Single touch payroll will give members' fund choice a nudge

By David Haynes (https://investmentmagazine.com.au/author/david-haynes/) | 22/02/2017

OPINION | The new payroll system should make it harder for businesses to evade tax and dud their employees out of superannuation. But getting the design right will be critical to ensure it does not pervert how individuals choose a fund.

It might not be the stuff of media headlines, but the launch of Single Touch Payroll (STP) could prove one of the most significant developments affecting the superannuation industry in 2017.

STP is a government initiative designed to make employers report on how they've met their PAYG tax and superannuation obligations with the same frequency as they pay their workers' wages.

The potential ramifications of STP are little understood outside of technical circles, but they are set to be big and wide-ranging.

STP will help the government combat tax evasion and social security fraud, as well as giving the Australian Taxation Office (ATO) more information, more quickly, to enforce employer compliance in regards to superannuation obligations.

The new system will be available to all employers from July 1, 2017. It becomes mandatory for employers with 20 or more employees from July 1, 2018.

Under the new system, employers will have to report wages, PAYG income tax, withholding tax and super information at the same time that they make these payments.

At present, there is normally a lag between payments and reporting. This makes it difficult for workers to ke track of their super contributions, and means rogue employers who are not meeting their Super Guarantee obligations can go undetected for a long time.

STP will give the ATO real-time data on whether or not super has been paid and make it much easier to tacl the problem of unpaid super, which costs workers an estimated $6 billion a year.

With the government yet to decide on a date to mandate STP reporting for small businesses (and it is small, rather than large, businesses that are more prone to default on their SG obligations), it may be some years before the full impact of STP on unpaid super is realised. Many small businesses – concerned that more frequent PAYG withholding and super payments could have adverse cash flow consequences – have been less than enthusiastic about this reform.

In contrast, the impact of STP on choice of fund could be immediate and profound.

In a single touch, employees could find themselves making a snap decision about which super fund to use - choice that may not be in their best interests. The reason is in the design.

As part of the implementation of STP, the ATO is preparing a bunch of online forms for individuals commencing work with a new employer. This includes a new Superannuation Choice of Fund form.

Completion of this form will remain voluntary, but digitising it is likely to change behaviour.

This could lead to wholesale changes in the way individuals select their fund.

The Australian Institute of Superannuation Trustees is part of the ATO group working on the design of these new online forms. The way information is laid out, the wording of consumer warnings and explanatory text, a well as decisions about the use of mandatory or voluntary fields, will all shape the choices people make.

Across the financial services sector, there are countless examples of new technology leading to cost reductions and better servicing.

But there are also valid concerns that new processes must not come at the expense of consumer protectio

The move to online forms may be inevitable but that doesn't mean we should accept poorer outcomes for consumers.

We need to ensure that the launch of online Choice of Fund forms genuinely helps people make the right decision for themselves.

Selecting a super fund is much more than a simple box-ticking or, indeed, mouse-clicking or screen-swiping exercise. Consumers must be able to make an informed choice with all of the relevant information before them, such as details of their current funds and their new employer's default fund.

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