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Dear Sir/Madam,

ISA appreciates the opportunity to comment on the draft legislative amendment to increase the threshold for transfer of small, lost accounts to the Australian Taxation Office (ATO).

The proposed increase in the threshold would, in two stages ending 31 December 2015, increase to $6,000 the threshold that was shifted from $200 to $2,000 in the MYEFO Statement of December 2012.

Current administrative arrangements have seen a proliferation of inactive superannuation accounts. Australian workers and retirees hold an estimated 2.5 accounts on average, resulting in unnecessary payment of fees and insurance premiums that erode retirement savings. We estimate that the industry has more than 10 million excess accounts. ISA supports steps to boost members' retirement savings by consolidating unnecessary multiple accounts.

We are concerned, however, that under current policy, small, inactive accounts are closed automatically and moneys transferred to the ATO but as yet these moneys are not being consolidated into active accounts. To have the moneys consolidated, members are required to actively search and utilise the ATO's Superseeker website or paper-based forms. This represents a significant hurdle for disengaged members. The ATO's 2013 annual report stated that although there were 1.3 million searches using the Superseeker website, including 390,000 successful searches, the ATO only received 39,000 online portability requests and 16,000 paper requests. Many lost accounts registered with the ATO are not found, and only a small fraction of that which is found ends up being consolidated.

This hurdle is unnecessary in most cases. Accounts that can be searched for via the Superseeker website must be associated with a TFN, which means the ATO could efficiently identify an active account also associated with the TFN and consolidate transferred moneys. To our knowledge there is no concrete plan to introduce such a process.

We are also concerned that these transfers are treated as Government revenue, despite explicit recognition that the member has an indefinite right to claim this money plus interest (equal to CPI). Paragraph 1.5 of the Explanatory Memorandum states:

> Individuals are able to claim back their superannuation from the Commissioner at any time. Interest, calculated in accordance with the Consumer Price Index (CPI), has been payable on all unclaimed superannuation money repaid since 1 July 2013.

An appropriate accounting treatment would therefore involve recognition of this claim as a liability, against which would be held an asset (under current policy a loan to Government at interest equal to CPI). Consolidations would then represent a reduction of both liabilities and assets, at no cost to Government.

Under the current accounting treatment, with no explicit assets to draw-down on, and no liability to offset, any money consolidated into a member's account must be treated as Government expenditure. This creates a clear disincentive for Government to pursue a mass account consolidation exercise, which would be possible for all those accounts with TFNs also associated with active accounts.

We urge the Government to adopt an appropriate accounting treatment for moneys transferred to the ATO as small, lost and inactive accounts, and establish a mechanism for automatic consolidation of these moneys into active or larger accounts. We suggest that Government should aim to make these changes at least by the time of the next proposed increase in the threshold, on 31 December 2015.

Regards