STRONGER SUPER'S HERE – IS YOUR BUSINESS READY?

Introduction

A super time for change

Superannuation is big business in Australia. We have the fourth largest retirement saving system system in the world, holding $1.6 trillion for retirement as of June 30, 2013.

But the current superannuation system can be complex and laborious for both employers and employees to navigate.

So, changes are being introduced to simplify and give greater transparency to the superannuation industry as a whole.

These legislated changes are big news and can't be ignored by anyone in business.

These changes to the superannuation system are being introduced following a federal government review of the current system that got underway in 2009. A raft of recommended changes were made in 2010 and the first changes were implemented in 2013.

These reforms are called Stronger Super and are designed to make the country's superannuation system stronger and more efficient. And plenty more changes are yet to come.

Changes to the structure of Australia's superannuation system represent one of the most significant reforms made to super since the introduction of the Superannuation Guarantee (SG). The changes cover a broad range of issues within the system that will benefit from the overhaul.

From now until June 2016, the legislated changes will simplify the system in a bid to help protect and grow the retirement savings of Australians.

Some of the changes have already been rolled out and will no doubt be implemented in your business.

Businesses need to start taking note of the changes now, some of which will take effect as of January 1, 2014.

This SmartCompany eBook outlines everything you need to know to ensure that you are prepared in advance and your business is compliant.

Not being compliant can have major ramifications for a business, so get ready now. The clock is ticking.

What you need to know

MySuper: The facts

From January 1, 2014, employers must only pay Superannuation Guarantee default contributions to an authorised MySuper fund. This means that employers will need to pay super into a specific MySuper authorised fund; unless the employee has actively selected their own fund.

MySuper is designed to be a simple, low-cost super offer that will become the default fund for businesses. The aim is to ensure there is a better understanding and accountability for both employers and employees.

A MySuper product must comply with a set of features, including a single investment option, provide a minimum level of insurance cover, an easily comparable fee structure, restrictions on how advice is paid for, and rules governing fund governance and transparency.

As of mid-October 2013, nearly 80 superannuation funds had been granted their MySuper authorisation.

The Australian Prudential Regulation Authority (APRA) maintains a full list of MySuper authorised funds on its website here under the List of MySuper Authorisations headline.

Preparing for the changes to superannuation

There are a few key steps that businesses need to take to prepare for the coming changes to superannuation:

1. Read up and ensure that they understand the changes that will affect them, and what actions they will need to take.
2. Find out if their existing fund will have a MySuper authorised offering.
3. If they do, evaluate if that is the right choice for their employees.
4. If the fund doesn't have a MySuper authorised product, research an approved fund for Superannuation Guarantee default contributions.

"Having achieved MySuper authorisation in August this year, Virgin Super continues to work hard to help businesses navigate through the upcoming changes and implement the Stronger Super reforms as seamlessly as possible," says Brian Bissaker, Chief Executive Officer from Virgin Money.

Businesses need to take the time to decide which default fund they will select to pay employees' Guaranteed Super into.

There are 80 or so super funds to have been granted MySuper authorisation, so you need to find one that suits your business.

Businesses have until January 1, 2014 to decide which default MySuper fund suits them and swap funds if they decide to. They only need to select a new fund if (1) their current fund is not MySuper authorised or (2) they don't think their existing fund is the right choice for their employees anymore.

Exceptions apply if the employer is contributing for its employees to a defined benefit or a public sector scheme, or under an enterprise agreement made before January 1, 2014.

Businesses shopping the market for a MySuper fund should look for one they are happy to deal with that offers a stress-free administration process.

Heather Gray, partner at Hall & Wilcox, recommends that smaller businesses make the most of detailed information available on the Australian Taxation Office (ATO) website and through bodies such as the Victorian Employers' Chamber of Commerce and Industry (VECCI) to ensure they are up to date with the new rules.

"Most superannuation funds have useful materials available on their websites and are happy to talk to contributing employers about their needs," Gray says.

"Remember, the MySuper environment is intended to make superannuation simpler, and many small employers should find that they are able to ensure compliance without accountants or other advisers on board."

Superannuation Guarantee rate rise

The other major change to superannuation is the steady climb in the Superannuation Guarantee rate.

This requires employers to contribute more money to their employees' superannuation fund.

The SG rate has already increased to 9.25% and is scheduled to increase further to the 12% target over the coming years. The next increase comes into play in July 2014.

The upper age limit for paying the Superannuation Guarantee for an employee was also removed this year, so mature age workers can build their retirement savings for longer. This means that employers must continue to pay eligible employees super if they're over 70 and continue to work.

Planning for the Super Guarantee rate rise

Making sure your business is prepared for the increases to the Super Guarantee rate is paramount.

Don't make rough calculations, be exact about what your financial obligation will be and take the time now to put systems in place. A few systems can alert a business each time an increase in super is due. This will ensure a business doesn't miss an increase and also will help you know exactly what costs the business is up for as the years roll by.

When planning for these changes, rely on technology to guide you, says Joshua Stega, the director of Sydney's JAS Wealth.

"We like to see businesses using automatic superannuation payment systems, for example Click Super, which can take the administrative issues out of meeting your obligations," Stega says.

ATO superannuation deputy commissioner Alison Lendon adds that employers need to ensure their payroll and accounting systems cater for the gradual increase in the SG rate and the removal of the upper age limit.

Businesses also need to consider the contents of the payslips they issue to employees. These must now also identify the

date when superannuation will be paid to employees.

Gray also advises businesses review their employment arrangements to make sure that superannuation is dealt with appropriately in light of these changes. Employment contracts can easily be overlooked, for example.

"Some employment contracts provide for total remuneration packages inclusive of super, some provide for a base salary plus Superannuation Guarantee contributions, some refer specifically to 9.25% contributions, and others provide for contributions in excess of the Superannuation Guarantee requirement. Therefore, standard employment contracts may need to be updated, and existing contracts may require re-negotiation," Gray says.

The rising costs for businesses

The rising cost of employing people is the elephant in the room that no one is talking about, says Stega.

Some industries already offer employment 'packages', where the base salary and super are included in the offer made to successful job applicants. He predicts that many other businesses and industries will follow suit to simplify things.

"We are already seeing this now, but going forward we believe this will be the norm, where possible. For example, a $100,000 salary plus super will become a $109,250 package. The focus for employees will shift toward their overall package, as opposed to the salary in their hand," Stega says.

For employers, this means that they may need to start communicating how salary packages work and make it clear that even though the 'in-hand' value of a pay cheque may remain stable, or even reduce a little, employees are still receiving the same package.

The ATO has a calculator to help businesses plan for the increases to the Super Guarantee on its website.

SuperStream Data

At the heart of the changes to the system are new and improved data and payment standards. Essentially, employers need to adopt a common data and e-commerce standard to simplify business processes.

Businesses will need to send employee information and payment data to funds electronically, which will reduce the need for manual processing for many funds.

From July 1, 2014, medium and large employers (with 20 or more employees) will need to start making their super contributions and adding employees electronically. Currently, a large number of employers make contributions to super funds by posting regular cheques in the mail.

All small employers with less than 20 employees will need to begin using the data standard for sending contributions by July 1, 2015. Additionally they'll need to start adding employees electronically.

This will improve efficiencies in the super system, with fewer lost accounts and unclaimed monies and payments made faster.

Given these are legislated changes, all

businesses will need to comply with the changes.

What else you need to know

SuperSeeker

SuperSeeker is a free and secure online tool to help people track their super. Once an individual has registered, they can find any lost ATO-held super. SuperSeeker also enables them to electronically transfer super into the account they want.

There are also steps being taken to reduce the billions of dollars that sit in unclaimed superannuation accounts, encouraging employees who think they're not getting paid the right amount of super to visit its website.

Lost and inactive accounts

Employees may have small amounts of super of up to $2000 sitting in various super accounts that haven't been rolled over when they have moved from job to job. This super is regularly forgotten about. In fact, more than $17 billion sits in lost and unclaimed super funds.

To prevent small amounts of super being eaten up in fees and charges, super funds now must transfer these lost and inactive accounts to the Australian Tax Office.

This process will be initiated by the ATO and conducted annually.

In the latter half of 2014, the threshold for lost and inactive accounts will be increased, subject to a government review.

Tax File Numbers

While it isn't mandatory for employees to provide their Tax File Number (TFN) to their super fund, super funds are unable to take member contributions if no TFN is provided. So while an employee has the option not to provide a TFN, they need to remember that their contributions will end up at the ATO as lost monies if no TFN is provided.

Employers might like to consider explaining this to staff. The advantages of handing over their TFN include paying less tax on employer contributions, being less likely to lose track of their super, not missing out on government super payments and being able to make personal contributions to their funds. For more information, go to ato.gov.au/tfnsuper

Act Now

Now you have seen the key changes that are taking place with MySuper, and the Superannuation Guarantee rate rise, as well as other tips and facts on how to manage super in your business.

It should be fairly straightforward for your business to be compliant on time but start planning for it now.

For more, go to:

- Changes to default super funds to create more red tape for small business
- Small businesses beware: A guideline to the super changes coming soon
- Stronger Super – Timeline of Events