



8 September 2016

Ms Angela MacRae and Ms Karen Chester

Superannuation

Productivity Commission
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Via online submission at

<http://www.pc.gov.au/inquiries/current/superannuation/competitiveness-efficiency>

Dear Ms MacRae and Ms Chester

Re: Submission - Inquiry into the Competitiveness and Efficiency of the Superannuation System

The purpose of this submission is to provide commentary and insight on the efficiency of the superannuation system, with particular reference to processes and regulation aimed at reducing the number of small lost and unclaimed super accounts.

Attached is a report prepared by AUSfund, an Eligible Rollover Fund (ERF) established in 1994 with the aim of reuniting people with their unclaimed super money.

If you wish to discuss this report and its recommendations in further detail, please contact me.

Yours sincerely,

Cath Bowtell

Chief Executive



Submission in response to Productivity Commission Inquiry into the Competitiveness and Efficiency of the Superannuation System

Lost and inactive superannuation accounts

At a minimum an efficient retirement savings system should protect against the erosion of members' capital through fees and charges. Over time, the amount put into super should at least be equal to the amount that members can access upon retirement.

Similarly, an efficient system should discourage the duplication of fees and charges, particularly for consumers that are not actively choosing to participate in the retirement savings system.

Incidence of small lost and inactive accounts

The growth of temporary, casual and part-time jobs means that the number of inactive accounts continues to grow.

Table 1: Number of inactive super accounts

	Member accounts	Benefits (\$'000)
Whole super sector	27,986,740	1,175,058,548
Active	19,357,887	1,066,075,782
Inactive	7,949,379	98,149,429
Lost	631,756	6,947,308
In ERFs	3,496,236	4,923,341
Active	931,440	2,113,879
Inactive	2,475,457	2,458,832
Lost	89,339	350,630

Source: APRA Annual Fund Level Superannuation Statistics, 30 June 2015.

Impact of small lost and inactive accounts

Low balance, inactive and lost accounts are predominantly held by young people who are more likely to be impacted by short-term employment and lower incomes.

Table 2: Average superannuation account balance by age and gender

Age	Mean superannuation balance			Median superannuation balance		
	Male	Female	Persons	Male	Female	Persons
15-19 years	375	262	320	-	-	-
20-24 years	6,265	3,941	5,118	2,400	1,800	2,000
25-29 years	18,072	14,812	16,441	12,000	9,000	10,000
30-34 years	36,373	25,549	30,937	25,000	18,000	20,000
35 and over	55,279+	34,812+	44,938+	40,000+	21,000+	30,000+

Source: ASFA Superannuation account balances by age and gender, 2013/14 data, released December 2015.

The abolition of Member Benefit Protection has left a policy gap in respect to protecting small accounts that can be quickly eroded, and has seen a decline in the use of rollover funds to act as a clearing house for inactive accounts. While the ATO increased its focus on account consolidation in recent years, there is room for further government action.


Erosion of capital through fees and charges

Research undertaken by Rice Warner on behalf of Industry Fund Services suggests that on average a \$500 account in the average MySuper product would be eroded by fees and insurance within two years, well before the five year deadline for compulsory transfer. The same account would continue to grow in an average ERF. Over the longer term, accounts as high as \$6,000 were shown to erode to around 75% of their original value over 10 years.

Table 3: Member projection analysis for an inactivity period of 10 years in an average ERF vs an average super fund (with and without default insurance)

Initial Balance	Median account balance after an inactivity period of 10 years (\$)		
	Average ERF	Average MySuper Account	
		No insurance	Default insurance
\$500	522	Nil by year 8	Nil by year 2
\$1,000	1,153	667	Nil by year 3
\$4,000	4,994	5,520	1,741
\$6,000	7,546	8,756	4,977

Source: RiceWarner ERF Research, October 2015



Super System Efficiency was adversely impacted by the removal of Member Protection

Lack of regulation of MySuper fund practices for lost and inactive accounts adversely impacts super system efficiency for low paid workers.

Since the abolition of Member Protection, the use of ERFs has declined and accounts are increasingly held by Funds until they reach the criteria for mandatory transfer to the ATO. AUSfund has observed a decline in Participating Fund transfers of approximately 70% since the introduction of MySuper regulations.

While Fund members retain the benefit of a full service account, including investment choice and insurance, in practice the application of fees (and where applicable insurance premiums) can quickly see these benefits eroded.

Where transfers are made, exit fees can vary from nil to over \$100 for even the smallest accounts. Multiple accounts with multiple administration fees and insurance fees being applied are a huge cost on superannuation savings of Australian workers.

At the same time, transfer to the ATO is sub-optimal for all but the smallest accounts.

Rollover funds can play a role in account consolidation

Prior to the abolition of Member Protection, Eligible Rollover Funds played a significant role in account consolidation. The table below, drawn from data provided by AUSfund, illustrates the potential for ERFs to reunite inactive accounts with active super accounts.

Table 4: AUSfund transfers in and out with and without the Member Protection and Cross Fund Matching provisions

		Transfers into AUSfund			Transfers Out via Cross Fund Matching		Transfer Out via Individual Rollout	
		Participating Funds	Average account balance	Members	Members	Success rate %	Members	Success rate %
Member Protection	2009/10	58	277	341,096	64,417	19%	58,414	17%
	2010/11	51	279	174,695	78,325	45%	44,211	25%
	2011/12	55	279	281,190	53,498	19%	36,299	13%
	2012/13*	46	287	213,230	122,516	57%	40,785	19%
	Average		\$281	252,553	79,689	35%	44,927	19%
No Member Protection	2013/14	24	532	49,179	-	-	26,422	
	2014/15	13	616	36,512	-	-	21,218	
	2015/16	10	468	24,410	-	-	15,508	
	Average		\$539	36,700	-	-	20,049	

*Cross fund matching was not carried out since 2013 due to the requirement for member consent to 'match' out an account. This impediment has recently been removed and AUSfund is in the process of reactivating its cross fund matching program.


While the ATO is actively encouraging consumers to consolidate their super accounts, its activities are restricted to consumers with a MyGov account.

Recommendations

Recent amendments to SIS Regulations to facilitate cross fund matching are an important reform, but do not go far enough.

The following reforms would foster a more efficient rollover sector.

1. APRA should monitor the policies adopted by RSEs in respect to small and inactive accounts, including if required through the adoption of a prudential standard. This would include requiring Trustees to have regard to the point at which capital is eroded by fees and charges.
2. The regulations should facilitate transfer of ATO held monies to rollover funds. At present ERFs can only accept rollovers from RSEs, and not from the ATO.



Moreover, some ERFs charge high fees and deliver poor investment performance while others compare more than favourably with the lowest cost MySuper funds. APRA should increase its supervision of the ERF sector to ensure ERF trustees are meeting their regulatory obligations, and should pay particular attention to related-party arrangements in the ERF sector.

Definitions

Inactive member account represents a member account that has not received any contributions, rollovers or transfers, or made any benefit payments within the last two years but which has not been closed as the member is contactable.

- *Includes: members that joined an RSE, as a standard employer-sponsored member, more than two years ago and there have been no contributions or rollover amounts in respect of that member within the past five years.*
- *Excludes: lost member accounts and active member accounts.*

Lost member account represents the account of a member who is inactive and is uncontactable or who transferred from another RSE as a lost member.

- *Excludes: members that have confirmed their address in the past two years, members that have indicated that they want to remain a member, inactive member accounts and active member accounts.*

Reference: SIS Regulations r. 1.03A