

Chapter Three

The Impact of the Regulations on Account Numbers

Introduction

3.1 This chapter examines the likely impact of the portability regulations on superannuation account numbers, with reference to:

- a) Current superannuation account numbers in Australia;
- b) Claims that the regulations will lead to a proliferation of accounts; and
- c) The impact of the regulations on lost account numbers.

Current superannuation account numbers in Australia

3.2 The Committee notes evidence from APRA's *Superannuation Trends* for the March quarter 2003 that the total number of superannuation accounts in Australia reached 25.5 million in the March quarter – an average of 2.8 accounts for each of Australia's 9 million fund members.

3.3 During the inquiry, a number of reasons were raised for the current proliferation of superannuation accounts in Australia:

- a) Changing employment patterns: In its written submission, the FPA noted that some people have a number of jobs, with each employer paying superannuation into a different account.¹ Similarly, AIST attributed multiple accounts to the increase in job mobility and the rise of casual and part-time employment.²
- b) A general lack of information and inertia regarding consolidation of accounts: In its written submission, ASFA argued that the large number of accounts in Australia is largely the result of failure or inability to consolidate accounts once individuals have left one employment situation and commenced another.³ The FPA also noted

1 *Submission 24*, FPA, p. 2.

2 *Submission 11*, AIST, pp. 1-2.

3 *Submission 2*, ASFA, p. 2.

that many people change employers without consolidating their superannuation account, by choice or inadvertently.⁴

- c) Deliberate individual decisions to diversify investments across a number of providers: In its written submission, ASFA acknowledged that for some consumers, the decision to retain more than one account may be a deliberate and informed decision.⁵
- d) Deliberate obstruction by funds: In the hearing on 31 July 2003, Mr Watson from MTAA Super noted that there is some evidence that some funds will deliberately frustrate a member's attempt to roll over/transfer a benefit from one fund to another.⁶ The Committee received a written submission from Mr Sowton, writing in a private capacity, which provided a graphic example of deliberate obstruction by a fund of a roll over.⁷
- e) The imposition of excessive exit fees and penalties on members if they seek to roll over/transfer out of a fund. In evidence to the Committee on 1 August 2003, Mr Silk from IFF argued that one of the largest inhibitors to account consolidation at the moment is the excessive exit fees and penalties that are charged by some superannuation fund providers.⁸

A proliferation of accounts?

3.4 As indicated in Chapter One, one of the principal arguments made by Treasury in its September 2002 consultation paper in favour of portability was that it would assist in addressing the issue of multiple superannuation accounts in Australia. This argument was also made by Taxpayers Australia in its written submission:

Portability will assist in reducing the number of accounts each person holds and the resulting consolidation will improve the long-term growth of their total retirement savings.⁹

3.5 The Committee also notes the evidence of the ABA in its written submission that consolidation of many accounts into one or a few may also lead to lower fees and

4 *Submission 24*, FPA, p. 2.

5 *Submission 2*, ASFA, p. 2.

6 *Committee Hansard*, 31 July 2003, p. 3.

7 *Submission 30*, Mr Sowton, pp. 1-3.

8 *Committee Hansard*, 1 August 2003, p. 3.

9 *Submission 23*, Taxpayers Australia, p. 2.

charges as the cost of some fees – such as certain account keeping fees and fund managers’ margins – can fall as the minimum account balance rises.¹⁰

3.6 However, a large number of parties to the inquiry argued that far from leading to a reduction in superannuation accounts, the draft portability regulations will lead to a further proliferation of accounts. This is because of the ability of fund members under the regulations to roll over/transfer funds out of an active superannuation account into another fund, while continuing to receive employer contributions into the active account.

3.7 For example, MTAA Super argued that the draft regulations, if introduced in isolation from choice of funds, would create a ‘disconnection’ between the fund to which SG payments are directed by an employer and the fund which the employee considers to be his or her active or primary account – which can be an entirely different account.¹¹ This was reiterated by Mr Watson from MTAA Super in the hearing on 31 July 2003:

In our view ... portability without the complementary choice of fund arrangements – suitably amended in our view to more particularly consider consumer protection and other safeguards as we have previously well documented – has a real potential to lead to a proliferation of inactive accounts, which is quite the opposite to the intention of the regulations.¹²

3.8 Similarly, Superpartners argued that were the draft regulations to be implemented unchanged, funds would be faced with the prospect of members for whom employer contributions were continuing to be made requesting that their benefits be rolled over to another fund every ninety days, with associated administrative and insurance costs.¹³

3.9 This point was also made by IFF in its written submission. The IFF argued that if members of funds were free to move moneys from active superannuation accounts at any time, as appeared to be contemplated by the draft regulations, the effect would be a *proliferation* of superannuation accounts – precisely the opposite outcome to the stated objective.¹⁴

3.10 ASFA¹⁵, AIST¹⁶, Cbus, AAS¹⁷ and the ACA¹⁸ also highlighted this issue in their written submissions. Watson Wyatt also cited overseas experience suggesting that portability will lead to churning.¹⁹

10 *Submission 29*, ABA, p. 2.

11 *Submission 6*, MTAA Super, p. 3.

12 *Committee Hansard*, 31 July 2003, p. 3.

13 *Submission 8*, Superpartners, pp. 1-2.

14 *Submission 3*, IFF, p. 1.

15 *Submission 2*, ASFA, p. 3.

3.11 As indicated, these arguments were raised in relation to the draft regulations. As previously noted, the gazetted regulations partially address this concern by restricting roll overs/transfers out of any account, active or inactive, to one year.

3.12 Despite this restriction in the gazetted regulations, a number of parties in hearings nevertheless still raised their concerns in relation to a proliferation of accounts. For example, Mr Riordan from the Law Council of Australia argued in the hearing on 13 August 2003 that the gazetted regulations effectively mean more accounts, not fewer. Mr Riordan continued:

There are two reasons for that—and we respectfully agree with your view—firstly, it does not compel the employer to follow the member with the employer’s future SG contributions. The employer will do what it believes is in its interests, and that is entirely justifiable in terms of cost and administration to the fund. Secondly, a member who elects to take a transfer does not have to take all of their benefit; they can leave some behind and make partial transfers.²⁰

3.13 Similar observations were made by Ms Galbraith from Superpartners,²¹ Mr Ward from Mercer²² and Mr Silk from IFF.²³

3.14 In response to this concern that the regulations may lead to a proliferation of accounts, Mr Murray from Treasury argued that the regulations overcome specific fund rules that presently prevent some fund members from consolidating accounts. Whether account numbers actually go up or down will depend on individual fund member’s decisions.

3.15 Mr Murray acknowledged that individuals may indeed choose to diversify their accounts under the regulations, thus creating more accounts. However, he also argued that individuals may choose to consolidate their inactive accounts into their active account, or to consolidate one inactive account into another inactive account.²⁴

16 *Submission 11*, AIST, p. 2.

17 *Submission 18*, AAS, p. 4.

18 *Submission 32*, ACA, p. 1.

19 *Submission 12*, Watson Wyatt, p. 3.

20 *Committee Hansard*, 13 August 2003, pp. 4-5.

21 *Committee Hansard*, 1 August 2003, p. 12.

22 *Committee Hansard*, 1 August 2003, p. 26.

23 *Committee Hansard*, 1 August 2003, p. 3.

24 *Committee Hansard*, 13 August 2003, p. 20.

Lost accounts

3.16 As indicated in Chapter One, Treasury also argued in its September 2002 consultation paper on portability that portability would assist in addressing the issue of lost superannuation accounts. Currently, there are approximately 4½ million accounts on the Australian Taxation Office (ATO) register. The definition of a lost account is two years without contributions being received by the fund, or two returned pieces of unclaimed mail.²⁵

3.17 In its written submission, AAS disagreed with the contention that the draft regulations would influence the issue of lost superannuation accounts. AAS argued that fund members tend to have multiple funds because they do not take advantage of existing facilities to roll over/transfer benefits rather than because of a lack of portability.²⁶

3.18 Similarly, in hearings on 31 July 2003, Dr Anderson from ASFA disputed the claim that portability would help address the large number of inactive or lost accounts.²⁷

25 *Committee Hansard*, 13 August 2003, p. 10.

26 *Submission 18*, AAS, pp. 4-5.

27 *Committee Hansard*, 14 July 2003, p. 14.