Engage to enhance: Recession-proofing Australia's retirement.

MYOB 2024/25
Pre-Budget Submission

January 2024

Level 3, 168 Cremorne St Cremorne VIC 3121

25 January 2024

The Hon. Stephen Jones MP
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Dear Minister Jones,

On behalf of MYOB, I am pleased to provide this 2024/25 Pre-Budget Submission for your consideration.

The focus of our submission relates to the recent consultation process on Securing Australians' Superannuation and the impacts of this on SMEs and their customers.

MYOB's 30+ year history supporting Australian SMEs means we are uniquely positioned to provide insights relating to the proposed changes, and to offer recommendations on strategies to help this important group, comprising more than 99% of Australian enterprises, to be successful and productive contributors to the Australian economy.

MYOB has built strong connections with SMEs across Australia, developing a deep understanding of the priorities and needs of the sector. We are committed to helping SMEs in Australia start, survive and succeed with digital tools which increase efficiency, improve employee outcomes and enhance productivity.

Australia is facing challenging economic conditions. Late last year, the OECD found Australian households had experienced the largest fall in living standards of any advanced economy in the preceding 12-month period and the largest decline in disposable income in the western world.

To protect the long-term financial health and security outcomes for Australians, we recommend an approach which drive greater engagement with superannuation and assist in "recession-proofing" retirement incomes.

Our submission focuses on two key areas:

- Ensuring the Superannuation Guarantee (SG) can operate in a way that benefits SMEs and their employees, and;
- Encouraging greater participation and engagement with superannuation through the responsible use of advertising during digital onboarding.

We have sought external economic advice from Pragmatic Policy Group and have included a partial extract of this advice to this submission.

We are committed to supporting the Government's efforts in identifying the best possible results for Australian employees, businesses and super funds.

If you require further information or have any questions, please contact Collette Betts at collette.betts@myob.com or Harry Godber at harry.godber@flarehr.com

Yours sincerely,

Paul Robson
Chief Executive Officer
MYOB

Introduction

MYOB has been part of the fabric of doing business in Australia and New Zealand for more than 30 years, having grown from its status as the original Australian privately held startup to achieve $1b value (ie ‘unicorn’) to now being used to pay one in five Australians. MYOB is deeply involved in supporting SMEs to meet their superannuation obligations and is uniquely positioned to provide insight into the likely impact of the proposed Payday Super measures for SMEs and Australian workers. SMEs account for more than 99% of Australia’s enterprises and employ over 7.4 million Australians, meaning that any destabilisation of this crucial sector could have far-reaching consequences for Australian businesses and workers.

Through services such as MYOB’s free digital onboarding platform, Flare, SMEs are enabled to effectively engage new employees with different superannuation choices, make an informed choice of fund and consolidate their super accounts. Contrary to the stated rationale for the proposed ban on advertising during onboarding, the data shows that advertising-enabled products like Flare are conducive to improving stapling outcomes and reducing the incidence of unintended multiple accounts.

Payday Super

Our consultation with the SME sector, as well as our internal data and the findings of economic / policy experts, shows that the proposed increase in the frequency of SG payments to align contributions to payday will have the following consequences:

1. **Significantly increase cash flow pressures on employing businesses.**
   - According to MYOB SME Product data, during August 2023, 9.8% of businesses were in a cash position on the day of their pay run where an additional SG payment could push the business into a negative bank balance. A further 10.7% of businesses already had a negative bank balance on at least one pay run day during the month. This suggests that approximately 22.6% of businesses would risk insolvency if the proposed Payday Super reforms came into force.

2. **Create the potential for employers to reduce their pay frequency.**
   - At present, approximately 58.5% of small businesses conduct a weekly pay cycle. Alignment of SG payments with wage / salary payments will prompt more employers to switch to monthly pay cycles, meaning many low-income workers will receive salary and wage payments less frequently.

3. **Introduce additional administrative burden and cost.**
   - Superannuation clearing houses apply a standard fee per transfer per employee. As a result, an increased frequency of SG payments will cause a material increase in business' transaction costs.

4. **Increase likelihood of businesses incurring penalties through no fault of their own.**
   - The risk of penalties for 'late' SG payments will further incentivise employers to decrease pay frequency and extend employee pay cycles.
   - In addition, employers have no control over SG payments after a transfer is made from their bank account, directly or via their digital service provider, and are unaware when a payment has been received successfully into an employee's fund.

5. **Lower employer compliance and increased need for / cost of enforcement action.**
   - More frequent SG payments will naturally result in more employer errors in the form of late, missed or erroneous SG payments. This jeopardises the existing high rates of employer compliance with SG obligations and will increase the need for ATO enforcement action.

   To mitigate these risks, we recommend the following adjustments to the proposed reforms:

Payday Super: Key Recommendations

(1) **Government should implement (at minimum) a transitional phase whereby monthly SG payments are introduced as an initial tranche of change for SMEs.**

(2) **In designing penalty approaches for late SG payments, penalties should not be passed onto employers if an error occurs as the SG payment is transferred from their bank account into the employee's superannuation fund.** Compliance confirmation should be issued on the date the payment is made (ie as soon as funds have left the employer's bank account) to provide sufficient assurance to SME employers. Also, for missed or erroneous payments, employers should be notified and given opportunity to self-correct within a reasonable timeframe (the due date for next SG payment) before penalties accrue.

Digital ATO service to confirm right super fund details

By digitising and streamlining onboarding processes, digital onboarding platforms save businesses an average of 1.4 hours of administrative time for each employee onboarded, unlocking productive capacity for business development. For example, Flare streamlines superannuation onboarding processes by automating, digitising and pre-filling paperwork components of the employee choice form on both the employee and employer sides.

Unfortunately, given the current failings of the legacy paper-based system, only one in three Australian workers completes and returns a super choice form during onboarding. This has compounding negative consequences for employee retirement outcomes, including unintended duplicate accounts with extra fees to pay.

However, more than 75% of employees using Flare's digital onboarding platform return a super choice form. Of these, 77% nominate their existing fund rather than choosing a new fund, effectively stapling them. This is significant because, according to 2021 MYOB data, only 40% of employers were aware of their stapling obligations. Also, the April 2023 review of the 'Your Future, Your Super' legislation indicated that stapling is increasing the administrative burden on employers' onboarding processes. Flare's high form completion rate, and the propensity of employees to choose their existing fund (thus stapling them), lowers the burden for businesses to manually staple their employees' existing funds.

We would welcome the introduction of the proposed 'ATO digital service' to assist employers and employees to confirm their stapled fund details. However, a standalone 'ATO digital service' that is not integrated into existing onboarding workflows risks missing the more fulsome opportunity of providing this critical service to Australians when they are most engaged with their super–ie at digital onboarding. Since the digital onboarding industry is an established part of Australian workplace architecture, the proposed account confirmation and stapling service would likely see the highest rates of use if integrated within digital onboarding platforms. The same applies to account consolidation and rollovers, which is currently enabled by SuperMatch 2. Indeed, 90% of new super accounts are created during onboarding, making onboarding a key waypoint for workers to conduct rollovers and consolidate their accounts. However, due to the ATO's policy position in relation to SuperMatch2, onboarding platforms are blocked from assisting new employees to rollover pre-existing super accounts in the event that they select a new super fund. This increases the likelihood of employees retaining multiple accounts and redundant insurance policies, paying duplicate fees.

We would welcome the opportunity to work with the Treasury and the ATO to find a solution that facilitates stapling and account consolidation when an employee joins a new fund, while also maintaining sufficient separation of dataflows to ensure SuperMatch data is not used improperly.

Supermatch 2: Key Recommendations

(1) **Government should alter the design of SuperMatch 2 to allow digital onboarding platforms to support employees who have selected a new fund to rollover and consolidate pre-existing funds.** Employees should be able to use a self-serve digital API tool during onboarding which gives them access to ATO-held data about their existing fund accounts and offers them the option to consolidate their existing accounts and / or staple their preferred existing account on the spot. This approach would also benefit employers by reducing the administrative burden of conducting stapling searches for every employee who does not complete the super choice form and / or chooses to staple their existing fund.

(2) **Integrate the proposed 'ATO digital service' with established digital workflows for businesses to secure its successful implementation.**

Advertising during employee onboarding

MYOB strongly opposes the proposal to ban the advertising of super funds on onboarding platforms. An advertising ban would deny Australian workers and businesses the myriad benefits of advertising-enabled digital onboarding.

Maximum benefits for Australian SMEs and workers

Advertising allows digital onboarding providers to keep their platforms free to use, thereby providing the largest possible number of workers with benefits. The outlook without free digital onboarding is particularly concerning for SMEs. Without free digital onboarding platforms, small businesses will face more than twice the number of stapling obligations, and businesses will spend an additional 804 hours every year submitting stapling requests.

Should service providers transition to a paid subscription model, this will lock out many workers, particularly low-income workers, from the benefits of digital onboarding platforms, leading to lower rates of engagement. Ultimately, this will lead to a proliferation of the very duplicate accounts the proposed reforms seek to avoid–to the tune of 31,144 new duplicate accounts annually and an extra $17m annually in duplicate account fees.

Consumer choice and competition

There is no strong case for marketing intervention in light of the myriad benefits of advertising consumer choice and competition. By contrast to the superannuation industry, advertising is available for financial products such as mortgages, which are essentially compulsory for the two-thirds of Australians who own their homes. It seems incongruous that advertising should be allowed for mortgage products, and are the biggest liability most Australians face, but not for superannuation offerings. Since 90% of new super accounts are created during onboarding, onboarding is a crucial moment for workers to exercise informed choice. Highly engaged members and frictionless account portability also forces funds to compete for members (eg by vying to lower fees), as members will simply switch to better performing funds should they consider their current fund to be unsatisfactory. Also, workers are supported by objective information (ie APRA and MyGov websites) prominently linked on digital onboarding platforms. This high-quality information prompts workers to avoid high fees and carefully deliberate on what the worker needs in service of making the best decision among the available market choices.

On the Flare platform, an employee who selects an advertised fund will spend approximately 17.9 minutes researching and gaining an understanding of both advertised and new superannuation offerings. This is 26% longer than the time spent by new employees who review and nominate their existing fund. The majority of these new employees also view details of at least one other advertised fund before settling on their chosen fund. These patterns suggest that users are making an active, engaged and informed choice when they interact with an advertisement on the platform. While only 16% of Flare users will choose to open an account with an advertised fund, this proportion represents a highly engaged audience.

Consistent with policy intent of stapling

As indicated above, the majority of new employees will use Flare's software to input their existing fund details, effectively stapling their existing fund. This demonstrates that advertising on digital onboarding platforms supports the policy intent of the 'Your Future, Your Super' stapling reforms. Further, only 2% of employees who have selected an advertised product fail to consolidate their accounts, indicating that advertising does not lead to an influx of unintended duplicates. By comparison, an estimated 19% of new employees have an additional account created by their employer when using a paper form. This shows that the legacy paper-based superannuation system–and not advertising on digital onboarding platforms–is failing Australian workers with respect to stapling outcomes.

Marketing efficiencies

Banning advertising during onboarding would also significantly increase funds' marketing spend, and therefore, misalign the marketing of funds with members' best financial interests. Indeed, advertising via onboarding platforms is a far more cost-effective deployment of capital than largescale expensive marketing campaigns via television, radio or print magazines. Without digital onboarding platforms, workers would pay another $120m in fees per annum for super fund advertising through conventional channels to acquire an equivalent number of fund members. Crucially, super funds only pay Flare when their advertising is successful - meaning that members' fees are being put to the most efficient marketing use.

Robust existing regulatory framework

Advertising during employee onboarding is already consistent with current policy settings where it complies with the robust existing regulatory framework governing the marketing of financial products. The proposed reforms represent an unnecessary curbing of a company's right to promote its product in accordance with the existing strong regulatory framework. Digital onboarding platforms use clearly labelled advertising that not only adheres to but exceeds existing regulatory requirements.

The consumer protections sought by the proposed ban on advertising in onboarding are already afforded by a robust financial services regulatory regime, including:

- Misleading / deceptive conduct provisions enforced by ASIC in respect of financial products;
- Superannuation Industry (Supervision) Act 1993 (Cth) protects against the exertion of undue influence on both employees / employers relating to choice of fund;
- The Your Future, Your Super legislation allows APRA to prevent funds from acquiring new members where they have exhibited sustained poor performance, and the 'annual superannuation performance test' introduced by this legislation was extended from MySuper products to Trustee Directed Products in 2023;
- Design and Distribution Obligations ensure that funds promote choice products in a manner suitable for their intended target market;
- Financial advice provisions protect consumer interests by preventing platforms from providing unlicensed financial product advice; and
- APRA's Prudential Standard SPS 515 requires funds to justify their use of member funds in conducting advertising activities.

Given these existing protections in the superannuation system, an advertising ban appears to inhibit consumer choice in an already well regulated market with high rates of compliance from industry. For all of the above reasons, in the absence of articulation and proof of a market failure, the proposed advertising ban appears to be maladapted to achieving the stated objectives of the **Securing Australians' Superannuation** reform package.

Ban on advertising during onboarding: Key Recommendations

(1) **Government should not impose an advertising ban on superannuation products during employee onboarding.** Treasury's proposal to ban advertising during employee onboarding will leave funds continuing to incur significant marketing spend outside onboarding platforms, delivering less efficient member outcomes. It would not serve members' best financial interests for funds to continue to advertise in more expensive settings–including television advertising campaigns, outdoor media, sport sponsorships or donations to organisations–while being prohibited from advertising at significantly lower cost in contexts where consumers are most engaged with the super system.