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Developments in the number and cost of multiple superannuation accounts

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ASFA is a non-profit, non-political national organisation whose mission is to continuously improve the superannuation system, so all Australians can enjoy a comfortable and dignified retirement. We focus on the issues that affect the entire Australian superannuation system and its $3.1 trillion in retirement savings.

Our membership is across all parts of the industry, including corporate, public sector, industry and retail superannuation funds, and associated service providers, representing over 90 per cent of the 17 million Australians with superannuation.

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1

Executive Summary

Government policy initiatives have led to a substantial reduction in the number of unwanted multiple accounts with a further reduction to come as a result of the Your Future, Your Super "stapling" of individuals to their existing account when they change jobs. The total reduction since 2015 in unwanted accounts will be nearly 13 million by June 2021. The Government is to be commended for the significant reduction in unwanted multiple accounts that has occurred. Ongoing costs of unwanted multiple accounts are likely to be a modest amount a year from 2022 onwards.

However, the number of lost and small inactive accounts held by the Australian Taxation Office (ATO) has remained substantially the same over recent years despite a large flow of accounts into and out of the ATO and under current policy settings is not likely to decline.

As at February 2021 the ATO held around 5.2 million unclaimed superannuation accounts worth around $3.6 billion in total. In many cases the ATO can match such accounts to a superannuation account held by an individual but the law only allows the ATO to forward a balance when the superannuation account proper is classified as active[1].

The ATO applies an interest rate to the balances it holds which is equivalent to the increase in the Consumer Price Index (CPI). Over the 12 months to March 2021 the CPI rose by 1.1 per cent. This implies aggregate interest payable on the $3.6 billion in balances held by the ATO of just $40 million.

In contrast the average investment return of superannuation funds is around 7 per cent per year, with returns of nearly 20 per cent likely for the year to June 2021. The aggregate investment return on $3.6 billion at the rate of 20 per cent is over $700 million.

In this context, in order to build on the recent success in reducing the number of multiple accounts it would be desirable for the ATO to reunite amounts it holds whenever it can identify another account in a superannuation fund, including inactive accounts, where the combined balance will be above $6,000. This would enhance investment earnings after all fees accruing to individuals[2].

1 An active account is one where an amount has been received by the fund for crediting to that account within the last 16 months, where there is insurance cover or where the account holder has satisfied a condition of release.

2 This paper provides a number of worked examples demonstrating this.

Calculating the number of unwanted multiple superannuation accounts

Based on Australian Taxation Office (ATO) data, as at June 2020 there were around 17 million individuals with a superannuation account. At the very least 17 million accounts are needed.

The number of additional accounts justified on objective grounds

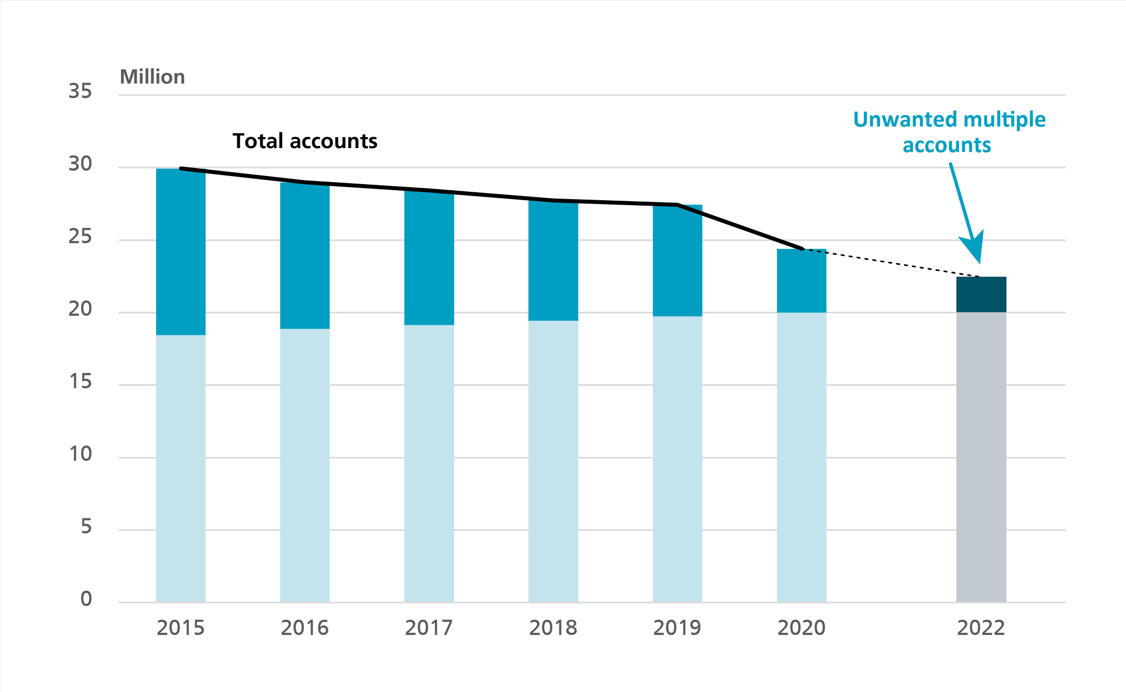
Productivity Commission research indicates there are likely to be some 3 million multiple accounts which are justified on the basis of the needs of the individuals concerned.

Multiple accounts can be justified when they are used to:

- Retain employer financed benefits in defined benefit funds after leaving an employer, especially unfunded public sector funds (400,000 accounts, with over 210,000 such accounts in the three major Commonwealth defined benefit schemes).
- Facilitate salary sacrifice and discretionary personal savings by those in defined benefit funds.
- Provide for individuals in defined benefit funds who have employment income from another employer as well.
- Retain entitlement for advantageous insurance coverage that cannot be obtained when moving to another fund because of a pre-existing condition or the like.
- Facilitate transition to retirement arrangements (around 120,000 accounts in APRA funds).
- Support individuals aged 65 and over who are still in employment and who also have an account based income stream.
- Open an additional income stream in retirement as the current law does not allow account based income streams to be topped. Some income streams also cannot be commuted and added to a new income stream due to legal requirements or because they receive favourable social security treatment.
- Satisfy perceived consumer needs for multiple accounts to meet investment and other requirements, including accounts used solely to finance insurance premiums.

Accordingly, as at June 2020 there were around 17 million Australians with superannuation and a requirement, based on the Productivity Commission analysis for 20 million or more accounts in the system. The number of unwanted multiple accounts has decreased sharply in recent years and with further account consolidation in train will fall further by 2022 (Chart 1).

Chart: Trends in total superannuation accounts and in unwanted multiple accounts



Source: APRA Annual Superannuation Bulletin for the year ended 30 June 2020, ATO individual tax statistics, ASFA estimates.

Further policy changes could reduce the number of unwanted multiple accounts even more. For instance, the Your Future, Your Super measures which will lead to an individual holding only one account after they start a new job is likely to reduce the number of unwanted multiple accounts on an ongoing basis by around 500,000.

The number of unwanted accounts remaining in the superannuation system and the costs involved

The operation of the Protecting Your Super provisions relating to the payment to the ATO of small and inactive accounts together with the closure of Eligible Rollover Funds can be expected to lead to the transfer in the period June 2020 to January 2022 of 2 million accounts to the ATO. This will lead to there being around 22.5 million accounts in the Australian system by June 2022, reducing the number of unwanted multiple accounts at that date to around 2.5 million.

The additional costs to the overall superannuation system from these unwanted accounts are likely to be around $40 per account, around $100 million per year in total.

One million Australians are likely to have two accounts regardless of recent policy changes. This is because some individuals have one or more inactive accounts but the account balances are $6,000 or more, sometimes considerably more. This reality is sending high balance accounts to the ATO might reduce the administration fees charged to an individual but it would come at a considerable cost to the individual in terms of forgone returns. For instance, an inactive account of $100,000 in a balanced superannuation fund investment option would earn $6,000 (assuming a modest 6 per cent return per annum) with administration fees of $150 a year. If such an account went to the ATO there would be no administration fee but the interest paid would be only around $1,500 a year. An individual would be around $4,500 a year worse off if this inactive account went to the ATO.

2

The number of individuals with a superannuation account

Data published by the Australian Taxation Office (ATO)[3] provide a complete and very accurate count of the number of individuals with superannuation. Superannuation funds are required to report details of contributions and account balances linked to the name and Tax File Number of each account holder. The ATO is then able to aggregate contributions and account balances for each individual. There are relatively few cases of no or incorrect Tax File Number.

The most recently published ATO data indicate that as at June 2019 there were around 16.6 million individuals with superannuation, with more males than females having superannuation (Table 1).

Table 1: The number of superannuation accounts by age and gender, June 2019

Age	Males	Females
under 18	40,647	35,343
18-24	943,241	896,324
25-29	975,249	917,104
30-34	993,167	933,766
35-39	940,888	867,102
40-44	836,197	777,041
45-49	849,692	807,868
50-54	754,471	720,869
55-59	723,564	689,700
60-64	585,626	553,207
65-69	415,906	386,656
70-74	280,147	249,745
75 or more	242,572	187,062
Total	**8,581,860**	**8,021,823**

Source: ATO taxation statistics, 2018-19.

3 https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Taxation-statistics/Taxation-statistics-2018-19/?anchor=Individualsstatistics#Chart12Individuals

The number of individuals with superannuation has been growing at around 1.8 per cent per year (around 300,000 accounts), reflecting growth in the number of Australians employed and in the increasing number of retirees with superannuation. This suggests that there were around 17 million Australians with superannuation as at June 2020.

3 The number of superannuation accounts in the system

APRA data indicate that as June 2020 there were 24.4 million accounts in the superannuation system, including 1.1 million accounts in Self-Managed Superannuation Funds (Table 2).

The number of accounts in the system has been decreasing due to both account holders consolidating their superannuation accounts and lost and small inactive accounts being sent to the ATO. Funds have also been active in consolidating accounts.

Changing market shares also mask some of the developments in the number of multiple accounts by sector illustrated in the table below. For instance, some industry funds have gained new members while at the same time having a large volume of small inactive accounts go the ATO.

Table 2: Number of member accounts by fund type

	Jun 2015	Jun 2016	Jun 2017	Jun 2018	Jun 2019	Jun 2020
	Number of member accounts ('000)					
Corporate funds	346	340	329	294	286	276
Industry funds	11,303	11,082	11,148	11,430	11,348	11,326
Public sector funds	3,524	3,533	3,570	3,537	3,601	3,538
Retail funds	13,751	12,978	12,311	11,398	11,125	8,149
of which are ERFs	3,496	3,135	2,751	2,291	2,377	784
SMSFs	1,015	1,046	1,076	1,073	1,076	1,110
Total accounts	**29,939**	**28,979**	**28,434**	**27,732**	**27,436**	**24,400**

Source: APRA Annual Superannuation Bulletin for the year ended 30 June 2020, ATO individual tax statistics.

A number of factors have contributed to the decline in the total number of accounts. Individuals have been easily able to consolidate accounts online using their myGov login without the need for filling in forms and providing certified copies of documents (Table 3). Funds also have actively encouraged and facilitated consolidation of accounts when an individual opens a new account.

Table 3: Accounts consolidated by individuals using ATO online services

Year	No. of accounts consolidated	Value ($ billion)
2020	663,000	6.9
2019	538,000	4.4
2018	532,000	3.2
2017	548,000	2.9

Source: ATO multiple super accounts data, March 2021.

Over the four years to June 2020 superannuation fund members consolidated nearly 2.3 million accounts with aggregate balances of $17.4 billion using the myGov online facility.

However, the most important factor is likely to have been changes to the legislative provisions dealing with small and inactive accounts, where the combination of a higher cut-off figure for account balances sent to the ATO and a shorter required period of inactivity has led to millions of accounts being sent to the ATO. There was a reduction of over 3 million in the total number of accounts between June 2019 and June 2020.

There was a further round of transfers to the ATO in October 2020, with an earlier round of transfers scheduled for April 2020 postponed due to the impact on superannuation funds of COVID-19. ASFA estimates indicate that over one million accounts were sent to the ATO in the October round[4].

The delay in transfers was advantageous for most such fund members as there were significant investment returns between April 2020 and October 2020 with a recovery in the price of shares and other equity investments. Balances held by the ATO earn interest at only the rate of the increase in the Consumer Price Index, which while is more than current rates of interest on bank accounts is low relative to recent default investment returns in superannuation funds.

Legislation recently passed will lead to the closure of all Eligible Rollover Funds (ERFs) by 31 January 2022. Superannuation providers will be required to pay to the Commissioner of Taxation the value of any such accounts in ERFs. Payments must be made by 30 June 2021 (for accounts that had balances of less than $6,000 on 1 June 2021) and 31 January 2022 (for all other accounts).

4 Data provided by email to ASFA by member funds and administrators.

As at June 2020 there were some 785,000 accounts in ERFs, well down on the 3.5 million accounts in June 2015. ERFs are included in APRA statistical publications as Retail Funds but some ERF trustees are profit-for-member entities. By January 2022 there will be no remaining accounts in ERFs.

The legislation closing ERFs also permits trustees of funds in general to send accounts to the ATO on a voluntary basis when the trustee considers it is in the best interest of the members concerned. It is expected that this provision will be used to transfer small balances prior to the expiry of the inactivity period. Some larger balances also might be transferred in cases where eligibility to be a member of a corporate fund ends when the member is no longer an employee of the employer sponsor of the fund.

Based on a survey of ASFA members and data on ERF numbers, around 2 million accounts over the course of 2020-21 are likely to be sent to the ATO by funds, including ERFs[5].

5 There were 784,000 accounts in ERFs as at 30 June 2020 (APRA Annual Superannuation Bulletin), a substantial reduction on the 2,377,000 accounts a year earlier due to lost inactive accounts being sent by funds to the ATO).

4

Net movements in the number of accounts

The annual change in the number of accounts is a function of both the creation of new accounts and closure of accounts that already existed.

As indicated by Table 4 and Chart 1, the gross flows of new and closed accounts per year are very substantial.

Some movements of accounts have no effect on the overall number of accounts. For instance, mergers of funds generally lead to accounts being moved from one fund to another with no reduction in the overall number of accounts.

However, other flows of accounts lead to an overall reduction in the number of accounts in the system. Member initiated rollovers are substantial. In 2019-20 around 2.5 million accounts were closed due to outwards rollovers. Such rollovers resulted in the creation of around 770,000 new accounts but the bulk went to existing accounts leading to a substantial net reduction in the number of accounts.

The Government has indicated that between 1 November 2019 to 28 February 2021 almost 3.3 million accounts worth almost $4.3 billion were proactively reunited and paid out to their rightful owners as a result of the changes to the lost and small and inactive account provisions.

This includes approximately 2.3 million accounts worth $3.7 billion that have been transferred into individuals' active super accounts, and approximately 995,000 accounts worth $573 million paid proactively into individuals' bank accounts by the ATO. Some of these account balances would have been held by the ATO for a number of years but many were reunited after a very brief period of being held by ATO.

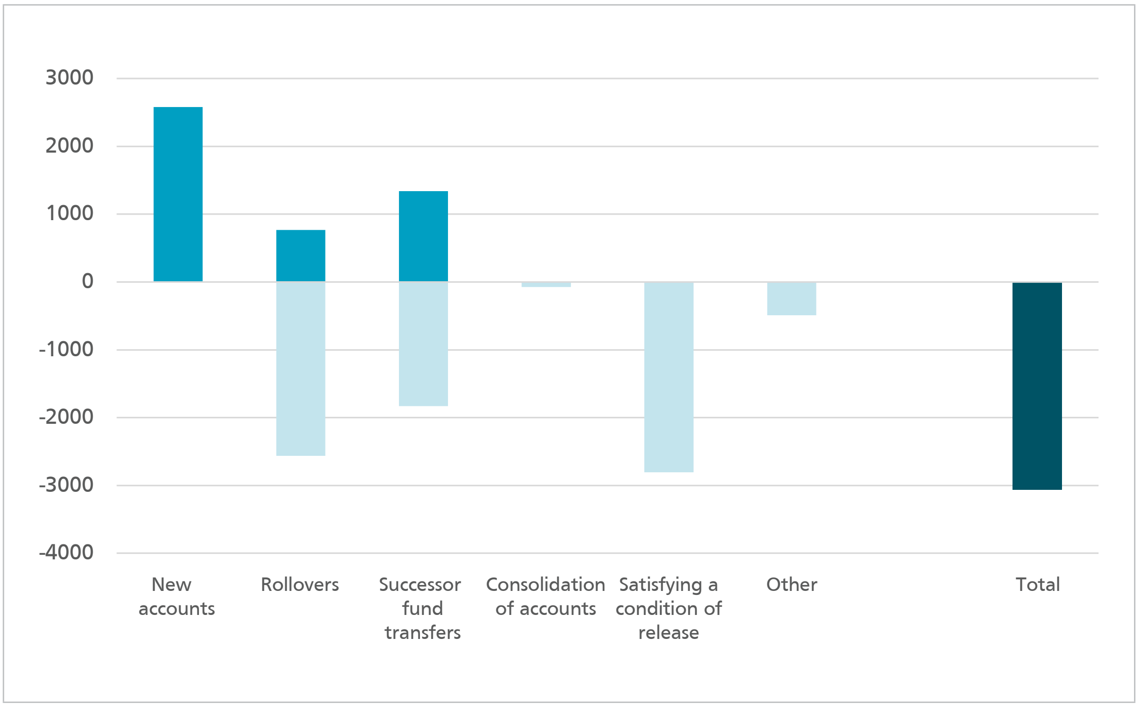
The large increase between the year ended June 2019 and the year ended June 2020 in the number of accounts closed as a result of "satisfying a condition of release" suggests that around 2.5 million low balance inactive accounts were transferred to the ATO in 2019-20. As the ATO is not formally part of the superannuation system transfers to the ATO fall within this category rather than being regarded as rollovers.

Table 4: Number of new member accounts and closed member accounts, by year

	Jun 2015	Jun 2016	Jun 2017	Jun 2018	Jun 2019	Jun 2020
	Number of member accounts ('000)					
Number of member accounts at beginning of the period	29,572	28,924	27,937	27,307	26,660	26,360
Number of new member accounts of which:	3,172	3,324	4,518	3,434	4,713	4,693
Inward rollovers	439	378	554	545	935	769
Successor fund transfer	23	186	1,405	392	1,250	1,342
Number of closed member accounts of which:						
Consolidation of accounts	464	219	223	76	78	72
Outward rollovers	1,784	1,623	1,975	2,043	2,505	2,561
Successor fund transfer	75	197	1,334	439	1,278	1,830
Satisfying a condition of release	669	885	972	680	561	2,806
Other	828	1,388	594	846	594	490
Number of member accounts at the end of period	28,924	27,932	27,358	26,660	26,360	23,289

Source: APRA Annual Superannuation Bulletin for the year ended 30 June 2020.

Chart 1: Flows of accounts, 2019-20 ('000)



Source: APRA Annual Superannuation Bulletin for the year ended 30 June 2020.

5

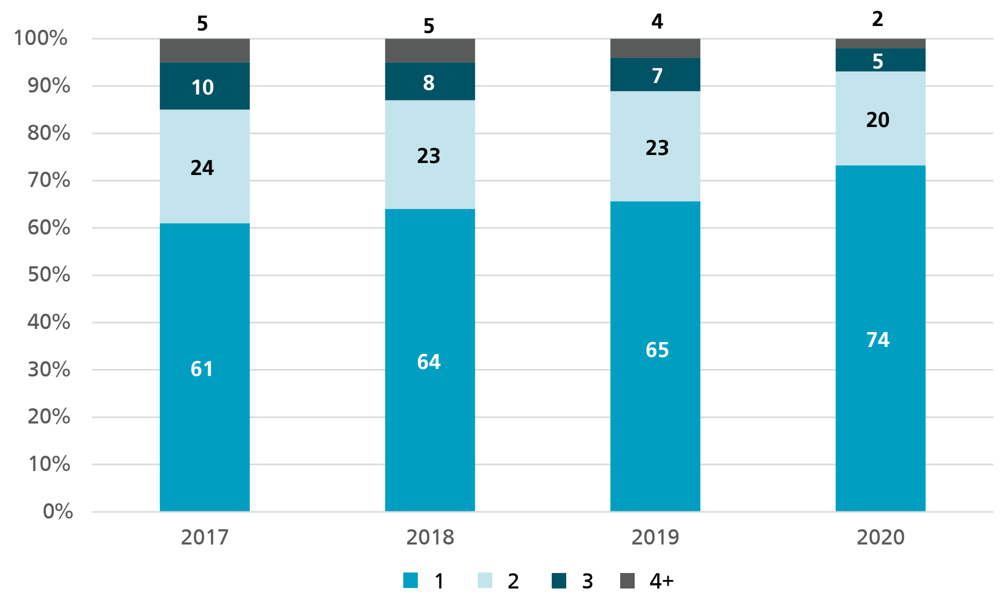
The impact of account consolidation on the number of multiple accounts

Account consolidation and the sending of accounts to the ATO has led to a substantial reduction in the number of multiple accounts.

ATO figures indicate that over the four years to 2020 the percentage of individuals that held three or more super accounts steadily decreased. As at 30 June 2020, six per cent of those with superannuation had three or more accounts which is a nine percentage point drop since 2015 (Charts 2 and 3).

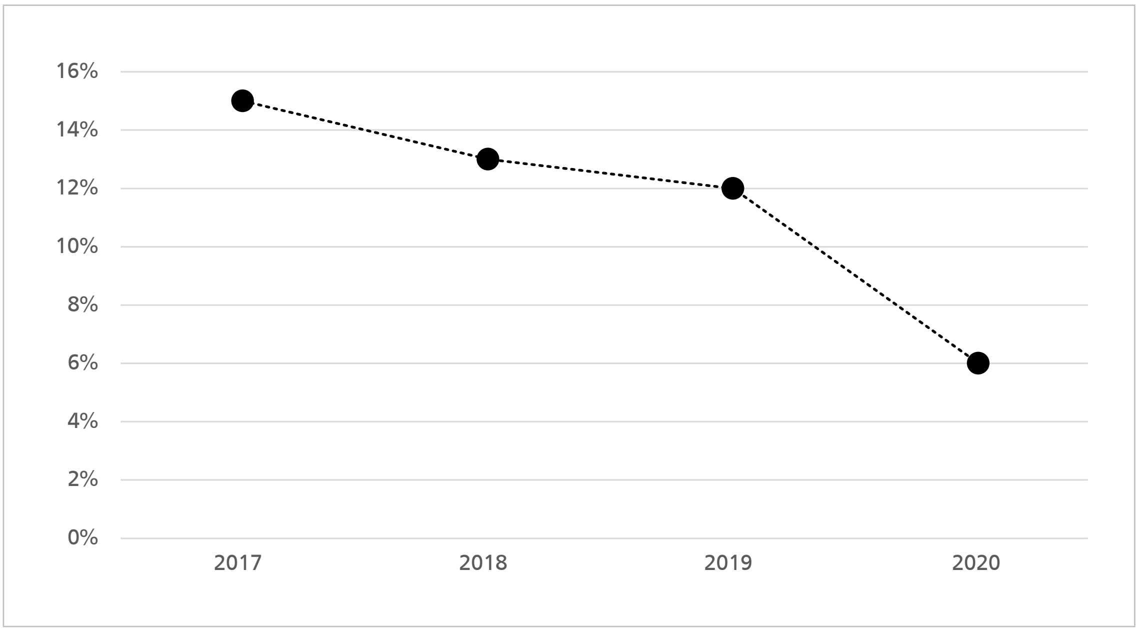
As at June 2020, 74 per cent of those with superannuation had only one superannuation account and 94 per cent had either one or two accounts.

Chart 2: Percentages of individuals by number of accounts held, 2017 to 2020



Source: ATO multiple super accounts data, March 2021.

Chart 3: Proportion of individuals with more than two accounts



Source: ATO multiple super accounts data, March 2021.

The bulk of multiple accounts are held by a relatively small proportion of the population. As shown by Table 5, the two per cent or so of individuals who had four or more superannuation accounts were responsible for over 10 per cent of the accounts in the system as at June 2020.

Further reduction in the number of unnecessary or unwanted multiple superannuation accounts is a worthy objective but it is mainly relevant to a relatively small proportion of the population, especially after the substantial account consolidations that have occurred over the last year or two. Any further reduction in multiple accounts will not lead to a general improvement to retirement outcomes in the system.

Table 5: Distribution of accounts by number held, 2020

Number of superannuation accounts	Individuals (million)	Number of accounts (million)
1	12.6	12.6
2	3.4	6.8
3	0.8	2.5
4 or more accounts	0.3	2.5
Total	**17**	**24.4**

Source: ASFA calculations based on ATO multiple account data.

6

Number of accounts 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, 17 million accounts was the bare minimum required in the system as at June 2020.

Appendix A provides some background on past approaches of various groups to estimating the number of unwanted accounts in the superannuation system.

Treasury estimates[6] based on ATO data indicate that as at August 2020 (but based on data over the previous two years) in the accumulation phase there were around 6 million multiple accounts held by 4.4 million people. Around a third of these were held by people aged under 35.

"Multiple" does not necessarily mean "unwanted". Productivity Commission research[7] indicates there are likely to be some 3 million multiple accounts which are justified on the basis of the needs of the individuals concerned. These are on top of the primary accounts held by 17 million Australians and former residents. As well since August 2020 there have been, or will be, substantial reductions in the number of multiple accounts.

Multiple accounts can be justified when they are used to:

- Retain employer financed benefits in defined benefit funds after leaving an employer, especially unfunded public sector funds (400,000 accounts, with over 210,000 such accounts in the three major Commonwealth defined benefit schemes).
- Facilitate salary sacrifice and discretionary personal savings by those in defined benefit funds.
- Provide for individuals in defined benefit funds who have employment income from another employer as well.
- Retain entitlement for advantageous insurance coverage that cannot be obtained when moving to another fund because of a pre-existing condition or the like.
- Facilitate transition to retirement arrangements (around 120,000 accounts in APRA funds).

6 *Your Super, Your Future*, Treasury, October 2020: https://treasury.gov.au/publication/p2020-super
7 Figure is based on the percentage of then multiple accounts identified by the Productivity Commission as intended multiple accounts at page 296 of *Superannuation: Assessing Efficiency and Competitiveness*, December 2018.

- Support individuals aged 65 and over who are still in employment and who also have an account based income stream.
- Open an additional income stream in retirement as the current law does not allow account based income streams to be topped up. Some income streams also cannot be commuted and added to a new income stream due to legal requirements or because they receive favourable social security treatment
- Satisfy perceived consumer needs for multiple accounts to meet investment and other requirements, including accounts used solely to finance insurance premiums.

A 2016 survey conducted for ASFA indicated that for those surveyed who had a multiple account, the main reason for having a multiple account was for investment needs and diversification, followed by insurance needs and the requirement to stay in a defined benefit fund.

Quantitative estimates are not available for each category of intended multiple accounts but the aggregate figure of 3 million intended multiple accounts is not inconsistent with the various components where numbers are known.

Adding the 3 million to the 17 million persons with superannuation gives a figure of 20 million required accounts in the superannuation system.

Table 6 and Chart 4 show the trend in the number of unwanted multiple accounts based on the number of people with superannuation and an assumed constant number of intended multiple accounts.

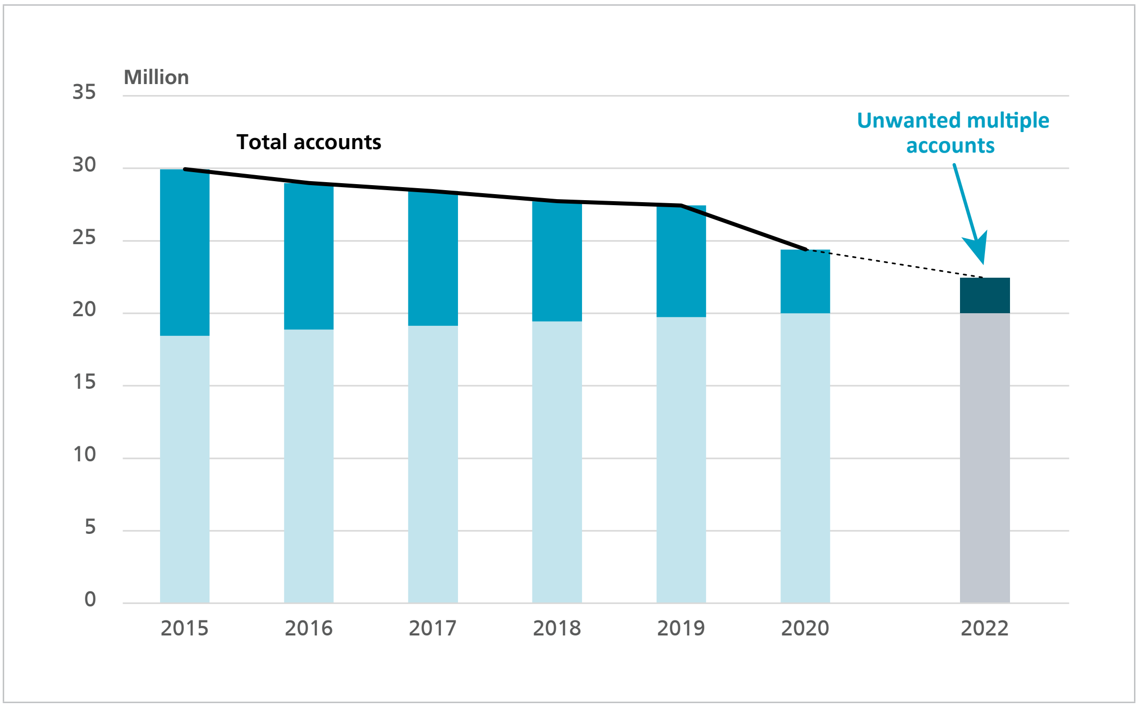
As at June 2020 the number of unwanted multiple accounts was around 4.5 million, well down on 11.5 million in June 2015. The number will fall further as the result of account consolidation measures currently in train with the number of unwanted multiple accounts down to around 2.5 million by 2022.

Table 6: Total member accounts and number of unwanted multiple accounts

	Jun 2015	Jun 2016	Jun 2017	Jun 2018	Jun 2019	Jun 2020
	Number of member accounts ('000)					
Total accounts	29,939	28,979	28,434	27,732	27,436	24,400
Number with superannuation	15,400	15,700	16,100	16,400	16,700	17,000
Number of unwanted multiple accounts	11,500	10,100	9,300	8,300	7,700	4,400
Number of accounts with life insurance	15,260	14,793	14,997	14,900	15,003	10,090

Source: APRA Annual Superannuation Bulletin for the year ended 30 June 2020, ATO individual tax statistics, ASFA estimates.

Chart 4: Total and unwanted multiple accounts



Source: APRA Annual Superannuation Bulletin for the year ended 30 June 2020, ATO individual tax statistics, ASFA estimates.

There also has been a substantial reduction in the number of accounts with insurance. This is both because default insurance arrangements no longer generally apply to accounts held by persons aged under 25 and in regard to inactive accounts. The combination of the reduction in the number of unintended multiple superannuation accounts and in the number of accounts with insurance has reduced fees and costs faced by a significant number of superannuation account holders.

7

The number of unnecessary accounts remaining in the superannuation system and the costs involved

The analysis in earlier sections of this paper indicates that after the PYS changes fully take effect and after all Eligible Rollover Fund accounts are sent to the ATO there will be around 22.5 million accounts in the Australian system as at June 2021. This compares to around 17 million Australians with superannuation and a requirement on objective grounds for around 20 million accounts in the system.

While around 2.5 million unnecessary accounts in the system is still a substantial number, it is well down on what was the case before recent measures and actions to reduce the number of inactive, duplicate accounts were put in place.

The additional costs to the overall superannuation system are likely to be around $40 per account per year based on the average marginal cost to a fund of maintaining an inactive account. This equates to around $100 million in total per year. This is a relatively modest amount per year, particularly given that any potential mechanisms to reduce the number of unwanted accounts even more will have their own costs involved in terms of administration costs and/or reduction in investment returns flowing to account holders.

The additional cost per multiple account is much lower than the average cost for accounts in the system. There are a number of reasons for this. Investment costs are closely related to the assets under management rather than the number of accounts, and aggregate investment costs would not be lower with elimination of the multiple accounts.

As well, the marginal cost to the system of an account is lower than the average cost per account due to fixed costs that need to be recovered. Marginal costs include additional administrative costs for account keeping and communication costs, such as printing of statements and related material and postage costs.

The PYS changes have also had a dramatic impact on insurance premiums paid from inactive superannuation accounts, including unwanted multiple accounts. This has involved both the cessation of deduction of premiums and the transfer of low balance accounts to the ATO.

Further policy changes could reduce the number of unwanted multiple accounts even more. The Your Future, Your Super (YF,YS) measures will lead to an individual holding only one account after they start a new job given that the default fund for their new job will be the fund they already are in ("stapling"). Based on ABS figures indicating that around one million Australians change jobs a year and data on the incidence of fund choice and common default funds across industries, YF,YS "stapling" could reduce the number of unwanted multiple accounts on an ongoing basis by around 500,000. This equates to cost savings for the superannuation system of around $20 million a year based on a $40 a year marginal cost of a superannuation account.

Avoiding creation of multiple accounts in the first place avoids the need for individuals to voluntarily consolidate accounts and for the ATO to consolidate small inactive accounts after a period of 16 months inactivity.

One million or more unwanted multiple accounts in superannuation funds are likely to remain in the system regardless of any proposed policy changes. The main category of such accounts will be where an individual has one or more inactive accounts but the account balances are over $6,000 or more, sometimes considerably more. This is not necessarily a bad thing as sending high balance accounts to the ATO might reduce the administration fees charged to an individual but would come at a considerable cost to the individual. For instance, an inactive account of $100,000 in a balanced superannuation fund option would earn $6,000 or so a year with administration fees of $150 a year. If such an account went to the ATO there would be no administration fee but the interest paid would be around $1,500 a year.

8

The number of superannuation accounts held by the ATO and the ongoing cost to individuals of that

Given that the number of multiple accounts in superannuation funds has been addressed, a more pressing issue is the holding by the ATO of millions of accounts which have been deemed inactive or unclaimed. While there is no administration fee charged by the ATO, the interest payable on such accounts is only at the rate of increase in the Consumer Price Index rather than the 6 or 7 per cent annual return on average in a superannuation fund.

As at February 2021 the ATO held around 5.2 million unclaimed superannuation accounts worth around $3.6 billion in total. In many cases the ATO can match such accounts to a superannuation account held by an individual but the law only allows the ATO to forward a balance when the fund superannuation account is classified as active.

The number of lost and small inactive accounts held by the Australian Taxation Office (ATO) has remained substantially the same over recent years despite a large flow of accounts into and out of the ATO and under current policy settings is not likely to decline. It could even increase substantially over time with further sweeps of small balance accounts to the ATO and the closure of Eligible Rollover Funds.

An amendment to the law to require the ATO to pay an account balance when it is able to positively identify an account held by the relevant person in the superannuation system rather than only when it can identify an active account would both reduce the number of multiple accounts (including accounts held by the ATO) and enhance investment returns for consumers. In order to contain administration fees and to avoid accounts going from and to the ATO, there could be a requirement that the ATO only be required to reunite an amount it holds with an inactive account in the superannuation system when the combined balance will be above $6,000.

Returning account balances to the superannuation system has the potential to substantially increase the investment returns accruing to fund members.

The ATO applies an interest rate to the balances it holds which is equivalent to the increase in the Consumer Price Index (CPI). Over the 12 months to March 2021 the CPI rose by 1.1 per cent. This implies aggregate interest payable on the $3.6 billion in balances held by the ATO of just $40 million.

In contrast the average investment return of superannuation funds is around 7 per cent per year, with returns of nearly 20 per cent likely over the year to June 2021. The aggregate investment return on $3.6 billion at the rate of 20 per cent is over $700 million.

The Productivity Commission has noted that the key reason for the $6,000 cap is that accounts over this value will most likely receive higher net returns in a fund than with the ATO (where accounts will only earn interest at the rate of the CPI). The Productivity Commission noted that the adverse impact of this could be overcome by requiring the ATO to match the inactive account with an active account before the fund transfers the account to the ATO. As the Productivity Commission noted this would rule out the possibility of an account being 'stranded' at the ATO[8].

Account balances higher than $6,000 are transferred to the ATO in the case of certain lost and unclaimed superannuation balances. As well, around 10 per cent of balances in Eligible Rollover Funds are above $6,000.[9] One ERF (the SMF Eligible Rollover Fund) had an average account balance of $13,600 as at June 2020.

The conclusion to be drawn is that the recent successes in reducing the number of unwanted multiple accounts would be enhanced by the ATO being required to send balances that it holds to an account in the superannuation system whenever the combined balanced is more than $6,000.

8 Page 311 of Productivity Commission, *Superannuation: Assessing Efficiency and Effectiveness*, https://www.pc.gov.au/inquiries/completed/superannuation/assessment/report/superannuation-assessment.pdf

9 Page 312 of Productivity Commission, *Superannuation: Assessing Efficiency and Effectiveness*.

Box 1 provides further details of what would be impact of sending an amount held by the ATO to an inactive account held by an individual within the superannuation system.

BOX 1: INVESTMENT RETURNS ON AN ACCOUNT HELD BY THE ATO COMPARED TO THE SAME AMOUNT BEING SENT TO AN ACCOUNT WITHIN THE SUPERANNUATION SYSTEM

Example 1

The ATO holds an account with a balance of $20,000 sent by an Eligible Rollover Fund (ERF) prior to the closure of the ERF under the requirements of recent legislation. The ATO pays interest when the account balance is eventually claimed at the rate of 1.5 per cent per year on average, equivalent to $300 a year. If the balance was sent to another account in the superannuation system held by the individual that individual would be much better off financially, with an investment return on average of $1,400 a year assuming a 7 per cent average investment return. While the account in the superannuation system might be inactive, its administration fee is a flat rate $140 a year and no increase in administration fee occurs as a result of the balance transfer by the ATO.

Example 2

The ATO holds an account with a balance of $5,000 after it was sent to the ATO as a small inactive account. The ATO is able to identify another inactive account in the superannuation system held by the individual concerned which has a balance of $10,000. That account has an administration fee of $120 a year and average investment returns of 7 per cent a year. If the balance held by the ATO was sent to the superannuation fund there would be no increase in the administration fee and the $5,000 additional amount in the superannuation account would generate an investment return of $350 a year rather than the $75 a year interest on average if held by the ATO. There is no increase in the administration fee which is flat rate for the account.

Example 3

The ATO holds an account with a balance of $5,000 after it was sent to the ATO as a small inactive account. The ATO is able to identify another inactive account in the superannuation system held by the individual concerned which has a balance of $5,000 but which has not been sent to the ATO because it has only been inactive for a period of 12 months. That account has an administration fee of $80 a year (reduced from the normal $120 a year in the fund because of the fee cap on fees for accounts under $6,000) and average investment returns of 7 per cent a year. If the balance held by the ATO was sent to the superannuation fund there would be a $40 increase in the administration fee because the fee cap would no longer apply but the $5,000 additional amount in the superannuation account would generate an investment return of $350 a year rather than the $75 a year interest on average if held by the ATO. The increase in the administration fee is only $40.

> The individual also would be better off because their account in the superannuation system would have a balance in excess of $6,000 and would not be sent to the ATO because of a period of inactivity. The net increase in investment return on a balance of $5,000 through that amount being held by a superannuation fund rather than the ATO far exceeds any savings on administration fees through an account going to the ATO.
>
> - Both amounts of $5,000 held at the ATO would attract total interest payments of $150 a year.
> - One amount of $5,000 held at the ATO, and the other $5,000 in the fund would attract total interest payments (net of administration fees) of $305.
> - Both amounts of $5,000 in the fund would attract total interest payments (net of administration fees) of $580.

In this context, in order to build on the recent success in reducing the number of multiple accounts it would be desirable for the ATO to reunite amounts it holds whenever it can identify another account in a superannuation fund, even if that account is also inactive. This would both further reduce the number of superannuation accounts in the overall system and would enhance investment earnings accruing to individuals. No additional administration charges generally apply for additional amounts added to an existing superannuation fund account.

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Appendix A: Calculating the number of unwanted superannuation accounts

The calculation of the number of unwanted (multiple) superannuation accounts in the system is a function of:

- The total number of individuals who have a superannuation account
- The number of individuals who need on objective grounds to have more than one account
- The total number of superannuation accounts in the system

The excess costs to the system are a function of the number of unwanted accounts times the marginal cost of an additional superannuation account.

There can be challenges in estimating each of these numbers. In regard to some numbers (such as the number of multiple accounts that are unavoidable or are justifiable on objective grounds) there can be a need to make use of secondary data sources as these numbers are not directly collected by regulators or other bodies.

In regard to the other numbers there may be official data available but there can be significant changes since their date of collection. This is particularly the case in regard to the number of accounts in the system given that large numbers of accounts have been sent recently to the ATO or otherwise consolidated into the main accounts of individuals.

For instance, the Productivity Commission in its December 2018 *Superannuation: Assessing Competitiveness and Efficiency* report made reference to around 10 million accounts being unnecessary multiple accounts, around a third of accounts as at June 2017. This estimate may have been appropriate at the time it was prepared but since then the number of multiple accounts has dropped sharply as the result of government policy changes, actions by individuals and actions by funds. However, the Productivity Commission estimates continue to be used as current estimates by some organisations in their public comments and advocacy, including by Super Consumers Australia in their evidence to the Senate Economics Committee in 2021.

Some analysts make even more fundamental errors, confusing the number of employees in the economy with the number of people who have a superannuation account. Employees make up a majority of those with superannuation. However, those temporarily out of the paid labour force or who have retired also need a superannuation account, particularly if they are aged below preservation age, and many self-employed individuals will also have a superannuation account.

Some commentators also overestimate the costs to the system of multiple accounts by multiplying the number of multiple accounts by average fees for an account, including investment costs. It is more accurate to estimate the marginal cost of the accounts concerned if the focus is on the aggregate costs of the system. Investment costs are not reduced by account amalgamations as these are a function of total assets, not the number of accounts, nor are fixed administration costs of the system reduced if there are fewer accounts. One of the reasons that trustees pursue fund mergers is that the marginal cost of additional accounts is lower than the average cost per account. A bigger fund generally means lower average costs, which benefits members.

There also may be additional insurance premiums associated with unwanted accounts but the Protecting Your Super changes have largely eliminated insurance cover for inactive accounts, particularly small accounts. In addition, a substantial proportion of multiple accounts were in Eligible Rollover Funds where there is no insurance cover. Default insurance premiums also are typically lower than the average premium per account in the system given that a substantial number of individuals opt for higher insurance cover than default levels.

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