Australian Institute of Superannuation Trustees

3 February 2014

The Manager
Contributions & Accumulation Unit
Personal & Retirement Income Division
The Treasury
Langton Crescent
PARKES ACT 2600

Email: UnclaimedMoney@treasury.gov.au

Dear Sir/Madam,

Re: Superannuation – Increases to the Lost Member Small Account Threshold

The Australian Institute of Superannuation Trustees (AIST) is an independent, not-for-profit professional body whose mission is to protect the interests of Australia's $600 billion not-for-profit superannuation sector. AIST's members are the trustee directors and staff of industry, corporate and public-sector superannuation funds, who manage the superannuation accounts of two-thirds of the Australian workforce.

We note that this Exposure Draft (ED) seeks to implement the previous and current Federal Government's decisions to increase the limit of the small lost member account threshold, from its current position of $2,000 to $5,000 from 31 December 2015, and to $6,000 from 31 December 2016.

While the legislative change to give effect to this measure is straightforward, we believe that this ED raises important questions regarding the scope of lost member provisions, and the role that the ATO takes in reuniting members with their retirement savings.

We previously noted that the Treasurer and Assistant Treasurer announced the current Government's support for this measure in their statement[1] of 6 November where they announced that this measure would be proceeded with, noting that these would proceed to net approximately $815.9 million over the forward estimates period.

We note that the present context of saving money, whilst valid, may be only a temporary economy, and continues to represent a claim on consolidated revenue by taxpayers who have

[1] Hockey, J. and Sinodinos, A. 2013. *Restoring integrity in the Australian tax system |The Hon Joe Hockey MP Treasurer of the Commonwealth of Australia joint media release with Senator The Hon Arthur Sinodinos AO Assistant Treasurer*. [online] Available at: http://tinyurl.com/mubchhn [Accessed: 14 Jan 2014].

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been affected by these measures. However, we note that in his most recent annual report[2], the Commissioner of Taxation (on behalf of the ATO) points to data suggesting that the first changes (from the November 2012 MYEFO statement) to unclaimed superannuation taking effect from 31 December 2012 to increase the threshold from the previous level of $200 to the new threshold of $2,000, resulted in an increase in ATO-held superannuation by $1.2 billion.

With these figures comes increased responsibility to reunite members with their superannuation.

However, before this question should be addressed, there are others which now considerably more pressing, which we believe are appropriate to raise within the context of this submission.

Our first question relates to the increased thresholds themselves, and the description of this measure. This is a measure designed to deal with the issue of small inactive accounts, for whom the owner is lost and the account is inactive (assuming that the amount in question is not a defined benefit).

Our concerns relate to the account balance thresholds themselves. These have been progressively increasing and prompt us to wonder, at which point would one consider that the account balance is no longer small?

Until the abolition of Member Benefit Protection on 1 July 2013, account balances of less than $1,000 were regarded as most vulnerable and requiring of protection from fee erosion. AIST submits that this still provides a reasonable definition of a small account. However, we also realise that this is not a policy design exercise, but a process of legislative implementation.

The second question relates to the question of lost members and unclaimed monies more generally. There are, broadly, four areas that fall into this category of superannuation accounts as follows:

- Small lost member accounts, as defined in this ED;
- Insoluble lost member accounts, which relate to inactive accounts of unidentifiable members;
- Unclaimed monies under the *Superannuation (Unclaimed Money and Lost Members) Act 1999* ("SUMLM Act"); and
- Unclaimed superannuation monies of former temporary residents.

With the exception of the last one, which relates to the more unusual circumstance of a member moving overseas, the first three relate to similar circumstances. We would propose that work be

[2] ATO. 2013. *Commissioner of Taxation Annual Report 2012-13*. [pdf] Canberra: Commissioner of Taxation. Available through: www.ato.gov.au http://tinyurl.com/m56fxr9 [Accessed: 14 Jan 2014], p.53.

undertaken to answer questions related to what these problems these measures are designed to solve, as well as our previously identified question about might be considered small.

At this point, we raise the question of what measures the ATO are engaged in, in order to reunite retirement savings with members. We note in the Commissioner's annual report[3], the activities outlined are extensive and include social media and other communications and marketing, SuperSeeker, electronic portability forms, TFN matching and other activities. We note that there has been some success with these activities, in particular, we point to the success of SuperSeeker, where $1.9 billion has been successfully located by Australians, and over 1.3 million searches have taken place.

However, as we have done in submissions to date, we strongly recommend that the ATO be properly resourced to ensure that these activities are allowed to continue the Commissioner's work. We cannot support the current situation where, increases to thresholds notwithstanding, the value of unclaimed accounts from 2012-13 sharply increased by $1.2 billion, whereas the total value of lost superannuation accounts showed no change on the previous year ($16.8 billion). It very much appears from these figures that a lot is being sent to the ATO, with not much returned to members.

We contrast this with the address matching in place at one Eligible Rollover Fund (ERF), where campaigns conducted on behalf of 47 participating funds since 2001 processed over 12 million records, finding new addresses for 21% of these, or 2.5 million members. In addition to this, third party checks have confirmed that addresses remained current for over 2 million members of funds participating in these initiatives with this ERF. This would equate to around $12.5 billion if we assumed an average balance of $5,000, however an ABS survey conducted on behalf of the Association of Superannuation Funds of Australia (ASFA) showed that average account balances were considerably higher.

In addition to the above, AIST makes some additional observations.

After Royal Assent, members will still need to advise their super funds about their personal details. Whilst 31 December 2015 might be some time away, consider the example of a member who has a number of accounts around from previous jobs. Such a member might need to first contact various payroll offices at old employers, before contacting the fund(s) for which they might have been a member. In the instance that their account had been transferred to an ERF, this may add an extra step in the process. AIST believes that these steps can now be avoided through use of the ATO's SuperSeeker service, and we would support more aggressive marketing of this excellent tool.

[3] ATO 2013, p.53

We continue to note that this transfer out can occur in instances beyond a member's control, such as errors made by employers. For example, if a previous employer had communicated the wrong address of a member to their superannuation fund, then such members may be affected.

The increased threshold also means that many more superannuation members will lose insurance as a result of having their account transferred to the ATO. We note that this situation will continue, despite Australia's well-documented under-insurance problem.

Finally, we point to the rate of return that members are promised whilst their money is held by the ATO. AIST supports the fact that small lost inactive accounts are to be indexed to CPI, however notes that the default option of most superannuation funds would have outperformed CPI over the long term. This represents a substantial opportunity cost to small lost members if a long period of time elapses between the time money is paid to the ATO and when a member claims it.

Recent changes to the superannuation system through the implementation of Stronger Super have reinforced the importance of the system acting in members' best interests. In summary, AIST will only be convinced that these changes are in members' best interests if they are accompanied by a more active program – with targets – to reunite lost super monies with their owner's active superannuation.

If you have any further questions regarding this submission, please contact Richard Webb, Policy & Regulatory Analyst on 03 8677 3835 or at rwebb@aist.asn.au .

Yours sincerely,

Tom Garcia
Chief Executive Officer