

**Review of the Superannuation Industry (Supervision) Act 1993
and Certain Other Superannuation Legislation**



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SUBMISSION BY :

**JACQUES MARTIN INDUSTRY FUNDS
ADMINISTRATION PTY LTD**

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Of those matters that were raised in the Commissioners' meeting with JM back in April I would be grateful if you could respond to the following.

1. Is it correct that JM funds cover 3 million members and that 12000 of these members are over 65?

A) Yes, the funds administered by Jacques Martin Industry Funds Administration ("JMIFA") cover over 3 million members.

In excess of 21, 000 of these members are over age 65.

2. What is the cost of the 6 monthly mail out to these over 65 members to determine their employment status? In the meeting we were told it costs around \$1.50 per letter to conduct the lost member mail out.?

A) The approximate cost of the 6 monthly mail out to these over 65 members to determine their employment status is estimated to be around \$1.50 per letter sent plus additional labour costs of approximately \$7,000 per mail out.

3. How many lost member accounts does JM deal with on an annual basis? Are these simply accounts that have been inactive for 2 years that require address verification prior to forwarding their accounts to the ATO? What is the cost of this (ie. how many lost member/inactive accounts * how many letters * cost per letter)?.

A) "Lost members" are either members for whom mail has been returned or those for whom a contribution has not been received for more than 2 years and their address has not been verified.

The funds which JMIFA administer (excluding the eligible roll-over fund) had approximately 350,000 lost members between them as at 31 st December 1999 (this figure should not have materially altered since then). As the ATO specifications for reporting lost do not distinguish between those members with returned mail and those who are "two-year inactive" we do not have a breakdown of these figures readily available, although this could be organised if required.

If an account has been inactive for more than two years they do require address verification in order for the member to be considered as having been "found". In the absence of address verification, the member is considered lost and information with respect to that member must be forwarded to the ATO as part of the next half-yearly lost member reporting. The account balance is not transferred to the ATO - it remains in the fund, accruing earnings and attracting "member protection".

Generally the funds do not attempt to verify the member's address by sending a letter to them as this has proven both ineffectual and expensive. Members classically fail to respond to requests to verify their address, even if the additional

expense is incurred of enclosing "reply-paid" envelopes, as they cannot see the point of the exercise as the trustee clearly has their current address to write to them in the first place!

4. Can we cite JM on all of the above information?

A) Yes

5. Also, we have drafted the following comments on concerns expressed by JM regarding the lost member verification process. This was based on our notes from the meeting. Are you happy for us to attribute this to JM. Please feel free to elaborate on the points made or change the words.

Suggested alternate wording: -

"In terms of requirements governing lost member accounts, the costs are likely to be even greater (than small member accounts) due to the administrative procedures required by the legislation in order to find lost members.

Jacques Martin Industry Funds Administration pointed to inadequacies with the lost member definition in the SIS legislation and the process of verification, both of which created additional costs. It mentioned that where members had been inactive for two years, they are assumed to be lost, and in order to find the member an address verification requirement is activated. Where contact is unsuccessful the fund must pass on the member's details to the ATO who may then write to the member. Jacques Martin Industry Funds Administration considered that this can cause considerable Annoyance among those members, who cannot understand why the fund has reported them as lost when they are still in receipt of communication material from the fund. In addition, trustees repeatedly referred to the cost of member Protection with respect to lost members."

Jacques Martin Industry Funds Administration pointed out some anomalies with the lost member legislation, including the inconsistency of specifying a two-year period with respect to superannuation (a long-term investment with an occupational nexus, where you would anticipate periods on inactivity) where the various state based legislation governing such matters as inactive bank accounts generally specify periods of six to seven years. Specifying a longer period would considerably reduce the number of members who are considered to be inactive, as the longer the period the greater the chance that the member would contact the fund at some stage.

In addition, there does not appear to be an underlying policy rationale for protecting "lost" members (as opposed to "small").

When announced in the Treasurer's 28th June 1994 "Statement on Superannuation Policy", protection of accounts against erosion from fees and charges was only ever intended to apply to "small" amounts (indeed it used to be

referred to as the "small amount" problem \ measure). The figure of \$1,000 was selected as the amount which could safely be considered to be "self -sustaining".

The "small amounts measure" was to be accompanied by separate measures with respect to lost members, which was to report them to the ATO to form the Lost Members Register to enable members to relocate their accounts. Unfortunately, although you can clearly be "lost" and not "small", or vice versa, the distinction between the two concepts became lost in the drafting of the SIS regulations.

It simply does not make sense as a matter of policy to "protect" lost members - what members are being protected against is erosion from fees and charges, not from being lost. Whether a member requires protection is purely and simply a function of size, not whether or not the account has a "lost" status.

Otherwise identical members, with large (over \$1,000) balances, with the only difference being that one member is "lost" and the other is not, would find that in a period of poor returns the former would be protected but the latter would not - for no apparent good reason."

Your help is very much appreciated.

John P