7

Incentives and system improvements

Co-contributions

Overview

7.1 The co-contribution scheme is an initiative to assist eligible individuals—low and middle income earners—to save for their retirement. The scheme was established by the *Superannuation (Government Co-Contribution for Low Income Earners) Act 2003*. As was noted by the Hon Peter Slipper MP in the bill's second reading speech:

> The government co-contribution will replace the existing taxation rebate for personal superannuation contributions made by low-income earners with a more generous co-contribution.[1]

7.2 Initially, the government's co-contribution was $1.00 for every $1.00 contributed, up to a maximum of $1000 for individuals earning $27 500 or less. The amount of co-contribution reduced 8c for every $1.00 earned above $27 500, phasing out completely at $40 000.[2]

7.3 In the 2004–05 budget, the government announced changes to the co-contribution, which are still in place today. Individuals earning $28 000 or less per annum are now entitled to a co-contribution of $1.50 for every $1.00 contributed, up to a maximum co-contribution of $1500. The amount

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1 The Hon P Slipper MP, Parliamentary Secretary to the Minister for Finance and Administration, *House of Representatives Hansard,* 29 May 2003, p. 15394.

2 *Superannuation (Government Co-Contribution for Low Income Earners) Act 2003*, s. 10A, pp. 6–7.

of co-contribution reduces 5c with every $1.00 earned above $28 000, phasing out at $58 000.[3] Table 7.1 below demonstrates the current co-contribution.

Table 7.1 Current co-contribution phase out

Personal Contributions	$1000	$800	$500	$200
Total Income				
$28 000 or less	$1500	$1200	$750	$300
$30 000	$1400	$1200	$750	$300
$36 000	$1100	$1100	$750	$300
$40 000	$900	$900	$750	$300
$46 000	$600	$600	$600	$300
$50 000	$400	$400	$400	$300
$56 000	$100	$100	$100	$100

Source L Neilson, *Superannuation ready reckoner*, Parliamentary Library, Canberra, p. 4.

7.4 Co-contributions are treated as undeducted contributions and thus are not taxed on entry or exit.

7.5 Currently, to be eligible for the co-contribution individuals must:

- make undeducted contributions (after-tax, not SG) to their superannuation fund;
- earn 10% or more of their total income from eligible employment;
- earn less then $58 000 per annum; and
- be under 71 years of age at the end of an income year.[4]

7.6 However, the changes proposed in the 2006 budget would extend the co-contribution to unincorporated self-employed. The proposal is that people must earn 10% or more of their total income from carrying on a business, eligible employment or a combination of both[5], rather than *only* from eligible employment.

7.7 In the 2003–04 financial year, 650 000 people participated in the co-contributions scheme, with the government contributing around $327 million.[6] As figure 7.1 below demonstrates, the number of people who

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3 *Superannuation (Government Co-Contribution for Low Income Earners) Act 2003* (as amended), s. 10A, pp. 6–7.

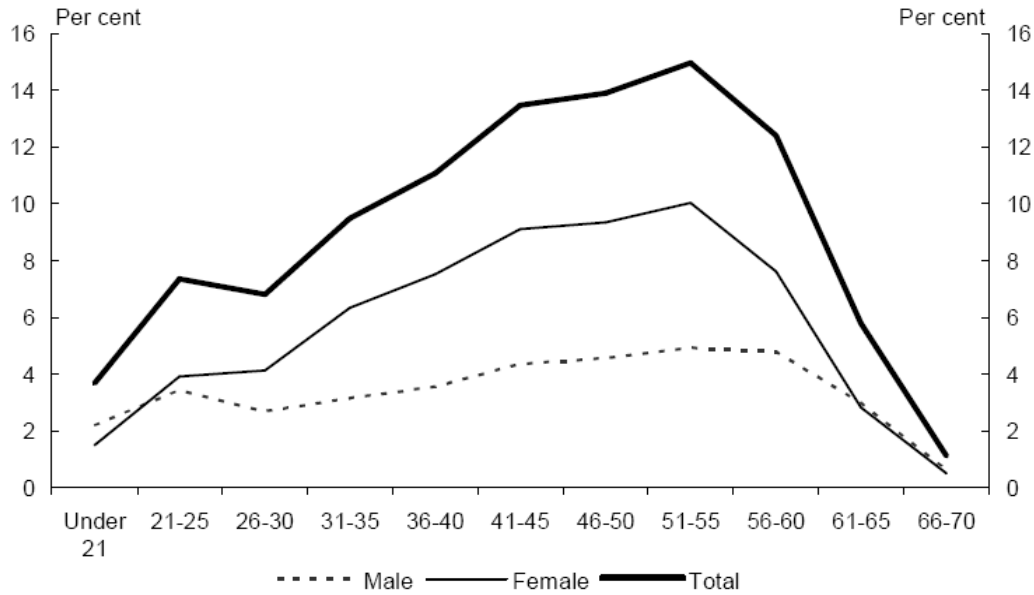
4 L Neilson, *Superannuation Ready Reckoner*, Parliamentary Library, Canberra, p. 4.

5 The Treasury, *A Plan to Simplify and Streamline Superannuation*, Canberra, May 2006, p. 32.

6 The Treasury, *Submission no. 47,* p. 20.

benefited from the co-contribution tended to increase with age, until the current retirement and preservation age, 55. Therefore, under 40s participation in the scheme is quite low when compared to people older than 40.

Figure 7.1 Distribution of co-contribution beneficiaries by age 2003–04



Source *The Treasury, Submission no. 47, p. 21.*

Co-contributions and under 40s

7.8 A large majority of the evidence to this inquiry complimented the government on the introduction of the co-contribution scheme. Most argued that the scheme provides a good incentive for under 40s to voluntarily contribute to their superannuation. For example, the Financial Planning Association of Australia (FPA) stated that:

> The co-contribution scheme has clearly been a successful initiative amongst low to middle income earners. Apart from encouraging people to contribute to their superannuation, it also engages people with their superannuation. This engagement creates a familiarity and sense of ownership that may not have otherwise existed and this can only be beneficial.[7]

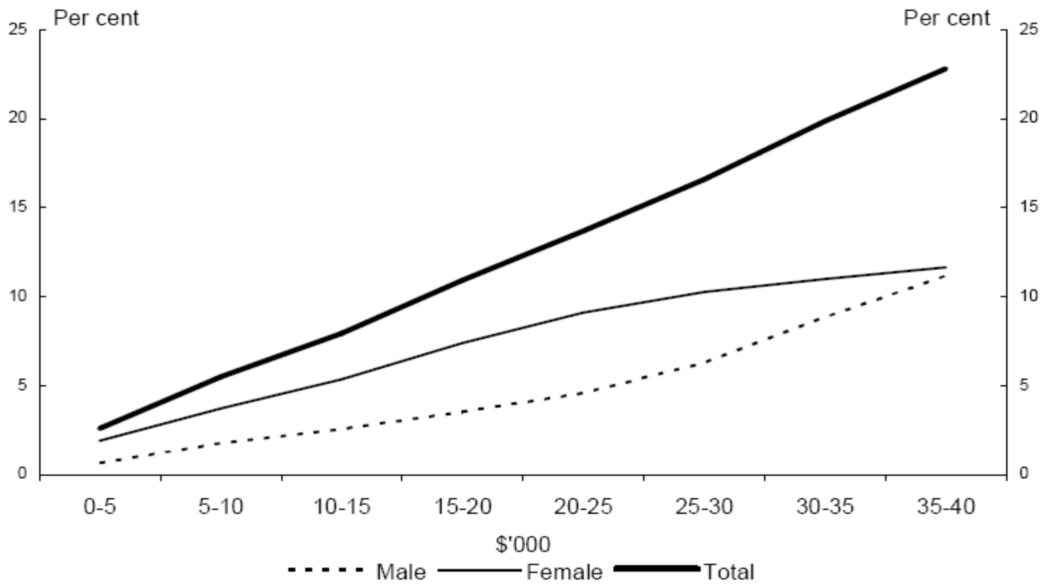
7.9 Of the Australians who received a co-contribution for the 2003–04 financial year, 219 000—around 36 per cent—were under age 40. In total, under 40s received co-contributions of nearly $103 Million.[8] Figure 7.2 below shows

7 Financial Planning Association of Australia, *Submission no. 39*, p. 5.

8 The Treasury, *Submission no. 47*, p. 20.

the percentage of under 40s at various income levels who have received a co-contribution.

Figure 7.2 Distribution of under 40s co-contribution beneficiaries by income 2003–04



Source *The Treasury, Submission no. 47, p. 21.*

7.10 In regard to under 40s participation in the scheme, Treasury stated:

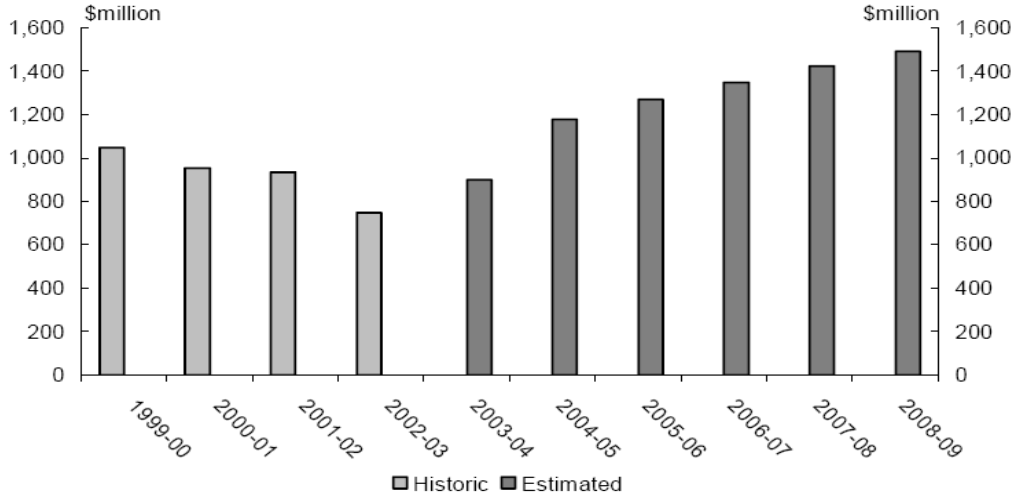
> In general, more females than males benefited from a co-contribution and the numbers of people who benefited tended to increase with age … For those under age 40, the numbers of people who benefited increased as income increased and again more women benefited than men … The largest average benefit was gained by those with income for co-contribution purposes of $25,000 to $30,000.[9]

7.11 Treasury also commented that the co-contribution scheme is expected to start to reverse the downward trend in under 40s voluntary contributions.[10] Treasury's projections are shown below in figure 7.3.

9 The Treasury, *Submission no. 47,* p. 25.

10 The Treasury, *Submission no. 47*, p. 2.

Figure 7.3 Projected growth in post-tax contributions (including government co-contribution payments) made by under 40s from 2003–04 to 2008–09



Source *The Treasury, Submission 47, p. 23.*

Improvements to the co-contribution

7.12 Although most submissions praised the co-contribution scheme, there were many submissions that also proposed ways the scheme might be improved—particularly to advantage under 40s. These proposals are discussed below.

Co-contribution awareness

7.13 There were concerns that, despite the positive co-contribution take-up levels, there are many people under age 40 who still do not understand how the scheme works. For example, Australian Administration Services (AAS) stated:

> There is a misunderstanding that co-contribution requires the ability to save $1,000 in a lump sum, which is not the case. The other misapprehension … perpetuated is that it requires paperwork—a member to apply for co-contribution. It does not. It is an automatic mechanism, leveraging off the old surcharge reporting, where super funds report to the ATO the amount of undeducted contribution made and the ATO combines that with the individual's tax return and determines the amount of co-contribution.[11]

11 Ms F Galbraith, AAS, *Transcript*, 3 February 2006, p. 3.

7.14 Likewise, the submission of Senator Judith Adams commented that 'while the co-contribution scheme is generally well received, it is generally poorly understood'.[12]

7.15 In response to this perceived lack of understanding, the Australian Industry Group recommended:

> The Government develop and execute strategies aimed at improving the awareness and take-up of the Superannuation Co-contribution Scheme among people under 40.[13]

7.16 The submission of the Government Employees Superannuation Board (GESB) of Western Australia highlighted a campaign to increase members' involvement in the co-contribution. They stated:

> An email campaign … was distributed through 97% of GESB's employer agencies … Direct contributions increased by 245% during May compared to May 2004 , indicating that the email campaign was an effective way to encourage people to make voluntary contributions.[14]

7.17 The submission of the Institute of Chartered Accountants surmised that any co-contribution awareness campaign 'must [focus] on the simplicity of the process and how it will benefit [people] in retirement'.[15]

Extending the co-contribution

7.18 A number of submissions suggested that the government could look at extending the co-contribution through one or more of the following:

- increase the current $58 000 phase out threshold so that higher income earners can access the scheme
- increase the current $28 000 threshold at which a full contribution can be received so that more people are receiving the full co-contribution
- reduce the rate at which the scheme phases out so more people are receiving higher co-contributions.

7.19 The Australian Bankers' Association (ABA), for example, suggested that the maximum co-contribution threshold could be increased to encompass all people subject to the 30 per cent personal tax rate—an income of $63 000 for 2005–06. The ABA also proposed that the phase-out could be

12 Senator J Adams, *Submission no. 16,* p. 4.

13 Australian Industry Group, *Submission no. 15,* p. 3.

14 GESB, *Submission no. 35,* p. 4.

15 Institute of Chartered Accountants, *Submission no. 23,* p. 5.

rescaled so that 'more low to medium income earners can gain access to the full co-contribution'.[16] These measures, the ABA argued, would 'provide greater incentive for superannuation savings'.[17]

7.20 The Association of Superannuation Funds of Australia (ASFA) proposed that:

> The parameters [of the co-contribution] be extended to individuals on low/middle incomes of up to $60 000 per year, and that the phase-out rate for the co-contribution be adjusted so as to provide a greater incentive for middle income earners in particular. More specifically, it is recommended that … the maximum co-contribution remain at $1500, but this be available for persons with assessable income … of less than $40 000 a year. It is also recommended that the maximum co-contribution phase down as income exceeds $40,000 a year, at a rate of 7.5 cents in the dollar.[18]

Co-contribution to pay off debts

7.21 One submission suggested that co-contribution payments could be used to pay off Higher Education Contribution Scheme (HECS) debts. The purported advantages of this concept were:

- This is extremely attractive for low-income earners to pay off their HECS debt.
- The more they invest in super, the more years of co-contributions they receive in a single year to accelerate debt reduction. They are also accelerating their savings.[19]

7.22 The submission of Senator Gary Humphries argued that the co-contribution could be put aside for a housing deposit, rather then being preserved in superannuation. The submission stated:

> For a person earning under $28,000 this would mean a Government contribution of $1500 towards buying a house—a powerful incentive to contribute to superannuation.[20]

Removal of the 10 per cent work test

7.23 As discussed above, one of the current qualification criteria for the co-contribution is that a person must earn 10 per cent of their income from

16 ABA, *Submission no. 28*, p. 18.
17 ABA, *Submission no. 28*, p. 18.
18 ASFA, *Submission no. 16*, p. 2.
19 Mr C Moore, *Submission no. 69,* p. 6.
20 Senator G Humphries, *Submission no. 4*, p. 4.

eligible employment. This means that, at present, the co-contribution is not available to the unincorporated self-employed, stay at home parents and people who rely solely on government benefits—students and the unemployed, for example.[21]

7.24 However, the Federal Government's 2006 budget proposed changes to this test. As outlined above, people who earn at least 10 per cent of their income from carrying on a business—the unincorporated self employed—will be eligible for a co-contribution, provided that they meet the other criteria (age, income and undeducted contributions).

7.25 Prior to the budget, a number of submissions criticised the fact that the unincorporated self-employed were not eligible for a co-contribution. For example, the National Information Centre on Retirement and Investments (NICRI) stated:

> We consider the co-contribution scheme to be positive but restrictive because it is only available to employees. Those that are unemployed or self employed are ineligible to take advantage of this scheme, therefore are effectively discriminated against.[22]

7.26 While the changes outlined in the 2006 budget would allow access to co-contributions for the unincorporated self-employed, it does not remove the 10 per cent work test completely. Therefore, the other groups outlined above—stay at home parents and people whose only income is government benefits—remain ineligible for a co-contribution on any voluntary undeducted contributions that they make. A number of groups were opposed to these restrictions and therefore argued that the work test should be removed completely.

7.27 The ABA, for example, recommended that the government:

> Remove work test for superannuation co-contributions … thereby broadening access to the government co-contribution for low to medium income earners.[23]

7.28 Similarly, CPA Australia commented:

> If you are talking about how to improve super savings for women, people at home, students et cetera, the fact that they are ineligible

21 Chapter 6, *Superannuation issues for certain groups,* discusses the issues for the self-employed and women in more detail.

22 NICRI, *Submission no 13,* p. 7.

23 ABA, *Submission no. 28*, p. 18.

> for the co-contribution is a bit of a shame. It would certainly be a good step in the right direction to help improve their savings.[24]

7.29 The Institute of Chartered Accountants also stated:

> For example [the] co-contribution does not allow those at home caring for families to claim the co-contribution, acting as a disincentive to voluntary savings. Consideration should be made for this to be paid.[25]

Conclusions

7.30 Overall, the committee has found that the co-contribution scheme is an excellent incentive for under 40s to voluntarily contribute to their superannuation. The number of Australians who have participated in this scheme is a testament to its early success. The committee is especially pleased to see that a considerable number of under 40s—women in particular—have benefited from a co-contribution.

7.31 While the take-up of the scheme has been positive, under 40s take-up is low when compared to people older than 40, as is demonstrated by figure 7.1 above. This trend is undoubtedly caused by the fact that people older than 40 are more likely to be focussed on retirement. The committee believes that this trend will always be prevalent—it is inevitable that superannuation becomes important to a person as they get older. Nonetheless, the committee does believe that is possible to significantly increase under 40s' involvement in the scheme.

7.32 In the committee's view, the key to increasing under 40s take-up of the co-contribution is to increase and simplify the scheme's promotion. The committee agrees with the evidence suggesting that the co-contribution scheme is not well understood by young people. In particular, the committee is concerned by misconceptions about the scheme's operation. Young people should be aware that it is very easy to receive a co-contribution, and that contributions can be made weekly or fortnightly, rather than in lump sums.

7.33 The committee urges both the government and superannuation funds to promote the scheme in a straightforward manner—for example, 'if you earn less then $28 000 a year, $20 a week will give you $1500 in your super account for free'.

24 Mr M Davison, CPA Australia, *Transcript*, 10 February 2006, p. 16.

25 Institute of Chartered Accountants, *Submission no. 23,* p. 5.

7.34 The committee did not find a need to increase the current income thresholds or the level of co-contribution paid, as was suggested by various groups. The committee is more in favour of increasing and simplifying promotion of the current scheme.

7.35 The committee also does not support setting aside co-contributions for the purpose of paying off other debts. As stated throughout this report, the committee believes any early access to superannuation undermines the key feature of the system, preservation.

7.36 The 2006 budget proposes that the current 10 per cent work test, which is a determinant of co-contribution eligibility, be extended to include the unincorporated self-employed. While the committee agrees that the self-employed should be eligible for the co-contribution, it does not believe that this reform goes far enough. The committee would prefer to see the 10 per cent work test removed completely, rather than simply amended. The committee believes that people who are not in work—stay at home parents, unemployed persons and students—who are still making contributions to their super, should have their contributions matched by the government, up to the relevant threshold.

Recommendation 9

7.37 **The committee recommends that the government maintain the current co-contribution scheme, but, together with superannuation funds, increase the scheme's promotion to improve awareness and take-up. To specifically target young people, the committee recommends that the co-contribution always be promoted in a basic and understandable manner.**

Recommendation 10

7.38 **The committee recommends that the government remove the 10 per cent work test as a determinant of co-contribution eligibility.**

Choice, portability and multiple accounts

Choice

7.39 The introduction of 'superannuation choice', as of 1 July 2005, allows employees to choose their superannuation fund, whereas as previously employers were able to choose an employee's fund. However, as was noted in Treasury's submission, some employees are not subject to the legislation:

> Employers are required to offer choice of fund to an employee unless superannuation contributions for that employee are made under a certified agreement, Australian Workplace Agreement or a state award or industrial agreement. Some public servants and some members of defined benefit schemes will not be offered choice.[26]

7.40 Choice of superannuation fund currently applies to 'over five million Australians'.[27] However, from 1 July 2006, changes introduced by the 'work choices' legislation will mean that more people will come under the superannuation choice regime:

> Employees working for corporations who previously could not choose a fund because they were employed under a state award will be able to choose a fund. These employees are now covered under a Federal workplace agreement called a notional agreement preserving state awards.[28]

7.41 Generally speaking, employers must issue eligible employees with a 'standard choice form' within 28 day of their start date. If an employee does not choose a fund then the employer must contribute to a default fund. An employer's default fund can be chosen by the employer but 'must be a complying fund and also offer a minimum level of life insurance'.[29]

7.42 Treasury stated that the choice regime aims to:

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26 The Treasury, *Submission no. 47*, p. 23.

27 The Hon M Brough MP, Minister for Revenue and Assistant Treasurer, *Super Choice Arrives,* media release, 1 July 2005.

28 Australian Government, *Super Choice,* viewed 24 April 2006. <http://www.superchoice.gov.au/default.asp>

29 Australian Government, *Super Choice – Employer Funds,* viewed 24 April 2006. <http://www.superchoice.gov.au/employers/employer_fund/>

> Enable employees to choose a superannuation fund based on matters of value to them, for example, fees and charges, death and disability insurance or ethical investments. It encourages people to take more active ownership of their superannuation and their retirement future and allows them to have a better connection with their superannuation savings throughout their life.[30]

7.43 Commenting on the early successes of the regime, the Industry Funds Forum (IFF) stated that 'while still in its infancy, choice has significantly raised all consumers' consciousnesses of superannuation'.[31]

7.44 The Australian Consumers Association (ACA) claimed that 'the introduction of Super Choice provides both opportunities and risks for consumers'.[32] The risks, according to the ACA, largely centre on the provision of biased or poor financial advice, leading consumers to make bad choices.

7.45 Given that Super Choice is still in its infancy, there is not a great deal of qualitative data available to show how many people have taken the opportunity to choose a superannuation fund. However, a recent survey commissioned by ASFA showed:

> Out of those surveyed, during the first thee months of the operation of choice of fund legislation 7% changed funds. However, only 4% of the sample chose a new fund as a conscious act of choice, as 2% of respondents went to a new fund because it came with a new job, and 1% changed because of the closure of the old employer fund.
>
> …
>
> On top of the 4% of respondents who have already actively exercised choice of fund … another 4% are likely to change funds in the next twelve months.[33]

Portability

7.46 The portability legislation, which commenced on 1 July 2004, requires superannuation funds to allow members to transfer part or all of their accrued entitlement out of the fund.[34]

30 The Treasury, *Submission no. 47,* p. 24.

31 Industry Funds Forum, *Submission no. 22,* p. 12.

32 ACA, *Submission no. 34,* p. 2.

33 Mr R Clare, ASFA Research Centre, *The Introduction of Choice of Superannuation Fund - Results to Date*, ASFA, Sydney, February 2006.

7.47 Initially, superannuation funds were only required to transfer funds if a member's account had been inactive (had not received a contribution) for 6 months. At 1 July 2005, changes were implemented to the portability arrangements to withdraw this requirement—most fund members can now transfer their funds at any time, regardless of account activity.[35]

7.48 According to Mercer Human Resource Consulting, other key features of the current portability arrangements are:

- portability is not required for unfunded public sector funds, self managed superannuation funds, defined benefit interests where the member is still an employee of the contributing employer or benefits that are being paid as a pension (other than an allocated pension);
- where portability applies, on receiving a written request from the member, a trustee must transfer the amount (up to the withdrawal benefit) specified by the member to a fund nominated by the member. The transfer must be made as soon as practical but, in any case, within 90 days; and
- trustees can limit the number of transfers for a member in any 12 month period and can refuse transfer requests if the amount remaining in the member's account would become less than $5,000 (unless the whole balance is being withdrawn).[36]

7.49 The 2006–07 budget proposed two significant changes to the portability arrangements:

- reduce the maximum 90 days for funds to process transfer of benefits to 30 days; and
- introduce a standard portability form to be used by all superannuation funds.[37]

7.50 Treasury highlighted the principles underpinning the portability regime, stating that it 'allows employees to consolidate their superannuation benefits in one account, avoiding multiple sets of fees'.[38]

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34 Mercer Human Resource Consulting, *Working with choice and portability,* Mercer, Melbourne, viewed 24 April 2006. <http://www.mercerhr.com.au/referencecontent.jhtml?idContent=1185850>

35 Treasury, *Submission no. 47,* p. 24.

36 Mercer Human Resource Consulting, *Working with Choice and Portability,* Mercer, Melbourne, viewed 24 April 2006. <http://www.mercerhr.com.au/referencecontent.jhtml?idContent=1185850>

37 The Treasury, *A Plan to Simplify and Streamline Superannuation*, Canberra, May 2006, p. 52.

38 The Treasury, *Submission no. 47,* p. 24.

7.51 The ABA commented on a consequential benefit of portability, suggesting that 'the reforms will likely encourage individuals to be more active with their superannuation savings'.[39]

Multiple superannuation accounts

7.52 A number of submissions raised concerns that too many young people have multiple superannuation accounts. The FPA, for example, argued:

> Environmental changes in recent years have seen a significant shift in the dynamic of the workforce with a growing number of part-time and casual employees. Young employees have also tended to shift employment more regularly. This has caused young Australians to often have multiple superannuation accounts and they are therefore paying multiple fees.[40]

7.53 Max Super highlighted the problems associated with having multiple accounts, asserting:

> It is broadly acknowledged that the incidence of individuals with multiple funds (higher for young people), is undesirable due to the eroding effect of multiple fees and the general disconnect that many small amounts instils in these members.[41]

7.54 Treasury submitted that the introduction of portability and choice arrangements assist those people with multiple superannuation accounts:

> Individuals who experience broken work patterns and those who change jobs on a regular basis will benefit from choice of fund. Instead of having superannuation contributions paid into a different fund each time they change jobs, these people can choose a fund that suits their needs and can ask each new employer to contribute to that fund.[42]
>
> …
>
> Together, choice and portability allow employees to consolidate their superannuation benefits in one account, avoiding multiple sets of fees and charges.[43]

39 ABA, *Submission no. 28,* p. 16.
40 FPA, *Submission no. 39,* p. 9.
41 max Super, *Submission no. 72,* p. 15.
42 The Treasury, *Submission no. 47,* p. 23.
43 The Treasury, *Submission no. 47,* p. 23.

7.55 This was also recognised by ASFA who stated that 'there are mechanisms which mean that we should not end up with multiple accounts around the place'.[44]

Lost superannuation accounts

7.56 Many people with multiple superannuation accounts lose track of their money. This is confirmed by the fact that the Lost Members Register (LMR), administered by the Australian Taxation Office (ATO), has 'over 5.4 million names on it'.[45] Furthermore, Tower Australia told the committee that 'there are nearly three superannuation accounts for every employed Australian'.[46]

7.57 Superannuation funds are required to register lost accounts with the ATO. Accounts are regarded as 'lost' if:

- 2 pieces of written communications have been returned to the super fund unclaimed; or
- the fund has not received a contribution or rollover from the member within the last two years; unless
- within the last two years of the member's membership the trustee of the fund has verified that the members address is correct and has no reason to believe that that address is incorrect.[47]

7.58 AAS outlined a number of concerns with this current definition:

> Given the long-term nature of superannuation the frequency with which people change jobs and that, under choice, contributions may be directed to a different fund, a two-year period of inactivity is far too short. By way of contrast, the period of inactivity for every-day, transactional bank accounts to be declared lost is generally six or seven years.
>
> By legislating such a relatively short period of time the number of members reported as lost, who in fact may be well aware of where their superannuation is located, is augmented. Accordingly, we submit that consideration should be given to increasing the inactivity period from two to a more realistic seven years.[48]

44 Ms P Smith, ASFA, *Transcript,* 28 July 2005, p. 4.

45 IFF, *Submission no. 68*, p. 2.

46 Tower Australia, *Submission no. 64,* p. 8.

47 Superannuation Industry (Supervision) Regulations, Reg. 1.03A.

48 AAS, *Submission no. 68,* p. 9.

7.59 Once registered with the ATO, names of people who have lost accounts are placed on the LMR, which individuals can securely search on the ATO's *SuperSeeker* website. If a person finds that they have lost accounts, they can then move to rollover the funds to their current superannuation account.

7.60 Superannuation funds also offer services to reunite members with their lost superannuation benefits, provided that members have authorised funds to utilise their tax file number. This was explained by ASFA, who stated:

> Many funds are using the Australian Taxation Office's [SuperMatch] facility. On entry to many funds these days, there is an automatic search by that fund, which is authorised as part of the standard sign up, to look for records of inactive accounts on the ATO's register.[49]

7.61 In the 2006–07 budget, the government proposed that the ATO become more involved in the process of locating lost members:

> To make finding, transferring and consolidating accounts simpler, the Australian Tax Office would take on a more active role in reuniting members with their lost superannuation and consolidating accounts. Importantly, the decision on whether and how to consolidate lost accounts would remain with the member but once that decision is made the ATO would organise consolidation. The process envisaged would be simple for a person:
>
> - The ATO would contact people with lost accounts and provide them with a simple standard form to complete.
> - If a person wished to consolidate these accounts, they could complete this form and the ATO would do the rest. The person would not need to deal with multiple funds with different processes and procedures.[50]

Difficulties associated with rolling over superannuation

7.62 While portability mechanisms are in place, some submissions reported that there are practical issues for individuals trying to rollover their superannuation. Max Super noted:

> Difficulties still exist with portability regulations. Some of the problems … include:

49 Mr R Clare, ASFA, *Transcript,* 28 July 2005, p. 8.

50 The Treasury, *A Plan to Simplify and Streamline Superannuation*, Canberra, May 2006.

- Funds can have very different rollover form requirements, from a simple one page to an overbearingly complex eight;
- Funds have different identification requirements for establishing the authenticity of rollover requests;
- Trustees are allowed up to 90 days to action a rollover request, commencing once they have all the information they consider necessary (which can take multiple communications to establish);
- Some fund trustees have been suspected of using 'dirty tricks' as retention strategies, making it difficult to leave the outgoing fund;
- The inefficiencies and flow of paperwork to consolidate super can make it all too confusing and time consuming, with members often giving up.[51]

7.63 Further, the Australian Consumers Association (ACA) told the committee:

> There are numerous examples of consumers not knowing how to fill out the paperwork and the superannuation fund not telling them what is required … Rather than being told exactly what is required of them, they often have to, through trial and error, work out what has to be done. I know of examples where eight or nine times someone has tried to consolidate a particular fund.[52]

7.64 It does appear, however, that many of these concerns will be addressed by the portability measures proposed in the 2006 budget, which were outlined above—standardising forms and reducing the maximum transfer time.

7.65 In addition to the practical difficulties, AAS was also concerned that there are varying exit fees imposed on members:

> While most superannuation funds levy some kind of exit fee, generally of the order of $50– $100, to cover the costs of paying the benefit, in some funds the withdrawal fee is much more substantive and is in fact an early termination fee. The portability regulations do not override fees, so members who choose to exercise their right to transfer their benefit from such a fund would still be liable for this fee.[53]

51 max Super, *Submission no. 72,* p. 15.

52 Dr N Coates, ACA, *Transcript*, 18 October 2005, p. 44.

53 AAS, *Submission no. 67*, p. 8

Overcoming multiple fund and lost superannuation issues

7.66 Treasury noted that 'the government's position in relation to [multiple] accounts is that choice and portability are the most effective way for people to keep control of their superannuation.'[54] Adding to the strategy, if implemented, are the changes to portability outlined in the 2006 budget, combined with the proposal to have the ATO more involved in locating and consolidating lost superannuation.

7.67 However, some submissions suggested alternative ways in which multiple and lost account issues might be overcome. Dr Diana Olsberg from the Research Centre on Retirement and Ageing, University of New South Wales, for example, suggested the creation of a single central fund for casual and multiple job workers. In advocating this solution, Dr Olsberg discussed the operation of a single fund system in Finland:

> They have a central pension institute into which the money goes for casual employees. Only when an employee moves into longer-term employment do they then go into one of the separate decentralised funds. This has tremendous advantages. You do not have this multiplicity of funds—and largely, I think, a lot of these funds which young people have end up in the lost moneys register.[55]

7.68 This concept was raised with the IFF, which includes the Retail Employees Superannuation Trust (REST) and Hostplus—two of Australia's largest super funds for casual and multiple job employees. The IFF did not support the proposal for a single, centralised fund for casual employees, but instead proposed a central eligible rollover fund (ERF).

7.69 An ERF, according to ASFA's website, is:

> A superannuation fund or approved deposit fund which is eligible to receive benefits automatically rolled over from other funds. ERFs generally accept inactive small accounts and lost member account rollovers from other superannuation funds.[56]
>
> A centralised ERF with a specific mandate to undertake searching, matching and consolidation activities could ensure that proper scrutiny could be given to all lost superannuation monies once transferred to the ERF. This would need to be supported by a

54 Mr A Coles, Treasury, *Transcript,* 10 February 2006, p. 66.

55 Dr D Olsberg, Research Centre on Retirement and Ageing, University of New South Wales, *Transcript*, 28 July 2006, p. 19.

56 ASFA, *Eligible Rollover Fund,* ASFA, Sydney, viewed 24 April 2006. <http://www.superannuation.asn.au/dictionary/e/eligible%20rollover%20fund.htm>

> transfer policy for lost superannuation accounts so that funds who have failed to locate a member are required to transfer the account to the ERF so it can be included in searching, matching and consolidation activities.[57]

7.70 Another suggestion to overcome multiple fund issues was the introduction of a unique superannuation identifier, which could be issued to every person who holds a superannuation account. This would enable any lost superannuation benefits to easily be tracked back to the person's current superannuation account.

7.71 This concept was raised with the Investment and Financial Services Association (IFSA). IFSA agreed that an identifier would be a useful tool, but maintained that a sufficient system is already in place—the tax file number (TFN). IFSA argued that TFNs should be 'more open' so that they can be used 'more aggressively by the industry to protect people's money'.[58] Currently, a member must approve a superannuation fund to use their TFN for the purpose of searching the LMR.

7.72 Similarly, Tower Australia recommended 'the introduction of a specific individual superannuation guarantee number (SGN) or the use of the tax file number (TFN) to identify multiple accounts'.[59]

Conclusions

7.73 The committee believes that the superannuation choice regime is a positive measure, primarily because it allows and encourages under 40s to take more control over their superannuation. It does, however, appear that, based on the limited available evidence, the incidence of people changing funds post-choice is quite low. The committee found that it is not yet clear whether this indicates that people are simply making a conscious choice to stay with their current fund, or that they are ignoring the opportunity to choose.

7.74 It is, generally speaking, undesirable for a young person to have multiple superannuation accounts—fees and charges tend to erode small amounts and multiple accounts often lead to lost accounts. Therefore, the committee commends the current portability provisions, which allow people to consolidate multiple accounts. The committee also commends the changes to portability outlined in the 2006 budget—standardising the rollover form

57 IFF, *Submission no. 68*, p. 5.

58 Mr R Gilbert, Investment and Financial Services Association (IFSA), *Transcript*, 28 July 2005, p. 35.

59 Tower Australia, *Submission no. 64*, p. 9.

and reducing the number of days in which funds can transfer benefits from 90 to 30. The current provisions, which will be vastly improved by the budget proposals, are particularly important for under 40s, as they are more likely to be in causal employment, and are therefore more likely to have multiple super accounts.

7.75 While choice and portability should reduce the number of multiple accounts, the concern remains that, when taking on multiple jobs, many under 40s will simply adopt the default fund of each employer, rather than choosing one fund for all their contributions. To reduce this occurrence, the committee heard that there should be a single default fund for casual, multiple job employees. The committee considers this concept viable, provided that employees are offered choice of fund first. If they do not wish to choose their fund then the committee believes that it would be appropriate for the employer to put the employee into a government-determined default fund.

7.76 In taking this approach, the committee believes that the principles of the choice regime can be upheld, but also that the issues of multiple accounts can be addressed. This initiative would ensure that those people with multiple casual jobs, who do not wish to choose their fund, do not end up with multiple superannuation accounts and the associated issues—lost accounts and benefits being depleted by fees.

7.77 While the above initiative would reduce the occurrence of multiple accounts in the future, it will not reduce the number of multiple accounts that already exist, nor will it completely stop the occurrence of new multiple accounts. The committee believes that choice and improved portability (by the 2006 budget proposals) are the most effective ways to address these issues. The recommendations in Chapter 5 of this report address the issue of financial literacy, which is vitally important to the consolidation of multiple accounts. Individuals who are financially literate are more likely to understand the detriments of multiple accounts, and therefore are more likely to seek consolidation.

7.78 The committee believes that people will also be encouraged to consolidate their super if the process of ‘rolling over’ is simplified, as was proposed in the 2006 budget. In the evidence gathered on the current portability arrangements, the committee was concerned that several submissions reported that portability can be an onerous and difficult task. The committee considers that portability will be simplified if the government’s budget proposals are implemented. It is particularly pleased that the government plans to introduce a standardised rollover form, as well as reducing the transfer period from 90 to 30 days.

7.79 The committee also considered the consequential issue resulting from excessive multiple accounts—lost superannuation. The committee deliberated on two issues in relation to lost accounts: the definition of 'lost' and how best to consolidate lost accounts.

7.80 The definition of a lost member only allows for a two-year period of inactivity on a person's account; or that two pieces of mail have been returned to the super fund unclaimed. A fund is required to report a member as lost if they meet either of these criteria, unless the fund has received confirmation from the member within the last two years that the listed address is current.

7.81 The committee believes that the current definition of a lost member is inadequate. For example, a person may take four years away from work to care for a family. Even if this person has been receiving the mail that their fund is sending them, they are still determined to be lost after two years inactivity, unless their fund has written to confirm their details. A better approach, in the committee's view, would be to alter the definition of a lost member in two ways. Firstly, increase the inactivity period beyond two years; and secondly, legislate that funds *must* attempt to confirm a member's details before a member can be declared lost. This would ensure that only truly inactive accounts are determined as lost.

7.82 The committee supports the government's plans to have the ATO involved in finding and consolidating lost accounts. The committee believes that this would be an excellent measure to reduce the number of lost accounts, particularly in combination with the proposed improvements to portability.

7.83 Prior to the budget, the committee heard that a centralised eligible rollover fund would assist in reducing the amount of lost superannuation. The proposal was that all 'lost' monies be forwarded to a central fund, which is mandated to find and consolidate this money. The committee believes that this concept will be unnecessary if the government's proposal to involve the ATO in locating and consolidating lost accounts is implemented.

7.84 The committee also believes that the concept of a unique superannuation identifier is unnecessary provided that the ATO is involved in the location and consolidation of lost accounts. This is because the ATO can use tax file numbers to locate members, and therefore another unique number is not required.

Recommendation 11

7.85 **The committee recommends that government introduce a default superannuation fund for casual employees, so that when a casual employee does not wish to choose their superannuation fund, that employee is automatically placed in a government-determined default fund.**

Recommendation 12

7.86 **The committee recommends that the government extend the definition of a 'lost member' to allow for longer than two years inactivity. In addition, the committee recommends that before a member can be defined as lost, a superannuation fund must also have written to the member's listed address seeking confirmation of their details.**

Death and TPD insurance

7.87 For many, an important aspect of holding an account with a superannuation fund is the death and total or permanent disability (TPD) cover that is included. Most funds offer this type of insurance, with the premiums deducted from a person's account balance on a pre-arranged basis—often weekly. For people under 40, the death and TPD cover offered by super funds is particularly important, given that most people in this cohort would not consider taking out separate insurance. Rice Walker Actuaries told the committee that 'only around 10% of the population in the 20–50 age group have death cover outside their superannuation funds'.[60]

7.88 A number of submissions to the inquiry commented on the importance of death and TPD insurance as a part of superannuation accounts. For example, ASFA stated:

> If you look at the very small accounts, often the most valuable thing they have is in fact the death cover, which is bought at a fairly low cost because of the economies of scale that the fund has attached to it.

60 Rice Walker Actuaries, *Submission no. 64*, p. 15.

> …
>
> We have looked at a range of case studies where someone with automatic cover—which the family did not know about—has died. The account might have been $2,000 but they had death cover of $50,000 or whatever. It can be a significant thing.[61]

7.89 Dr Diana Olsberg agreed that death and TPD cover is important, but she was concerned that most young people would not even be aware that their superannuation contains an insurance component.[62] Dr Olsberg also raised concerns about insurance in the context of the recent choice of fund legislation, stating:

> There will be a lot of marketing of a no-frills type of fund which does not offer death and disability insurance. It is very important for the government to try to regulate this and ensure that all funds offer this death and disability insurance.[63]

7.90 Other groups raised concerns about the level of death and TPD insurance that is offered with superannuation accounts, as well as Australians' level of life insurance more generally. Rice Walker Actuaries, for example, stated:

> Evidence strongly suggests that the current average levels of Death and TPD insurance cover are grossly inadequate to cover the economic loss caused by death or disablement.
>
> …
>
> A full-time worker with young children on average earnings of approximately $50,000 per annum should have life insurance of between $500,000 and $650,000. However, the average amount insured for this group is estimated to be only in the order of $70,000 for those with superannuation cover, or $400,000 for those with both superannuation and non-superannuation cover.
>
> …
>
> For those with average levels of superannuation death cover only, the level of cover held represents less than 20% of the average needs.[64]

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61 Mr R Clare, ASFA, *Transcript*, 28 July 2005, p. 8.

62 Dr D Olsberg, Research Centre on Ageing and Retirement, *Transcript*, 28 July 2005, p. 21.

63 Dr D Olsberg, Research Centre on Ageing and Retirement, *Transcript,* 28 July 2005, p. 20.

64 Rice Walker Actuaries, *Submission no. 64,* p. 15.

7.91 Perpetual Trustees Australia raised this issue, with particular reference to the minimum level insurance required of an employer's default fund under the super choice legislation:

> In Australia we do have a massive underinsurance problem. Ultimately … the level of minimum cover is totally inadequate within the super choice legislation. Through that lack of cover … ultimately it is the government that will wind up funding people's lack of attention to insurance through increased social security payments.[65]

7.92 The minimum insurance for employer default funds under the Super Choice legislation is either:

- A premium of at least 50c per week; or
- At least the level of insurance cover shown below in Table 7.2.[66]

Table 7.2 Minimum death insurance cover

Age	Death Cover
20–34	$50 000
35–39	$35 000
40–44	$20 000
45–49	$14 000
50–55	$7 000

Source *Australian Government, Insurance, viewed 24 April 2006, <http://www.superchoice.gov.au/employers/employer_fund/insurance.asp>.*

Conclusions

7.93 The committee acknowledges that death and TPD insurance is an important component of an under 40s' superannuation account. Without this insurance, evidence suggests that most under 40s would have no other life insurance.

7.94 The committee is pleased that death and TPD insurance is generally offered on an opt-out basis, meaning that young people must make a conscious effort not to take out insurance. The committee is also pleased that the Super Choice legislation requires that employer default funds have a minimum level of insurance. However, given that many employees can now choose their superannuation fund, the committee is concerned

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65 Mr S Davis, Perpetual Trustees Australia, *Transcript,* 18 October 2005, p. 27.

66 Australian Government, *Super Choice – Insurance,* viewed 24 April 2006. <http://www.superchoice.gov.au/employers/employer_fund/insurance.asp>

that some funds do not offer insurance. The committee therefore considers that all superannuation funds should be required to offer, at very least, a minimum level of death and TPD insurance.

7.95 The committee is also disturbed by the evidence that most Australians are hugely underinsured. To lessen this problem, the committee considers that the minimum level of insurance offered by super funds could be raised.

Recommendation 13

7.96 **The committee recommends that all superannuation funds, not just employer default funds, be required to offer a minimum level of death and total or permanent disability insurance, on an opt-out basis. In determining the minimum insurance level, the committee recommends that the government raise the level above what is currently required of employer default funds, to a level more in line with expected needs.**

Tax deduction/rebate on voluntary contributions

7.97 A number of initiatives were suggested to the committee to entice people under the age of 40 to place voluntary savings in superannuation. AAS proposed an initiative to encourage people under 40 to make voluntary superannuation savings without depleting the monies in the fund. The scheme was based on an age-based tax deduction, or tax rebate, for people making voluntary contributions, starting at age 18 and phasing out at age 40.

7.98 The scheme was argued to have a number of advantages:

> Firstly, as preservation acts as a considerable disincentive to making superannuation contributions, especially for those under 40, a deduction or rebate may prove a more effective incentive than a co-contribution. Being returned at year-end as part of the tax return and assessment process (as opposed to being contributed to a superannuation fund as a co-contribution) may prove to be of particular assistance to younger persons and to those with little disposable income.[67]

67 AAS, *Submission no. 17*, p. 6.

7.99 The proposed scheme was discussed with both Treasury and CPA Australia. Treasury noted:

> It is an interesting proposal; it would cost money and would impose a range of complexity issues for both the ATO and for industry.[68]

7.100 CPA Australia commented that they 'would like to see any tax cuts relating to super actually going into super'.[69]

7.101 The ABA also discussed a tax deduction for voluntary contributions, but in a more general sense:

> [The] ABA believes that tax deductions on personal contributions would likely provide an incentive for employees to make additional voluntary contributions, particularly medium income earners.
>
> …
>
> Given that not all employers offer salary sacrifice, a tax deduction for additional voluntary standard employee contributions would apply more equitably across various income levels.[70]

Conclusions

7.102 The committee was interested in the concept of an age-based tax deduction/rebate for voluntary contributions, because it would provide significant incentive for under 40s to contribute to their superannuation. However, the committee found that any deduction or rebate would be undesirable for two primary reasons:

- the cost to government would be large; and
- such a large expenditure would be better spent adding to young peoples' super balances—just as the co-contribution does.

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68 Mr A Coles, Treasury, *Transcript*, 10 February 2006.

69 Ms N Kelleher, CPA Australia, *Transcript*, 10 February 2006, p. 26.

70 ABA, *Submission no .28*, p. 11.

Default scheme for voluntary contributions

7.103 This concept would automatically commit employees to make voluntary contributions to their superannuation, with an option to opt-out at any time. This concept is discussed in detail in Chapter 3, *Superannuation savings environment.*

Early access to superannuation savings

7.104 A number of submissions suggested that allowing early access to superannuation savings for, among other things, a housing deposit, would provide an incentive for under 40s to voluntarily contribute to their super. These proposals are discussed in detail in Chapter 3, *Superannuation savings environment.*

The Hon Bruce Baird MP
Chairman
25 May 2006