



# GUIDE TO CHOICE OF FUND FOR EMPLOYEES



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 employees.

## Contributions that choice applies to

Choice applies to Superannuation Guarantee contributions. In other words, your employer must pay your future Superannuation Guarantee contributions into the fund that you nominate, provided that:

- you are covered by choice legislation, and
- the fund you nominate is 'eligible' (see next page)

Your employer may decide to pay any other contributions it makes on your behalf into the same fund.

## Who can choose?

An 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?

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

- their employer pays 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](http://www.wagenet.gov.au) or
- phone the workplace relations department in your state or territory.

### Do I have to make a choice?

No, it is not compulsory for employees to make a choice. If you don't make a choice, your employer will put your Superannuation Guarantee contributions into the 'default' fund.

### The fund 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.

### 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 a licensed 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. Within 28-day deadline, so employees must receive a form within 28 days of their start date. The form must include details of the employer nominated 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: An employee can choose a fund as often as they want, but an employer only has to accept one choice in every 12 month period.

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## What to look for in a 'chosen' fund

- ↳ Competitive insurance cover/premiums
- ↳ Reasonable underwriting (health evidence) requirements
- ↳ Competitive fees
- ↳ Clear and open fee structure
- ↳ Appropriate range of investment options
- ↳ Strong investment performance history
- ↳ Website and online transactions
- ↳ Contact centre
- ↳ Access to financial planning advice
- ↳ Education programs
- ↳ Regular, quality communications

## Things to think about before choosing

### Insurance

Having the right level of insurance cover provided through your superannuation fund is a convenient way to protect your life savings. Compare the types and amount of insurance offered and the premiums you pay for the cover you want. Can you change your insurance cover at any time? Are there any restrictions on cover? Do you need to satisfy health requirements?

### Fees and charges

It is important that you understand the fees that will be charged by your super fund. Despite Government efforts to create a level playing field for information on super fund fees, it is still quite difficult to compare apples with apples. Make sure you get all the information you need to make a fair comparison between the funds you are considering.

### Investment options and performance

Some super funds offer many investment options and some offer very few. Neither is right or wrong. The most important thing is to understand the objectives of the different options and make sure they match your own investment preferences, attitude to risk and long-term goals.

And while past performance is no guarantee of what will happen in the future, history shows that the returns from some investments tend to fluctuate much more than others. The fundamental investment principle is that the higher the expected return, the higher the expected risk.

### Member services

What support services does your fund offer? Check things like:

- ↳ the accessibility of information on the website
- ↳ online services and ease of use
- ↳ after-hours contact centre
- ↳ access to financial planning advice and education programs, both online and face-to-face
- ↳ regular communication that is practical, useful and interesting.

### [aonmastertrust.com.au](http://aonmastertrust.com.au)

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.

This factsheet was prepared by Aon Consulting Pty Limited (ABN 48 002 288 646, AFSL 236667) and issued by Aon Superannuation Pty Limited (ABN 83 057 982 822, AFSL 237465) as trustee for the Aon Master Trust (ABN 68 964 712 340).

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AONAMT110 0710