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Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

9 November 2012

Subject:* *Treasury Legislation Amendment (Unclaimed Money and Other Measures) Bill 2012

Dear Sir/Madam

Thank you for the opportunity to comment on this Bill. We have restricted our comments to Schedule 4 of the Bill which amends the *Superannuation (Unclaimed Money and Lost Members) Act 1999*.

Schedule 4 of the Bill requires the following accounts to be transferred to the ATO:

- Accounts of under $2,000 (increased from $200) for lost members
- Inactive accounts i.e. accounts which have not received any contributions or rollovers in the last 12 months (reduced from five years) of any size for unidentifiable lost members

A lost member is defined (in the Superannuation Industry (Supervision) Act to mean members:

1. for whom the fund has never had an address; OR
2. for whom two pieces of correspondence have been returned unclaimed; OR
3. who have been a member for more than two years, no contributions or rollovers have been received for more than 5 years and the member was originally a standard employer sponsored member; OR
4. who joined as a lost member.

An unidentifiable member is one for whom the trustee is satisfied that it will never be possible, having regard to the information reasonably available to the provider, to pay an amount to the member.

Schedule 4 also includes provisions for the addition of interest to amounts transferred to the ATO.

Executive summary

We are concerned with:
- the short period in which trustees will have to make the necessary system changes
- the breadth of the definition of lost member.

It is important to note the definition of lost members includes:
- members for whom contributions continue to be received (generally from the member's employer) but where the fund does not have the member's address or two pieces of correspondence have been returned unclaimed
- members who can be readily contacted (the fund has their address) but their account is inactive (no contributions or rollovers have been received for five years).

There are likely to be many cases where members' benefits will be transferred to the ATO even though the member is not actually 'lost'.

Our submission includes the following four recommendations:

1. ***Implementation of these changes should, subject to our further comments below, be deferred until the second six-monthly reporting day after Royal Assent (rather than the first reporting day).*** This will provide trustees with a more appropriate time (at least six months) to implement the necessary systems changes.

2. ***Transfers to the ATO should not be required in respect of active accounts.*** This will reduce the likelihood of having to regularly transfer a member's account (potentially each six months) to the ATO and hence reduce the likelihood of unnecessary withdrawal fees and the loss of insurance cover.

3. ***A longer time period needs to be given so Trustees can contact members with inactive accounts and give them the opportunity to opt-out of the transfer to the ATO.*** This will enable trustees to contact affected members to give them the option to maintain their account, retain insurance cover and avoid unnecessary withdrawal fees.

4. ***The changes in Schedule 4 (other than the addition of interest) should be deferred and integrated with the requirements for intra and inter fund transfers.*** This will enable a more efficient overall process to reduce the number of accounts whilst providing members with the option to retain existing accounts where this is in their interests.

We expand further on these recommendations below.

1. Timing

The proposed changes will require additional changes to superannuation fund administration systems and processes. The industry is already gearing up for the introduction of the Stronger Super, SuperStream, FOFA and other changes, all of which have very tight timeframes and require significant changes to systems

These changes will add further stress to an already overloaded system.

> ***Recommendation 1: Implementation of these changes should, subject to our further comments below, be deferred until the second six-monthly reporting day after Royal Assent (rather than the first six monthly reporting day).***

2. Transfer of small active accounts for lost members

The proposed changes will often work against the interests of members.

In particular, we note many lost members are not lost in the true sense of the word, even though they technically satisfy the definition of lost member. In fact, in many cases, contributions continue to be received for such members. This particularly applies to members who are classified as lost because either the trustee does not have their address or has had two pieces of correspondence returned unclaimed.

Currently (except for inactive accounts for unidentifiable lost members), the transfer of accounts to the ATO is only required for amounts up to $200. Even with this low amount, we regularly receive further contributions for such members after transferring their account to the ATO. This requires the member's membership to be re-established with further costs being incurred. Increasing the transfer limit to $2,000 will significantly increase such occurrences.

Potentially a member's account could be transferred to the ATO every six months with, in many cases, a withdrawal fee being incurred each time and the member losing valued insurance cover. This event is not in the best interest of members.

> ***Recommendation 2: Transfers to the ATO should not be required in respect of active accounts.***

3. Transfer of small inactive accounts for lost members

Whilst there may be a greater argument for the transfer of inactive accounts, it is possible many members who are only classified as lost because their account has received no contributions or rollovers in the last five years are satisfied with their existing account and want to retain it.

In particular, their account may have been maintained in order to provide insurance cover which the member may not be able to obtain elsewhere. For example, this may occur where a member has established a self managed superannuation fund. The majority of their benefit may have been transferred to their self managed fund with part of their benefit retained to provide ongoing insurance cover. Alternatively, the member may be concerned they will not satisfy their new fund's medical evidence requirements and hence may be unable to obtain cover in their new employer's fund. We note such members are not classified as lost if they have indicated by a positive act (for example deferring a benefit in the fund) that they wish to continue to be a member. However, generally there is no positive indication given to the trustee, rather the benefit is retained in the fund because the member has taken no action.

Transferring such accounts to the ATO would result in the loss of such insurance cover and generally incur a withdrawal fee. This event is not in the best interest of members.

We expect many trustees would be keen to contact such members to give them the opportunity to opt-out of the transfer to the ATO. We note many members with inactive accounts can be contacted (the trustee has their address), yet they are classified as lost members because they have not had the need to contact the fund for five years. Such members would have been receiving regular correspondence during that period. A member could permanently remove themselves from being a lost member by indicating they wish to remain in the fund.

> ***Recommendation 3: A longer time period needs to be given so Trustees can contact members and give them the opportunity to opt-out of the transfer to the ATO.***
>
> (Note this would initially be satisfied by the adoption of our Recommendation 1. Trustees would also be able to contact members whose accounts are about to become inactive in future.)

4. Inter and intra fund transfer requirements

The Government is also proposing legislation requiring the consolidation of accounts within and between superannuation funds. Such legislation is likely to result in the consolidation of many of these so called lost accounts if they are not transferred to the ATO.

It is expected trustees will also need to contact members, particularly those with inactive accounts in relation to such transfers. Much greater efficiencies could be achieved by integrating the changes included in Schedule 4 of the Bill with the intra and inter fund requirements.

> ***Recommendation 4: The changes in Schedule 4 (other than the addition of interest) should be deferred and integrated with the requirements for intra and inter fund transfers.***

Please contact the writer on or by email on if you have any queries on this submission.

Yours sincerely

John Ward
Manager, Research and Information

APPENDIX 1: WHO IS MERCER?

Mercer is a leading global consulting leader in talent, health, retirement and investments. Mercer helps clients around the world advance the health, wealth and performance of their most vital asset – their people.

Mercer also provides customised administration, technology and total benefits outsourcing solutions to a large number of employer clients and superannuation funds (including industry funds, master trusts and employer sponsored superannuation funds). We have $55 billion in funds under administration locally and provide services to over 1.3 million super members and 15,000 private clients. Our own master trust, the Mercer Super Trust, has approximately 260 participating employers, 240,000 members and more than $15 billion in assets under management.