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Australian Taxation Office
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By email: SingleTouchPayroll@ato.gov.au.

Response to: Single Touch Payroll Consultation Paper – Online choice of fund design (part of the employee commencement process)

The Association of Superannuation Funds of Australia (ASFA) is pleased to provide the attached response to the online choice of fund design consultation released on 27 June 2017.

If you have any queries or comments in relation to the content of our submission, please contact me on (02) 8079 0808 or by email gmccrea@superannuation.asn.au, or Senior Policy Advisor Ken Whitton on (02) 8079 0849 or by email kwhitton@superannuation.asn.au.

Yours sincerely

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A. ABOUT ASFA

ASFA is a non-profit, non-political national organisation whose mission is to continuously improve the superannuation system so people can live in retirement with increasing prosperity. We focus on the issues that affect the entire superannuation system. Our membership, which includes corporate, public sector, industry and retail superannuation funds, plus self-managed superannuation funds and small APRA funds through its service provider membership, represent over 90 per cent of the 14.8 million Australians with superannuation.

B. GENERAL COMMENTS

1. Background

As highlighted in the ATO consultation paper, online choice of superannuation fund at the commencement of an individual's new employment has developed from Government initiatives to support employees exercising choice and to streamline the choice process¹. Legislation was enacted in 2016 to allow the introduction of both employer and employee initiated solutions from 1 July 2017, the latter by extending current ATO online and myGov services². As the referenced policy announcement indicates, these initiatives are elements of changed business reporting requirements known as Single Touch Payroll (STP)³. More specifically, individuals are to be given access to online tax file number (TFN) declarations and superannuation choice forms.

ASFA has concerns that the ATO online process, outlined in the consultation paper, is being established in isolation from the broader consideration of improving consumer interactions with the superannuation system. In our March 2015 response to the ATO's Single Touch Payroll discussion paper, while supporting the efficiency gains of digitising new employee on-boarding processes we questioned the need to introduce the ATO into the process. Instead the new employee interface could have remained with the employer alone, with information flowing through to the ATO in due course and becoming visible for an individual on myGov⁴.

Consistent with our response in March 2015, we continue to be concerned with the apparent lack of time, access to information and overall opportunity that a new employee will be given to consider their superannuation options with the current ATO design. We also observe that the current ATO design encourages the selection of an individual's existing account (or one of them – listed alphabetically) with only limited information relating to those existing funds displayed. Furthermore, the current design does not appear to have an account consolidation feature to assist with the proliferation of member accounts. These limitations may not be conducive to informed decision making and system efficiency.

2. The policy framework

The consultation paper sets out that the Government's policy intent is "streamlining the employee commencement process and reducing the proliferation of superannuation accounts".

¹ <http://lets-talk.ato.gov.au/STPdesign>

² Budget Saving (Omnibus) Act 2017 – Schedule 23

³ Refer to - <http://kmo.ministers.treasury.gov.au/media-release/042-2015/>

⁴ Refer to - <https://www.superannuation.asn.au/policy/submissions/2015>

In addition it specifically highlights, by reference to the budget package announced in 2016, the intention of the Government to “allow people to easily retain the same (existing) superannuation account when starting a new job”. It is recognised by ASFA that feedback on the policy aspects of STP online choice of fund design is not being sought in this consultation, however we believe the ATO should expand its view of the policy framework in the following ways.

Firstly, ASFA challenges the premise that a “support for superannuation choice” policy position is constrained to “making it easy for individuals to retain an existing account when starting a new job”. We would argue that the broader policy intent is to encourage individuals to engage with and consider their retirement savings (and personal insurance options) upon the milestone event of commencing new employment. In relation to insurance options, with many superannuation funds, new members become eligible to receive some very valuable benefits that they may otherwise be unable to obtain and these should be considered by them. This is particularly the case for individuals working in high risk industries, like emergency services, construction and industrial services.

Secondly, the Government’s policy statements include “plans for better presentation of superannuation data to make it easier for individuals to select a suitable superannuation fund when changing jobs”⁵. We support individuals receiving information that assists their decision-making but note that this appears to be outside the scope of the ATO’s view of the desired policy outcome.

Finally, there is no indication in the policy statements referred to in the consultation paper that the ATO new employee process is to be available first and/or separated from the development of the business process. Instead “individuals will have the option of completing their Tax File Number (TFN) declaration and Superannuation Standard Choice forms using myGov or through their employer’s business management software” the Government stated⁶.

3. Untested market and behavioural impacts

ASFA notes that the proposed changes by the ATO go beyond the conversion of a current manual process to a digital process. In many ways, the ATO are becoming an investment product platform and/or service provider with the current design and it is possible that a range of competition issues and unintended consequences may arise.

We further note these changes are being implemented prior to the completion of the Productivity Commission inquiry into the Competitiveness and Efficiency of the Superannuation System. The allocation of members to default funds and assessing the benefits of superannuation choice are core elements of this inquiry. The Productivity Commission process to date has also identified that preliminary participant support exists for a potential “foundation” reform - the establishment of a centralised online service for members, employers and Government building on the existing functionality of myGov and Single Touch Payroll.

ASFA therefore considers that this inquiry should be completed before significant changes are made to the existing superannuation choice arrangements.

⁵ Refer to - http://budget.gov.au/2016-17/content/glossies/tax_super/downloads/Budget2016-17-Tax-Super.pdf

⁶ Refer to - <http://kmo.ministers.treasury.gov.au/media-release/042-2015/>

4. Summary

ASFA believes there is greater potential to achieve the desired outcomes of online choice of fund initiatives by progressing business processes in advance of, or at least at the same time as implementation of the ATO process. This consultation paper focusses on the ATO design only, indicating that it will become the first solution available and this should be reconsidered in our view.

The focus should be on developing the integrated employer payroll and superannuation reporting solutions as the compulsory date for significant employers meeting STP obligations of 1 July 2018 approaches. Superannuation funds would welcome the opportunity to participate in an expanded consultation for the implementation of STP initiatives and leveraging the existing work being done for changes to fund reporting and SuperStream. This has the potential of avoiding duplicative work efforts and minimising costs.

In addition, a deferral of the current ATO design would allow the Productivity Commission Superannuation inquiry to be completed and provide time for thorough user testing and behavioural economics analysis to be undertaken. The usability testing undertaken by the ATO that is referenced in the consultation paper includes very small sample groups for both employers and individuals. However as the ATO recognises “getting this right is extremely important” to ensure the best client experience and efficiency of process⁷.

C. SPECIFIC COMMENTS

Our specific comments provide feedback on the four ATO questions in the consultation paper.

1. Do industry participants have any feedback on the current design principles including whether they support the stated policy outcome?

The stated design principles in the consultation paper are sound. Principles to improve employer and employee experiences and efficiency using digital services are strongly supported by ASFA. Using digital services will reduce frictions in current choice processes and has the potential to improve individuals’ engagement with the superannuation system and their own retirement savings and insurance benefits.

In line with concerns raised in our general comments above relating to the policy framework, the stated design principles do not appear to adequately cover improving individuals’ access to information to support engagement and considered decision making.

ASFA notes that design principle, number 5 – “this exploration process should be fund agnostic ie: no inherent bias to a particular fund or sector appears to be inconsistent with design principle, number 4 – “the process should encourage active consideration of an employer’s existing superannuation accounts as an alternative to the employers default fund”. The latter design principle also seems to conflict with the “better engagement in the choice process” policy aim stated in the paper by narrowing an individual’s scope of consideration.

⁷ Refer to - <http://lets-talk.ato.gov.au/STPdesign>

An additional design principle is required in our view and the following “design feature” described in the paper – “an employee must be presented with all accounts available for their superannuation contributions, including all available accounts to which choice can be exercised, and their respective default fund for that position and employer” could be that principle.

2. Does the current design meet the design principles?

The current ATO design appears to fall short of meeting the design principles specified by the ATO and the additional principle suggested by us.

2.1 Improved experience and efficiency

There is a risk through combining the superannuation choice form with the TFN withholding declaration form that the overall employee commencement process becomes less efficient and more complex for employers and employees alike. A breakdown in one of these steps may disrupt another separate step and delay the overall on-boarding exercise.

Currently, independent collection of the TFN declaration allows a new employee to commence working without having higher taxation rates applied to their salary, arguably something that is more important to them over superannuation choice at that time. An independent superannuation choice process is often beneficial for all parties – it allows time for an individual to consider options and makes it more likely that employers will only have to establish one arrangement for superannuation payments.

Potential complications and delays might also arise when an employer has opted not to use the ATO service but a new employee engages with it. Alternatively, an employer may offer the ATO solution but the employee may not engage.

ASFA notes that the findings of the ATO’s usability testing were mixed in relation to employer and employee experience with the proposed design. While both employers and employees welcome a streamlined process, the findings suggest individuals are likely to select the employer default option anyway. They were also unlikely to seek information from the ATO about their superannuation; instead they would refer to the employer, and then family and friends.

There is no evidence that ASFA is aware of that the quality of data will be improved with the use of the current ATO online superannuation choice form. Again the introduction of a third party might actually make the current situation worse.

The current ATO design potentially creates a timing issue for the employer in being able to set the new employee up on their system prior to the employee providing data online. The timing of the provision of data is important in relation to data being transferred:

- From the employee to the ATO
- From the ATO to the employee
- From the ATO to the employer
- From funds to the ATO to update the employee’s account information.

It is not clear in the consultation paper that these potential timing issues will be avoided.

2.2 Product exploration and choice

It is clear that the current ATO design achieves the desired outcome for part of design principle, number 4 - “encouraging consideration of new employees existing superannuation accounts”, as these are going to be displayed . It does not however allow the “active consideration” of these accounts “as alternatives to the employers default fund” because that alternative default fund is not displayed in the current design.

There is instead a “reliance” with the current ATO design that the new employee has already been briefed by the employer or received a welcome pack from them notifying the employer’s default fund, prior to filling out the online form. This may not have happened and the employee may select one of their existing funds without being made aware of the employer’s default fund(s) or that it may be a part of an employer’s staff benefits program.

In addition, ASFA considers that there is a risk, given that the level of information displayed for existing accounts is basic, that “active consideration” of a range of superannuation options is not being encouraged.

Through only listing existing funds for individuals, the current ATO design is potentially inconsistent with design principle, number 5 – “this exploration process should be fund agnostic ie: no inherent bias to a particular fund or sector”. The ATO method of displaying existing funds in alphabetical order also potentially creates a bias towards those funds that are higher up the list.

ASFA strongly supports design principle number 7 relating to the avoidance of false choices. The ATO acknowledges that not all existing funds can accept contributions, preserved defined benefit entitlements as an example, so success of the current design will be reliant on accurate fund reporting. At this time when fund reporting is being transformed to support a number of Government superannuation initiatives, ideally enhanced fund reporting would be complete before the ATO process became available.

Existing accounts that cannot be selected for new employment contributions should still remain visible to individuals as ASFA considers that employees should be aware of all of their holdings when making superannuation decisions.

A further issue relating to the potential for false choices being made by individuals is the obligation (or otherwise) that an employer has to act on employee choice. Due to some industrial agreements and limits on how often employers have to act on choice notifications the potential for false choices being made arises with the ATO design. Fund reporting alone will not address these issues and the consultation paper does not appear to address this.

2.3 Avoiding account proliferation

Avoiding the unnecessary proliferation of member accounts is another principle well supported by ASFA. The current ATO design is limited in that regard however as there does not appear to be an account consolidation feature. Similar to other existing ATO consolidation services, where the individual has more than one account, consolidation should be encouraged online.

Regardless of whether an individual exercises choice or not on the form, a consolidation feature should be made available for use. It is important though that any further consolidation services the ATO provides are supported by improved access to information for individuals using these services. For example, ASFA members have consistently raised concerns that the current level of detail provided on myGov about the type and level of insurance associated with a superannuation account is inadequate to facilitate informed decision making.

3. Are there other opportunities for the ATO to consider in the new online choice form design?

As stated in our general comments, many of the issues raised in response to the ATO questions 1 and 2 above could be addressed by deferring the commencement of the ATO online process. ASFA believes there is greater potential to achieve the desired outcomes of online choice of fund initiatives by progressing business processes in the first instance, or at least at the same time as, the ATO process. Furthermore, a deferral and greater engagement with employers and superannuation funds will allow the ATO to consider options to use existing SuperStream and future fund reporting systems to support STP implementation.

The findings of the ATO usability testing indicate that digitised employer processes are likely to support greater user experiences than ATO processes and that they will be utilised more frequently. Furthermore, efficiency gains are questionable when TFN withholding and superannuation choice processes are combined. Due predominately to a range of false choices being presented in the ATO design, it becomes the likely cause of confusion and likely error. Much of the good work done for this consultation process will be useful to now advance the development of the employer process which should be the current priority in our view.

ASFA contends that visibility of the details of an individual's existing accounts, alongside the details of other default and choice options must be a feature of any product selection tool. Equally important as the presentation of these options is the ability of information being provided to inform individuals. Solutions to overcoming the ATO's acknowledgement that "they are not able to efficiently display the employers default fund due to the complexity of default arrangements and the technical challenges around this" should be found before its solution is launched.

In summary the further review of online superannuation choice design(s) could include:

- separating it from the TFN declaration form for standalone use
- removing the pre-filled "yes" answer to the question "do you want to choose a super fund now"
- presenting new superannuation fund options to individuals, inclusive of default arrangements
- providing links to information on the funds presented to individuals for both existing and new fund options
- some form of randomised ordering for the presentation of existing funds as opposed to the current alphabetical list
- some form of randomised ordering for the presentation of new funds outside of default arrangements

- allowing individuals to give an instruction to open a new superannuation account
- introducing a consolidation feature that has enhanced access to information associated with existing accounts
- a cooling off provision to allow members time and a mechanism to confirm a superannuation choice.

Thereafter, comprehensive consumer and employer testing of both ATO and employer processes should occur prior to the implementation of either or both of these services. Such a process would allow for the Productivity Commission superannuation inquiry completing its work to inform the Government's policy framework.

4. Are there any unintended consequences in this design?

The ATO, and by extension the Government should not underestimate the potential for unintended consequences arising from the STP – new employee commencement processes described in this consultation paper. Throughout our response a number of potential unintended consequences have been raised.

By combining TFN withholding processes with superannuation choice processes through a third party portal (the ATO), there is a risk that the likelihood of improved experience and greater efficiency are low. A breakdown in one part of the process could affect other parts which can be avoided as each process has different time dependencies.

The potential unintended consequence of greatest concern from ASFA's viewpoint is the risk that this process results in a reduction of member engagement potentially leading to sub optimal retirement or insurance benefit outcomes. The ATO's own usability testing highlights that understanding and engagement with superannuation is currently low and that individuals are likely to refer back to employers and family members for guidance. If the ATO process shortcuts these steps for individuals, as it is intended to do, opportunities will be missed to encourage individuals to properly assess existing superannuation accounts alongside new options that may be a greater benefit to them.

The ATO process in isolation also has the potential to undermine the efforts and positive outcomes to date from the MySuper regime. MySuper products by design and through more stringent prudential oversight are generally high quality, low cost, somewhat standardised products that individuals are allocated to if superannuation choice is not exercised. This protects the disengaged and should be fostered.

Similarly, these processes may have detrimental effects on innovation in new product development and prolong moves to a lower cost, higher quality, more competitive environment. As has been mentioned several times in our response, consumer and market impacts need to be tested before online choice services are provided by either the ATO or employers for use.