AIST submission

Response to Exposure Draft: Intra fund consolidation of superannuation interests

April 2012

Australian Institute of Superannuation Trustees

Background

This measure will provide funds with a framework within which to administer intra fund consolidation. The amendments place a duty on trustees to establish and publish rules setting out a procedure for consolidating a member's inactive interests within their fund on an annual basis.

It was announced on 21 September 2011 as part of the Government's Stronger Super package of reforms and will commence on the 1 July 2012

AIST

The Australian Institute of Superannuation Trustees (AIST) is an independent, not-for-profit professional body whose mission is to protect the interests of Australia's $450 billion not-for-profit superannuation sector. AIST's members are the trustee directors and staff of industry, corporate and public-sector superannuation funds, who manage the superannuation accounts of two-thirds of the Australian workforce.

AIST is a registered training organisation and has recently expanded its education program to encompass the growing and changing needs of all members of the not-for-profit superannuation sector.

AIST offers a range of services including compliance and consulting services, events - both national and international - as well as member support. AIST also advocates on behalf of its members to relevant stakeholders.

AIST's services are designed to support members in their endeavour to improve the superannuation system and build a better retirement for all Australians.

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1 Executive Summary

Intra fund consolidation is supported as the first step of various consolidation measures. However, this measure should not be limited to inactive accounts and accounts with less than $1,000. Furthermore, all ERF accounts should be included in intra fund consolidation measures.

As a matter of principle, intra fund consolidation requirement should be as broad or broader than inter fund consolidation requirements. This measure appears more limited than the recommendations made by the Stronger Super Peak Consultative group and the SuperStream Working Group and sets a relatively low bar as the first stage of the system wide account consolidation process.

AIST seeks clarification on the definition of ’interest’ and submits that intra fund consolidation should be based on members separate accounts, rather than total interest.

AIST believes that there should be a requirement to advise members where possible when their accounts are consolidated as this will improve the engagement process with members and improve the transparency and efficiency of the system to end-users. As a last point some terminology in the legislation should be clarified.

2 Commentary

2.1 Scope of consolidation measures

The Government has announced a raft of account consolidation measures to slow unnecessary account proliferation. This measure follows legislation that came into operation on 1 July 2011 allowing Tax File Numbers to be used to identify and locate members, and comes before measures on inter fund account consolidation, and measures to be integrated into the employee enrolment process.

Following the Government's support for consolidation measures in its Stronger Super announcement of September 2010, the SuperStream Working Group (SSWG) was charged with the task of developing options for reducing multiple accounts.

In its response to the Super System Review, the Government expressed its 'support in principle' for intra fund auto-consolidation 'provided the member is notified in advance, including of any impact on insurance cover, and has the right to opt-out' [response to Recommendation 9.12].

The SSWG developed a paper detailing "options for reducing multiple accounts" that was then adopted with some revisions by the Peak Stronger Super Consultative Group. One step proposed for July 2012 was an earlier iteration of what has become this measure. That is, 'funds must have taken all reasonable steps to identify and consolidate any multiple accounts within the fund (or sub-plan for master trusts). The process would be ongoing and required every six months.'

This Exposure Draft ("the ED") now proposes a significantly more limited process than that recommended by the SSWG. AIST submits that this represents both a change to Government policy and a change from the expected position of following the SSWG recommendation. We also submit that it is a weakening of what was sound policy.

A cornerstone of account consolidation should be that intra fund consolidation measures are at least as broad as inter fund consolidation, and in fact should be broader. This is in order that members are given the greatest opportunity to have their accounts within a fund consolidated before accounts they have in different funds are consolidated. This will reduce unnecessary transfers of funds, and will reduce confusion about the operation of consolidation measures.

2.2 Position

AIST supports measures to facilitate and encourage the consolidation of superannuation accounts. However, this piece of legislation requires a very cautious and unnecessarily limited implementation framework. As the first step of a multifaceted approach, it weakens the overall prospects for measures to reduce duplicated accounts and prevent account proliferation.

The ED sets a very low bar for the mandatory consolidation of accounts within superannuation funds. Activities resulting from the legislation are unlikely to significantly impact upon the problem of unnecessarily duplicated accounts or account proliferation. As the first and base level step in a raft of account consolidations measures, it is likely to have the effect of constraining subsequent measures, and to reduce their efficacy.

The limitations prescribed by this legislation are not necessary; they are more limited than that recommended through the Stronger Super consultations, and are more limited than previous iterations of government policy.

It appears that the drafters of the legislation have assumed that issues surrounding inter fund consolidation can be applied to intra fund consolidation. This is incorrect, and will lead to distorted implementation of policy.

For example, in relation to insurance: individuals with multiple superannuation accounts in different super funds may (wittingly or unwittingly) have an entitlement to multiple insurances upon their death. However, an individual with multiple accounts within the same division of one super fund will only have an entitlement to one insurance payment upon their death. This is because superannuation funds have contracts with their insurers to have each of their insured members on cover, once only.

AIST does not support the:

- **Exclusion of active accounts** from the intra fund consolidation measures, and contends that such an exclusion is only appropriate to inter fund consolidations. All unnecessarily duplicated accounts should be consolidated, whether or not they are active. It is noted that the Explanatory Memorandum ("the EM") explicitly does not prevent trustees from continuing with consolidation of active accounts.
- **Exclusion of accounts with $1,000 or more** from the intra fund consolidation measures, and contends that such an exclusion is only appropriate to the first round of inter fund consolidations. It is noted that the second and subsequent rounds of auto consolidation will involve accounts of "at least $10,000". All unnecessarily duplicated accounts should be consolidated, regardless of their account balance.
- **Exclusion of accounts in Eligible Rollover Fund (ERF) Accounts with $1,000 or more** from the intra fund consolidation measures. ERFs are repositories for lost and inactive accounts, and should have a higher standard to find the owners of these accounts. This is a position that was recommended in the Super System Review, supported by the Government in its response and in the Stronger Super consultations. It is expected that the Government will be introducing legislation to include this requirement in the required duties of an ERF trustee. This should therefore be reflected in this legislation by the inclusion of all ERF accounts in the intra fund consolidation measures.

AIST does support the exclusion of defined benefit interests and superannuation income stream interests, and recommends that 3.16 of the EM include the mention of superannuation income streams for consistency with the ED.

2.3 Use of "interest" and "account"

The general outline of the ED confusingly suggests that the superannuation terms 'interest' and 'account' are 'usually synonymous'. AIST suggests that it is not the case with this legislation, and that the use of these words interchangeably in the ED is confusing, and clouds a key point.

Putting aside issues on the merit of having a $1,000 limit for intra fund consolidation, using 'interest' and 'account' interchangeably makes it difficult to determine what the $1,000 limit means.

If the legislation intends for the limit to be determined on the basis of a member's 'interest', this means the sum of the whole of their eligible interest, with their 'inactive superannuation interest' being a subset of this whole. Their inactive superannuation interest may be made up of multiple accounts, with the total being either more or less than $1,000. If this is what the legislation means, then a member with three inactive accounts each with a balance of $400 would not be included within the category for mandatory consolidation, because the total interest is greater than $1,000, (i.e. $400 + $400 + $400 = $1,200).

However, if the legislation intends for the limit to be determined on the basis of a member's individual 'account', this infers each of the accounts that make up a members interest, considered singly. Based on this definition, each inactive account of less than $1,000 will be eligible for intra fund consolidation. AIST submits that, if the Government persists with the $1,000 cap, then this is the meaning that should be made clear in the ED and EM.

2.4 Consolidation destination

Proposed s.108A(1)(d) provides that inactive accounts are to be consolidated into a member's most recently active account. AIST supports this rule, as a member is most likely to be aware of the account into which they last received a contribution or rollover; and this is also the account most likely to have the member's most up to date information, and least likely to be lost.

It is also noted that the ED and EM consistently refer to measures "to consolidate inactive member interests within a fund" with the easiest implication being that these measures are about the consolidation "of" inactive accounts. While this may be the case in many instances, the consolidation will be of most value to members when an inactive account is consolidated into an active account. This is only clear in the example 3.1 of the EM, and by implication of proposed s.108A(1)(d).

The EM and ED should be clarified to make it clear that this is a measure to consolidate eligible inactive accounts into a member's most recently active account.

2.5 Detail of process

The requirement to implement procedures on a periodic annual basis is supported. Any requirement to implement on a six-monthly basis would be cumbersome, and unhelpfully interact with other administrative requirements, such as the dispatch of member statements. Any less frequent requirement would reduce the efficacy of these measures.

The requirement to consolidate accounts into a MySuper account, if one of the accounts is a MySuper account, is supported. Given that members may have lower awareness of their inactive accounts, this is an appropriate destination.

The prohibition on charging fees for the consolidation of accounts is supported. It is noted that funds will have derived multiple (albeit member protected fees for accounts of less than $1,000) fees and possibly insurance premiums from maintaining multiple accounts.

While AIST supports the requirement for funds to make members aware of the procedure for intra fund consolidation, this should be supplemented by a requirement to advise members whose accounts have been consolidated, where this is possible. Such a requirement will improve member engagement with their superannuation, and is consistent with existing practices amongst much of the superannuation industry.