

GUIDE TO CHOICE OF FUND FOR EMPLOYERS



Most employees can choose the super fund to which their employer's 9% Superannuation Guarantee contributions are paid. This guide outlines the main features of the choice of fund legislation as they apply to employers.

Who can choose?

Your employee can generally choose their super fund if they are:

- ↳ employed under a federal award
- ↳ employed under a former state award, now known as a 'notional agreement preserving state award'
- ↳ employed under another award or agreement that doesn't require superannuation support, or
- ↳ not employed under any state award or industrial agreement (including contractors paid principally for their labour).

Who cannot choose?

Your employee may not be eligible under the superannuation guarantee to choose a super fund if:

- ↳ you pay superannuation for them under a:
 - > state industrial award
 - > preserved state agreement
 - > federal industrial agreement such as an Australian workplace agreement (AWA)
 - > pre-reform AWA, pre-reform certified agreement, collective agreement
 - > old IR agreement, individual transitional employment agreement (ITEA)
 - > workplace determination, or enterprise agreement (these are defined terms in Federal industrial relations law), or
- ↳ they are in a particular type of defined benefit fund or they have already reached a certain level in a defined benefit fund.

Some federal and state public sector employees are also excluded from choice of superannuation. If you are not sure what award or industrial agreement, if any, an employee is covered by:

- ↳ visit WageNet at www.wagenet.gov.au or
- ↳ phone the workplace relations department in your state or territory.

Contributions that choice applies to

The legislation requires employers to offer choice of fund for Superannuation Guarantee contributions. For practical purposes, some employers may extend choice to other employer contributions such as salary sacrifice and additional employer contributions.

The choices

An employee can choose any 'eligible choice fund', which means a complying superannuation fund or Retirement Savings Account that can accept contributions from the employer. Some funds may require an employer to become a participating employer before accepting contributions. If an employer does not wish to do so, an employee may be able to join that fund as a personal rather than a corporate member. Employees considering a change of fund should check these issues as early as possible in any fund selection process.

An employee can choose a fund as often as they want but you only have to accept one choice in every 12 month period.

Eligible choice funds

Master trusts

Offered by life companies, banks and other specialist superannuation managers. Members and employers participating in the master trust are bound by a single trust deed, which may produce economies of scale and lower costs.

Retail or public offer funds

Generally provided by life offices, banks and fund managers. A public offer superannuation fund must have an approved trustee and may be required to issue an offer document (Product Disclosure Statement) to prospective members.

Industry funds

A superannuation fund whose membership is drawn from employers (and employees) of one particular industry eg retail, hospitality, automotive etc. Membership of industry funds was originally restricted to a particular industry, but many industry funds are now open to the general public.

Self-managed super funds

Funds with fewer than five members and often set up for small-business owners and their families. Supervised by the Australian Taxation Office.

Retirement Savings Accounts (RSAs)

These are provided by banks and credit unions and operate like a bank account. The fund must be capital guaranteed which may mean lower long-term returns.

The default fund

Each employer must select a default fund to which it will make contributions for eligible employees who do not make a choice, or who are in the process of making a choice. If an award or workplace agreement applies that specifies a fund, then that must become the default fund. Otherwise, the default fund must be an eligible choice fund (see above).

In all cases, the default fund must provide members with a minimum level of death only insurance cover.*

Funds have the option of providing age-based cover, or cover for a weekly premium of 50 cents.

The age-based minimums are:

Age	Minimum
20 to 34	\$50,000
35 to 39	\$35,000
40 to 44	\$20,000
45 to 49	\$14,000
50 to 55	\$7,000

Retirement Savings Accounts (RSAs) have been exempted from the minimum insurance requirement. Most RSAs are opened by employers with a high turnover of casual staff and also tend to have low account balances, and hence are most likely to be eroded by insurance premiums.

The procedure

Supply a standard choice form

Employers must give a standard choice form to each employee who is eligible for choice of fund. New employees must receive a form within 28 days of their start date. The form must include details of the default fund and other information.

Employee may a. do nothing OR b. choose a fund

If the employee does not make a choice, their contributions will go to their employer's default fund.

Alternatively, the employee may complete the form with their chosen fund's name and contact details and return it to their employer, together with confirmation that the chosen fund can accept the employer's contributions.

This will probably be in the form of a letter from the fund. Before making a choice, the employee should also check the fund's and the employer's approach to participating-employer requirements. If the form is incomplete or unclear, the employer can reject the employee's choice.

Employees can also make a choice by writing to their employer and requesting that contributions be made to the chosen fund.

Employer starts contributing

The employer must start contributing to the employee's chosen fund within two months after receiving the standard choice form. Penalties apply if an employer fails to do so.

In most cases, the penalty is 25% of the contribution in question to a maximum of \$500 per employee per quarter. Penalties are administered through the tax office and are not tax deductible to the employer.

NOTE: employees can request a standard choice form and choose a new fund once every 12 months.

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Paperwork, reporting and system changes

Choice of fund may bring more funds into your 'stable'. You need to administer new employees and existing employees who make a new choice (which they can do once a year). With increased reporting to the ATO you may need to review your reporting systems, and you may have to check compatibilities between your payroll system and any new funds with which you may want to transact electronically.

Education for employees and front-line staff

The more employees who choose to stay with your chosen default fund, the fewer new funds you will need to manage. You may be able to minimise employee activity by promoting the features of the fund and educate your employees on what to look for when comparing funds.

Your 'front-line' staff who may be handling choice-of-fund on a daily basis, eg payroll, HR, supervisors and line managers need to be educated about their role in the process and will need guidance on the distinction between 'information' and 'advice' when dealing with employees' choice-of-fund questions.

What to look for in a default fund

- ↳ Complying status
- ↳ Ability to handle choice administration
- ↳ Reporting capability
- ↳ Payroll system compatibility
- ↳ Strong investment performance
- ↳ Ability to cater for non-standard benefit design
- ↳ Appropriate range of member investment choice
- ↳ Good service levels
- ↳ Complies with minimum death cover requirement
- ↳ Automatic acceptance levels/underwriting requirements
- ↳ Competitive fees
- ↳ Clear and open fee structure
- ↳ Quality communications
- ↳ Education programs
- ↳ Contact centre
- ↳ Website and online transactions
- ↳ Access to financial advice.

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The information in this factsheet is general in nature. Your personal objectives, financial situation or needs were not taken into account when preparing this information. You may want to seek independent advice before making any decisions about your super.

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