REST Industry Super Submission

February 2014

Response to exposure draft of the *Tax and Superannuation Laws Amendment (2014 Measures No. 2) Bill 2014: lost member small account threshold* and the accompanying explanatory material.

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Background

The Government has released for public consultation an expose draft on the *Tax and Superannuation Laws Amendment (2014 Measures No 2) Bill 2014: Lost Member Small Account Threshold* and the accompanying explanatory material.

Currently lost member accounts, with balances of less than $2,000 must be transferred to the Commissioner of Taxation (ATO).

The expose draft legislation gives effect to the Government's decision, announced on 6 November 2013, to proceed with the former government's proposal to increase the small lost member account threshold in two stages.

It is proposed that the threshold will increase from $2,000 to $4,000 on 31 December 2015 and then to $6,000 on 31 December 2016. The intent of this policy is to protect the balances of small accounts from erosion by fees and insurance premiums.

Retail Employees Superannuation Pty Limited (Trustee) as an interested party wishes to comment on the *Tax and Superannuation Laws Amendment (2014 Measures No 2) Bill 2014: Lost Member Small Account Threshold* and the accompanying explanatory material.

Executive summary

The Trustee urges the Government to reconsider the introduction of amending the *Superannuation (Unclaimed Money and Lost Members) Act 1999* through the exposure draft *Tax and Superannuation Laws Amendment (2014 Measures No 2) Bill: Lost Member Small Account Threshold* to increase the account balance threshold below which small lost member accounts will be required to be transferred to the Commissioner of Taxation from $2,000 to $4,000 from 31 December 2015 and from $4,000 to $6,000 from 31 December 2016.

This is to avoid impacts such as:

- Loss of insurance for members
- Disproportionate impact of loss of insurance upon females.
- Low interest upon transferral to the ATO, which could be much less than the amount of return that superannuation funds pay.
- Loss of efficiencies introduced by Super Stream for funds if monies are transferred to the ATO.

The Trustee believes that members of super funds are better off with leaving the members within the super fund so at least they would be able to enjoy the benefits of insurance (where applicable) and higher returns on their account balances. The role of Government should be focussed on facilitating the finding of members and matching through their systems rather than take the risks of the members missing or losing insurance coverage.

About REST

The Retail Employees Superannuation Trust (**REST**) is open to all Australians and is one of the largest superannuation funds by membership in Australia. It has over 1.9 million members with more than $30 billion of funds under management, approximately 150,000 employers and an average member account balance of $15,000.

REST was originally set up as a superannuation fund for workers in the retail and fast food industries in 1988. REST's membership comprises mainly younger retail workers with an average age of 31.5 (and a median age of 28 years), 22% of REST members are part-time and casual workers, 61% are females.

REST’s submission in detail

The Trustee notes it is proposed that the threshold will increase from $2,000 to $4,000 on 31 December 2015 and then to $6,000 on 31 December 2016.

Superannuation providers are required to transfer certain unclaimed superannuation money, including small accounts belonging to lost members, to the ATO.

There are two types of lost members – uncontactable and inactive. For those individuals who are inactive, the fund issues periodic statements to them, yet no retuned mail is receive from them. If these members are transferred to the ATO they will lose their insurance (if applicable), potentially lose earnings, and will have to go through a process to claim their money back from the ATO for simply leaving their account inactive

Superannuation providers must give the ATO a statement in respect of lost member accounts and pay the value of these accounts to the ATO. The statement details are provided to the ATO as at 31 December and 30 June each year, with the statement and payment being due to the ATO by the following 30 April and 31 October each year.

The Government states that the intent of this policy is to protect the balances of small accounts from erosion by fees and insurance premiums.

The Trustee believes that this proposal should be reconsidered as it has a number of impacts, such as:

1. Loss of insurance for members. REST members generally retain their insurance while they have a sufficient balance to cover their insurance costs.

2. Disproportionate impact upon females. REST’s data shows that women typically have lower account balances and their transferral to the ATO will impact loss of insurance for more women than men.

3. Upon transferral to the ATO, the balances will only attract an interest component at the consumer price index (CPI) rate, which is generally much less than the amount of return that superannuation funds pay. This is important for those with low account balances as the interest component will be a significant portion of their ultimate retirement benefit. The lost income could cover insurance and fees in many instances.

4. Losing the increased efficiencies obtained by SuperStream by not keeping the above amounts in superannuation funds, and instead, transferring to the ATO. This would create more red tape and regulation and double handling.

We provide further detail on each of the points above, below.

1. Loss of insurance for members

From the members in REST with a balance of $6,000 or less, nearly 70% comprise of young people under age 30. Typically these people work in retail and this group comprises those who have just left school, are at university just commencing their careers or in the early stages of their careers. At this age, their pay scales are typically at the lower end of the scale, and most of these young people would be employed in a retail environment which is traditionally a sector which has low starting salaries. It is also an industry where they may not work regular hours, have extended periods where they don't work (e.g. only on school holidays), or even be working regularly but their hours do not meet the minimum superannuation guarantee (SG) requirements in order to receive the SG contribution. This happens regularly where individuals have multiple jobs sometimes over multiple industries such as retail and hospitality. This has the potential to disenfranchise them about super, especially if they feel their money has been "confiscated" by the ATO.

The types of insurance cover available to REST members are Death and TPD and income protection insurance. REST offers automatic default insurance cover in relation to death, total and permanent disablement (TPD) and income protection (IP).

Given that REST has a MySuper product, default insurance cover is a legislative requirement, however even prior to the introduction of MySuper, this basic level of insurance was offered automatically to REST members. The fact that the Government made this default insurance compulsory for MySuper members highlights the need for these members to have access to this death and TPD cover in terms of good social policy.

Insurance offered through superannuation is the cheapest form of insurance available to young people and there is no requirement to provide health evidence for basic cover. The insurance premiums are deducted from their REST account.

If these people are transferred to the ATO upon becoming classified as lost members, they would lose their insurance automatically. This loss of insurance has a number of impacts:

(a) Strain on Government services:

Young people will not have death and TPD cover. This means that those persons who least can afford medical bills will need to pay or get access to free health care. This impacts the health system, whereby large numbers of young people will not be able to pay for their own health care or rehabilitation in relation to TPD while they are out of work. These services must be provided by the Government at the tax payers' expense, not independently funded through insurance premiums paid from superannuation, as is currently the case.

(b) Impact on beneficiaries:

There is also an impact on beneficiaries for young people who die without insurance. Funeral costs must be paid for by the beneficiaries and/or parents without recourse to, or reimbursement from insurance monies. As the average funeral can cost over $10,000 this puts a strain on the families of young people.

The proceeds from insurance maintain the focus on rehabilitation and getting back to work in order to contribute to the economy and pay taxes. Without the benefits of insurance the focus could be lost and the onus falls to the beneficiaries.

(c) Impact on superannuation funds:

A reduction of the number of members in a superannuation fund, particularly one of REST's size with a large number of low account balances. With almost 700,000 members aged under 30 with an account balance of less than $6,000, if these members were deemed lost then this will result in a smaller pool of members to negotiate insurance premiums and charges. REST provides insurance to its members at a group rate through its insurers. REST uses its buying power to negotiate group insurance costs that compare favourably with those rates that the individual can negotiate for themselves in the market.

(d) Impact on members:

REST is able to offer insurance to many members who may otherwise find it difficult to get insurance, such as casual and part time workers. REST has 22 % of its members who are part time and casual workers and without REST insurance, these workers would not be able to find affordable insurance in the marketplace. This would mean that these members would likely never be able to be insured by leaving their super fund, hence increasing the strain on the Government's social security system.

(e) Loss of reinstatement rights

Some members make decisions when they are young that are right for them at the time. Once they cancel insurance, usually they can't get it back without having to go through a medical process. REST makes it easier for those members to get insurance cover gain later when it becomes more relevant for those members. For members who turn 25, if they have no insurance cover or cover that is less than REST's Basic Cover, REST will automatically reinstate the Basic Cover upon receipt of the first mandatory employer contribution received by them that relates to a period of employment beginning on or after the beginning of the month in which the member turns 25 and before they turn 26. By such members being transferred to the ATO, if this is the only insurance that these members have (and often it is) these members will likely never be able to access insured health cover and accordingly, increase the strain on the Government's social security system.

REST is offering insurance to these members when they are most insurable that can be portable throughout their careers. By transferring to the ATO the portability and accessibility to this insurance may be lost. Members would end up searching for insurance later in life at what may be a time where they are less insurable.

(f) Impact of intergenerational support

Given the relative immaturity of the Australian super system, some older members are reliant on financial support of their children in the future. Where a member has lost their insurance cover due to their benefit being transferred to the ATO, then subsequently dies or becomes disabled, they become reliant on the social security system to survive, and/or possibly their parents. Not only are individuals who has died or become disabled affected by the loss of the insurance cover, so too are their parents.

2. Disproportionate impact upon females

The number of REST's membership which is female is about 60%. Most of REST's members are aged 30 or under and have an account balance of less than $6,000. Accordingly, transferring lost member account balances up to $6,000 may result in a loss of insurance for a large portion of REST members. As shown in the table below there are potentially 438,966 REST members who will likely be reported to the ATO as lost as they have not made a contribution in over 12 months, from that number almost 60% are female. Once they have left REST they may find it difficult to ever obtain insurance as many women are in part-time and casual jobs. This puts a resulting strain upon government social security system.

The table shows the number of REST members with a balance of $6,000 or less. From a total of 974,903 members, potentially 28,298 will be reported as lost uncontactable and 438,966 as lost inactive. The split between females and males are approximately 60/40.

Gender	Members with a/c balance less than $6000	under age 30, with insurance	Members with 2 returned mail so will be lost uncontactable	Inactive members
Females	576,035	248,528	15,868	255,763
Males	398,868	179,746	12,430	183,203
Total	974,903	428,274	28,298	438,966

3. Loss of interest

For the majority of REST members, the Trustees aims pay investment earnings at the rate of return of CPI plus 3%. The actual returns are much higher, as in REST's case as most members are in the Core Strategy, the last return for this was 19.7% year to date at 31 December 2013.

Therefore a lost member account that was reported lost as at 31 December 2012 had to be transferred to the ATO by 31 May 2013 (in future year it would be by 30 April). Assuming the member was transferred to the ATO on 1 January 2013 that lost member account would cease to earn interest from REST at that date. When the money is received by the ATO from 2 January 2013, it earns interest at the rate of 0% until 1 July 2013, from 1 July 2013 to 31 December 2013, it grows are rate of 1.95% (CPI). However if the member was allowed to remain in REST, during the period 1 January 2013 to 31 December 2013, the member account invested in Core Strategy (the default investment option, then from 1 July 2013 the MySuper investment option), would have grown at the rate of 19.7%.

Assuming this member's account balance was $2,000 the growth if they remained in REST compared to if they were transferred to the ATO is shown below:

Date	Value of super with the ATO	Value of super with REST*
01/01/2013	$2,000	$2,000
31/12/2013	$2,039	$2,394

* based on an interest rate of 19.7% earned for the year ending 31 December 2013 in Core Strategy

If the member had stayed with REST, their balance as at 31 December 2013 would have grown an additional $355.

Even if we assume that the ATO paid interest on unclaimed money over the last 10 years to 31 December 2013 using CPI and compare that to the performance of REST's Core Strategy to the 10 years to 31 December 2013, with a starting balance of $6,000 there is still a significant difference between REST's performance and the CPI.

Year	CPI 2.72% average	REST 7.95% average^
2003	$6,000	$6,000
2004	$6,153	$6,477
2005	$6,305	$6,992
2006	$6,557	$7,548
2007	$6,695	$8,148
2008	$6,992	$8,796
2009	$7,092	$9,495
2010	$7,313	$10,250
2011	$7,573	$11,065
2012	$7,664	$11,944
2013	$7,847	$12,894

^ The rate of 7.95% is based on the Core Strategy 10 year average annual return to 30 June 2013. This return is calculated after deducting investment and administration fees, costs and taxes, but does not include insurance costs.

The table above shows that over a 10 year period to 31 December 2013, the member would have been better off if they had stayed with REST, their balance as at 31 December 2013 would have grown an additional $5,047.

REST has made the following calculation in relation to the amount of money foregone by the member by being transferred to the ATO.

Member Status	Interest	Account Balance	Account Balance over 10 Years	Account Balance over 40 Years
Transferred to ATO	CPI 2.75%	$6,000	$7,870	$17,759
Remained with Fund	CPI + 4.9%~	$6,000	$12,540	$114,476
Interest foregone by transferring to ATO			$4,670	$96,716

~ The rate of 4.9% is the Core Strategy target return as shown on the MySuper product dashboard. The target return is an average annualised estimate of return over ten years, after deducting investment and administration fees, cost and taxes but does not include insurance costs.

From the above table it is apparent that members are better off by staying in REST than being transferred to the ATO. It may also mean the ATO will receive higher account balances once the member is compulsorily transferred upon reaching a condition of release, e.g. age 65 if they are truly lost. We note the ATO could play an important role in matching members between the various funds so they are not lost.

4. Foregone efficiencies

The ATO has introduced a number of welcome changes to tracking lost members and cross matching them with their funds. REST has welcomed these changes as they also introduce efficiencies into the fund by reuniting members with their duplicate accounts and tracking lost monies.

Further the introduction of SuperStream has seen further efficiencies introduced in relation to the processing of contributions and rollovers. The goal of implementing SuperStream reforms is to enhance the back office of the superannuation system. Industry savings will allow benefits to flow to members and employers in the form of lower fees and charges and improved services. Further the success of SuperStream is measured by the rates of straight through processing and conformance with the e-commerce standard, as well as the value of savings and improved experience of members and employers.

REST was one of the first funds to be involved in the pilot regarding SuperStream and has seen many processing efficiencies resulting from this.

Accordingly REST as a fund which complies with SuperStream is able to offer these processing efficiencies particularly through electronic gateways and standardisation of data. If funds had to transfer benefit

Where lost super accounts are transferred to the ATO, they are eventually transferred back to the super system either to the original super fund or another super fund. By allowing them to remain in the super fund, this will alleviate double handling with going to the ATO and then to another super fund. Using the ATO matching system, the super benefit could simply go from one fund to the other, negating the need to go to the ATO and be out of the investment market and the member would not lose their insurance cover.

Conclusion

REST urges the Government to reconsider the introduction of amending the *Superannuation (Unclaimed Money and Lost Members) Act 1999* through the exposure draft *Tax and Superannuation Laws Amendment (2014 Measures No 2) Bill: Lost Member Small Account Threshold* to increase the account balance threshold below which small lost member accounts will be required to be transferred to the Commissioner of Taxation from $2,000 to $4,000 from 31 December 2015 and from $4,000 to $6,000 from 31 December 2016.

This is to avoid impacts such as:

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- Lack of efficiencies introduced by Super Stream for funds if monies are transferred to the ATO.

REST believes that members and funds are better off by leaving the members within the funds so at least they would be able to enjoy the benefits of insurance and higher returns on their account balances.

We are happy to discuss this matter further with you.

For further information, please contact Damian Hill on (02) 9086 6304.