

Name withheld.

### **FOCUS QUESTION 30:**

*Would a model where modern awards **allow employers to choose to make contributions to any fund offering a MySuper product**, but an advisory list of high quality funds is also published to assist them in their choice, **improve competition in the default superannuation market** while still helping employers to make a choice? In this model, the advisory list of high quality funds could be chosen by the same organisation referred to in focus question 29.*

### **RECOMENDATION:**

**1. Under modern awards the Employer cannot choose a new MySuper product if the Employee already has an existing MySuper account.**

**A new MySuper account, chosen by the employer, follows the employee rather than the employee, following the award.**

**Why would an employee want two MySuper accounts. It's a no brainer.**

**2. Evaluate the savings to be made to employers if the Federal Government establishes a default MySuper Australian Tax Office controlled Superannuation Account**

**3. The cost to employees superannuation, having multiple insurance cover in multiple MySuper accounts, be evaluated.**

### **SUBMISSION**

Firstly consider a paragraph taken from the Australian Government Fair Work Commission website.

#### ***Competition in the Default Superannuation Market***

*The contributions are to be made to a superannuation fund specified in the modern award, a default fund, unless the employee has chosen another fund for the contributions.*

As implied above the use of the term “default fund” suggests to many people that a “default fund” is a superannuation fund that super is paid into if they do not make a choice of fund.

This is not the case. A default fund can be a fund that an employee must, by law, put earned super payments into, under an award, regardless of any choice the employee may wish to make.

The employees will be told that they cannot choose their own fund and will have to open another superannuation fund or rollover to the newly created MySuper fund, if they already have an existing fund.

The alert employee will then have to write a letter immediately to cancel the insurance payments from one of the funds.

**1. Please consider the following example:**

**Typical working student superannuation outcome.**

The student has employment at the University, with the state government and in a department store during 2013. The student is currently covered by three different awards and if working in all three jobs at once, will be forced to open three different superannuation accounts at the same time.

The student now will have three default MySuper accounts, chosen by the three different employers. Even the employers cannot help the employee, such that they can obtain only one MySuper account.

This is a real situation and has happened to a student known personally.

It is proposed that the new MySuper account **follows the person not the award** unless the person specifically requested it.

The example below shows the costs to employees if they are forced to follow the awards.

2013	MySuper job A	MySuper job B	MySuper job C	Mysuper follows the person not the award	ATO MySuper (see part 2 below)
Amount deposited	\$500	\$500	\$500	\$1500	\$1500
4% interest for 1 year	\$20	\$20	\$20	\$60	\$60
Super balance	\$520	\$520	\$520	\$1560	\$1560
Insurance Premiums At \$2/wk or \$100 p.a.	-\$100	-\$100	-\$100	-\$100	-
Fees and charges	-\$40	-\$40	-\$40	-\$40	-\$40
Total super after 1 Year	\$380	\$380	\$380	\$1420	\$1520

Typical outcome for young people with multiple employment, with insurance premiums taken on a opt out basis and with fees and charges. The student has  $3 \times 380 = \$1140$  rather than \$1420 an avoidable loss of \$280 per year if the MySuper from the awards, follows the person.

## **RECOMMENDATION:**

Modern awards be constructed such that an employer does not have to create more than one MySuper account per employee, if they have an existing MySuper account.

An employee is not forced under modern awards to hold more than one MySuper fund at any one time.

The extent and current insurance costs and potential loss of future benefits for people holding more than one MySuper fund be determined.

## **2. Creating competition between Awards:**

**It is proposed that the ATO establishes an ATO Default Superannuation Fund**

### **Australian Tax Office (ATO) Default Superannuation Fund**

It is proposed the Taxation Office automatically collects the 9% superannuation employer contributions each fortnight when it collects the tax on wage earners. A correlation between wage and super paid is then ensured, ensuring employees get the correct entitlement. Also the 15% tax is taken out of the superannuation contributions and can be claimed when the annual tax return, for the fund, is assessed.

A huge saving to both the Government and potentially the employee could be made here.

The awards are constructed such that all employees automatically have a default ATO MySuper fund. The fund is not chosen by the employer.

Commercial and Union Funds have to win over employees if they want them to join their fund and truly compete. No superannuation fund has automatic allocation of employee superannuation written into the awards. How could one think that the current law, making compulsory contribution to a super fund chosen by the employer, competitive?

If the employee chooses, for example, a Union Superannuation fund, then the ATO sends the contributions to the MySuper account, ensuring only one MySuper account is open at any one time.

An ATO MySuper account pays interest and deducts fees and charges (see an example in the Table above).

The superannuation collected by the ATO can be used to pay a pension (for example via Centrelink), at the pension rate, when the person turns 67 years old.

No life insurance or employment protection insurance is taken out of the ATO MySuper default fund.

Employees are free to access insurance cover outside of superannuation if they wish.

Note in the Table above, without insurance premiums, the employee is much better off with ATO MySuper than having three MySuper accounts open and with less red tape having to roll them together.

### **RECOMMENDATION:**

The costs, savings and potential advantages to the Government and for employees in establishing an ATO MySuper award default superannuation fund be determined.

The savings, if all superannuation is first collected by the ATO (as with other employment tax) and then the 15% tax on super deducted.

Employee super being retained by the ATO or, sent to only one MySuper account. Multiple MySuper accounts disallowed.

Give employees the option of choice of fund. under all awards, thereby reducing closing multiple insurance and rollover red tape for employees, making them better able to save and manage for retirement. The option of choice would bring more competition into the super industry.