



13 July 2018

Superannuation
Productivity Commission
Locked Bag 2, Collins St East
MELBOURNE VIC 8003

Dear Commissioners

Inquiry into Superannuation: Assessing Efficiency and Competitiveness - Draft Report

Link Administration Holdings Limited (**Link Group**) welcomes the opportunity to provide this submission to the Productivity Commission in relation to its *Inquiry into Superannuation: Assessing Efficiency and Competitiveness - Draft Report (Draft Report)*.

With over 25 years' of relevant experience, Link Group is the largest and most experienced provider of administration and related services in Australia's superannuation industry. We provide a broad suite of services to government, industry, retail and corporate superannuation funds covering approximately 10 million accounts, enabling trustees to connect with members, employers and other service providers. Our scale and experience in the industry means that we are well-placed to comment on some of the matters contained in the Draft Report.

In our experience, the superannuation industry (and the administrators serving it) has undergone significant changes in recent years. Link Group has consistently demonstrated our ability to assist our clients respond to the changing environment. While Link Group remains committed to continuing to drive efficiencies on behalf of our client funds, their members and employers, we are not as confident that the rest of the industry will be in the position to respond to the plethora of changes in prospect, including implementing system changes.

Of particular relevance to the Productivity Commission is our experience in delivering good consolidation outcomes – to the benefit of members by minimising the leakage of their funds from the positive superannuation investment averment. A case study is included in our response.

As acknowledged by the Productivity Commission, Australia's superannuation system is internationally recognised as among the best in the world. Link Group also notes its own experience in other jurisdictions, where widespread regard is held for features of Australia's superannuation system; in particular, regarding compulsory employer contributions mandated across sectors and the ability for members to make additional contributions; the wide range of investment choice offered to members; the provision of insurance; and the fact that most accounts are defined contribution, minimising the impact on employers and governments. Noting the system's solid foundation, we encourage continued, but considered, improvements to build on the existing framework rather than the initiation of a wide-ranging overhaul of the existing framework.

We take this opportunity to commend the Productivity Commission for undertaking such in-depth and thorough consultation process throughout this Inquiry. This submission provides our views and responses to a selection of issues examined in the Draft Report which are of particular relevance to Link Group; it should be read in conjunction with our previous submission to the second stage of the Productivity Commission's Inquiry (dated 28 April 2017). We also **attach** our recent correspondence to the Senate Economics Legislation Committee regarding its inquiry into the Treasury Laws Amendment (Protecting Your Superannuation Package) Bill 2018 [Provisions], which includes Link Group's views on the 2018-19 Federal Budget *Protecting Your Super* package.

Should the Productivity Commission require any further information as part of the Inquiry, please do not hesitate to contact me.

Yours sincerely

Suzanne Holden
Chief Executive Officer
Link Fund Administration

1. Link Group Recommendations

Link Group Recommendation A: Duplicate Accounts

Link Group recommends introducing the following measures in order to reduce the number of duplicate accounts in the superannuation system:

- Exclude members with a single account from any consolidation process. 2017 ATO statistics suggest that 60% of members have only one account.
- Allow fund members to opt-out of consolidation should they wish.
- Continue to utilise the current definition for inactive members, taking account of all positive acts made in respect of an account (for example switching investment option, updating personal information).
- Reduce the activity threshold for lost inactive accounts from five to no lower than two years.
- Implement changes for balances under \$2,000 so as to consider any adverse impacts before increasing to \$4,000 and then \$6,000 (as per the introduction of Unclaimed Superannuation Money or "USM").
- Introduce a Cross Fund Matching process for members where their additional accounts are inactive and below the initial \$2,000 (to accelerate consolidation and protect member account balances/returns).
- Appropriately time the impact of major system changes.

Link Group Recommendation B: Improving Fund Performance

Link Group recommends the introduction of a MySuper outcomes test. By improving the standards applied to MySuper products via an outcomes test over the current principles-based framework, Link Group is confident that members will have greater visibility in assessing product performance and therefore which products are suited to their needs.

We recommend the Productivity Commission includes this measure in its final report, to improve member outcomes; promote competition in the sector; and to encourage mergers or exits where funds cannot achieve better outcomes.

Link Group Recommendation C: The Relationship between Scale and Fees

Link Group recommends the Productivity Commission adopts a cautious approach in its final report when drawing connections between a fund's perceived ability to reduce administration fees and the size of the fund. Different variables affecting administration fees beyond just scale will impact a fund's ability to reduce fees; fees are therefore not linear.

These variables include regulation and compliance costs; varying complexity of business rules; insurance arrangements; the demographics and engagement level of members; different digital product offerings; and the methods used by funds to communicate with members.

2. Our Comments

2.1 Recommendation A: Duplicate Accounts

2.1.1 Link Group Case Study

Link Group supports the reduction of duplicate accounts and has developed specific products, technology and processes to reduce the number of both intra-fund and inter-fund duplicates within the superannuation system. We have already facilitated a “Cross Fund Matching” process for eight internally-administered funds and one external fund. Under this process, identified members were sent to AUSfund, an Eligible Rollover Fund, and then reunited with an account held with another Link Group-administered fund. This exercise saw 54,000 member accounts reunited with other active accounts, and took only one month to complete after the data had been matched, protecting member balances (and returns) throughout the process.

Based on our experience in developing such products, technology and processes to manage duplicate accounts, we are strongly of the view that the superannuation industry is best placed to address the issue of duplicate accounts, with appropriate Government support, targets and controls.

2.1.2 Draft Recommendation 8 – Cleaning Up Lost Accounts

Link Group acknowledges the Productivity Commission’s comments regarding the adverse effects of multiple accounts, most commonly created via default arrangements upon new employment, or a failure to roll over existing accounts after opening a new account¹. Resulting balance erosion has obvious long-term impacts on retirement. On a positive note, we do observe that the rate of duplicate account creation is reducing, due to the use of tax file numbers (TFNs) as unique identifiers, and more straightforward search and consolidation tools (such as MyGov and SuperMatch), as noted by the Productivity Commission. Nevertheless, Link Group is of the view that unintended, duplicate accounts remain a key concern, and it is in members’ interests that this issue is addressed.

The Productivity Commission has acknowledged the complex framework used to manage lost and unclaimed superannuation accounts. According to data cited in the Draft Report, ‘lost inactive’ accounts represent around \$9 billion across 372,000 accounts². In an effort to reduce the rate of lost accounts, the Productivity Commission has recommended the Federal Government legislate to ensure all such accounts are delivered to the Australian Taxation Office (ATO) for consolidation into a member’s active account, unless the member has actively rejected consolidation, or explicitly signalled to their fund that they wish to remain in that fund (prior to the account meeting the definition of ‘lost’). As part of this effort, the Productivity Commission has also recommended that the activity threshold for lost inactive accounts is reduced from five to two years.

Link Group endorses consolidation of lost accounts into active accounts however believes that the superannuation industry (as opposed to the ATO) is best placed to be responsible for the management of accidental duplicate accounts. As noted above, we have actively supported the reduction of duplicate accounts for a number of years.

¹ Productivity Commission, *Inquiry into Superannuation: Assessing Efficiency and Competitiveness - Draft Report* (April 2018) Ch 6 – Erosion of member balances, p 245.

² Productivity Commission, *Inquiry into Superannuation: Assessing Efficiency and Competitiveness - Draft Report* (April 2018) p 254.

2.1.3 Two-Year Activity Threshold

Link Group supports the Productivity Commission's proposal to amend the 'lost inactive' activity threshold.

Our experience suggests that the application of no less than a two-year 'lost inactive' activity threshold will assist in reducing the rate of duplicate inactive accounts and thereby assist in minimising unnecessary account erosion on low-balance accounts. Importantly, this threshold will also accommodate the different reasons behind account inactivity. This may be caused by a number of reasons; for example, members may take parental leave, live overseas for a period of time, or simply take a career break.

A minimum two-year activity threshold will also take into account the fact that contributions are only required to be paid quarterly.

2.1.4 Opt-Out Provision

To give true effect to member empowerment, Link Group supports the Productivity Commission's view that members who hold more than one account must have the ability to opt-out of this process. An opt-out provision will also incentivise funds to initiate contact with members, thereby facilitating broader member engagement.

2.1.5 Gradual Threshold

Link Group suggests that the consolidation process is introduced in a measured way whereby the threshold increases gradually beginning at \$2,000 before increasing to \$4,000 and then \$6,000 (akin to the unclaimed superannuation money (USM) standard which commenced at \$200). This suggestion is drawn from internal analysis completed by Link Group considering the potential impacts on Australian superannuation funds, including higher performing funds, and the redistribution of costs to remaining members. Our analysis has revealed that, should a percentage of accounts be sent to the ATO for consolidation after meeting the definition of 'lost', remaining members will be compelled to absorb residual fund administration costs.

2.1.6 Single Account Exemption

We suggest that further provision is made to protect members who hold a single account only (noting that this pool has grown to more than 60% of members, according to 2017 ATO data). Such members are better served by having their savings retained in a fund rather than swept to the ATO, due to the higher investment return rates offered by funds in comparison to the rate of CPI at which savings will accrue under the ATO. We therefore recommend that single accounts should be exempt from the proposed consolidation process.

2.2 Recommendation B: Improving Fund Performance

2.2.1 Draft Recommendation 4 – MySuper Authorisation

The Draft Report has acknowledged the important safety function delivered by MySuper authorisation, establishing protections for members and requiring funds to meet disclosure standards. Since its establishment, MySuper has improved product comparability and assisted members in making decisions about their superannuation and has reduced some material risks to members who wish to become engaged and choose their own product.

Acknowledging these benefits, Link Group supports the Productivity Commission's view that further improvements to MySuper can be made³. We believe the original MySuper hurdle was set too low and has not delivered the expected level of improved performance from default products. Under the original scheme, MySuper authorisation was intended to establish robust protections for MySuper members; require funds to meet a high standard of disclosure; and reduce variation in member outcomes. In practice however, MySuper has continued to result in variations, such as in terms of investment strategy, performance and fees.

The Draft Report has identified that an underperforming MySuper product can reduce an average member's balance by \$375,000 or 36%, and that if members in underperforming MySuper products had been shifted to the median of top ten performing products, they would have seen a further gain of \$1.3 billion annually.

Link Group welcomes the Draft Report's recommendation that the Federal Government should legislate to allow APRA to apply the MySuper outcomes test. Under this arrangement, trustees will be required to determine annually whether their MySuper product is meeting members' best interests, and compare the product against other market participants based on fees, returns, risk and similar factors. In addition, Link Group supports the proposed requirement for funds to obtain independent verification at least every three years, at an audit-level standard, of their outcomes test assessment, comparison with other products and determination of whether members' best interests are being promoted. Funds will also be required to annually report to APRA regarding the number of members who switch from MySuper to higher-fee choice products, and adopt the *Insurance in Superannuation Code of Practice*.

Ongoing MySuper authorisation will hinge on a fund's continued ability to meet these improved standards. An outcomes test will therefore set a new standard of performance in MySuper products, with ongoing review and retesting to maintain this new benchmark.

We agree with the Productivity Commission's view that increased merger activity will likely result from the imposition of a higher threshold applied to MySuper licences, to the benefit of members. With around half of all APRA-regulated funds holding less than \$1 billion in assets, the unrealised economies of scale and membership of underperforming small funds serve to erode account balances through the imposition of higher fees, with negative implications on retirement. We therefore believe increased merge activity will lead to improved outcomes for members.

2.3 Recommendation C: The Relationship Between Scale And Fees

Link Group supports the Productivity Commission's views and understandings concerning the benefits of scale provided in the administration of superannuation. As noted in our previous submission in response to the second stage of the Inquiry, the superannuation system is characterised by a high degree of complexity, produced in part by Government-led amendments to regulation and taxation. Together with the need to access account administration expertise, the additional investment required to support this increasing regulatory burden means that scale in administration is critical.

In relation to fees, research undertaken by the Productivity Commission has revealed that Australians pay more than \$30 billion in superannuation fees per year, excluding insurance premiums, but acknowledged that average reported fees for APRA-regulated funds have

³ Productivity Commission, *Inquiry into Superannuation: Assessing Efficiency and Competitiveness - Draft Report* (April 2018) 13.2 - A higher standard of performance, p 464.

fallen since the global financial crisis⁴. Fees will have obvious impacts on account balance at retirement.

While we agree that fees can have a significant impact on retirement balance and that there is potential for improvement by shifting members to lower-fee, higher-performing funds, Link Group believes that the relationship between the size of a superannuation fund and an ability to drive fees down is more complex than it appears. This is due to a number of variables affecting administration fees. For example, administration fees can be impacted by the regulatory burden associated with risk and compliance functions; the complexity of business rules; insurance arrangements; the demographics and engagement level of members; different digital product offerings selected by funds; and the methods used by funds to communicate with members.

⁴ Productivity Commission, *Inquiry into Superannuation: Assessing Efficiency and Competitiveness - Draft Report* (April 2018) Ch 3 – Fees and costs, p 127.

3. Our Other Observations

Link Group also takes the opportunity to make two brief observations on the Productivity Commission's recommendation to promote fund mergers and for insurance for members aged under 25 to be provided on an opt-in basis.

3.1. Superannuation Fund Mergers

Link Group believes that Draft Recommendations 6 (Reporting on Merger Activity) and 7 (Capital Gains Tax Relief For Mergers) will definitely assist in encouraging fund mergers via improved reporting activity and secured capital gains tax liability relief.

Link Group supports both proposals.

3.2 Insurance

Link Group is of the view that insurance is a crucial element for members and our data and experience highlights that many members aged under 25 and/or low balance members are beneficiaries of this cost effective and accessible form of insurance. We acknowledge the impact of insurance fees on member balances but conversely note the cost benefits for members when insurance is provided via funds.

Link Group does not support Draft Recommendation 14 (Opt-In Insurance For Members Under 25), preferring all Australian workers be automatically included in fund insurance arrangements.

4. Attachment

Attached is Link Group's response to the Senate Economics Legislation Committee regarding its inquiry into the Treasury Laws Amendment (Protecting Your Superannuation Package) Bill 2018 [Provisions], which includes Link Group's views on the 2018-19 Federal Budget *Protecting Your Super* package.



Link Administration Holdings Limited
ABN 27 120 964 098

9 July 2018

Senate Economics Legislation Committee
PO Box 6100
Parliament House
Canberra ACT 2600
By email: economics.sen@aph.gov.au

Dear Sir/Madam,

**Treasury Laws Amendment (Protecting Your Superannuation Package) Bill 2018
[Provisions] Inquiry**

Link Administration Holdings Limited (**Link Group**) welcomes the opportunity to provide our views to the Senate Economics Legislation Committee in relation to the *Treasury Laws Amendment (Protecting Your Superannuation Package) Bill 2018 [Provisions] Inquiry*.

With over 25 years of relevant experience, Link Group is the largest and most experienced provider of administration and related services in Australia's superannuation industry. We provide a broad suite of services to government, industry, retail and corporate superannuation funds covering approximately 10 million accounts, enabling trustees to connect with members, employers and other service providers.

Consideration of the Productivity Commission's Draft Report

We note the Productivity Commission's May 2018 response to the *Inquiry into Superannuation: Assessing Efficiency and Competitiveness - Draft Report (Draft Report)*. Some two and half years ago, the Government tasked the Productivity Commission to, amongst other things, develop alternative models for allocating default fund members to products (referred to as "Stage 2").

After much consideration, the Productivity Commission's draft findings and recommendations regarding account consolidation are well aligned with Link Group's views and the objectives we are seeking to achieve. While we are pleased that the Productivity Commission is broadly consistent with Link Group's position, it is at odds with the proposed legislation (Protecting Your Superannuation Package) which does not contain a provision for member opt-out and has an inactivity trigger of 13 months versus two years.

Link Group's experience suggests that a 13 month period of inactivity does not necessarily equate to members' disinterest or lack of awareness of accounts. Such inactivity may be caused by a number of reasons: for example, members may take parental leave, live overseas for a period of time, or simply take a career break. This is also an issue given that contributions are only required to be paid quarterly.

Link Group intends to submit our views to the Productivity Commission in response to its Draft Report and will provide a copy of that submission to the Senate Economics Legislation Committee following its delivery on 13 July 2018.

We request that the Senate Economics Legislation Committee take the Productivity Commission's view as set out in the Draft Report into account.

Protecting Your Super Package

This letter should be read in conjunction with our **attached** previous correspondence to Treasury in response to the *Protecting Your Superannuation Package – Exposure Draft* (dated 31 May 2018) submitted in response to the exposure draft legislation, which outlines Link Group's position in greater detail (**Submission**). (We note that our Submission was submitted in confidence, but we believe that its contents should be brought to the attention of the Senate Economics Legislation Committee.)

Link Group supports the protection of member account balances and the Government's desire to reduce the number of accounts in the system. Link Group is of the view however that the proposed legislation, in its current form, will have unintended and detrimental impacts on both members and the superannuation industry. We believe the industry remains best placed, with appropriate Government support, targets and controls, to reduce the number of inactive accounts in the system as well as to invest the balances to build wealth for members' retirements.

Our key recommendations are set out below with further details provided in our Submission:

1. Exclude members with a single account from any consolidation process. 2017 ATO statistics suggest that 60% of members have only one account. These members will likely be disadvantaged by the proposed ATO consolidation, as their retirement savings will accrue only at CPI, rather than at super fund investment rate of returns – and therefore should be excluded from legislative proposals.
2. Allow fund members to opt-out of consolidation should they wish.
3. Increase the "inactive" trigger from 13 months to 24 months.
4. Implement changes for balances under \$2,000 so as to consider any adverse impacts before increasing to \$4,000 and then \$6,000 (as per the introduction of Unclaimed Superannuation Money or "USM").
5. Continue to utilise the current definition for inactive members, taking account of all positive acts made in respect of an account (for example switching investment option, updating personal information).

Should the Committee require any further information, please do not hesitate to contact me.

Yours sincerely,

Suzanne Holden
Chief Executive Officer
Link Group Fund Administration



2018 Federal Budget

Response to Exposure Draft: Protecting Your Super Package

31 May 2018

1 Background

Link Administration Holdings Limited (**Link Group**) is pleased to respond to the proposed measures relating to elements of superannuation included in the 2018 Federal Budget (**Budget**). Link Group is Australia's largest provider of administration and related services to government, industry, retail and corporate superannuation funds covering approximately 10 million accounts. This places us in a unique position to comment on the impact of the proposed changes to superannuation in the Budget. Our submission acknowledges the impact on members and the industry and proposes alternative approaches that will address the Government's objectives whilst protecting the members' best interests.

The timetable set out in the proposed Budget measures is extremely tight. Subject to our clients' readiness, Link Group is well positioned to support an efficient roll out of the measures. We cannot be certain however that the entire industry will be able to deliver in the proposed time frame.

2 Our Proposals

Link Group supports the protection of member account balances and the Government's desire to reduce the number of accounts in the system. Link Group also supports the Government and industry moves to increase member engagement with their superannuation outcomes; Link Group however recognises that engagement does not necessarily equate to account activity. Link Group has a history of actively providing funds and members with products, services and technology to reduce both intra-fund and inter-fund duplicates.

Link Group has concerns regarding the detrimental impact of the proposed reforms, in particular the possibility that members' balances (even if low) will be removed from the superannuation investment environment. Link Group believes that the industry remains best placed, with appropriate Government support, targets and controls, to reduce the number of inactive accounts in the system as well as to invest the balances to build wealth for members' retirements. For example, the median five year return for growth fund (61% to 80% growth assets) to 30 June 2017 as measured by Chant West was 10.4% p.a. – compared to CPI over the same period of 1.97% p.a.

To deal with a number of unintended consequences arising from the proposed Budget measures, we have two propositions.

Our Recommendation protects the majority of Australians who have only one superannuation account. To give true effect to member empowerment, our Recommendation also proposes to allow those members with multiple accounts to opt-out of any consolidation process. Our Recommendation suggests the Government adopt a different approach, whereby superannuation funds are compelled to address low balance dormant accounts by a nominated date, or face compulsory consolidation of member balances by the ATO.

We believe that this is the best and most effective way to achieve the desired policy outcomes.

Our Alternative suggests a set of amendments to the proposed Budget measures.

Our Recommendation

Link Group supports the policy intent of the proposed Budget measures, and believes that the industry can do more to assist in reducing the number of inactive and duplicate accounts. Our Recommendation provides a more effective manner to achieve this.

We recommend that legislation be implemented to:

- exclude members with a single account from any consolidation process;
- allow fund members to opt-out of consolidation should they wish;
- force low balance, dormant accounts to be consolidated into the members' highest balance account – targets to be based on either a percentage of the fund's inactive accounts or a tiered dollar threshold by each of 30 June 2019, 30 June 2020 etc; and
- ensure that if a fund does not meet the targets within the timeframes, and a member has not opted-out, relevant balances be transferred to the ATO.

We believe this is the most efficient and effective way to reduce the number of dormant accounts in the system, whilst avoiding the unintended consequences likely to occur under the proposed Budget measures.

If our above preferred option is not considered appropriate, we suggest revisiting the proposed Budget measures with the addition of certain key amendments.

Our Alternative

We recommend that the proposed Budget measures be amended to:

- exclude members with a single account from any consolidation process;
- allow fund members to opt-out of consolidation should they wish;
- continue to utilise the current definition for inactive members, taking account of all positive acts made in respect of an account (for example switching investment option, updating personal information);
- increase the "inactive" trigger from 13 months to 24 months;
- implement changes for balances under \$2,000 so as to consider any adverse impacts before increasing to \$4,000 and then \$6,000 (as per current USM); and
- introduce a Cross Fund Matching process for members where their additional accounts are inactive and below the initial \$2,000 (to accelerate consolidation and protect member account balances/returns).

3 Analysis

Link Group's concern with the proposed Budget measures is that they may have unintended impacts on:

Members

- The significant number of members who only hold one superannuation account (which has grown to more than 60% of members according to the 2017 ATO data, as the proportion holding multiple accounts has fallen commensurately). These members will likely be disadvantaged by the proposal to sweep these accounts to the ATO because

their retirement savings will accrue only at CPI rather than at super fund investment return rates, and therefore should be excluded from these proposals.

- The cohort of relatively inactive members who will be removed from both the insurance arrangement and/or the funds, and the associated increase in premiums and fees for the remaining members.
- Members who opt-in for insurance who we believe are likely to attract higher premiums than under the current arrangements.

Industry

- IT system changes required to implement these changes and the likely cost.
- Funds will be required to manage the sudden (and unanticipated) impact of sweeping account balances under \$6,000 which has both cost and liquidity consequences versus the measured introduction of the phasing of unclaimed superannuation monies which started at \$200.
- The relevance (and complexity) of introducing a fee cap for low balances once the inactive accounts are removed from the system.

In its current format, the proposed Budget measures will considerably increase the administration burden for superannuation funds, whilst increasing costs to members. Additionally, based on our experience, the suggested timeframe for some funds to adopt the proposed Budget measures will be at best challenging, and at worst, unachievable.

4 Other Observations

Below we also outline some other areas in which we believe significant amendments are necessary to protect members from being financially disadvantaged by the proposed Budget measures.

Issue	Recommendations
Insurance Changes	<ul style="list-style-type: none"> • Mandate the Insurance Code to ensure that each fund addresses the needs of their specific sector and risk profile. • Manage the implementation to accommodate necessary system changes and renegotiation of Insurance contracts.
Fee Cap and Exit Fees	<ul style="list-style-type: none"> • Review and simplify the rules associated with fee caps in order to limit system development, complexity and risk. • Address rules for members leaving part way through the year and back dated contributions. • Manage the implementation to account for system development and member contributions.

5 Link Group's Perspective on Fund Administration

5.1 Link Group's Experience

Link Group is a market leading provider of technology-enabled administration solutions, continually innovating to meet client needs. Link Group's Fund Administration Division combines its proprietary technology, process and people to deliver a quality, comprehensive service offering to its superannuation clients, supporting a stakeholder base of approximately 10 million superannuation account holders. Link Group supports clients across all superannuation fund sectors including government, industry, retail and corporate.

Link Group's core administration services include:

- Data management and reporting
- Member communication
- Contribution processing
- Processing of rollovers between funds
- Statement processing
- Contact centre operations
- Client accounting
- Insurance claim administration
- Online portals for members and employers, and
- APRA and ATO reporting.

Link Group's core administration business is complemented by a range of additional services to offer a comprehensive fund administration solution, and include:

- Clearing House services
- Financial planning advice, and
- Data analytics.

5.2 System Changes

The superannuation industry continues to manage increasing regulatory complexity. Link Group is well positioned to effectively implement system changes that will be necessitated by the proposed Budget measures; we however note that other bodies simply may not be able to amend their platforms in the required timeframe.

We also note that there may be a large cost to the industry to implement system changes. Again, while Link Group is well positioned to implement system changes efficiently, we question the unintended cost to others within the industry. For example, the Affiliation of Superannuation Practitioners estimated that the industry cost for Member Account Attribute Service (MAAS) and Member Account Transaction Service (MATS) implementation was at least \$150 million and could have been as high as \$250 million. (Link Group's own costs accounted for less than \$10 million of this.)

5.3 Inactive Accounts and Member Engagement

As set out in our Recommendation, providing members with the opportunity to opt-out of consolidation would address the question of member engagement.

Further, Link Group's experience suggests that the proposed measure of inactivity (that is, 13 months without a contribution) does not necessarily equate to members' disinterest or

lack of awareness of accounts. Inactivity may be caused by a number of reasons; for example, members may take parental leave, live overseas for a period of time, or simply take a career break.

Link Group acknowledges the steps that both the Government and industry have been taking to increase member engagement and encourages the Government to not simply equate account inactivity with disengagement.

An example of misapplication of “inactive” is the unpaid Superannuation Guarantee (SG) payments. In 2017, an inquiry into SG non-payment by the Senate Economics References Committee revealed that there are a number of employers who are still not consistently making monthly or quarterly payments. Under the proposed measures, accounts could potentially be sent to the ATO without a member’s knowledge because their employer is not paying contributions on time. Whilst the Government has introduced a range of proactive measures to address non-payment and late payment of SG and provide greater visibility of this to members, the impact of these actions has not yet been fully realised. If accounts are swept too early, a duplicate account will be created when the employer makes the outstanding contribution/s. As per our Alternative proposal, we believe the above can be managed effectively if the trigger of inactivity is increased to 24 months.

5.4 Link Group’s Track Record in Matching Accounts

For members who have more than one account (including an inactive account), Link Group has already demonstrated its capability to reunite members with their lost accounts. Eight Link Group administered funds, along with one external fund, recently undertook a Cross Fund Matching process. Members identified under this process were sent to AUSfund (an Eligible Rollover Fund) and were reunited with an account they have with another Link Group administered fund.

This exercise saw 54,000 member accounts reunited with other active accounts. This exercise was completed within a month of the data being matched and members’ balances (and returns) were protected during the process. We propose that this exercise could be extended to include low balance, inactive accounts; these accounts could first be sent to an Eligible Rollover Fund, and then quickly reunited with another account where they can earn market returns.

In support of the rolling statutory/phasing deadline in our Recommendation, Link Group’s technology, member insight and capability to deliver accelerated low balance and inactive account consolidation offers the industry something beyond that which can be provided by the ATO. We therefore believe that the industry remains best placed to reunite members with inactive, duplicate accounts.

6 Conclusion

The timetable set out in the proposed Budget measures is extremely tight. Subject to our clients’ readiness, Link Group is well positioned to support an efficient roll out of the measures. We cannot be certain however that the entire industry will be able to deliver in the proposed time frame.

Recognising the Government’s desired policy outcomes, our proposals are workable suggestions to improve the process and lessen the unintended consequences for members and the industry alike.

Link Group is available to discuss the contents of this submission with Treasury as required.

7 Correspondence

Correspondence in relation to Link Group's confidential submission should be directed to:

Suzanne Holden
Chief Executive Officer
Link Group Fund Administration