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3 February 2014

**Subject:** Increases to the Lost Member Small Account Threshold

Dear Sir

We are concerned with the Government's decision to proceed with the former Labor Government's proposals to increase the lost member account threshold.

The increases in the lost member account threshold will generally have a detrimental impact on the members whose accounts are transferred as a result of the proposed changes.

The amendments, as proposed, will effectively provide the Government with a source of funds, to the detriment of the members concerned. We recommend **the amendments do not proceed.**

#### **Adverse impact on members**

Affected members are likely to suffer due to the following:

1. The member's account balance will generally be reduced by a withdrawal/termination fee applied by the superannuation fund when transferring the account balance to the ATO. (Note that MySuper legislation requires the same withdrawal fee (as applies to other withdrawals) to be charged in such cases.)
2. The low level of investment return credited by the ATO to lost member accounts (CPI increases). If retained in a superannuation fund, net returns (after allowing for investment and administration fees applicable to a \$50,000 account balance) are expected to be about 3% - 4% higher than CPI over a 10 year period (based on the return targets for a sample of MySuper products).

3. Although the ATO charges no fees, the administration fee saving will generally be less than the reduction in expected investment income for account balances of over \$3,000. For example, consider a fund with a fixed dollar administration fee component of \$1.50 a week (\$78 a year). This level of fixed dollar fee is reasonably common. For a member with a \$3,000 account balance, the impact of the fixed dollar fee would reduce the net return by 2.6% per annum ( $78/3,000$ ) as opposed to a 0.156% per annum reduction for a member with a \$50,000 account. Hence, expected net returns for a \$3,000 account will be approximately 2.44% per annum ( $2.6\% - .156\%$ ) less than the return targets shown in the product dashboards. In other words, for an account balance of \$3,000, the return target (or expected return after fees) would, in round terms, be expected to be in the range of 0.5% to 1.5% higher than CPI on this basis. This compares with a net return on lost money accounts held by the ATO of the CPI increase. Thus the member can be expected to be \$15 to \$45 worse off on average each year if transferred to the ATO (ignoring insurance issues). For a \$6,000 account balance, using similar logic, the net return after allowing for fees would be in the range of 2% to 3% higher than CPI each year. A member with a \$6,000 account would therefore be \$120 to \$180 worse off each year on average (ignoring insurance issues).
4. The member may lose valuable death and disability cover. Australians are generally under-insured. In some cases the member may have deliberately maintained the account because of the death cover but have either forgotten to advise a change of address or did not realise they have to contact the fund in order to avoid being classified as an inactive member. Janis, in example 1.2 of the draft EM is a good example of a member who is not lost (using the normal sense of the world). However Janis will lose his insurance cover under the Government's proposals. This may be the only insurance cover Janis has, particularly if his overseas employment is transient. On returning to Australia, Janis may be unable to obtain insurance due to an illness or disability which became apparent whilst uninsured as he may be subject to underwriting when joining a new superannuation fund. In other words, Janis may have permanently lost insurance cover because of legislation purportedly aimed at protecting members. Here is another example:
  - Janine started a self-managed superannuation fund 6 years ago. At that time she directed her employer to pay future contributions to her SMSF and transferred the bulk of her employer super fund balance into the SMSF. However she left \$5,000 in her employer super fund account as she wished to maintain the death and TPD cover provided by the fund.

She gets statements twice a year and checks her insurance cover and other details and is satisfied that the balance (now \$5,200 as the investment income has exceeded the fees and insurance premiums deducted) is adequate to meet the fund's administration fees and her insurance premiums, so she is not at risk of losing her insurance cover due to her balance being exhausted. She has had no contributions or rollovers into the fund for more than 5 years and has not had any need to contact her fund during this time. Nevertheless, she is classified as a lost member and is at risk of permanently losing her insurance cover if this legislation proceeds.

### **Additional red tape**

The amendments add another layer of red tape to the superannuation industry which will increase costs for superannuation funds in the following areas:

- Amending information for members on the lost account rules on websites and printed material
- Further action to follow up members who are not lost (such as Janis in example 1.2 of the EM and Janine in our example above) to ensure they advise the trustee they wish to remain in the fund)
- Dealing with queries and complaints from former members who find they no longer have an account in the fund
- Dealing with complaints from the dependants of deceased former members where the transfer to the ATO has resulted in a loss of insurance cover.

The individuals whose accounts have been transferred to the ATO will also be subject to red tape in trying to transfer their lost member account back to a superannuation fund and potentially re-establishing insurance cover.

**Recommendation: The proposal to increase the thresholds should not proceed.**

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### **Other concerns with draft material**

1. References in the draft EM indicate that transferring small lost member accounts to the Australian Taxation Office (ATO) ensures these accounts are protected from erosion by fees and charges. We consider such statements are misleading bearing in mind the adverse impact this measure will have on many affected members due to the very low level of interest credited by the ATO to such accounts.

**Recommendation: Any references to protecting accounts from fees and charges in the EM should be accompanied by comment highlighting the likely adverse impact on investment returns and insurance cover.**

2. The draft EM does not include a Regulation Impact section.

**Recommendation: The EM should include a Regulation Impact section which considers the potential adverse impact on members and the additional red tape for funds and members.**

Please contact me (03 9623 5464) or John Ward (03 9623 5552) if you have any queries in relation to our submission.

Yours sincerely



**Dr David Knox**  
**Senior Partner**

## **APPENDIX**

### **WHO IS MERCER?**

Mercer is a global consulting leader in talent, health, retirement and investments. Mercer helps clients around the world advance the health, wealth and performance of their most vital asset – their people.

Mercer also provides customised administration, technology and total benefits outsourcing solutions to a large number of employer clients and superannuation funds (including industry funds, master trusts and employer sponsored superannuation funds). We have \$55 billion in funds under administration locally and provide services to over 1.3 million super members and 15,000 private clients. Our own master trust, the Mercer Super Trust, has approximately 260 participating employers, 240,000 members and more than \$17 billion in assets under management.