ELECTRICAL CONTRACTORS ASSOCIATION

Lead.Connect.

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Default Superannuation Funds in Modern Awards
Productivity Commission
LB2 Collins Street East
Melbourne Vic 8003

Sent via email to: default.super@pc.gov.au

Dear Sir/Madam,

The Electrical Contractors Association Group of Companies welcomes an opportunity to provide feedback in response to the issues paper released by the Australian Government Productivity Commission, *Default Superannuation Funds in Modern Awards*.

The **Electrical Contractors Association** (ECA) is the leading voice of the electrical industry and is committed to improving and advancing this sector. ECA is registered as an industrial organisation under Queensland legislation with its operation in Queensland. The association's website is: http://www.masterelectricians.com.au/page/ECA/

Master Electricians Australia Ltd (MEA) is a not-for-profit organisation that provides a national accreditation program to electrical contractors seeking to differentiate themselves from other contractors - similar to that process adopted by Master Builders within the construction industry. MEA is part of the ECA Group of Companies and operates nationally. The organisation's website is: http://www.masterelectricians.com.au.

References to ECA and opinions expressed by the ECA, within this submission, should be read as both the ECA and Master Electricians Australia.

The vast majority of ECA's membership comprises of small to medium electrical contracting businesses, more than 70% of which have fewer than five employees and no full-time clerical assistance to assist. From our experience providing workplace relations advice to our members we are well aware that superannuation can be a minefield for small businesses that have limited resources at their disposal to dedicate to organising superannuation payments for employees.

Historically, in the previous state based industrial system and currently in the federal modern award system employers have utilised a default fund already listed. It is our view that this will continue as employers will have already established a system and relationship with the relevant fund and established relevant financial transaction processes to minimise delays and costs.

ECA recognises the absolute right of every employee to make a choice when it comes to their superannuation fund and would not advocate employees being denied this entitlement.

However, small business can pay the price for the choice afforded to employees through the labour intensive administrative and financial tasks that need to be performed when superannuation contributions must be made to separate funds.

For employees who do not choose a fund, these changes suggest there will be an added responsibility placed on business owners requiring them to make superannuation choices that will be in the best financial interests of all employees. This is something that most small business owners are ill-equipped to handle. Any introduction of larger numbers of default funds and products may lead to confusion for both employees and employers. It is our view that the MySuper product as described for a default benefit policy should be the responsibility of the superannuation fund to select and administer and that the employer should retain its current decision simply to that of a complying fund.

The reality is that time and resource poor small business owners rely heavily on the default super fund nominated in the relevant award. Where more than one fund is nominated, the selection made by an employer is either ad-hoc or based on previous experience with the fund in question, with little to no investigation into the relative features of each fund. Any changes to the existing superannuation system that maintain employers' confidence that a default super fund meets a predetermined, consistent standard would be welcomed by the ECA. However, not at the expense whereby the choice made can in anyway be accountable on the business for the actual financial performance of the fund.

The issues paper poses the question: *"Are employers best placed to choose one default fund among those listed in awards?".* Small business owners currently choose funds, however this decision has predominately been made based on:

- Convenience
- Historical and customer relationship with funds
- Ease and cost of administration

Employers should not be placed in a position to have to choose a fund based on performance criteria. Employers should simply be able to select a default fund for employees amongst the many new entrants that may be listed in an award. This is particularly relevant for business owners whose employees may be covered by several different awards, each of which have a range of superannuation products that could apply. ECA strongly believes that the responsibility of choosing a default fund based on performance criteria should not sit with employers.

The ECA also strongly recommends that the implementation aspects of default super fund reforms should take the needs of small business into consideration. One question raised in the issues paper asks: *"If funds currently listed in awards were unable to meet new criteria, what would be the consequences for members, employers, unions, super funds and FWA?".* If super funds currently listed in awards were unable to meet the new criteria, this would no doubt impact on the workload of small business owners, potentially affecting the relationship with employees and causing possible disputation and industrial action at the extreme.

Employers would need to firstly be made aware that the fund is non-compliant, consult with employees over a new fund, invest time, money and resources into adjusting superannuation payments to funds that do meet the stated criteria and adjust relevant electronic financial transactions. We suggest that if existing funds are found to fail the new criteria, the government must provide for:

- A 12 month transitional compliance period for funds to comply or create products that do comply.
- A notification to both employers and employees concerning the status of their current fund in relation to compliance.
- A 12 month transitional period whereby employer have time to identify a new default fund.

ECA would also make the following recommendations:

Introduction of Compliance

- Education program by relevant peak bodies for all employers and employees on the impacts of the changes to be undertaken combined with a best practice guide for small employers on how to reduce costs and maximise efficiency in the administration of Superannuation.
- Changes to the list of complying funds in Modern Awards to be limited to once every 12 months.
- Complying funds to be listed as an appendix in the modern award and updated by Fair Work Australia in conjunction with the annual wage review.

Ongoing Management

In the event a fund is compliant, however, in the future loses its compliance status:

- Notify all employers contributing to the fund it has failed to retain its accreditation.
- A 12 month transitional period for the fund.
- All funds currently under management are protected from further financial loss.
- A refund of re-establishment costs to the employer by either the non complying fund or Federal Government.
- A subsidy of lost interest to employees by the Federal Government in the event that a fund no longer complies with the relevant financial benchmarks.

The ECA Group is optimistic that the proposed reforms to the superannuation system could go a long way to easing the pressure on business owners when it comes to superannuation arrangements for their employees. We urge government to ensure that any proposed changes, and the implementation process for such changes, not place a further administrative or financial burden on small business.

Yours sincerely,

Malcolm Richards
CEO