

Manager
Superannuation Unit
Financial System Division
The Treasury
Langton Crescent
PARKES ACT 2600

10 February 2014

Subject: Lost member superannuation account threshold

Dear Sir/Madam

The Financial Services Council (FSC) welcomes the opportunity to comment on the Government's draft legislation *Tax and Superannuation Laws Amendment (2014 Measures No. 2) Bill 2014: lost member small account threshold*.

The FSC represents Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks, private and public trustees. The FSC has over 130 members who are responsible for investing over \$2 trillion on behalf of more than 11 million Australians.

The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Securities Exchange and is the fourth largest pool of managed funds in the world. The FSC promotes best practice for the financial services industry by setting mandatory Standards for its members and providing Guidance Notes to assist in operational efficiency.

Please feel free to contact me on 02 8235 2566 if you have any further questions in relation to this submission.

Yours sincerely



BLAKE BRIGGS
SENIOR POLICY MANAGER

LOST MEMBER SMALL ACCOUNT THRESHOLD

The FSC is concerned that the increase in the threshold in relation to lost/inactive superannuation accounts will have significant unintended consequences for members.

This proposal to increase the lost member threshold to \$6,000 follows recent legislative changes to lift the lost account level from \$200 to \$2,000. The figure of \$6,000 is extraordinarily high. It will result in fund members losing their superannuation and life insurance coverage without their knowledge or consent. Many of these accounts were not set up through occupational superannuation and they are completely discretionary.

The Government should be focusing policy on reuniting people with their superannuation, not paying it into consolidated revenue.

We therefore submit that the Government should defer this change until SuperStream has been implemented, or, at very least, consider only increasing the threshold to \$3,000 to allow members and funds time to identify and consolidate accounts.

As demonstrated below, a lower threshold will avoid most severe consequences of the threshold increase, particularly in relation to members' insurance benefits.

SuperStream

The introduction of SuperStream will greatly assist members and superannuation funds identify and consolidate their superannuation accounts. Measures such as the provision of TFNs, increased data collection by the ATO, and better communications to members will culminate in significantly reduced numbers of lost and inactive accounts.

The SuperStream reforms will therefore make the measures contained in this draft bill largely redundant. It is appropriate that the Government allow the reform process to be completed before reassessing the need for a threshold increase.

Recommendation: The Government fully implement SuperStream before increasing the threshold for the collection of lost/inactive accounts by the ATO.

INSURANCE IMPLICATIONS

The FSC is concerned that the increase in the 'lost/inactive' account threshold to \$6,000 will result in the loss of valuable insurance benefits currently held by members. According to data provided by six large FSC superannuation members almost 214,000 accounts would be transferred to the ATO above the \$2000 threshold with total insurance benefits of almost \$12 billion by sum insured.

Projected across the industry, it could be expected that the number of 'lost/inactive' accounts where there is an insurance benefit attached is around 500,000 fund members if the threshold were to be lifted to \$6,000.

It is possible that many of these 'lost/inactive' accounts have been maintained for the insurance benefit. Members may leave the policy in place to maintain the cover afforded to them - generally where the investment return is sufficient to cover the premium on an annual basis there would be no activity (active contributions) to the account.

For example, personal superannuation accounts are established for insurance purposes. The annual investment return covers the annual insurance premium and no other contributions are required to keep the insurance coverage in place.

As there are no annual contributions, the super account is adjudged “inactive”, the account would be paid into consolidated revenue and the insurance coverage is lost to the account holder.

The full impact of the threshold increase, for the FSC membership, to a number of potential levels is detailed below:

Threshold	Nbr accounts captured (not cumulative)	Sum insured
\$2000 (current)	446 000	\$5 billion
\$2500	39 000	\$2.5 billion
\$3000	39 000	\$2.2 billion
\$4000	71 000	\$2.8 billion
\$6000	65 000	\$4.2 billion

It is clear that there is a significant increase in the number of accounts capture and the sum insured if the threshold is to be increased over \$2,000.

The loss of these benefits raises a number of issues in relation to member protection outlined below.

Delayed realisation in times of greatest need

This is the clearest issue for members (or their beneficiaries), and while it is the most obvious, it must be recognised that members may not realise the full impact of the loss of their cover until they need to claim – this lack of awareness is especially the case if cover is lost as a result of a member taking no action.

Loss of future insurability

Members who lose insurance may not be able to be insured again or may face increased premiums or reduced benefits if their health circumstances have changed since they received the coverage. In particular, with changes to the permitted types of insurance available through superannuation in effect from 1 July 2014 it may also be that members whose insurance is lost as a result of transfer to the ATO of an inactive/lost account balance will not be able to access equivalent benefits through superannuation where cover is cancelled.

Further increase to the “insurance gap”

The introduction of near-universal insurance cover through default superannuation accounts has been a major factor in the narrowing of the significant gap between the life insurance needs of the average member, and their actual life insurance coverage. Any policy that reduces the level of insurance cover held by superannuation members will impact the level of underinsurance in Australia.

Additionally, the loss of insurance cover as a result of shifting members to the ATO is a significant issue given that the life insurance industry is currently seeing a delay in TPD claims of one to two years conservatively between the insurable event and a claim being lodged with the fund/insurer. While the FSC is not aware of formal complaints from fund members who

have had their benefits transferred to the ATO as yet (noting this has been happening for some years) it is expected that some significant disputes will arise at some point.

To minimise the impact of the risks discussed above, the FSC proposes that the threshold at which an account determined to be 'lost/inactive' and transferred to the ATO should be increased to \$3,000, not \$6,000.

Recommendation: The threshold should be increased to \$3,000; not \$6,000
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