ASFA Research and Resource Centre

Multiple accounts and superannuation: the likely impact of auto-consolidation

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EXECUTIVE SUMMARY

- As at June 2010 there were 32.9 million superannuation accounts in Australia, well in excess of the number needed or wanted.
- Since that date, around 3.6 million accounts have been removed from super funds as a result of new provisions related to temporary residents and small and unclaimed monies.
- Growth in the number of accounts has also dropped away from five per cent a year, a decade ago to only around 0.6 per cent currently, largely as a result of more individuals keeping their old fund when they start a new job or consolidating their accounts in a new fund.
- For those who changed jobs in the past 12 months, the majority (70 per cent) stayed with the super fund they were with in their previous job.
- The total number of persons with an Australian superannuation account is likely to have been in excess of 14 million as at January 2011. This is more than the number of employees because accounts are held also by retirees, those not currently in the paid labour force, and expatriates residing overseas.
- ASFA Research Centre estimates suggest that there are some 4 million additional accounts which are justified by the individuals concerned or are unavoidable on top of the 14 million primary accounts.
- A comparison between the number of accounts in the system and the number of needed accounts indicates that there currently are between 11 and 12 million accounts in the Australian superannuation system which cannot be justified on objective grounds or at the very least are not satisfying any real need.
- Between 3 and 4 million of the unnecessary accounts are currently listed on the Lost Members Register (LMR). A further 8 million or so such accounts are not yet listed on any central register.
- Survey evidence suggests that Australians are only aware of around 19 million of the accounts in the system.
- Anecdotal evidence from funds indicates that unnecessary and unwanted multiple accounts within the one fund generally are not very common. An upper estimate of the number of such accounts in the system is likely to be in the order of one per cent of employees; around 100,000 accounts in terms of the absolute number.
- A process whereby an individual would be matched against any existing accounts when they start a new job, might avoid the creation of up to 225,000 accounts per year given current levels of job turnover and rates of exercise of choice of fund.
- Auto-consolidation of accounts listed on the LMR on an opt-out basis might be able to consolidate between 2.5 million and 3 million accounts.
- There could be as many as 10 million inactive accounts (in the sense of not receiving employer or personal contributions in the last financial year) that are not in eligible rollover funds (ERFs) or listed on the LMR.
- If auto-consolidation operated on an opt-in basis it is likely that there would be consolidation of no more than around 1.5 million to 2 million accounts after several years.
- This number could be increased by auto-consolidation on an opt-out basis of small accounts (say less than $1,500) where there was no current insurance coverage.
- Auto-consolidation of inactive accounts not yet listed on the LMR would also require more comprehensive reporting of accounts to the Australian Taxation Office (ATO). Currently, Member Contribution Statements only list accounts receiving contributions during a given year.
- Over a number of years, auto-consolidation could reduce the total number of accounts by between 5 and 6 million, depending on the rules adopted and the ability of the ATO to match accounts.
- Care would be needed in dealing with any accounts that are consolidated which have insurance cover attached to them.

1. The number of accounts in the system

As at June 2010, the Australian Prudential Regulation Authority (APRA) and ATO data showed there were 32.9 million superannuation accounts in Australia (see Table 1). This is clearly well in excess of the number of accounts needed or wanted.

That said, the rate of growth in the number of accounts in the system has dropped away markedly since June 2003. From annual growth rates in the order of five per cent a year, the rate of growth in the number of accounts was only 0.6 per cent in 2009-10. This decline in the rate of growth is a function of both a decline in the number of new accounts being formed and also because a substantial number of accounts have been closed through consolidation and other processes.

In particular, the introduction of the temporary residents provisions and the expansion of the unclaimed monies provisions have contributed substantially to the slowdown in growth in the number of accounts. Around 300,000 accounts were removed from superannuation funds prior to 30 June 2010 due to the temporary residents provisions alone. These accounts made up the bulk of the 413,000 accounts in unclaimed monies as at that date.

Since June 2011, some 1.3 million accounts have been closed and account balances paid into consolidated revenue as a result of the legislative provisions relating to accounts held by temporary residents to Australia who have departed the country.

ASFA understands that a further 1.9 million accounts have been closed since June 2010 as a result of the recently introduced legislative provisions relating to small and insoluble accounts. Again, account balances flowed into consolidated revenue. Around three-quarters of these accounts were small, that is, with balances under $200. As a result there are likely to be about 3.6 million accounts now out of the superannuation system but potentially claimable by their owners (in the case of departed temporary residents) or transferable to accounts within the superannuation system (in the case of the small and insoluble accounts).

Most of these accounts were held within ERFs, which traditionally have received transfers of small and/or insoluble accounts held by other APRA-regulated funds. Given the costs to funds from the operation of member protection, ERFs have received transfers of over 600,000 such accounts a year from other funds. As at June 2010, ERFs accounted for nearly 19 per cent of the total accounts in the superannuation sector, up from around 14 per cent of the total in June 2003. However, ERFs account for much less than one per cent of the total assets in the system reflecting the low average account balances involved.

The Budget Papers anticipated that around $190 million would flow into consolidated revenue in 2010-11 from the small and insoluble accounts provision, with a further $40 million in 2011-12. This indicates that the measure has had a substantial impact on the stock of small and insoluble accounts that had developed within the system.

The current number of accounts in the system is likely to be around 30 million, with the possibility of this falling further this financial year with additional transfers of small account balances and other unclaimed superannuation accounts.

Table 1 Number of member accounts - trends

($'000)

	Jun 2003	Jun 2004	Jun 2005	Jun 2006	Jun 2007	Jun 2008	Jun 2009	Jun 2010
By functional classification								
Corporate	786	774	697	605	665	661	662	624
Industry	8,353	8,946	9,270	9,948	10,629	11,266	11,551	11,516
Public Sector	2,532	2,707	2,758	2,891	2,925	3,002	3,095	3,131
Retail (includes ERFs)	12,935	13,764	14,434	14,970	15,472	16,308	16,574	16,766
Small (mostly SMSFs)	495	537	567	602	677	724	771	821
Total	**25,101**	**26,729**	**27,727**	**29,016**	**30,369**	**31,961**	**32,654**	**32,857**
Increase in total accounts from year before		6.5 per cent	3.7 per cent	4.6 per cent	4.7 per cent	5.2 per cent	2.1 per cent	0.6 per cent
By regulatory classification								
Public offer super funds	15,177	15,914	16,509	19,490	20,176	20,996	21,465	21,702
Non public offer super funds	4,146	4,367	4,271	2,712	2,836	2,866	2,865	3,196
Exempt schemes	1,686	1,761	1,774	1,390	1,427	1,458	1,493	974
Approved deposit funds	40	36	18	12	10	9	9	8
Eligible rollover funds	3,556	4,114	4,588	4,811	5,244	5,909	6,052	6,156
Small APRA funds	11	11	10	10	8	7	6	5
Self-managed super funds	484	526	557	592	668	717	765	815
Total	**25,101**	**26,729**	**27,727**	**29,016**	**30,369**	**31,961**	**32,654**	**32,857**

Source: APRA Annual Superannuation Bulletin, June 2010

2. Factors driving the number of accounts in the system

Not surprisingly, the net increase in the number of accounts is driven by the number of entrants to superannuation funds less the number of exits. This is shown in Table 2 below.

Every year there are a substantial number of entrants to the paid labour force. Employment growth has been growing strongly in recent years at around 1.5 per cent per annum. This has involved school and tertiary education leavers entering the labour force along with entry of adult workers from overseas. There also have been mature age workers (particularly women) re-entering the workforce and also entering into a superannuation fund.

Business long stay visas are temporary visas commonly known as subclass 457 visas. In 2009-10 around 68,000 such visas were granted, down about a third from the number issued in the previous year. As at 30 June 2010 there were 127,560 such visa holders in Australia. Under this subclass, employers may sponsor skilled workers to work in management, professional, technical and skilled trades persons. Such employees will generally be subject to compulsory superannuation contribution arrangements and will require the opening of a superannuation account in Australia.

Visas are also issued under the Working Holiday Maker program. In 2009-10 around 183,000 such visas were issued. Most such individuals working in Australia would also have had superannuation accounts opened on their behalf.

With around one-quarter of a million new accounts being opened every year due to the employment of temporary residents, it is clear that over a period of a number of years, such accounts could add up to a very significant figure. However, as noted in the previous section, legislative provisions which first allowed such accounts to be closed when the temporary resident departed the country and which more recently require such accounts to be closed after departure, have had a significant impact on the number of such accounts. This impact has been large enough to truncate or even reverse the growth in the total number of accounts in the system.

Clearly not all growth in the number of accounts in the system is attributable to temporary residents or growth in the labour force more generally. For instance, a not insignificant number of Australian citizens and permanent residents choose, or find it necessary, to hold more than one superannuation account. Reasons for this are discussed in Section 4 below.

Another significant contributor to past growth in the number of superannuation accounts has been individuals starting new superannuation accounts, either through their own decisions or through being enrolled by employers in default funds when they start a new job.

However, as the system has matured and individual account balances have grown it has become more common for individuals when they start a new job to either direct contributions to the fund they are already in or to transfer their account balance to the fund that their new employer uses as a default. Choice of fund only became law in June 2005 although prior to that date a significant number of employers allowed their employees to choose the fund to which contributions are made.

The use of the choice of fund and portability provisions is reflected in data from a survey undertaken for ASFA in September 2010. This indicates that of the 15 per cent of respondents who changed jobs in the past 12 months:

- the majority (70 per cent) stayed with the super fund they were with in their previous job;
- one in seven (15 per cent) transferred their super to their new employer's default fund; and
- a relatively small but still noticeable nine per cent joined their new employer's fund but failed to consolidate their funds (ie. let their other fund become inactive).

This suggests that job changes (as opposed to new entrants to the labour force) currently generate growth in the total number of accounts in the system equivalent to less than 0.5 per cent of total accounts. This is a relatively modest increase. However, in the 1990s and the early 2000s (prior to legislated choice of fund and when account balances were smaller on average and members were less attached to their fund) job change is likely to have contributed to growth in accounts of perhaps three per cent or even more per year. This was a powerful contributor to the growth in the total number of accounts.

Given the preservation arrangements in place for superannuation in the past, flows of exits from the system have been relatively modest and much lower than the number of new accounts created. For instance, in 2009-10 there were only 47,000 account exits due to death or disablement with a further 207,000 due to retirement. These are relatively small numbers compared to the total number of accounts in the system. Typically many retirees retain a superannuation account after they retire in order to provide an income in retirement.

Other factors leading to growth in the number of accounts in the system include the opening of accounts in order to undertake saving for retirement outside of an employment arrangement. This can include transition to retirement arrangements which generally involve the establishment of either one or two new accounts for each person with such an arrangement. As noted in

Table 2, there were nearly 800,000 personal entrants to retail superannuation funds in 2009-10. Many of these would have related to the self-employed, personal savings plans, and retirement income arrangements.

As well, the relative stability in overall account numbers is driven by considerable flows of members both into and out of various superannuation funds and categories of superannuation funds. In 2009-10 there were around 2.8 million entrants to superannuation funds (excluding entrants to eligible rollover funds).

Table 2 Member accounts: flows and types

Year end June 2010
Entities with more than four members
($'000)

	Corporate	Industry	Public sector	Retail (including ERFs)	Total
Member accounts June 2009	**662**	**11,551**	**3,095**	**16,574**	**31,883**
Exits during the year					
Death	1	12	5	16	34
Retirement	4	83	42	78	207
Retrenchment / Redundancy	6	2	1	5	13
Disablement	0	5	2	5	13
Resignation	26	232	50	209	517
To eligible rollover funds	7	428	13	192	639
Other exits	52	556	24	1,286	1,918
Total	95	1,318	138	1,789	3,341
Entrants during the year					
Personal members	0	72	12	792	876
Employer sponsored members	55	1,121	157	1,060	2,394
Other entrants	1	90	5	129	225
Total	57	1,283	174	1,981	3,495
Net entrants	**-38**	**-35**	**36**	**192**	**154**
Member accounts June 2010	**624**	**11,516**	**3,131**	**16,766**	**32,037**

Source: APRA Annual Superannuation Bulletin, June 2010

3. The number of persons with superannuation in the system

The last official Australian Bureau of Statistics (ABS) survey of the Australian population put the number of residents with superannuation at 11.6 million as at 2007. Allowance needs to be made for population and labour force growth since then, a slightly higher penetration rate for superannuation coverage (both for those of typical labour force age and amongst retirees), and for accounts attributable to Australian and New Zealand citizens who have left the country on either a temporary or permanent basis but are not yet entitled to their superannuation.

Unofficial estimates suggest that there may be over 1 million Australians who reside overseas on either a permanent or relatively long-term basis (not just for a holiday). A significant proportion of such individuals would have an Australian superannuation account which they are not permitted to close until they reach preservation age or another condition of release.

Allowing for these factors suggests that the total number of persons with an Australian superannuation account is in excess of 14 million as at January 2011. This figure is considerably higher than the number of employed persons in Australia, with the latter used by some commentators in estimating the number of accounts per account holder in Australia. For instance, in the APRA Insight 2007 publication celebrating 10 years of superannuation data collection, APRA compared the number of employed persons with the total number of accounts. In June 2006 there were 10.2 million employed persons (not all of whom would have held superannuation accounts) compared to 29.9 million superannuation accounts in the system.

4. The number of accounts required or needed in the system

The minimum number of accounts required is the total number of persons with a superannuation interest in an Australian fund. Accordingly, 14 million accounts is the bare minimum required in the system.

However, multiple accounts can be justified when they are used to:

- Retain entitlement for advantageous insurance coverage (at least 300,000 accounts, possibly more).
- Retain employer financed benefits in defined benefit funds, especially unfunded public sector funds (500,000 accounts).
- Facilitate salary sacrifice and discretionary personal savings by those in defined benefit funds (200,000 accounts).
- Facilitate transition to retirement arrangements (possibly 50,000 accounts).
- Deal with the short-term needs of employees in the course of moving from one job to another (250,000 accounts).
- Deal with needs of departed temporary residents prior to funds sending accounts to the ATO (50,000 accounts).
- Deal with multiple job holders who do not have choice of fund in all of their jobs because of industrial relations agreements or because one of their employers is in the public sector and does not offer choice of fund (100,000 accounts).
- Retain benefits in old style retail superannuation products with large exit fees (450,000).
- Satisfy perceived consumer needs for multiple accounts to meet investment and other requirements (2 million accounts).

All up there are likely to be some 4 million accounts which are justified by the individuals concerned or are unavoidable on top of the primary accounts held by 14 million Australians and former residents.

This suggests that at least 18 million accounts are required in the superannuation system.

This is not inconsistent with the number of active accounts in Australia. ATO data indicates that in 2007-08 there were some 16.1 million member statements processed, with 15.5 million of these member statements having a tax file number (TFN). The bulk of these member statements are associated with accounts that are receiving employer and/or member contributions on an ongoing basis. A minority would be associated with accounts which were only needed on a transitional basis during the year to cope with job change, temporary residents and like factors.

As well, as indicated from the list above, there are likely to be some millions of accounts which on objective grounds are justified even though no contributions may be received. On the other hand, some accounts active in terms of receiving contributions in a given year might not be justified because the individuals concerned have another account that they would prefer to use.

In conclusion, these various figures suggest that there are between 11 and 12 million accounts in the Australian superannuation system which cannot be justified on objective grounds or at the very least are not satisfying any real need.

A substantial proportion of these accounts are already listed on public registers. For instance, at June 2010 there were 4.5 million uncontactable accounts and 1.3 million inactive accounts listed on the LMR, with most in ERFs. With the transfer of 1.9

million accounts to unclaimed monies the uncontactable number is likely to be down to around 3 million.

This suggests that there are around 8 million unnecessary accounts in the super system not yet in ERFs and/or listed on the LMR.

5. The number of accounts people know that they have

Many individuals who have multiple accounts are aware of them. In some cases they will want (or cannot avoid) having one or more additional accounts. In other cases the multiple account will not be wanted but the individual finds it too hard to close or the amount involved is such they do not see it as worth the time and effort to close it.

Surveying the population to determine the incidence of multiple accounts is not without its challenges given that many individuals who have multiple accounts may not be aware of the existence of such multiple accounts. This is one of the reasons that there has been growth in the number of such accounts.

A survey of fund members conducted in December 2010/January 2011 and released at the 2011 Conference of Major Superannuation Funds (CMSF) indicates that the majority of respondents indicated they belonged to one main super fund (68 per cent), with a further 23 per cent having two funds. Seven per cent of respondents indicated that they had three funds, and a further three per cent had four or more funds. Respondents who were currently unemployed, a student, or performing home duties were more likely than others to have four funds or more. Adding these results up suggests that Australians, in aggregate, are aware that they hold total superannuation accounts in the order of 19.5 million.

Levels of awareness of the name of the fund or funds in which additional accounts were held were not uniform. Sixteen per cent of those who knew they had an additional account were not able to name the fund it was in. For the majority who were aware of the fund, 13 per cent named REST Industry Super and 13 per cent named AMP. This was followed by Colonial First State, HESTA, Sunsuper, AustralianSuper, UniSuper, and a variety of public sector funds. This pattern reflects patterns of job holding in the Australian economy, with a substantial number of casual and first time employees in the retail sector. The incidence of retail funds is also to be expected given that they are commonly used for discretionary savings plans. The incidence of public sector funds, and UniSuper, is explicable because many such funds are defined benefit and/or require benefits to be retained in the fund until a condition of release is satisfied.

6. Impact of auto-consolidation

Various proposals for account consolidation have been put forward in the context of the SuperStream initiatives which form part of the Government's overall program of *Stronger Super* decisions responding to the recommendations of the Cooper Report.

These proposals relate to both consolidation of existing accounts and avoidance or at least minimisation of the creation of unnecessary new accounts.

Auto-consolidation within a superannuation fund

Perhaps one of the easiest and most straightforward options for consolidating accounts is for a fund to consolidate multiple accounts held by an individual within one fund or within a particular employer sub-plan within a fund. Such multiple memberships can be generated as a result of casual employment episodes or from different permanent jobs held at different times. However, there can also be legitimate reasons for multiple accounts, such as transition to retirement strategies. An individual who is drawing down a retirement income stream might also require an accumulation account for any casual or other employment they undertake.

Anecdotal evidence from funds indicates that unnecessary and unwanted multiple accounts within the one fund are not very common given that most funds already check to see whether a person being enrolled already has a membership record and/or undertake activity to identify multiple account holdings. An upper estimate of the number of such accounts in the system is likely to be in the order of one per cent of employees; around 100,000 accounts in terms of the absolute number. However, there are funds operating in industries where there is a high rate of casual employment and the incidence of such multiple accounts might be higher than one per cent.

The impact of such an auto-consolidation mechanism would mostly impact on the current stock of multiple accounts rather than having a continuing impact each year of similar scale. With almost universal provision of TFNs by new members, funds generally will pick up on potential duplicate accounts when a new member is enrolled. This avoids the need for consolidation at a later date. Legislative provisions permitting greater use of TFNs by funds will assist this process.

Auto-consolidation when an employee starts a new job

As noted in Section 2 above, most individuals already stay in the same fund or consolidate into a new fund when they start a new job.

A process whereby an individual would be matched against any existing accounts when they start a new job, might avoid the creation of up to 225,000 accounts per year given current levels of job turnover and rates of exercise of choice of fund. However, the actual number of new accounts avoided through such a process could be less than this due to some previous accounts (particularly public sector funds) not being able to be closed or receive contributions from a new employer.

Impact of auto-consolidation on accounts in ERFs and/or listed on the LMR as uncontactable

Of the accounts on the LMR that are lost – uncontactable, ATO data analysed by the Australian National Audit Office indicates that the ATO can match about 80 per cent of such accounts with the details of taxpayers that have lodged a tax return. However, not all persons counted as being lost will have another super account. Auto-consolidation of accounts listed on the LMR on an opt out basis might be able to consolidate between 2.5 million and 3 million accounts, but perhaps less.

Many of these accounts have now been sent to consolidated revenue under the unclaimed monies provisions. However, a substantial number will still be in ERFs. Some ERFs may no longer be commercially viable if a further significant proportion of accounts are transferred out and the flow of new accounts diminishes.

For the inactive accounts listed on the LMR, previous ATO activity has indicated that relatively few of this category are looking to consolidate when the ATO contacts them, so if the rule for auto-consolidation for inactive accounts was opt-in the takeup rate might be only 10 per cent to 20 per cent. An opt-out rule for the consolidation of inactive accounts could be problematic as inactivity is not necessarily an indicator that an account is unwanted. That said, inactive accounts are easier to match with a taxpayer than accounts where the fund has lost contact with the member.

The ATO can match around 95 per cent of inactive accounts on the LMR to a person who has lodged a tax return. Again, a proportion of these will have only one account (the account on the LMR) so consolidation will not be relevant in all cases.

Inactive accounts not yet in ERFs or on the LMR

There could be as many as 10 million inactive accounts (in the sense of not receiving employer or personal contributions in the last financial year) that are not in ERFs or listed on the LMR.

As indicated in Section 4 above, up to 3 million of these accounts might be needed or wanted by individuals for various reasons. Closing such accounts through an auto-consolidation process on an opt-out basis could be very problematic, particularly if advantageous insurance coverage was lost.

Insurance cover is also an issue with inactive accounts where the level of member engagement is low. Data from a number of large industry funds suggest that between 30 per cent and 50 per cent of their inactive members retain insurance cover, at least for a time. If such cover lapses due to auto-consolidation, there would be potential legal claims from individuals who subsequently became TPD or from dependents in the case of death of the fund member. Arrangements would need to be in place to deal with any such claims and/or to transfer insurance cover to the fund in which the account is consolidated.

If auto-consolidation operated on an opt-in basis, it is likely that there would be consolidation of no more than around 1.5 million to 2 million accounts after several years. This number could be increased by auto-consolidation on an opt-out basis of small accounts (say less than $1,500) where there was no current insurance coverage. The number of such accounts is likely to be significant but is difficult to estimate given that no real statistics are available on accounts not yet listed on the LMR or reported on Member Contribution Statements.

Auto-consolidation of inactive accounts not yet listed on the LMR would also require more comprehensive reporting of accounts to the ATO. Currently, Member Contribution Statements only list accounts receiving contributions during the financial year the Statement relates to (some 16 million or so out of around 32 million accounts in 2009-10).

7. Conclusion

While it is difficult to be precise, the evidence available indicates that there could be as many as 12 million superannuation accounts in the Australian system which are not meeting any real need and which their owners may have no real knowledge of. While the balances are typically relatively low, these accounts add to the running costs of the system and hence reduce the eventual retirement benefits received by fund members. Even worse, without further changes, too many of these accounts will end up in unclaimed monies and never be received as retirement benefits.

Recent changes relating to temporary residents and small and insoluble accounts have led to a substantial reduction in the number of accounts in the system. However, much work remains to be done.

Measures focused on employees when they change jobs have the potential to check further growth in the number of accounts. However, achieving a substantial reduction in the number of accounts will require measures which operate in regard to the both the remaining accounts listed on the LMR and inactive accounts not yet listed on that Register.

A variety of approaches will be needed to deal with multiple and unnecessary accounts. Where a member has lost contact with their account, the account is inactive and/or the balance is small, then there is a case of auto-consolidation on an opt-out basis. On the other hand, where an account has a larger balance, an opt-in approach to consolidation might be appropriate, particularly when there are insurance cover and investment choice issues involved.

Over a number of years, between 5 and 6 million accounts might be consolidated. However, the total number would depend on the rule or rules applying to auto-consolidation and on the capacity of the ATO to match accounts.

These various factors are being taken into account in the design of the auto-consolidation processes being developed in the context of *Stronger Super* reforms.