Aon Hewitt Limited
Consulting

Superannuation and Insurance Pulse Survey Australia

September 2014

This report has been prepared by
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Introduction

Superannuation in Australia (more commonly known as 'super') is a mandatory retirement savings mechanism that locks up a proportion of employees' current income until they reach preservation age ie the age at which their superannuation can be accessed, (usually between the ages of 55 and 60).

Superannuation Guarantee (SG) legislation requires most employers to pay at least 9.5% of their employees' ordinary time earnings (OTE) into a complying superannuation fund.

Superannuation funds may also offer death, total and permanent disablement (TPD) insurances, and salary continuance insurance (SCI). Many employers pay (in full or part) the insurance premiums for default levels of insured benefits on behalf of their employees.

A number of significant superannuation reforms have been introduced and employers need to determine how they are going to respond to these changes. Changes include:

- Increases to the minimum SG rate from 9.5% (currently) to 12% over time. The first increase (from 9% to 9.25%) came into effect on 1 July 2013 and the second (from 9.25% to 9.5%) came into effect on 1 July 2014.

  It is important to note that there are new **changes to the timetable of the SG rate increases** which were passed on 5 September 2014. These changes have the effect of maintaining the SG rate at 9.5% until 30 June 2021 with a gradual increase of 0.5% each year until it reaches 12% by 1 July 2025.

  The extended timeframes as detailed in the table below will give organisations increased certainty and allow more time to plan, budget and communicate future increases.

Tax Year	Previous	New amendment
2014/2015	9.5%	9.5%
2015/2016	10.0%	9.5%
2016/2017	10.5%	9.5%
2017/2018	11.0%	9.5%
2018/2019	11.5%	9.5%
2019/2020	12.0%	9.5%
2020/2021	12.0%	9.5%
2021/2022	12.0%	10.0%
2022/2023	12.0%	10.5%
2023/2024	12.0%	11.0%
2024/2025	12.0%	11.5%
2025/2026	12.0%	12.0%

- Changes to concessional contributions limits depending on age (from 1 July 2014). The general concessional contributions limit for the 2014/2015 tax year is $30,000. A higher temporary limit of $35,000 applies for the 2014/2015 tax year for individuals aged 49 years or over at 30 June 2014. Assessable contributions include employee salary sacrifice (pre-tax) contributions and also employer contributions (including SG plus any employer paid premiums or fees to the superannuation fund). As previously, any contributions made above the concessional contributions limit incur tax at the individual's marginal tax rate. Excess contributions are also counted towards the non-concessional (post-tax) contributions limit.

- A requirement for employers to make SG contributions (for employees who have not selected a preferred fund by completing a choice of fund form or otherwise made an alternative investment choice) to a MySuper compliant product (from 1 January 2014). However, it is important to note that MySuper products differ across superannuation funds.

In addition to the above changes, life insurers in Australia are experiencing significant challenges resulting in material increases to employee insurance premiums. Further specifics about this can be accessed via the link below:

https://www.aonhewitt.com.au/Home/Hot-topics/What-employers-should-know-about-life-insurance

From an employer perspective, superannuation and related insured benefits are an expensive and highly regulated component of an employee benefits package. In addition to this, people are living and working longer. There are about 500,000 people aged 65 or over currently employed in Australia. With the Age Pension eligibility age anticipated to increase to 70, and numerous policy and financial factors resulting in people staying in the workforce longer, extending appropriate employee benefits to attract and retain older workers is increasingly important for organisations.

Given this ever changing background, the objective of this report is to provide a solid understanding of superannuation and employee insurance practices and how organisations in Australia are responding to the environment. The data in this report was collected from 131 organisations throughout July 2014.

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Highlights

Superannuation is a differentiator and is the highest benefit spend after pay for most organisations in Australia

Approximately 40% of organisations pay superannuation to employees above the 9.5% mandatory minimum SG rate.

Of these organisations, even with the SG increasing eventually to 12%, approximately 40% intend to remain ahead of the mandatory minimum SG rate.

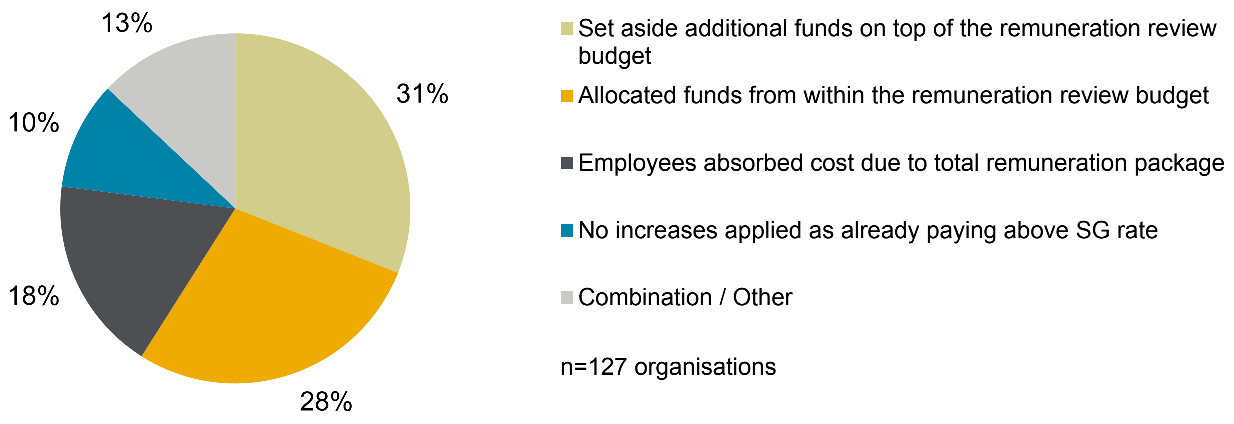
Insurance is a differentiator too

Often overlooked is that approximately 60% of all organisations pay insurance premiums in full or part on behalf of employees (for default levels of cover).

Organisations need to be aware of, and take action to mitigate increasing insurance costs.

Employees are more likely than employers to be funding the SG increases

However, there are some significant differences in approach. Only around one third (31%) of organisations set aside additional funds for all employees on top of the remuneration review budget to cater for the increase in SG to 9.5% in July 2014.



Employee insurance premiums are increasing

This is an important issue with some organisations experiencing significant premium increases due to changes and challenges within the life insurance market. However, most organisations that have been informed of increased premiums are still uncertain of the exact level of increase involved.

Many organisations at this time have not been informed of premium increases, generally as a result of an existing premium rate guarantee period still being in place. Understanding how long your premiums rates are guaranteed for, and when your premium rate guarantee period expires, is a critical part of your planning process.

Organisations need to take action to mitigate rising costs and changes

Around two-thirds of organisations have either completed a review, are currently reviewing, or are about to commence a review of their corporate superannuation and insured benefit arrangements. All organisations that have been informed of actual increases to premiums above 10%, have either completed a review, are completing a review or are intending to complete a review.

At the same time, organisations should consider strategies for differentiation and how to maximise the potential return on benefits spend

A clear benefits offering should be well communicated to existing and potential employees.

Examples of differentiation in the market include:

- Providing superannuation above the mandatory minimum SG rate
- Offering additional insurance options to employees
- Extending cover and appropriate employee benefits for older employees
- Extending cover for employees who have chosen to have their superannuation paid elsewhere
- Subsidising part or all of the insurance premium costs and/or administration fees
- Providing employees with a facility to access financial advice – ensuring they are providing adequately for their future financial well-being
- Undertaking regular communication and education sessions to ensure employees are aware of the value of all employer funded benefit programs offered
- Ensuring that the organisation and its employees are getting a good deal, sustainable investment performance, and proactive servicing and engagement from the superannuation provider.

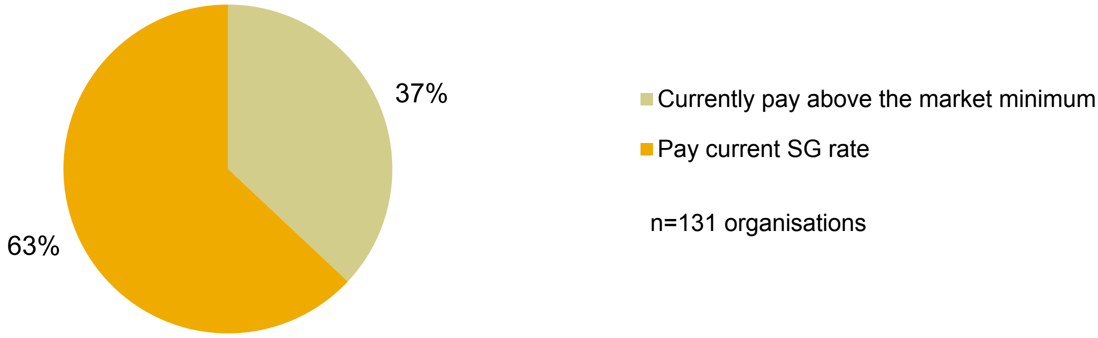
How super is your super? Need help?

If you would like any further information or support in regard to any aspect covered in this report, our contact details are provided towards the back of this report.

Superannuation

Current superannuation approach

Just under four out of 10 organisations (37%) pay superannuation above the mandatory minimum 9.5% SG rate for some or all employees.



Variation exists by industry. Organisations in the Engineering and Resources sector are more likely to pay above the mandatory minimum SG rate (43%), whereas organisations from the Financial & Insurance and IT & Technology sectors are less likely to pay above the mandatory minimum SG rate (35% and 29% respectively).

The majority of organisations offering superannuation above the mandatory minimum SG rate do not differentiate by employee level. A small number of organisations offer higher rates through grandfathered benefits (eg through a legacy defined benefit plan) and/or to long-tenured staff.

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Payment above SG rate

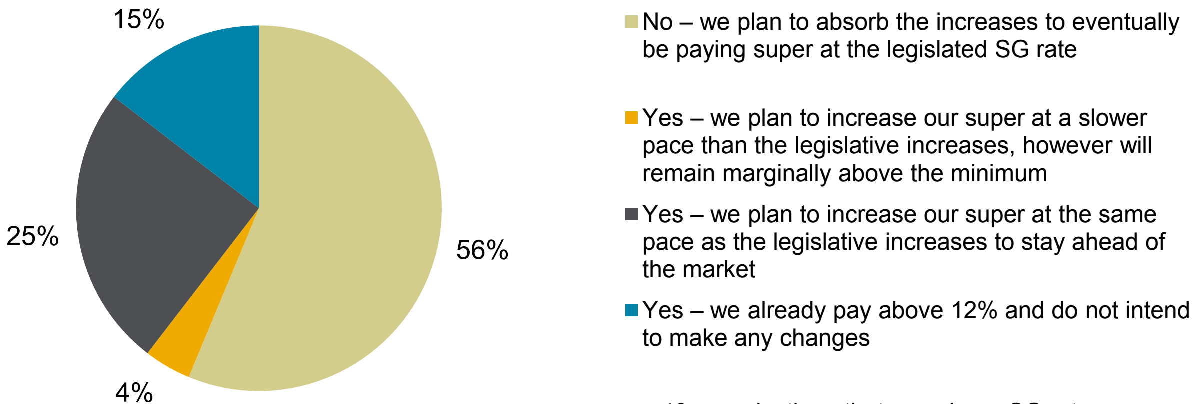
A number of organisations make superannuation a clear point of differentiation by offering considerably more than the current SG rate. The median contribution for organisations paying above the mandatory minimum is 12% (or 2.5% above the current SG rate).

	Average	Lower quartile	Median	Upper quartile	Range
Amount offered by orgs paying above SG	11.8%	10%	12% 13%		10% - 15%

Intention to stay ahead of SG rate

Over half (56%) of the organisations currently paying above the mandatory minimum SG rate intend on giving up their market-leading position and absorbing future increases.

Interestingly though, a quarter (25%) intend to keep pace with future increases to maintain a market-leading position and around one in six (15%) already pay above 12%.



n=48 organisations that pay above SG rate

Funding of increases

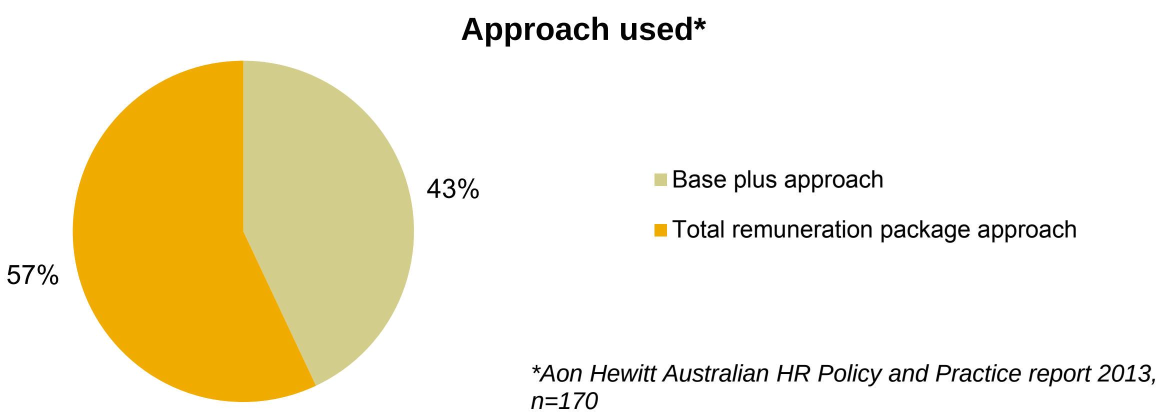
Approximately one third (31%) of organisations set aside funds in addition to the remuneration review budget to cater for the SG increase in July 2014 (to 9.5%), with about the same number (28%) allocating funds from within the existing remuneration review budget.

This is a similar funding outcome to that used in 2013, with most organisations (91%) using the same strategies to handle the SG increase in successive years. However, around one in 10 organisations changed strategy with slightly more organisations passing on the cost through a total remuneration package approach under which employees in effect absorb the SG increases.

	Funding of increase from 9% to 9.25% in July 2013 (n=127 organisations)	**Funding of increase from 9.25% to 9.5% in July 2014 (n=127 organisations)**
Allocated funds from within the remuneration review budget	34%	28%
Set aside additional funds on top of the remuneration review budget	32%	31%
Employees absorbed cost due to total remuneration package	14%	18%
No increases applied as already paying above SG rate	9%	10%
Combination / Other	11%	13%

We expect that organisations will be considering whether retaining the same funding approach is appropriate going forward, in the context of future increases to the mandatory minimum SG rate doubling to 0.5% annually.

An organisation's funding options will be dependent on their remuneration approach; 43% of organisations currently use a "base plus" approach to formulating pay packages, with 57% using a total remuneration package approach (where any benefits, including superannuation are deducted from the total remuneration package communicated).[1]



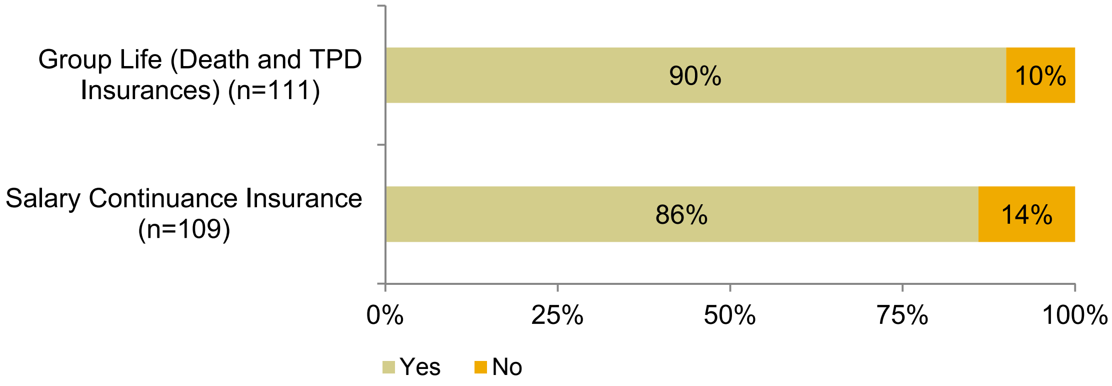
**Aon Hewitt Australian HR Policy and Practice report 2013, n=170*

[1] Source: Aon Hewitt's 2013 Australian HR Policy and Practice report

Changes in the group insurance market

Provision of insurance

Most organisations in the study offer Death and TPD (90%) and SCI (86%) benefits. Death and TPD benefits are commonly provided via the organisation's default superannuation fund (although many organisations arrange additional policies which cover all employees). SCI is commonly provided either through the organisation's default superannuation fund or via a standalone corporate policy.

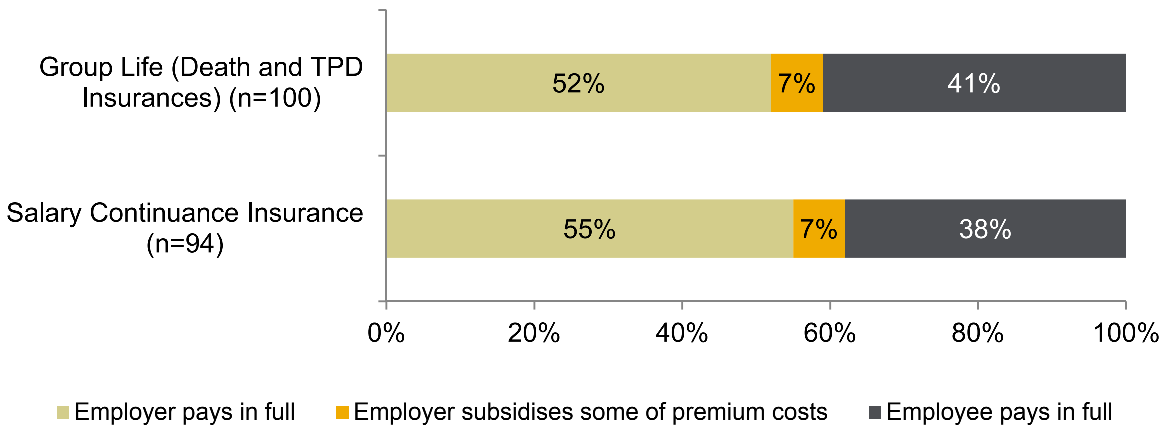


Funding of insurance premiums

Approximately 60% of organisations pay insurance premiums in full or part on behalf of employees (for default levels of cover).

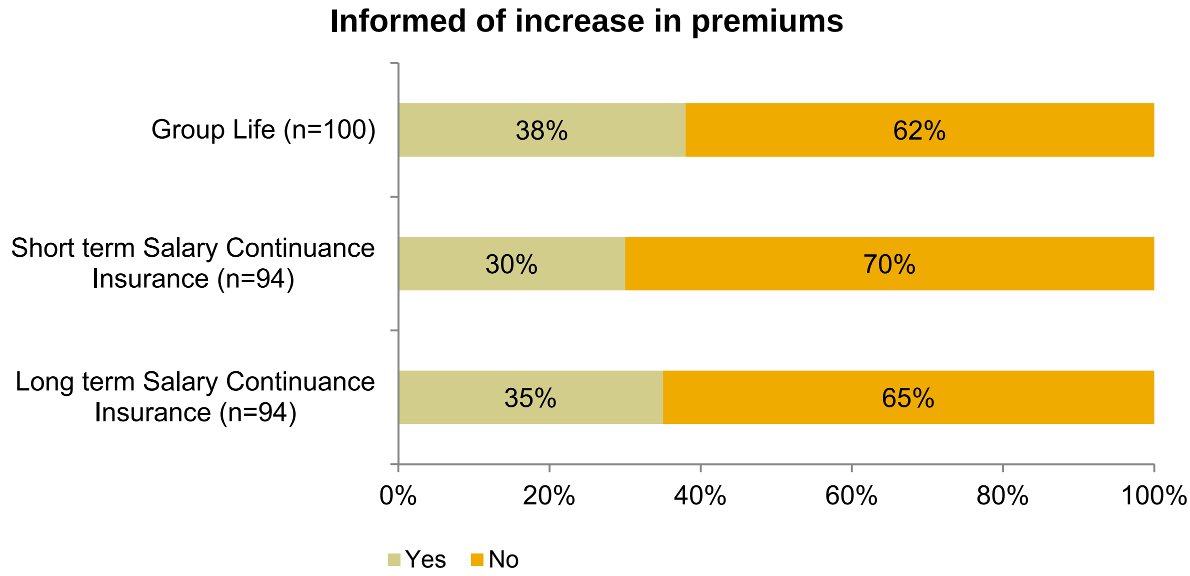
Just over half of organisations fully pay the premiums for Group Life (Death and TPD) (52%) and SCI (55%) for default levels of cover. Employees meet the full cost of insurance premiums in around 40% of cases.

In most cases (84%) the organisation's approach to funding premiums is consistent across both salary continuance insurance and group life.



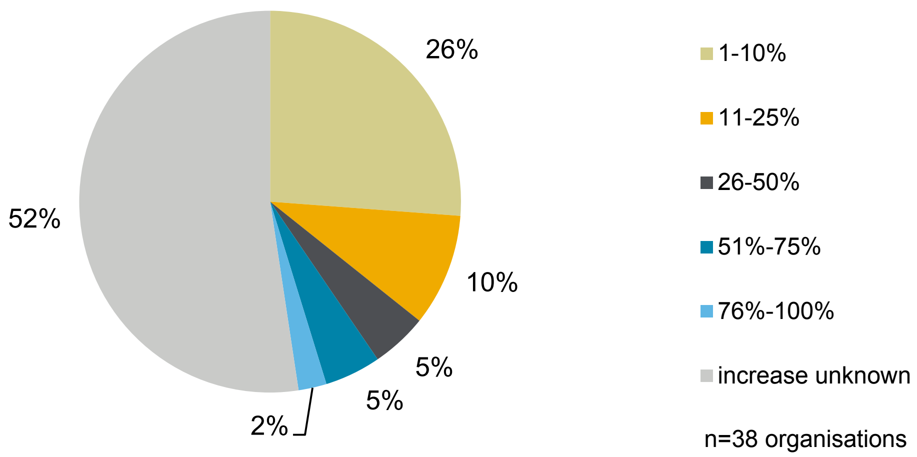
Increase in premiums

Despite evidence of rising premiums in the market, the majority of organisations participating in the survey have not, at this time, been informed of premium increases. This is generally as a result of an existing premium rate guarantee period (which can differ by organisation) still being in place. As the impact of any change will apply on expiry of the premium rate guarantee period, it is crucial that organisations understand when the rate guarantee term expires and the subsequent impact on premiums.



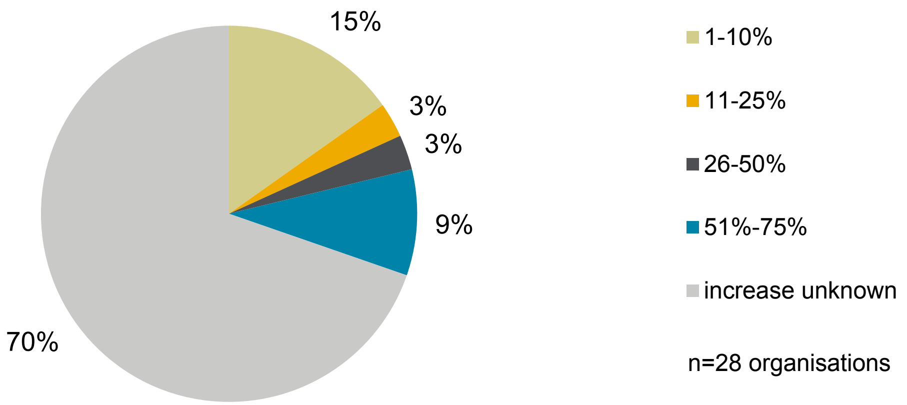
Group life

To date, just under four out of 10 organisations (38%) have been informed of an increase in their group life rates. Of these, the premium increase is between 1% and 10% for around one in four (26%), between 11% and 50% for around one in six (15%) and above 50% for 7%. More than half of the organisations (52%) that have been informed of premium increases were unsure of the exact amount.



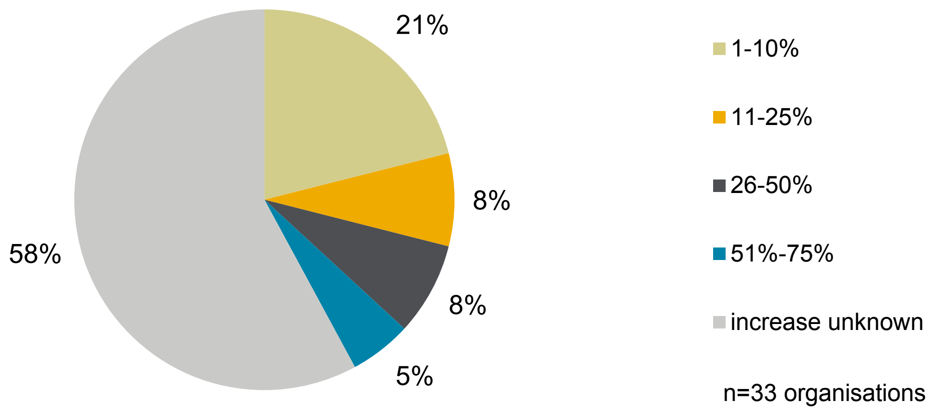
Salary continuance (short term benefit payment period)

To date, three out of ten organisations (30%) have been informed of an increase in their salary continuance premium rates (for salary continuance arrangements with short term benefit payment periods e.g. up to two years). The majority of organisations that have been informed of a premium increase were unsure of the exact level of increase involved (70%).



Salary continuance (long term benefit payment period)

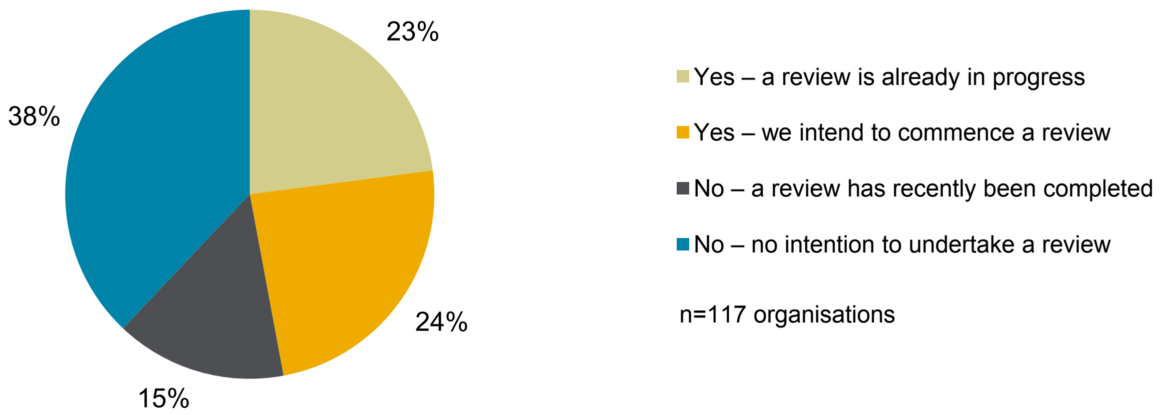
To date, approximately a third of organisations (35%) have been informed of an increase in their salary continuance premium rates (for salary continuance arrangements with long term benefit payment periods e.g. up to age 65). More than half of organisations that have been informed of a premium increase were unsure of the exact level of increase involved (58%).



Review of corporate superannuation and insured benefit arrangements

As a result of increased superannuation and insurance costs, and other recent changes such as MySuper, almost two in three organisations (62%) have either completed a review, are currently reviewing or are about to commence a review of their corporate superannuation and insured benefit arrangements.

All organisations that have been informed of increases to premiums of 10% or more have either completed a review, are completing a review or are intending to complete a review.



Organisations are taking action to mitigate the impact of the changing landscape

Common objectives for reviews of superannuation and insured benefits include:

- Market/industry sector benchmarking
- Achieving cost savings
- Harmonising approaches and arrangements
- Removing or de-risking legacy arrangements (eg defined benefit plans)
- Transitioning from ‘base plus’ to ‘total remuneration package’
- Having consistent insurance arrangements for all employees (including those outside of the default corporate superannuation fund)
- Having a responsive superannuation provider who will support your organisation to promote and engage your employees around your superannuation and insured benefit offering.

Participant information

This report is based on responses from 131 organisations.

- Abbott Australasia Pty Ltd
- ACE Insurance Limited
- AIA Australia
- Ajilon
- Allianz Australia Limited
- American Express
- AMEC
- AMP
- Aon Hewitt Limited
- Apache Energy Ltd
- APT Management Services Pty Ltd (APA Group)
- Arrium
- Australian Pharmaceutical Industries
- Auto & General Insurance Services
- Avanade
- Avon Products Pty Ltd
- AWE Limited
- BaptistCare NSW & ACT
- Bard Australia Pty Ltd
- BC Iron - Iron Ore Mining Company
- Beazley
- Beca Pty Ltd
- Bionomics Limited
- BMC Software Australia
- BOC Limited
- Bundaberg Sugar Ltd
- Calibre Global Pty Ltd
- Caltex Australia Limited
- Cameco Australia
- Canon Australia Pty Ltd
- Carlton & United Breweries
- Caterpillar
- CB&I
- CBH Resources
- Centre Group
- Challenger
- ClearView
- Clough
- Coca-Cola Amatil
- Coloplast Pty Ltd
- Cooper Grace Ward Lawyers
- Coopers Brewery Limited
- Crown Resorts
- CSC
- CSL Limited
- CSR Ltd
- DFA Australia Limited
- Dolby Australia
- EnerNOC Pty Ltd
- Environmental Resources Management
- Epson Australia
- EY
- First State Super
- FOX SPORTS
- Genea
- Genworth
- GHD
- Greater Building Society Limited
- Harmony Gold
- Hartmann
- Hastings Deering
- HCF
- Heathgate Resources Pty Ltd
- Hewlett Packard
- Hillgrove Copper
- Holcim Australia
- Hudson Global

- Hydro Tasmania
- IBM Australia
- Iluka Resources Limited
- IMB ltd
- Insearch Limited
- Insurance Council of Australia
- Interactive
- Intrepid Group
- Investa Property Group
- Invita Australia Pty Ltd
- Ipoh Management Services Pty Ltd
- iSelect
- Jacobs Group Australia
- Jemena
- Johnson & Johnson
- Leighton Contractors
- Leighton Holdings
- Lend Lease
- Macquarie Pacific Funding
- Mi9
- Mirvac
- Mitsui & Co, (Australia) Limited
- Murphy Australia Oil Pty Ltd
- Newell Australia Pty Ltd
- NewsCorp
- Nextgen Services
- NRMA Motoring & Services
- Optus
- Orica Limited
- Orora Limited
- Oversea-Chinese Banking Corporation Limited
- OZ Minerals
- Parmalat Australia Pty Ltd
- Peabody Energy
- PEAK Adventure Travel
- Perpetual
- Pickering Transport Group
- Pricewaterhouse Coopers Ltd
- Property Council of Australia
- Qantas
- QBE Insurance Australia
- QTC
- RACQ
- Redpath Australia Pty Ltd
- Resolute Mining Limited
- RF Industries
- Roche Products Pty Limited
- Rockwell Automation Australia Ltd
- SFDC Australia Pty Ltd
- Singapore Airlines Limited
- SingTel Optus
- Societe Generale
- State Street Australia Ltd
- Suncorp
- Sweet Group
- Teradata Australia Pty Ltd
- The Benevolent Society
- Toyota Financial Services
- Transurban Limited
- Treasury Wine Estates Limited
- UoM Commercial Ltd
- W.L. Gore & Associates (Australia] P/L
- Warakirri
- YMCA NSW

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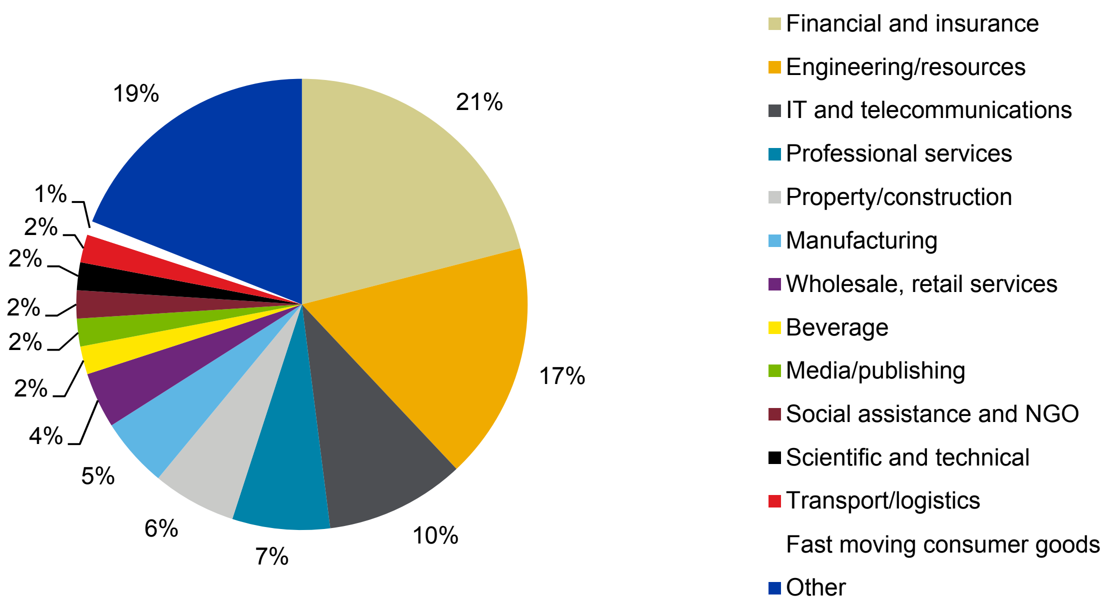
Industry profile

This report is based on responses from 131 organisations from the following industry profile:



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