

Chapter 3

Timing issues

Timing and administration issues

3.1 Another objection to the bill was that the proposed lodgement date of 30 April 2009 does not allow the superannuation industry adequate time to implement the changes. The Association of Superannuation Funds of Australia (ASFA) noted in its submission that the superannuation industry has a long-standing policy that significant new measures should have a date of effect that is no earlier than 12 months following the granting of Royal Assent.¹

3.2 Specifically, ASFA argued that implementing the measures in this bill by 30 April next year would create extra administration costs for superannuation funds. The ATO has new unclaimed moneys reporting arrangements which will handle unclaimed monies reports due for lodgement by 31 October 2009. Superannuation funds are also working to develop their systems to meet this October deadline. While the ATO will meet the bill's April 2009 lodgement date through transitional arrangements, the funds will have to bring forward their IT development schedule by six months. On ASFA's estimate, the extra costs associated with the revised schedule are between \$10 million and \$100 million.²

3.3 ASFA told the committee:

...superannuation funds feel that they cannot meet the 30 April deadline because that would involve bringing forward the systems development that is already in train by six months. Part of the reason that this cannot be done is, as I said, that the system's timetables are usually booked out a year in advance. The other part is that superannuation trustees often cannot put aside the money to spend on systems development until they have firm legislation in place. Since this legislation is yet to be passed, they feel they cannot at this point even start the development work. If the systems are not in place, the other alternative would be to report manually. The first report is going to be very large. It is going to be an enormous task to do manually. Even if legislation were passed today and we all started trying to get manual systems in place for 30 April 2009. Part of the reason is that we are going to need to sort the data against a list provided by the...ATO. That is a large task because of the volume of accounts. We estimate up to three million accounts could be involved in that very first reporting phase.³

1 Association of Superannuation Funds of Australia, *Submission 5*, p. 2.

2 Ms Melinda Howes, *Proof Committee Hansard*, 3 November 2008, p. 7.

3 Ms Melinda Howes, *Proof Committee Hansard*, 3 November 2008, p. 7.

3.4 ASFA also explained that the process of confirming lost superannuation accounts with the ATO will create an extra burden for the funds. The ATO will notify the fund that certain people have been identified as temporary residents and the fund will match that list against their members to see if these people are still a member of a fund. They will verify their members and pass the data on to the Tax Office. This additional process will have a cost.⁴

3.5 ASFA acknowledged that the ATO have been 'very cooperative' in working with the superannuation industry to try and work out the best way to administer the legislation. However, ASFA's position on the timing of the proposed changes consistently differed to that of the Tax Office.⁵ It is concerned that the government's implementation timeline imposes 'a really significant additional (financial) burden'.⁶

3.6 However, a later implementation date will delay government revenue. Treasury noted that if there was a delay in the implementation of the bill's measures, the revenue estimate in the first year (currently \$250 million) would have to be revised. It recognised that while the same amounts would ultimately be collected, they would be collected later which would affect the government's short-term budgetary position. At an interest rate of 5 per cent, delaying the collection of \$250 million for six months is a cost to the public purse of \$6 million.

3.7 Moreover, Treasury argued the government has considered the issue of timing and is of the view that the funds do have sufficient time to prepare. It noted that the measure has been in the public domain for some time and the industry has been able to start making at least preliminary preparations.⁷ Treasury also noted that if the industry funds do not meet the government's deadline, there are administrative and financial penalties that can be imposed.⁸

3.8 The Government expects the average superannuation fund to incur compliance costs of \$33,000 on implementation and \$2,500 per annum; amounting to total costs for the industry of \$30 million and \$2.3 million per year.⁹ There will be administrative savings for them in not having to maintain inactive accounts. However, the Association of Superannuation Funds of Australia is concerned that 'as many as 3 million individuals may be caught by the policy' and that implementation costs could be significantly higher.¹⁰

4 Mr Robert Hodge, *Proof Committee Hansard*, 3 November 2008, p. 9.

5 Mr Robert Hodge, *Proof Committee Hansard*, 3 November 2008, p. 8.

6 Mr Robert Hodge, *Proof Committee Hansard*, 3 November 2008, p. 8.

7 Mr Nigel Murray, *Proof Committee Hansard*, 3 November 2008, p. 21.

8 Mr Nigel Murray, *Proof Committee Hansard*, 3 November 2008, p. 21.

9 Estimates in this paragraph are taken from the *Explanatory Memorandum*, pp 9 and 60.

10 Association of Superannuation Funds of Australia, *Submission 5*, p. 3.

Committee view

3.9 The committee believes that the superannuation industry can comply with the timetable of April 2009 as proposed in the bill. The industry was fully involved in the government's consultation process and has not put a convincing case that the work they claim would take 12 months could not be done by the end of April next year. Further, the committee believes that many—if not most—funds will not have many former temporary residents; those that do are typically well resourced and experienced in managing change. And it is not unreasonable to expect these funds to implement system changes before the bill is passed into law. They must plan for various other contingencies, many of which are far less likely to eventuate than this legislation.

3.10 That said, the committee does believe it is important for the government to monitor the funds' progress in establishing systems to meet the lodgement date of 30 April 2009. Where genuine difficulties do arise in particular cases, there may be cause to extend the proposed lodgement date.

The effect of the bill on Eligible Rollover Funds

3.11 A corollary of the timing issue was the alleged effect of the bill's measures on Eligible Rollover Funds (ERF). An ERF is designed as a low cost product for administering lost and inactive accounts. Both ASFA and the superannuation consultancy, Mercer, argued that these funds may have difficulties redeeming investments in a tight timeframe so as to pay account balances to the ATO. ASFA noted that "should a 'fire sales' of assets be required this will adversely impact on the value of the remaining members' accounts", which may ultimately affect the financial viability of the fund.¹¹ Similarly, Mercer foresaw:

...considerable difficulties in determining the appropriate amounts to transfer and trustees may have difficulty in obtaining sufficient cash to make the payments in a short space of time without unduly impacting on the fund's short term investment strategy. Due to their nature, we expect that Eligible Rollover Funds will be one group of funds that may be particularly exposed to these changes.¹²

3.12 As part of its broad oversight of the implementation process, the government should closely monitor the impact of the bill's timetable on ERF's.

11 Association of Superannuation Funds of Australia, *Submission 5*, p. 4.

12 Mercer, *Submission 6*, p. 5.