

CHAPTER 9

TIMING

Introduction

9.1 Timing has been one of the most significant matters of concern in relation to the introduction of superannuation choice. While the legislation has marked time, two sets of proposed implementation deadlines have passed.

9.2 As outlined in Chapter 1, a two stage implementation schedule was originally proposed as firstly, applying to new employees from 1 July 1998 (Stage 1) and secondly, applying to existing employees two years later (ie 1 July 2000) (Stage 2). This was subsequently updated to 1 July 1999 and 1 July 2000 respectively.

9.3 Timing of the introduction of superannuation choice was of considerable concern during the previous Committee's 1998 inquiry into choice of fund. It remains a key issue for all stakeholders who reconfirmed their concerns at the 1999 roundtable. As discussed elsewhere in this report, a number of witnesses at the roundtable were of the view that the introduction of choice should not go ahead until certain measures are put in place. These included:

- appropriate and standardised disclosure measures to ensure transparency of fees and charges;
- broad education of members and employers;
- appropriate prudential supervision and consumer protection regulations and measures; and
- standard protocols for the introduction of e-commerce.

Start-up timing

9.4 The evidence presented at the roundtable reflected a broad range of views on the start-up date, with some organisations, such as service providers (IFSA and the banking industry), favouring an early start up date. Most industry funds, ASFA and AIST, advocated postponement until certain reforms have been introduced; while others, such as the ACTU and the IFF, who did not support the implementation of choice, preferred a still later start up date.

9.5 Those favouring an early start up date included IFSA, which supports the introduction of choice. IFSA submitted that a two stage introduction of choice was its

preferred option, with the first stage to be implemented from 1 July 2000 (and stage two to be implemented from 1 July 2002).¹

9.6 The banking industry also advocated an early introduction of the legislation. The Commonwealth Bank submitted that:

...there is no technological reason why superannuation choice should not be made available now.²

9.7 Those advocating a time delay prior to commencement sought assurances that certain measures would be in place prior to the introduction of choice legislation. These groups, including the Australian Institute of Superannuation Trustees, the Institute of Actuaries of Australia and ASFA, suggested implementation from 1 July 2001 to the end of 2002.

9.8 For example, AIST suggested that introduction 'should not happen until at least 1 July 2001 or 12 months after all rules and regulations are finalised (including disclosure following the CLERP6 process) whichever comes later.'³ At the roundtable AIST advised that:

... there must be enough time for disclosure following CLERP 6 and for a realistic education campaign....⁴

9.9 The Institute of Actuaries of Australia nominated 1 November 2002 (in order to allow a 12 month lead time for the introduction of appropriate and standardised disclosure and CLERP 6 reforms).⁵ (The IAA's views on the importance of a standardised disclosure regime are discussed in Chapter 4 in the section on disclosure.)

9.10 In its submission, ASFA recommended that the earliest start-up date for choice should be the second half of 2002, following the introduction of CLERP 6 in 2001.⁶

9.11 Two peak groups, who were opposed to the introduction of choice generally, preferred a much later start up date. The Australian Council of Trade Unions advised that the end of 2002 or 2003 'would seem to be a minimum.....' The ACTU reiterated its concern that 'there was no credible evidence that (choice) will either reduce costs or increase rates of return on funds.'⁷

¹ Submission No. 9, p. 1.

² Submission No. 16, p. 4.

³ Submission No. 5, p. 2.

⁴ Hansard, p. 79.

⁵ Submission No. 4, p. 1.

⁶ Submission No. 15, p. 19.

⁷ Hansard, pp. 74-75.

9.12 The Industry Funds Forum emphasised the need to implement certain prerequisites before the Government could have confidence that choice would operate in the members' best interests.⁸

Staged start -up

9.13 The majority of participants predicted at the roundtable that the legislation would not be finalised until the end of 2000, and the regulations would not be finalised before 2001. Those who nominated a start-up date of 1 July 2001 were in agreement that the pre-requisites of passage of the legislation and regulations should set the timeframe.

9.14 In addition, few organisations believed that the industry would be in a state of readiness by a start-up date of 1 July 2001. With this in mind, there was some support for a staged start up with a transitional period of 12 months after the introduction of the regulations.

9.15 For example, Phillips Fox Actuaries & Consultants, who advocated that choice should be introduced at an early stage, stated that the only reason to delay its introduction would be to allow a phase-in period to help employers and financial institutions to cope with the transition.⁹

9.16 The advantages of a staged start-up were further explained by groups concerned about the readiness of the industry to implement the change in a climate in which there was already significant taxation and business reform.

9.17 William M Mercer Pty Ltd noted that a number of Government reforms and initiatives would be imposed upon the business community in 2000 – the GST and business tax reform among them.

For these reasons, we recommend that choice for new contributions be deferred until at least 1 July 2001. In any event there should be at least 12 months after the passage of legislation to enable employers and funds to properly set up procedures for choice of fund. Compulsory transfers of existing balances should be implemented at a later date.¹⁰

9.18 The Institute of Chartered Accountants in Australia put a similar view to the Committee in its submission that not only will the GST and the review of business tax impact considerably upon the industry but that the time delays in the finalisation of the legislation and regulations for the introduction of consumer superannuation choice have led to confusion and speculation. The Institute also recommended a start up of

⁸ Submission No. 1, p.1.

⁹ Submission No. 10, p 8.

¹⁰ Submission No. 2, p. 2.

no earlier than 1 July 2001 'to ensure that this does not impose an excessive burden on employers and funds during this period of change'.¹¹

9.19 One other issue associated with the staged introduction of choice relates to defined benefits funds. The Institute of Actuaries of Australia drew the Committee's attention to the probable need to defer the extension of choice to defined benefits funds, citing the difficulties which would be involved in identifying what should be transferred and when. The Institute advised:

One other issue which the institute, in particular, has been concerned about is the extension of choice to employees' accumulated account balances. With regard to defined benefit funds in particular, but not only to defined benefit funds, there is an issue as to what should be transferred and when it should be transferred. This is very difficult. We would consider again that there is probably a need for a deferral period in that to facilitate the proper handling of those moneys.¹²

Summary

9.20 Overall, the evidence to the Committee suggested that, while there were many different points of view expressed on the timing of the introduction of a choice regime, there was general agreement from witnesses on a number of implementation issues. In particular that:

- implementation be a staged process;
- the first stage be no earlier than 1 July 2001;
- whatever date is chosen be dependent not only on the finalisation of the legislation and prudential supervision regulations, but also on an appropriate and standardised disclosure regime and the conduct of an appropriate education program; and
- the start-up date be 12 months after the finalisation of the above (including the CLERP 6 reforms) as well as other measures being in place such as standard protocols for e-commerce.); and
- there was a probable need to defer the extension of choice to defined benefits funds because of the difficulties which would be involved in identifying what should be transferred and when.

11 Submission No. 7, p. 1.

12 Hansard, p. 49.