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ASFA Research and Resource Centre

Employer contributions to superannuation in excess of 9% of wages

Results of survey and other research

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INTRODUCTION

- This report presents summary results of a survey of ASFA members of their knowledge of instances where an employer or employers as a matter of policy make superannuation contributions in excess of the compulsory 9% of wages.
- The survey was conducted in January 2010.
- The survey results do not purport to record all instances of employer contributions in excess of 9% but the cases identified account for a significant minority of employees in Australia. In some industries a majority of employees receive the benefit of employer contributions in excess of 9% of wages.
- In addition to (or instead of) additional employer contributions, some employment contracts require employees to make personal superannuation contributions from after-tax income.
- This report also makes reference to Australian Bureau of Statistics (ABS) and other research which indicates the extent to which salary sacrifice and other non-compulsory superannuation contributions are made.

KEY FINDINGS

- The history of superannuation has been characterised by superannuation benefits which have been available to a minority of employees spreading to more or all employees. The last major shift in coverage and availability of superannuation was with the introduction of award superannuation in the 1980s and the Superannuation Guarantee in 1992.
- A significant minority of employees now receive the benefit of employer contributions in excess of 9% of wages, and there are growing industrial and political pressures for those remaining on 9% to receive greater contributions.
- Employer contributions are currently running at around $72 billion a year, with around $22 billion of these contributions not attributable to the Superannuation Guarantee. This $22 billion is divided between salary sacrifice and higher contributions because of employer policy or scheme design. Unpublished data from the 2007 ABS Survey of Superannuation suggests that aggregate salary sacrifice contributions are running at around $12 billion a year, leaving $10 billion in employer contributions in excess of legal requirements.
- Previously unpublished data on levels of employer contributions together with the data on defined benefit schemes suggests that around 23% of employees (around 1.8 million persons) receive the benefit of employer contributions in excess of 9% of wages. Most additional contributions involve total contributions in the range 10% to 12%. However, some employer contributions are well in excess of that amount. This is particularly the case for employees in defined benefit funds
- Aggregate employer contribution data confirm these survey findings based on individual responses. For instance, in the year ended June 2009 employer contributions to public sector schemes amounted to 24% of total employer contributions while only 17% of employees were in such funds. In the case of corporate funds, 6% of total employer contributions were paid in regard to 3% of total employees in the economy.
- Those industries more likely to provide contributions in excess of the SG are industries in which the public sector is dominant and also the oil, mining, construction, banking and finance/investment industries. Ability of employers to pay, the interest of employers in attracting and retaining employees, and the bargaining power of unions all play a role these outcomes

A SHORT HISTORY OF VOLUNTARY AND COMPULSORY SUPERANNUATION

A reasonable interpretation of the history of superannuation is that benefits made available to a minority of employees later become more generally available, either to some or all employees in the economy.

This is clearly shown by the following historical account, which draws heavily on material in the May 2001 Treasury Economic Roundup. It could, and has, been argued that the time has come for all employees to benefit from employer contributions in excess of 9% of wages rather than just a minority.

The first three phases of occupational superannuation

Occupational superannuation first emerged in Australia in the mid-nineteenth century. Its purpose since then has changed markedly and the period prior to the introduction of mandatory superannuation in 1992 can be clearly divided into three eras.

During the first era, spanning the nineteenth century to the 1940s, superannuation provided a select group of salaried employees with an independent retirement income. Strict means testing for the Age Pension would have ruled out their receiving any Age Pension.

During the second era, from the 1950s to the 1970s, with the relaxation of means test arrangements for the Age Pension, superannuation acted to supplement the Age Pension for mostly white-collar workers. From the 1970s until the introduction of award superannuation in 1986 and subsequently mandatory occupational superannuation in 1992, superannuation was an employment fringe benefit which although more generally available, was still concentrated among professionals, managers and administrators; public sector employees; and the financial sector.

By 1974, 32.2 per cent of wage and salary earners were covered by superannuation, comprising 40.8 per cent of male wage and salary earners and only 16.5 per cent of females, with most superannuation assets located in defined benefit accounts.

The impetus for a more universal superannuation system came primarily through the industrial relations arena, beginning in the 1970s. For the union movement, occupational superannuation provided a vehicle through which members could obtain deferred wage increases in the form of retirement savings. It also allowed all workers access to what previously had been available to a privileged minority.

A prominent initial push for worker superannuation was mounted by the Federated Storemen and Packers Union (FSPU), which developed a portable (ie industry-wide) accumulation fund for its members. The FSPU subsequently launched a concerted industrial campaign with the aim of getting employers to contribute to its fund on behalf of their employees. A number of other unions also took action to obtain employer superannuation contributions for their members leading to the formation of a variety of industry superannuation funds.

In 1983, the newly elected Hawke Labor Government expressed support for the principles of employee superannuation and initiated discussions with the Australian Council of Trade Unions (ACTU) on the possibility of broadening access to superannuation throughout the workforce as part of the Government's negotiated Accord with the trade unions. However, superannuation was not included as part of the first Accord.

The process of institutionalising employee superannuation began in September 1985 when, with the support of the Government, the ACTU, as part of its National Wage Case claim with the Conciliation and Arbitration Commission, sought a 3 per cent superannuation contribution by employers to be paid into an industry fund. Subsequently, Accord Mk II negotiated between the Government and the unions stipulated that compensation to employees should be 6 per cent, to keep pace with inflation, to be comprised of a 3 per cent employer superannuation contribution, a 2 per cent wage rise and tax cuts to take effect from 1 September 1986.

In spite of the rapid growth in superannuation coverage for employees as a result of productivity award superannuation, by 1991, nearly one-third of private sector employees remained uncovered. Moreover, the then existing 3 per cent award was too small to provide any significant improvement in retirement incomes for all but the highest paid workers. In addition to the gaps in coverage, the Government became aware that several tensions had emerged in the superannuation system following the implementation of award superannuation, largely as a result of the piecemeal implementation process.

Firstly, many employees who were entitled to superannuation under the provisions of an award were not paid their entitlement: in some cases because they were confused about the nature of their entitlement, while in others, unions had not established industry funds into which employer contributions could be paid. Secondly, compliance with the terms of the National Wage Case could only be enforced through a case mounted with the Conciliation and Arbitration Commission, which was a very laborious process given the number of awards which fell under the Commission's jurisdiction. Finally, award superannuation did not effectively take account of the significant number of employees who already enjoyed superannuation rights as part of their employment.

In the 1991-92 Budget, the Government announced that it would introduce a mandatory superannuation system through the implementation of the Superannuation Guarantee.

A fourth phase of occupational superannuation?

A reasonable interpretation is that Australia has entered into a fourth phase of superannuation and retirement incomes. While the great bulk of employees, particularly full time employees, receive the benefit of employer contributions at the rate of 9% of wages, some workers receive less or no contributions and some receive substantially more.

For instance, around 10% of the labour force are self employed. The self employed make up over 10% of the paid labour force, with self employment relatively common in primary production, construction, property and business services, retail trade, and transport services. Around one quarter of the self employed have no super, with a further 53% of the self employed have superannuation balances of less than $40,000.

While some self employed have substantial savings outside of superannuation, others have very little. There is evidence that in some industries, such as building and construction, the ranks of the self employed have been added to by some contractors requiring even labourers to have an ABN and to declare themselves to be self employed so as to avoid employer superannuation and other obligations.

On the other hand a significant minority of the labour force receive the benefit of employer contributions in excess of 9%. Around 20% of employees receive the benefit of salary sacrifice contributions. Up to 25% of employees currently receive superannuation contributions in excess of 9% as a result of superannuation scheme design or employer policy. Some employees receive the benefit of both salary sacrifice and higher standard contributions, although the contribution caps put in place in the May 2009 Budget are starting to limit the capacity of employees to salary sacrifice when they are already receiving contributions in excess of 9%. One estimate is that the new caps have led to a reduction of $2.3 billion in concessional contributions (including those by the self employed) in 2009-10, compared to total concessional contributions in 2008-09 of around $78 billion (around $70 billion in regard to employees and around $8 billion in regard to the self employed).

Industrial and political pressure for the rate of compulsory contributions to be increased is beginning to growing. For instance, Paul Howes, the National Secretary of the Australian Workers Union, has called for the rate of contributions to be increased to 15%. A number of other unions are also campaigning for an increase in the rate of contributions.

STATISTICAL EVIDENCE ON CONTRIBUTIONS IN EXCESS OF 9% OF WAGES

It is possible to gain an impression of the extent of contributions in excess of the Superannuation Guarantee rate by examining evidence at both an aggregate level and at an employer level.

Employer contributions are currently running at around $72 billion a year, with around $22 billion of these contributions not attributable to the Superannuation Guarantee. This $22 billion is divided between salary sacrifice and higher contributions because of employer policy or scheme design. Unpublished data from the 2007 ABS Survey of Superannuation suggests that aggregate salary sacrifice contributions are running at around $12 billion a year, leaving $10 billion in employer contributions in excess of legal requirements.

Accordingly, on average employers as a result of the Superannuation Guarantee, requirements of defined benefit schemes, and decisions on rates of contributions are currently paying contributions equivalent in aggregate to around 10.5% of wages. Of course some employers are paying no more than 9%, while others are paying considerably more.

Data from the 2007 ABS Survey of Superannuation together with unpublished data from the 2006 Household, Income and Labour Dynamics in Australia (HILDA) Survey indicate that around 15% of employees are in a superannuation scheme that provides them with what is primarily a defined benefit. Some superannuation schemes (known as hybrid schemes) provide a mix of defined and accumulation benefits, often with members in some divisions of such schemes receiving a benefit which is primarily defined benefit while others are in a purely accumulation division of the scheme. Almost all of these employees (mostly in the public sector) in defined benefit arrangements receive the benefit of contributions in excess of 9%.

Other unpublished data from the HILDA survey on levels of employer contributions together with the data on defined benefit schemes suggests that around 23% of employees (around 1.8 million persons) receive the benefit of employer contributions in excess of 9% of wages. Most additional contributions involve total contributions in the range 10% to 12%. However, some employer contributions are well in excess of that amount. This is particularly the case for employees in defined benefit funds.

Aggregate employer contribution data confirm these survey findings based on individual responses. For instance, in the year ended June 2009 employer contributions to public sector schemes amounted to 24% of total employer contributions while only 17% of employees were in such funds. In the case of corporate funds, 6% of total employer contributions were paid in regard to 3% of total employees in the economy. Higher contribution rates along with higher average wages for members of such funds would have been responsible.

EVIDENCE OF CONTRIBUTIONS IN EXCESS OF 9% IN SPECIFIC INDUSTRIES

Those industries more likely to provide contributions in excess of the SG are industries in which the public sector is dominant and also the oil, mining, construction, banking and finance/investment industries. Ability of employers to pay, the interest of employers in attracting and retaining employees, and the bargaining power of unions all play a role these outcomes.

Finance Sector

The Finance Sector Union has an agreement with a major insurance company which provides for a payment of 9% plus an additional 1% if an employee contributes 1%. Soft compulsion is a feature of most of the union agreements. Another agreement with a smaller bank provides for payments between 9% and 16.5% depending on work unit and member contributions. There is anecdotal evidence that one of the large banks pays an increased amount however, this is not reflected in formal industrial agreements. Some of these institutions pay increased amounts administratively such as the new arrangements announced at AMP which will phase in a 12% of wages payment over the next few years. Most of the agreements covering industry superannuation fund staff provide for amounts in excess of 9%.

Universities

A large proportion of both academic and general staff are in defined benefit arrangements although some employees have chosen defined contribution arrangements. A 17% employer contribution is a common feature in this sector with member co-contributions set at 0% – 7%.

Building and Construction

Bargaining over superannuation is wide-spread in this industry sector including national agreements with large employers. A typical arrangement at the trade level involves a flat dollar superannuation payment equivalent to 18% of the base rate. The most common model in construction agreements is for the employers and employees to pay flat dollar amounts. The employee contribution is not optional so each of the parties pay fixed amounts. The employer amount is typically five times what the employee would pay. A typical arrangement is an employer contribution of $148.00 and employee contribution of $33.30. Employer contributions range from 10.5% to 18% of the trade base rate however, the percentage is higher for lower grades as the flat dollar amount is the same for all grades in most agreements.

Another less common formula for the industry is for the employer to pay between 9% and 12% depending on each 1% up to 3% contributed by the employee. However, the flat dollar amount is now included in all construction agreements as they come up for renewal.

Private Education (QLD)

An industrial campaign was run over an extended period of time for private sector employers to pay the same superannuation contributions as for employees in the public sector.

As a result, all Catholic, Lutheran and Anglican private schools now pay the same superannuation entitlements as the public sector. This represents the majority of the industry in Queensland and the issue is on the bargaining agenda as each agreement outside these employers comes up for renewal.

Brewing Industry

Amounts for superannuation above 9% are common in brewery agreements, typically in the 11% to 12% range.

Government

Queensland local government workers are required to contribute 6% of their salary into super and their employer is required to contribute 12%.

The Queensland Government makes an employer contribution of 12.75% of salary when a member contributes 5% of their salary.

Commonwealth Government currently contributes 15.4% for its employees to a fund of the employee's choice. The notional contributions made by the Commonwealth to the members of the various civil and military defined benefit funds maintained by the Commonwealth (but generally closed to new members) are on average equivalent or greater than this percentage.

Most State governments also make actual or notional contributions of 15% or more to some hundreds of thousands of teachers, hospital staff, police, administrative staff, and others in the various State pubic sector defined benefit schemes. In most instances these schemes are closed to new members, but there are exceptions, such as in Queensland.

A number of business organisations that were originally government owned also have contributions above 9%, either for employees who are in defined benefit arrangements similar to the previous public sector scheme or more generally.

Across industries

As part of the research, ASFA also received feedback that a significant number of employers pay for insurance premiums through superannuation. This is on top of the Superannuation Guarantee. For some older employees in more generous insurance arrangements this can involve payments of up to $7,000 per year.