Gateway Network Governance Body

Payday Super **Unpacked**

A guide to navigating the Payday Super measure for those within the superannuation eco-sytem

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Payday Super – What does it mean for me?

In May 2023, in a joint announcement, the Hon. Jim Chalmers Treasurer and the Hon. Stephen Jones, Assistant Treasurer announced that starting 1 July 2026, employers will be required to pay their employees' superannuation at the same time as their salary and wages. This measure is known as Payday Super.

As the deadline approaches, GNGB explores the implications for employers, superannuation funds, payroll providers, clearing houses, gateways operators and others within the superannuation ecosystem. All of whom play an important role in realising the benefits of the updated policy and building on the strength of the superannuation system.

At GNGB, we are charged with oversight of the Superannuation Transaction Network (STN), the data infrastructure that carries super contributions between employers and superannuation funds. We are fortunate to have a board of directors from across the superannuation ecosystem, from payroll and clearing house organisations, gateway operators to superannuation funds. This group brings together meaningful insights into the benefits and challenges of the superannuation ecosystem as it relates to this reform. GNGB considers the Payday Super measure the perfect opportunity to continue the evolution of the strong standards-based environment within the ecosystem and improve the system for all working Australians. Read more about our team www.gngb.com.au/gngb-board-of-directors/.

First, a history lesson - how far the industry has come…

Remember when it used to take weeks for your super contribution to show up in your super fund? In fact, you probably didn't even know when it arrived, since you relied on your annual super statement to check your balance. Prior to 2014, a significant proportion of contribution transactions were executed via paper, which usually meant a cheque and a form with member details, sent via the post, or faxed from your employer to your super fund. The Stronger Super reforms implemented in 2014 changed all that, requiring the super ecosystem to digitise, and accelerate transaction processing. This led to the creation of SuperStream, a highly integrated digital highway designed to streamline paying contributions for all involved.

In fact, an ATO 2017 review found that SuperStream generated "*an average 70% time saving and $400 million in ongoing efficiencies to employers,*" largely due to "*simplification for employers in sending contributions through a single channel*"[1]. The SuperStream Benefits report also cited "*widespread automation of transactions with use of straight-through processing,*" – with automation rates at that time in the vicinity of over 85% for contributions.

What happens today with super guarantee (SG) contributions?

10 years on, the error rate across the superannuation transaction network is around 1.6%, meaning that over 98% of transactions are processed correctly, when complete and correct data is provided. Despite these leaps and bounds in efficiency and timeliness, employers are still required to pay superannuation guarantee on a quarterly basis, even though other employee entitlements are paid much closer to the time they are earned.

48% of employers pay salary and wages weekly, however only 2% of employers pay super weekly. For small businesses, superannuation payment processes may not be integrated with payroll processes, requiring staff to handle these payments separately from regular business operations on a quarterly basis. The challenge of navigating this complex super ecosystem for organisations who spend an hour on super each quarter is real, and highlights the importance of collaboration across the ecosystem, and designing a model to support those who are trying to do the right thing, whilst ensuring fast identification of those who are not.

So what is the case for change?

According to ATO statistics, in the 2021-22 financial year approximately 62% of employers were paying super quarterly. This leads to a time lag between the entitlement arising (when an employee is paid) and when the payment is actually made. This delay makes it challenging for the ATO to quickly identify under- or non-payments. In the 2019-20 financial year approximately $3.4 billion in super contributions went unpaid[2], and about $1.1 billion of that amount was due to insolvency.[3]

These are real and meaningful amounts of money that negatively impact the retirement plans of working Australians. If the Payday Super policy reduces the amount of unpaid and underpaid super, it will be a significant win for employees who are currently missing out.

In addition, Treasury estimates that more frequent payment of superannuation entitlements could lead to improvements in retirement balances by around 1.5%.[4] This is achieved by the payment of super contributions more frequently to leverage the power of compound interest.

Employers may also benefit from a more streamlined, regular process in paying their employees' super contributions.

What is the implementation date?

The ATO website states "*the 1 July 2026 start date will provide employers, superannuation funds, payroll providers and other parts of the* *superannuation system with sufficient time to prepare for the change."*

A realistic lead time for implementation is prudent. The super ecosystem is a complex environment that requires a coordinated and responsible approach to change, in order to preserve the efficiencies realised to date and build on the strengths of the system for all Australians.

One of the biggest concerns in the industry is the design, delivery and conformance testing of Payday Super, as the scale and magnitude of changes that will need to be made to support the policy intent is likely to be significant. With less than 2 years to go, there is a risk that design may be hampered by a restricted scope due to the tight timeframes involved. This date is approaching quickly and work needs to begin.

"2% of employers pay super weekly, 48% of employers pay salary and wages weekly. The most common salary/wage payment timeframe is weekly (by employer)"

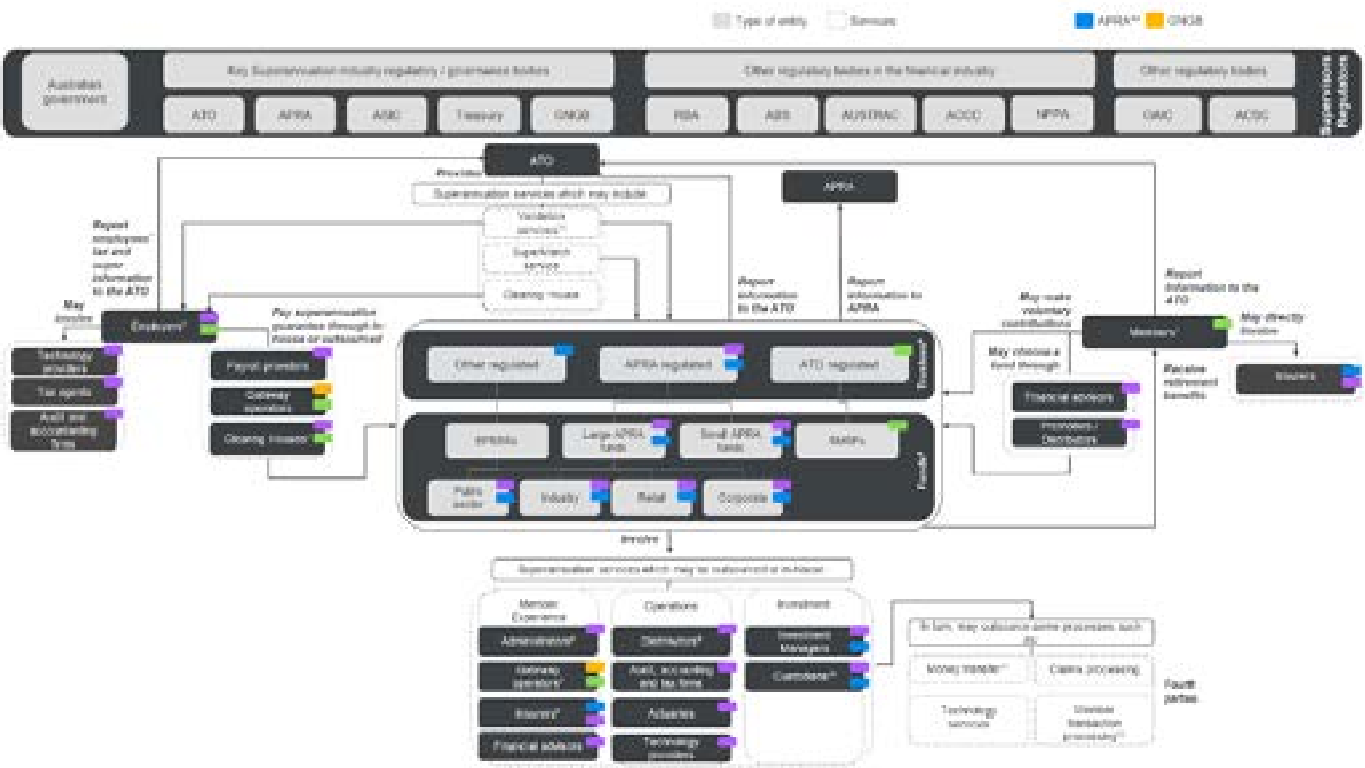

Diagram 1: A highly integrated environment with over 1.5 million organisations who handle superannuation data, including 984,000 employers paying contributions to 150 super funds and over 350,000 self-managed super funds.

Who are the intermediaries in this contributions ecosystem?

Payday Super will impact not just employers and employees, but the entire superannuation ecosystem and its many different parties. The law as it relates to SG contributions primarily focuses on the obligations of employers and super funds. However, there are several intermediaries within the environment who enable the system to operate securely and efficiently. The Superannuation Transaction Network connects employer software and services to super funds. The key parties in the process are:

Digital service providers provide software and services to employer organisations to assist them in managing their obligations to employees such as payroll, regulatory reporting and superannuation.

Clearing houses and payment providers typically integrate with digital service providers and assist them with aggregating payments, validating payment data and directing tens of millions of payments to the right destinations. A key efficiency delivered through SuperStream is that an employer can make one payment for all their employees and the clearing house will take care of the rest.

Gateway operators integrate with both digital service providers and clearing houses to ensure employee/member data, intended for super funds, is packaged, validated and transmitted to the correct destination. Similarly to the role of payment providers, gateway operators facilitate the one-to-many relationship that employers need to contend with.

Superannuation fund administrators receive data from gateway operators and payments from clearing houses/payment providers, and disaggregate, reconcile and apply the contribution to super member accounts on behalf of super funds. In some cases, super funds perform this function in house.

How will Payday Super implementation impact the industry?

The Payday Super measure will require changes from all parties within the ecosystem.

1. Transaction volume

Today, contribution transactions number approximately 200 million per year. That number is expected to grow to approximately 500 million per year to align with the ATO's records of the number of salary and wage payments (source: 2022). At the same time, we can expect the quarterly processing peaks currently experienced due to the legislated superannuation guarantee deadlines to level out across the year.

2. Error resolution time reduces

When issues arise with a transaction getting to the correct member account, parties will have less time to resolve them. Data errors, which make it difficult for a super fund to find the right member account, will need to be addressed quickly to ensure current and subsequent contributions are processed successfully. There is a risk of compounding errors resulting in increased processing effort and cost to funds, administrators, intermediaries and employers. An inability to resolve these issues quickly also means employers face risk around their compliance obligations.

When an employee joins a new organisation, there will also be less time to complete superannuation elements of employee onboarding to ensure new accounts are opened correctly and super can be paid with the first payday.

With any new implementation we can expect teething errors. While we hope that the increased focus on payday compliance will mean data quality will quickly improve, enabling a sustained improvement in the current data quality issues will require careful consideration from a policy design perspective.

3. Greater transparency over transaction status required

Tighter regulation for employers to meet obligations for SG payments will require more regular and standardised processes for superannuation payments. Not only will this simplify SG processes for employers, it will also lead to a steadier outflow of cash, as SG payments will be made more regularly, eliminating the need to save for a large quarterly payment. However, employers may require greater transparency over the status of their transactions to confirm they have met their obligations. Some employer representatives are concerned that more frequent payments will negatively impact their cash flow and introduce additional administration costs. Faster feedback on the success of the contribution transaction will support employers here.

4. Reduced capacity for manual handling

Remember the 1.6% error rate from page 1? If we assume this remains the same while transaction volume increases dramatically, we expect around 7.5 million transactions will require manual follow-up or correction. This is not feasible for an industry the size of the super ecosystem and does not take advantage of the efficiencies of the SuperStream system. In fact, it is likely that parties, including funds and intermediaries will have a lower tolerance for manual work to resolve errors given the reduction in error resolution timeframes, and may reject errors sooner than they do today. This may result in a spike above 1.6% when the implementation of Payday Super first begins. Work needs to be done to reduce error rates further before Payday Super implementation.

5. Fraud and security

Super funds, Clearing Houses and intermediaries play an important role in detecting anomalies in transactions that may indicate fraudulent behaviour, or bad actors attempting to extract financial gains from the system. In an environment

with even greater data and payment loads, decreased time to resolve issues may put pressure on these important processes. Policy settings need to ensure the security of data and money remains a top priority.

6. Change costs

In such a highly integrated environment, a measure such as Payday Super will require changes to software and processes used by employers and funds to process contributions, as well as all the intermediaries. Depending on the design, it may also require changes to the superannuation - data and payment standards. All this change requires collaboration between policy setters and industry on design, planning, development and testing. All this takes time. A hurried implementation may result in a sub-optimal implementation or outcomes, introducing unnecessary risks into the system.

7. Governance

Governance of a program of work of this size and magnitude is essential. To ensure Payday Super delivers the benefits it promises, strong leadership across sectors is critical to ensure all organisations are working towards the same goals. A clear understanding of the final operating model and expected outcomes could not be more important.

Payday Super represents one of the most significant whole-of-economy changes in recent times, and strong governance is essential for both the implementation of the measure but also to ensure the system keeps delivering for superannuation members well into the future. Ongoing governance and strong leadership across the ecosystem are essential to enable continuous improvement in efficiency and security.

This governance needs to be considered as a key pillar of the measure during the policy development phase. The collection of data to measure the success of implementation and how the system keeps delivering for members, is critical.

The following table shows how different areas across the super ecosystem may be impacted.

Super funds	• Super funds will experience a steady inflow of contribution data and payments, rather than the volume spikes of quarterly SG • Funds will need to support employers to ensure changes to systems and processes for payments and data are implemented effectively • Funds may need to educate employers and members to help them understand the change • Changes to reporting and resolution timeframes will be required to ensure fast resolution of issues and ATO identification of employer non-compliance
ATO, GNGB and other regulators	• The ATO's role is to facilitate and manage implementation and agree the design with industry. All ecosystem participants will input into design, leveraging their experience of the system today • Once design is agreed, the ATO will document any changes in the Data and Payment Standards which industry will use to build and test the changes - a key dependency • The ATO will continue to develop the efficiency and effectiveness of compliance activity with the monitoring of employer contributions payments • The ATO will review and validate the current governance framework, including services levels for the system to ensure they remain fit for purpose • The ATO, as a service provider to the SuperStream environment will be required to build/test changes in their own solutions including the clearing house provided at no cost for small business • GNGB will review the current service levels and standards (including capacity measurement and monitoring) across the STN to ensure they are fit for the Payday purpose
Clearing houses and payment providers	• Clearing houses and payment providers will see an increase in transactions moving through their systems. This will shift their current data trends and reporting • Additional governance and transparency of the payments timeframes will be required. Reporting changes will be required by these payment providers • Issue resolution timeframes will be reduced, meaning current issues in resolutions will be exacerbated • Emerging payment methods will need to be considered as options particularly as we approach the planned retirement of Bulk Electronic Clearing System (BECS), also known as Direct Entry, in 2030. More on this in our upcoming deep dive on payments • Clearing houses and payment providers will support clients through the software development lifecycle to ensure integrations are uplifted in line with payday requirements

Gateway operators	• Message and data flows through the STN will change aligned to estimated volume changes • Gateway Operators will implement changes to Standards. Gateway Operators will build/implement/test internally and externally with other superannuation ecosystem participants • Gateway Operators will support clients through the software development lifecycle to ensure integrations are uplifted in line with payday requirements • Reporting changes will be required alongside ensuring adequate eco-system management is in place
Digital service providers and employer solutions	• Digital Service Providers and employer solutions will see an increase in transactions moving through their systems. This will shift their current data trends and reporting • Digital Service providers and employer solutions will need a well outlined correction framework to deal with any issues arising from payroll and the Superannuation Guarantee Contribution (SGC) calculation • Changes to systems and reporting processes may be required • Issue resolution timeframes will be shortened, meaning current issues surrounding resolutions will be escalated in nature • Employers will be looking for greater transparency with regard to the status of their SG transactions meaning uplift in portal interfaces and integration with intermediaries within the ecosystem
Employers	• Employers will require education and knowledge of the changes and assessment of impacts to current processes • Employers will need to be aware of and manage tighter regulations around SG payments which will streamline super processes • Employers will see a change in cashflow requirements. Some will see this as a positive, others have concerns • Current issues in paying SG may be magnified • Process reengineering may be required to change frequency of payments
Members	• Members whose super is not already paid each payday will see more regular superannuation payments –aligned to the payment of their wage/salary • Members will need to ensure, now more than ever, that their employer has the correct superannuation details for their fund, otherwise they risk their employer being fined for non-compliance • With super payments now more transparent and aligned with Payday Super, members can easily verify if their employer is making timely payments

What are the other benefits?

There are many more benefits that Payday Super will bring for all Australians who receive SG payments:

- Greater transparency around their SG contributions
- Tighter regulations may empower employees to address non-payments with their employer
- With greater transparency, we should see employees experiencing better outcomes and they may become more engaged with their superannuation
- There are also many long-term financial benefits with SG payments being made more regularly, leading to improved retirement outcomes
- A significant opportunity is the potential to review and update the Data and Payment Standards. These standards are ten years old and we have seen significant technological and process changes since 2014. This presents a chance to leverage the current system's maturity and design for the future. However, without legislative change, updating these standards is unlikely.

So is there a business case here?

Overwhelmingly there is. The benefits to superannuation members should reduce the unpaid super gap together with enhanced retirement balances. $3.4 billion year on year is significant.

We recognise the size and complexity of this task. To ensure the successful implementation of Payday Super across the ecosystem, collaboration, effective governance, a clear, well-defined design, and strong success measures will be crucial. Each sector in the ecosystem has an important role to play to enable the full realisation of benefits to superannuation members.

We must resist the temptation to descope to meet time frames, and design changes to support all sectors within the ecosystem. Stay with us over the coming months as we lean into some of the challenges and deconstruct potential design solutions, with the aim of understanding perspectives across our stakeholders and beyond. The future of super is bright under Payday!

Footnotes

[1] *SuperStream Benefits Assessment – Final Report, April 2017*

[2] *https://ministers.treasury.gov.au/ministers/stephen-jones-2022/media-releases/introducing-payday-super*

[3] *Australian Taxation Office Annual Report 2021-22 (transparency.gov.au)*

[4] *Consulting on payday super | Treasury Ministers*

The Gateway Network Governance Body Ltd (GNGB) is an industry owned, not-for-profit organisation, whose main purpose is to manage the security, integrity and efficiency of the Superannuation Transaction Network.

The Superannuation Transaction Network (STN) is a network developed to assist employers and superannuation funds meet their obligations under the mandatory Data and Payments Standards. These standards arose from the implementation of the SuperStream regulatory program.

Contact us

Website: www.gngb.com.au
LinkedIn: www.linkedin.com
Email: gomadmin@gngb.com.au