Superannuation: a dilemma of choice

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Greater superannuation choice for employees looms as an important labour market issue for all Australian workplaces. At present, most employers do not offer their staff a choice of superannuation funds.

In the 1997 Budget, the federal government announced plans which will allow workers to choose where their employers invest compulsory contributions made under the *Superannuation Guarantee* (SG) legislation. A Bill has been debated in Parliament over recent weeks. It is likely to revolutionise the management of superannuation contributions in many organisations.

Though it is still unclear precisely when new laws will be finalised, they are expected to have effect from 1 July 1998. From that date, employers will need to offer new employees a choice of funds into which SG deductions can be directed. They will be able to do so by adopting either a *limited* or *unlimited* choice policy.

Limited choice must include: at least one public offer fund; at least one retirement savings account; at least one industry-based fund for which the employee is eligible; and an employer sponsored fund. Under this option, the employer must select the funds which are to be offered and provide employees with a key features statement which describes the benefits, performance and fees associated with each fund. Of critical importance is the question of liability if a fund chosen and offered by the employer performs badly. At the very least employers will need to issue carefully-developed disclaimers when they make available information supplied by the fund of choice.

For unlimited choice, employers would simply inform new employees they may select any complying superannuation fund or retirement savings account for which they are eligible. Employees would be responsible for obtaining their own information about the available funds. In small organisations, unlimited choice could be an attractive option because it virtually eliminates the risk of employer liability in the case of under-performance or collapse of a chosen fund. It would also remove the potentially costly need for small organisations to introduce a company fund. For larger enterprises, however, unlimited choice could impose very considerable administrative costs and burdens as the number of funds dealt with could increase hugely.

The third option for employers is to include superannuation arrangements in a local workplace agreement which could override the limited/unlimited alternative. Here, employers and the workforce would agree on a single fund, most probably the existing industry or enterprise fund. The expectation is that such an agreement would meet the employer's responsibility as regards choice, since there would be a mutual choice of the one fund.

Surveys indicate that the workplace agreement is firming as the employer favourite. A recent analysis by the National Bank of Australia found that of organisations surveyed, forty per cent saw this option as providing the quickest and easiest solution. Limited choice was preferred by thirty-six per cent of employers. Only twelve per cent indicated they were likely to opt for the four-fund limited choice model. A further twelve per cent were unable to indicate a preference.

What seems clear is that the whole question of superannuation choice appears to be shrouded in uncertainty and ignorance. A survey by GIO found that forty-two per cent of employers and seventy-eight per cent of employees knew nothing at all about the imminent changes. Superannuation consultants Sedgwick Noble Lowndes found that ninety per cent of employers believe staff should take responsibility for their own superannuation choices but only twenty per cent consider their employees able to make informed decisions.

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Across library and information employment there is a particularly wide range of superannuation funds into which compulsory contributions are invested. This is partly because there is no specific industry fund for the sector as a whole. Unlike many employees, ALIA members are for the most part eligible for industry funds set up for their particular sectoral location, rather than for them as library workers. This suggests that choice is even more significant for them, since no existing fund is focused solely on their interests. For all employees, there will be a need for very careful consideration of their options. In particular, they should be aware of the problems encountered in Britain, where similar policy initiatives saw significant numbers of people persuaded by commission-driven operators to leave sound, conservative superannuation funds for risky and inappropriate schemes.

For their part, employers must carefully consider the threshold decision: whether to offer an open choice of funds, the limited four funds or a single fund (that is, no choice) via a workplace agreement. But they must do so quickly if they are to be ready for commencement in just two months time. And they should also remember that, while choice for the moment will be restricted to new employees, in two years time the new arrangements will extend to all their staff. ■