



# NATIONAL INDEPENDENT RETAILERS ASSOCIATION

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## **Superannuation Reform** **Efficiency in superannuation and the end of forced employer involvement in the financial industry**

The Australian economy and industry have an opportunity to improve the efficiency of the system and decrease red tape, particularly for small businesses.

This will be the first real decrease in red tape for small businesses that has been achieved in living memory. This is a real opportunity for deregulation.

**We are proposing that superannuation 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 be extracted from the PAYG contributions by the ATO. 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 to ensure that the super component is not taxed.

The cost of distribution of payments would be provided by the superannuation funds through a 'commission on funds received', ensuring there is no increase in costs for the ATO or any impact on the federal budget. (this is based on user pays principles).

### **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.

There will be a decrease in non compliance by employers (there should be zero non compliance as they will not be involved in the system.)

There will be improved, streamlined communications and processes for super funds who will deal only with the ATO not with some 1.5m 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 9% 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.

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.

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.

### **Efficiency outcome**

Say: 1, 200,000 employers; 10,000,000 employees; 600 different super funds.

Possible quarterly activity would involve allocation of superannuation contributions for 10m employees to 600 funds by 1.2m employers.

We may assume that each quarter between 5m and 8m individual payments are made to superfunds. This would take employers between 1 hour and 3 hours each depending upon complexity as well as the capacity of the employer. (Complexity is found in industries with high staff turnover such as retail, fast food and hospitality.)

A saving of 1.5 hours per employer per quarter amounts to over 47,000 working weeks. This equals 188,000 working weeks per year. This grows substantially if monthly payments are considered.

There would also be saving in time spent informing employees of the contributions, communicating with super funds and chasing up employees and ex employees for their super information.

There is no doubt the red tape reduction for employers will be considerable. The saving in time and worry for many smaller businesses will be substantial.

### **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 a commission 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.

This proposal takes superannuation out of the industrial system, where financial services and investments do not belong, and places it in the taxation system where monitoring and compliance would be easier to conduct and manage.

### **Proposed Superannuation Clearing House**

The NIRA proposal is a better option than a superannuation clearing house for small businesses. Any clearing house would 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 NIRA proposal removes employers from the process altogether.

### **Why are employers in the superannuation system with no return for effort?**

NIRA believes this is achievable and will result in real savings. This proposal has come about from one of our members asking the question "Why are we involved in superannuation collection and advice on investments for our employees?" That is indeed a good question. Businesses, small business in particular, have enough to do with normal day to day activities without this unpaid work. Superannuation funds are multi billion dollar businesses and they distribute profits in the form of investment returns and share dividends as well as paying high salaries and bonuses to a large number of senior staff. The recent poor returns due to the economic crisis will eventually change and the funds will again make huge profits. Employers receive no fee for their activities. Acting as a collection agent for PAYG and BAS is one thing, but to also collect money, at no charge, for large financial institutions seems to be unfair and certainly not in the spirit of the financial services industry. The banks and financial institutions are quite happy charging small business for services yet under the super guarantee small business is expected to act as collection agents for the superannuation funds, without compensation.

Our proposal takes employers out of the superannuation equation and adds some sense and simplicity to the process.

Please direct any questions to Peter Strong on 0414 961 073.



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CEO

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