has as members over 90% of the approximately 12 million Australians with superannuation.

Our Constitution requires that we promote and protect the interests of superannuation funds, their trustees and their members. As such we conduct extensive research, engage our membership in debate and offer what we believe is sound public policy which rises above vested interests.

### **1. Members are increasingly more engaged with their super**

Certain parts of the MySuper preliminary report are premised on the 'accepted' fact that many members are disengaged, and many will continue to be disengaged. This idea was reiterated by Jeremy Cooper in his address to The Committee for Economic Development of Australia (CEDA) on 26 May 2010, in which he stated that "a lot of people are just not interested in it [super], particularly when they are young. They start to get interested closer to retirement and so just won't respond to competitive behaviour on the part of funds until that time (if at all)".

We thought it important to share with the Panel the results of research recently conducted by the ASFA Research Centre (last week), which surveyed approximately 600 working Australians aged between 25 and 69. The focus of the research was to measure member engagement and we believe it provides valuable insight into the common assertion regarding inherent member disengagement. Note, the tables numbers quoted in square brackets below refer to the tabulated survey results shown in Appendix 1.

In relation to choice of fund, the ASFA survey results indicate that a substantial proportion of working Australians have chosen the fund they are in. Approximately 29% specifically chose their superannuation fund, while a further 27% were happy with the default fund on offer. **[Table 1a]**

In relation to investment choice, the majority of those surveyed (53%) actively chose the investment option they are in. **[Table 2a]** In addition, of the 46.5% of Australian workers surveyed that are invested in their fund's default option, around a quarter of these felt it was the best option for them. **[Table 2b]** Accordingly, in total 66.4% of Australian workers are in an investment option they actively chose or went to because it was the best option for them.

Our survey also found that there is a very strong support for a number of investment options to be available in their fund. Nearly 69% of respondents stated that they want the opportunity to be able to change their investment mix. **[Table 2c]** Whilst we agree that levels of member engagement generally increase with age, our survey results show that support for investment choice is particularly strong among younger people, with the highest support amongst those aged 25 – 29. **[Table 2d]**

As stated in our recent response to the MySuper preliminary report, based on evidence provided by funds to ASFA, it would appear that members are becoming increasingly more engaged. The number of calls from members and website visits has been steadily (and sometimes significantly) increasing in recent years. The evidence provided by funds is consistent with the results of ASFA's survey of working Australians and supports the conclusion that members are, in fact, more engaged with their super than the Panel contends.

The tabulated results of ASFA's research indicating increased levels of member engagement are shown in Appendix 1.

We believe that as member accounts increase in size (in part aided by account consolidation), the industry becomes easier to do business with through reforms like 'SuperStream' and funds become more transparent through other Cooper Panel recommendations, member engagement will continue to increase.

## **2. Greater frequency of contribution remittance by employers**

ASFA believes that employers should be required to remit SG contributions to superannuation funds more frequently than is currently required by the legislation (i.e. quarterly). The frequency of payment of SG should be aligned with an employer's normal payroll activity. As a minimum, SG contributions should be made on a monthly basis, although it could be more frequent depending on the employer's payroll cycle (for instance, if an employer pays salaries/wages fortnightly). ASFA has long argued for the removal of the \$450 per month threshold for the payment of SG contributions, which will allow employers to align their SG payments to more frequent payroll activity. However, in the absence of the abolition of the \$450 threshold, we recommend that the legislation be amended to require minimum monthly SG payments by employers.

We note that many employers currently pay superannuation contributions more frequently than is required by legislation as it simplifies their administration process and permits better management of cash flows. Further, with the 'SuperStream' proposals and the increased ability of the industry to transact electronically, it will be easier for employers to comply.

In addition, ASFA contends that salary-sacrificed contributions should be required to be remitted to a super fund in at least the same time period as after-tax contributions under section 64 of the SIS Act. Given that these are voluntary deductions from what would otherwise have been payable by the employer to the employee (and the tax to the ATO), we believe that salary-sacrificed contributions should be required to be remitted to the fund within the same time period as after-tax contributions (i.e. 28 days from the end of the month in which the deduction was made).

From the superannuation funds' perspective, more frequent contributions (together with the 'SuperStream' proposals requiring employers to contribute electronically and provide minimum information to funds in a standard format) would reduce funds' operational costs. ASFA contends that the benefits of streamlining the contribution process through enhanced electronic commerce and more effective clearing house solutions will more than offset any increased administrative burden on employers and administrators arising from more frequent contribution payments.

From a member's perspective, this alignment of super payments to salary payments would be also beneficial. We believe it would encourage increased use of salary sacrifice and after-tax voluntary contributions. Additionally, members would benefit from the reintroduction of the requirement for employers to report the payment of SG contributions on their payslips (discussed further below).

### **3. Reintroduction of reporting SG payment information on employees' payslips**

The previous Government legislated a requirement for employers to include information on payslips about an employee's SG entitlement when it was paid. The legislation was to be reviewed after a specified period of time but was repealed before the expiration of the review period.

There is now no legislated requirement for an employer to provide information about SG contributions to an employee. There is only an obligation on the part of the employer to remit the contribution. However, without a requirement to provide information to an employee, the employee has no basis to confirm that their employer has in fact paid their SG entitlement until the employee receives their annual statement from their super fund. The super fund statement is an important document, but it is an inefficient way of checking that contributions have been paid in a timely fashion. For example, in respect of contributions due to be paid by the end of the September quarter (28 October), the information from the fund confirming that the contributions were in fact made might not be received by the employee until December the following year.

The time elapsed between when the contribution was due to be paid by the employer and when the employee eventually receives their super fund statement increases the time in which the employee can notify the ATO where a problem exists. This makes the ATO's task of ensuring compliance more difficult and, in some cases, results in the ATO being notified that there may be an issue only after the employer has already gone out of business.

By contrast, placing the payment details on payslips allows employees to see, in almost real time, whether their SG contributions are being paid by their employer.

ASFA therefore recommends the reintroduction of the requirement for all employers to notify their employees of the following items on their payslips, in line with the Fair Work Australia requirements:

- the amount of each contribution made during the period to which the payslip relates, or the amounts of contributions that the employer is liable to make; and
- the name or the name and ABN (if applicable) of the superannuation fund the employer has paid or will pay the contributions into.

ASFA further recommends that the notification requirement be expanded to distinguish whether the contribution has been paid or will be paid. If the contribution has been paid, the payslip should include the date on which the contribution was paid.

We recommend that the above requirements be embedded into the SG Act to include employees not covered by the Fair Work Australia requirements.

#### **4. Removal of the annual audit requirement for RMS and RMP**

As stated in our submission to Phase 1 of the Super System Review, ASFA contends that the annual audit of the RMS and RMP is an unnecessary expense for funds, particularly given the process adds little value to trustees' risk management processes.

The current legislative structure leads to some trustees focusing only on the high level SIS risk management requirements in order to pass their annual audit, rather than focusing on building a robust and effective risk management culture within the superannuation fund. In other words, having the RMS and RMP audited encourages these documents to be very broadly drafted with little in the way of detailed risks in many cases, due to the inherent fear associated with receiving a qualified audit.

Also, having the RMP available to superannuation fund members on request appears to be of little relevance or use to members (as evidenced by the very low incidence of members requesting a copy of the RMP). This requirement is also inconsistent with practice in relation to other APRA-regulated entities such as insurance companies.

ASFA therefore recommends the abolition of:

- the annual audit requirement for the RMS and RMP; and
- the requirement that the fund's RMP be made available to superannuation fund members on request. With the removal of the requirement to make the RMP available to members, it would be possible to merge the RMS and RMP into one document (which some funds already do) thereby removing any potential duplication and inefficiencies caused by having two separate documents.

#### **5. Administrators must be regulated**

As key service providers to the industry, and recognising the important role they play on the efficiency and integrity of the superannuation system, ASFA believes that fund administrators should be regulated by APRA. Being included in the APRA licensing regime would allow APRA to deal with and undertake regular reviews of administrators, who often provide administration services to a number of funds, without having to go through each trustee separately. This would also allow administrators to liaise directly with APRA and seek guidance from them.

Also, given the continuing rationalisation occurring in the administration space, the prudential oversight of administrators should create efficiencies for APRA in its oversight of superannuation fund operations.

#### **6. Interdependency relationships should be removed from the definition of 'dependant'**

In the past, the vast majority of claims relating to interdependency came from same-sex couples. But since legislation was introduced in 2008 giving same-sex couples the same rights as de facto couples where superannuation is concerned, there is little need to retain the concept of interdependency in the payment of death benefits. In fact, ASFA contends that interdependency has now become a major source of confusion and complaints and is also open to potential abuse. According to the SCT, the main source of death benefit related complaints they receive is from adult children and siblings who are not dependents and do not meet the criteria for interdependency. The SCT has observed that there has been an increasing number of complainants who, despite never having lived with the deceased, claim to have an interdependency relationship with the deceased. This is despite the fact that living together is one of the requirements of an interdependency relationship under the SIS legislation – unless 'either or both of them suffer from a physical, intellectual or psychiatric disability' or they are 'temporarily living apart' (eg. where one person is temporarily working overseas or is in gaol).

Given the already difficult task trustees face in determining the existence, and relative degree, of dependency among various potential beneficiaries, ASFA contends that the additional source of confusion and potential for abuse that exists around interdependency (and the costs associated with it) is something that the industry can well do without.

ASFA therefore recommends that interdependency be removed from the definition of 'dependant' for the purposes of the payment and taxation of superannuation death benefits.

\* \* \* \* \*

I trust that the information contained in this supplementary submission is of value. We would be pleased to meet with you to discuss our submission.

We are still considering one further issue in relation to separate accounts and may lodge an additional submission to the Panel on this issue in the next day or so.

Yours sincerely



David Graus  
General Manager, Policy & Industry Practice

Enclosures:

*Appendix 1: ASFA survey results on choice of fund and investment choice*

## Appendix 1

### ASFA survey results on choice of fund and investment choice (May 2010)

#### 1. Choice of fund

Table 1a

Did you choose the main super fund that you are in?	Female	Male	Total
Yes, I specifically chose it	24.0%	32.9%	29.3%
Yes, I was happy with the default fund on offer by my employer	27.3%	27.5%	27.4%
No, I did not have a choice	25.6%	21.3%	23.1%
No, while I could have chosen I went with the default offered	23.1%	18.3%	20.2%
Total	100.0%	100.0%	100.0%

#### 2. Investment choice

Table 2a

Did you actively select the investment option taken with your MAIN super fund or are you in the default option?	Female	Male	Total
I actively selected an investment option other than the default	46.7%	58.1%	53.5%
I am in the default investment option	53.3%	41.9%	46.5%
Total	100.0%	100.0%	100.0%

**Table 2b**

Why are you in the default option?	Female	Male	Total
I felt this was the best option for me so went there by choice	22.5%	32.2%	27.7%
I was not sure what other investment option to select	46.5%	38.3%	42.1%
I could not be bothered/did not have time to actively select	19.4%	17.4%	18.3%
Other	11.6%	12.1%	11.9%
Total	100.0%	100.0%	100.0%

**Table 2c**

Do you want investment options available in your fund?	Female	Male	Total
Yes, I want an opportunity to change the investment mix if I want to	65.1%	71.8%	68.7%
No, I am happy to go with the default investment option	34.9%	28.2%	31.3%
Total	100.0%	100.0%	100.0%

**Table 2d**

Do you want investment options available in your fund?	My age (in years) is					Total
	25-29	30-39	40-49	50-59	60-69	
Yes, I want an opportunity to change the investment mix if I want to	76.3%	73.2%	62.7%	68.9%	44.4%	68.7%
No, I am happy to go with the default investment option	23.7%	26.8%	37.3%	31.1%	55.6%	31.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%