



Council of Small Business
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Efficiency in Superannuation collection and distribution

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Executive Summary

The current superannuation system was set up in the early 1990s as a means to the self funding of retirement for the growing and ageing workforce. When the Super Guarantee was set up the number and nature of small business was different. The demand placed on small business people in the initial stages was less onerous as super choice was not in place. There was no GST and no Paid Parental Leave to impact on the time available for managing new compliance and red tape. As the system has evolved and the number of small businesses has increased the demands and costs to the small business sector and the economy has grown. In 2010 some 20,000 small business people were fined for failure to complete tasks to do with super collection and that number would have been substantially more except for the lack of resources available to the ATO in identifying the difference between mistakes and deliberate non compliance.

The recent initiative through the government's *'Stronger Super'* aims to decrease costs for superfunds, streamline process, ensure compliance and engage workers. The overall aim will not decrease costs for employers and may not reduce costs for superfunds given the potential requirement for more frequent contact with fund members and employers. The current approach will increase costs in time and money for individuals who are also employers and also increase a non compliance.

The Superannuation Industry is run by the private sector for its various members and is funded from the members' contributions. We find it difficult to understand a regime where a small business person is asked to do the work of the private sector for no financial return and will be fined by the government if they get it wrong. We believe that private sector behaviours should be reflected in the whole process. We believe that an individual in business is being asked to do the same activity as a paymaster from a big business, which is not normally possible.

We offer a constructive solution that provides minimum savings of \$246m per year.

Proposal

We are proposing as the best outcome for superfund members is that the superannuation guarantee no longer be collected and distributed by employers.

We are proposing that superannuation guarantee contributions would be included in the pay of an individual and collected as taxes as part of PAYG processes.

The superannuation component of the tax deductions would then be extracted from the PAYG contributions by the ATO (or another nominated organisation). The ATO would distribute the superannuation contributions to the relevant funds, based upon information from the tax payer. The tax rates would need to be adjusted as necessary.

Example

Currently an employee who receives a salary of \$100k will also receive another payment of \$9k which their employer sends on their behalf to the nominated superfund.

The employer also sends PAYG deductions to the ATO on a regular basis. This tax would be around \$30k. So the employer sends off \$39k in two separate processes that involve potentially 24 different actions during a year for that employee.

Under our proposal the taxpayer/employee would be paid a salary of \$109k. The employer would send off \$39k in PAYG payments to the ATO in potentially 12 different actions in a year.

The ATO would then make a payment to the superfund based on advice from the taxpayer that is included in their annual tax return.

NB Employers will not be required to determine or calculate superannuation. This role rests with the ATO.

Benefits/Savings

There will be a general increase in efficiency in the economy, as well as in the management of superannuation funds. This increase in efficiency will come mainly from saved time and expense for employers and for superannuation funds.

Over 1m employers would no longer have to complete paperwork for superfunds and employees and send money off to some various superannuation funds or to a clearing house.

There will be a decrease in non compliance by employers (there will be zero non compliance as they will not be involved in the system.) In 2010 some 20,000 small business people were fined for not completing the process according to law.

There will be improved, streamlined communications and processes for super funds who will deal only with the ATO not with many employers.

This approach creates savings for the user (taxpayer), superannuation funds and employers.

Taxpayers outside the tax system are more likely to be re-engaged as the ATO will need information to be able to forward payments to their fund of choice. The need to engage with the ATO would be more compelling for these people as 8.25% of earnings would normally be a substantial amount of unclaimed funds.

The superfunds and employers would have the capacity to better plan and manage cash flow.

Employees would be aware of the full income they are receiving from their employers as their gross wages would now include the super component.

The employee would also be more engaged at least once a year in deciding what happens to their superannuation funds.

The employee would no longer be worried about whether the employer has remitted their funds. The employer would no longer be stressed about whether he or she has got it right.

The unions could save time and money as they no longer have to monitor employers role in superannuation and can concentrate on safety, pay and other workplace issues.

In the case of bankruptcies and business failure the ATO normally has first call on any 'money due' and the demands of employees have a much lower priority. In this proposal the super guarantee component would have the same priority as the ATO, giving some surety in super payments.

There are no extra costs for employers, only savings and an ability to concentrate on business issues rather than the financial affairs of its employees.

Employers would have some increased costs. The current situation where any earnings under \$450 a month do not accrue super contributions will be dropped and overtime will obviously be included in the overall income and the super component. The issue of extra costs to some employers can be resolved during the change over from the current system to the new system and this can occur at the same time that the SG contribution is increased from 9% to a higher rate.

There will be no losses or change for employees. The only difference would be the need to provide information on superannuation funds to the ATO rather than to each employer. Superfund management activities would become more streamlined and less complicated.

Superfund benefits

Currently superfunds receive payments from any number of employers (at least tens of thousands in the case of the very large funds). If a payment is not received the superfund then needs to contact the employers, threaten the employers, contact members etc.

Under this proposal the superfunds would have one point of contact for contributions, the ATO. There is likely to be a cost saving for super funds, even with any levy charged by the ATO for handling fees.

Workforce benefits

Employees would know exactly how much they earn and where that money is going. They would know that the employer is no longer involved and does not need to be monitored. At least once a year they would be very engaged in making a decision about their superannuation.

Government benefits

The government would benefit from easier administration. The ATO would only need deal with superfunds and not millions of employers.

Any unclaimed funds are with the government.

Policy changes and process changes will be easier with the removal of the employer from the process.

Any increase in superannuation contributions become less confusing. An increase from 9% (really 8.25%) to 12% is easier to understand and manage.

We propose that any extra funding required by the ATO be through a levy on funds processed. Similar to what is the proposed in the current Stronger Super package. This is no different than how the funds themselves cover administration. The ATO recently costed this at \$114m per annum.

The Superannuation Clearing House

This proposal is a better option than the superannuation clearing house for small businesses. Any clearing house will still involve employers in the process. In what ever form a clearing house takes, employers will still need to keep records, make payments and deal with some person on super issues. This proposal removes employers from the process altogether.

Projected savings for funds

The potential savings for members of superfunds is at least \$276m per year.

The calculations for these savings are based on the fact that superannuation funds have to manage their contacts with employers and the interaction between their members and employers.

We have estimated an annual administrative cost of \$200 per employer and \$20 per employee/member. This cost has been estimated by COSBOA as we cannot identify any fund that discloses a detailed cost breakdown of expenditure or costs.

The activity that justifies the \$200 per year for administration involved with employers involves what is required by a fund to manage the contact and processes involved with the employer. This involves:

- Electronic communications with the employer
- Mail contact with the employer
- Maintaining a help line
- Printing of paperwork and reports required for internal reports
- Printing of paperwork required for employers
- Assessment of reports by experts and management
- Updating information on new and old employers into the system
- Matching employers with old and new fund members
- Ledger entries
- Receiving and processing cheques
- Receiving and processing EFT payments
- Maintaining up to date records
- Identifying errant employers
- Contacting errant employers
- Employing debt collection agencies as needed
- And the list goes on

The activity that justifies the \$20 per year for administration of the interaction between the employee/member and employer involves what extra activity is required by a fund to administer and manage the contact and processes involved with an employer. This involves:

- Matching the member with an employer
- Movement of funds from an employer payment to the members account on a monthly or quarterly basis
- Changing details of the employer as the member changes jobs
- Informing the member of any payments made by the employer or any activity
- Maintaining the record and data base with correct information
- Cost of mail activity which includes stationary, stamps, use of mail house or internal employees (eg Envelope 20c, stamp 50c, four mail contacts a year)
- If electronic contacts are made there is a cost of data base management, managing “returned email address unknown, managing “out of office replies” and ensuring the information still reaches the member.

Given these figures we have current cost of maintaining the interaction with employers is \$200 per employer. There are at least 1m employers. The costs per year to superfunds of their dealing with employers is \$200m per annum.

Given these figures we have current cost of maintaining the interaction between employers and members is \$20 per member. There are at least 12m members. The costs per year to superfunds of their dealing with employees is \$240m per annum.

Therefore the minimum cost of administration is \$440m per year.

The only cost for superfunds will then be any extra costs to government for using the PAYG system to move superfunds. This has been costed by the Australian Taxation Office at \$114m per year.

There will also be an administration cost of contacting the clearing House/ATO for the superfunds. Given that each fund will have one point of contact to maintain that cost will be low, let's say it will be might be \$500k for the larger funds and less for smaller funds, we estimate the costs to the superannuation funds of \$50m per year.

Costs and savings

<i>Current costs to funds</i>	
Cost of dealing with employers	\$200m
Cost of maintaining records on employer/member interaction	\$240m
Total current costs	\$440m
<i>Costs under the COSBOA proposal</i>	
Costs for the Government (to be funded by the superfunds)	\$114m
Costs to funds of dealing with the clearing house	\$50m
Total projected costs	\$164m
Net savings for funds per year	\$276m

This does not include the efficiency dividend for small business people who will not be forced to be part of the superannuation collection process. We conservatively consider that saving would also be in the vicinity of \$100 per year which results in a further saving off over \$100m.

Complexity of the current and proposed systems

The following charts show the differing complexity between the proposed collection process and COSBOA's proposal. There is an obvious difference. The more complex a process is the more likely mistakes can be made. We believe that the opportunity for mistakes to be made is increased through the current proposal. We also believe that inefficiency and unnecessary costs are also embedded in the current and proposed processes.

Chart 2: Complexity of proposed Superannuation collection process

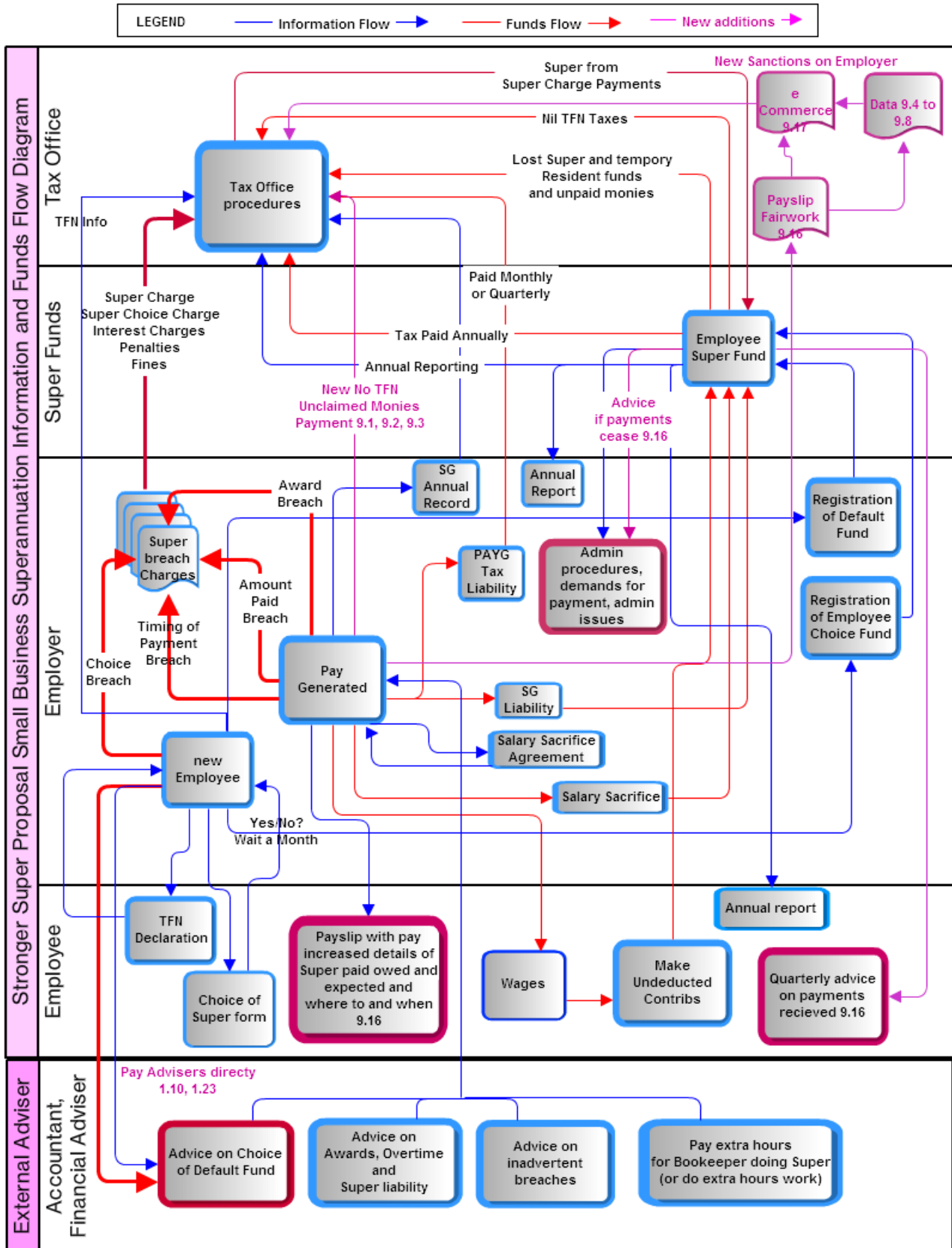


Chart 3: Complexity of proposed COSBOA Superannuation collection process

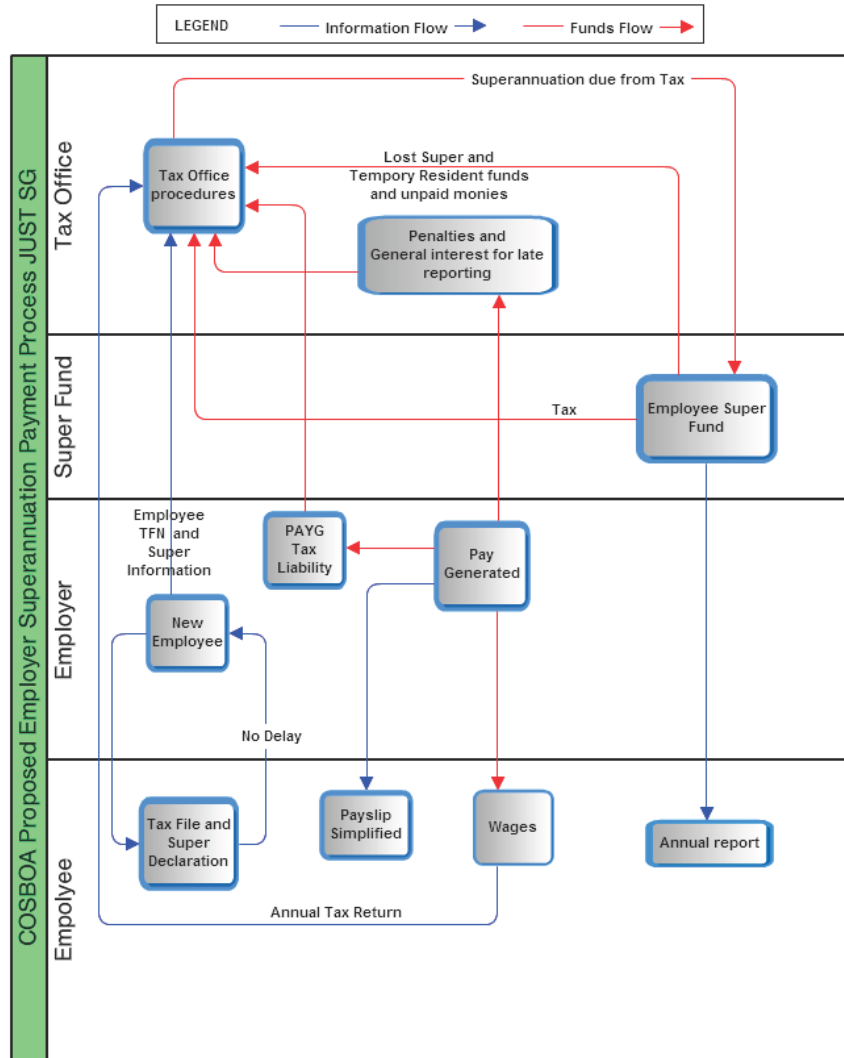


Chart 4: Complexity of proposed COSBOA Superannuation collection process with salary sacrifice

