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Improving productivity within superannuation

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Australia's superannuation system provides numerous, broad benefits – for the Australian government, for the Australian economy and most importantly for the broader Australian population. There are, however, a number of measures that could improve productivity and efficiency within the superannuation industry. ASFA proposes the following measures.

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1. Centralise data reporting

Superannuation funds currently report data to different agencies in different formats, including duplicate data and data that is available from another source.

For example, at the moment, superannuation funds must report data to APRA, ATO, ASIC, AUSTRAC and other government agencies separately.

This results in several inefficiencies, including:

- the creation of a multiplicity of different reporting mechanisms, formats and data items
- inconsistencies in definitions, taxonomy and reporting periods
- duplication of effort for both the Government and superannuation funds.

These inefficiencies increase administrative and compliance costs for superannuation funds and government alike.

> A solution would be to centralise data reporting to one government agency with data sharing between government entities. Certain fund level data, as appropriate, would continue to be made publicly available, as is currently done by APRA. Consideration could also be given to facilitating open data sharing for proof of identity when a new member joins a superannuation fund.

More detail on this proposal can be found in our submission to Treasury on 29 January 2020.

2. Change default communication medium from paper to electronic

Provisions in the *Electronic Transactions Act 1999* have the effect that a superannuation member must opt-in to receive communications electronically. If a member does not opt-in, superannuation funds are required to use paper-based communication methods which are inefficient and expensive.

> These provisions should be amended so that either:
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> - the provision of an email address is deemed to be consent to electronic communications, or
> - the default form of communication for superannuation funds is electronic.

Members should retain the ability to opt out of receiving electronic communications and back into receiving paper communications at any time. Superannuation funds would send a final paper communication to members to advise of the change to electronic and provide details about how members can opt back in to receiving paper-based communications.

3. Make advice more accessible for members

One of the factors that can make a significant difference to member outcomes in retirement is receiving financial advice. There are, however, challenges that impede the efficiency of providing advice and serve to make advice less accessible and affordable for members.

ASFA proposes that some of members' most frequently asked questions should be able to be answered through a record of advice (RoA) rather than a statement of advice (SoA).

Member questions that could more easily be answered through a RoA include:

- should I stay invested as I am or move my money to a different investment option?
- my account balance has dropped, what should I do?
- how do I set up a pension account?
- can I claim a tax deduction on my contributions?
- how much can I contribute into my superannuation?
- how do I withdraw my superannuation under compassionate grounds?

An average SoA costs a member approximately $1,500-$2,500, whereas an average RoA would cost a member approximately $300-$500. With the current cost of advice posing a significant barrier for members, the comparatively cheaper cost of a RoA would help make advice more accessible.

ASFA's proposed advice model would be as follows:

- an advice provider could provide a RoA rather than a SoA on specified advice topics, which reflect the most frequently asked questions by members
- ASIC would provide a template RoA for advice that falls under this model to ensure consistency and to help ensure compliance
- some topics covered by the RoA may also be categorised as intra-fund advice. It will be up to the superannuation fund to decide whether it will be provided as intra-fund advice or not
- appropriate records will need to be kept and provided to members and regulators as required.

4. Make it easier for members to make a contribution and to claim a tax deduction

To remove confusion for members when claiming a tax deduction and to make it easier for members to make a contribution, ASFA proposes changes to:

- section 290-170 of the *Income Tax Assessment Act 1997* (ITAA 97), which requires members to provide their superannuation fund with a notice of intent to claim a tax deduction for personal superannuation contributions before being eligible to claim a tax deduction, and
- regulation 7.04 of the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regs), which determines whether superannuation funds can accept contributions from members over the age of 67.

These two provisions create an administrative burden on both the member and superannuation funds. Changes to these provisions would greatly simplify how members interact with the superannuation system.

Section 290-170 notice of intent to claim a deduction

Simplifying the administration of section 290-170 notices of intent would improve efficiency for both members and superannuation funds alike.

Ideally, the ATO would assume administration of section 290-170 notices of intent and would, as appropriate, send member data with respect to tax deduction declarations to other stakeholders, such as the relevant superannuation fund(s).

Regulation 7.04 of the SIS Regs work tests

Members over the age of 67 must satisfy a work test to be able to contribute to their superannuation. The work tests are intrusive and onerous for members, costly to administer and ineffective in achieving the intended policy outcome.

Possible alternatives include:

- Members could be allowed to contribute to a specified age, e.g. 70 or 75, irrespective of their work status.
- The restriction could be removed altogether as there are now annual concessional and non-concessional contribution caps, and the Total Super Balance, that all serve to limit the amount that a member can contribute to their supersuperannuation.

5. Address issues related to superannuation fund mergers

As superannuation funds increasingly merge, there are number of legislative obligations and regulatory practices that do not recognise that a merger has taken place and that some members may have joined a superannuation fund samethat has since merged into another fund. This can impose significant, unnecessary administrative burdens on both fund members and superannuation funds and serve to increase superannuation fund costs.

Some legislative obligations and regulatory practices that should be amended to make superannuation fund mergers more streamlined and ease the administrative burden include:

- 'grandfathering' recognition in legislation of directions, instructions or notices a member has given to their original superannuation fund to avoid them having to re-communicate these to the merged superannuation fund
- the calculation of minimum annual pension payments from a superannuation income stream in the merged superannuation fund there the original superannuation fund has made payments to a member during the year
- various tax measures, including entitlement to the no-TFN tax offset; the application of the 45-day holding period for franking credit entitlements and the capacity to amend prior year tax returns.

6. Ensure greater stability in policy settings

Substantial changes have been made to superannuation legislation and regulation in recent years. Tinkering with policy settings ultimately undermines confidence in the superannuation system and acts as an impediment to trustee strategic planning and the operational efficiency of funds. A period of stability is needed to ensure that recent changes to the superannuation system are properly bedded down.

Decreased confidence in the stability of policy settings means that fewer individuals will save for retirement on a discretionary basis, or will save less, leading to lower retirement savings, lower living standards in retirement and higher Age Pension expenditures for government. Policy uncertainty also greatly diminishes productivity in the sector as it impedes funds and service providers when planning how to deliver services for their members in future.

The possible ways to achieve greater policy stability include:

- developing an RBA-type framework where the health of the superannuation industry is monitored and appropriate changes made only when vulnerabilities are identified
- linking significant policy changes in superannuation to the publication of the five yearly Intergenerational Report.

ASFA is a non-profit, non-political national organisation whose mission is to continuously improve the superannuation system, so all Australians can enjoy a comfortable and dignified retirement. We focus on the issues that affect the entire Australian superannuation system and its $2.7 trillion in retirement savings.

Our membership is across all parts of the industry, including corporate, public sector, industry and retail superannuation funds, and associated service providers, representing nearly 90 per cent of the 16 million Australians with superannuation.

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