Australia's 'lost' superannuation (retirement saving) accounts*

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Associate Professor Hazel Bateman
Director, Centre for Pensions and Superannuation
The University of New South Wales
Sydney, Australia
h.bateman@unsw.edu.au

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1. Introduction

At the end of June 2007 an estimated $A11.9 billion of Australian superannuation (that is, private retirement saving) in around 6.1 million accounts was reported to be 'lost'. Superannuation (or private retirement saving) becomes 'lost' when a superannuation (pension) fund loses track of the member and the member takes no action to contact the fund. These figures suggest that around one fifth of the 30 million superannuation accounts in Australia are 'lost' or unclaimed.

There are significant costs associated with 'lost' superannuation accounts. These costs are borne by individuals, by superannuation funds and by the government.

If a superannuation account remains 'lost' an individual will retire with less retirement savings than they are entitled to. Even if the account is subsequently 'found' it is likely to have been transferred from the original superannuation fund to a form of holding fund called an eligible rollover fund. The net performance of eligible rollover funds is likely to be lower than standard superannuation funds, so retirement savings will accumulate at a slower rate.[1] As well, individuals may devote time and resources to searching for their 'lost' accounts. And, because it is generally the small amount accounts which become 'lost', this burden is disproportionately borne by low income workers, casual workers and transient workers.

Superannuation funds themselves also bear costs. Superannuation funds are required by law to report lost accounts on a regular basis to a so-called 'Lost Members Register' maintained by the Australian Taxation Office. They are still required to administer the 'lost' accounts or transfer the accounts to an eligible rollover fund, and may have devoted considerable time and resources trying to

[1] It has been argued that fees in eligible rollover funds may be quite high at around 2% assets (ACA 2006), although some rollover funds do have competitive fee and performance structures (AUSfund 2008).

locate the ‘lost’ members. It is likely that some of these administration costs will be passed on to active members.

Finally, the government itself bears costs. First, the government has been required to develop and maintain administrative arrangements to assist reunite ‘lost’ superannuation with members. The current structure is the Lost Members’ Register maintained by the Australian Taxation Office. As well, under Australia’s means tested public Age Pension, the resultant lower privately funded retirement incomes due to the ‘lost’ superannuation accounts are likely to be partly offset by higher public pensions.

The issue of ‘lost’ superannuation accounts is largely a consequence of the privatisation of retirement income provision, which places a substantial responsibility on individuals to manage their retirement savings through both the accumulation and decumulation phase. Under privately organised retirement income provision individuals are required to make long term financial decisions but often lack engagement or the necessary financial skills.

This paper outlines the issue of ‘lost’ accounts in the Australian superannuation system. Since a major contributing factor is the design of the superannuation arrangements, section 2 commences with a summary of retirement income provision in Australia. The focus is the design of the Superannuation Guarantee and the diverse nature of the Australian superannuation industry. The issue of ‘lost’ accounts is introduced in section 3. Section 4 outlines the factors which may have contributed to the incidence of ‘lost’ superannuation accounts, while section 5 discusses the policies and practices which have been introduced to minimize the growth and impact of ‘lost’ accounts. Section 6 concludes.

2. A brief summary of Australia’s retirement income arrangements

Retirement income provision in Australia is a multi-pillar arrangement comprising a public pension (the Age Pension), mandatory superannuation (the Superannuation Guarantee), voluntary superannuation and other long term saving through property, shares and managed funds. In recent decades policy reforms have focused on improving the coverage and adequacy of retirement incomes, as well as addressing the implications of population ageing including the labour force participation of older workers. A change of government in late 2007 has led to increased public policy attention on superannuation and retirement income issues. Priorities of the new government include facilitating informed decision making (through simplified disclosure, financial literacy and improved access to advice), improving the governance of small self managed superannuation funds (which account for over 25% of superannuation assets) and enhancing the efficiency of the superannuation industry (through the introduction of measures such as a clearing house and addressing the issue of 'lost' accounts) (Sherry 2008). As well, both publicly provided retirement benefits and private retirement saving is being addressed in a comprehensive review of Australia's tax and transfer system (Fahcsia 2008, Treasury 2008).

The main features of the Australian retirement income arrangements are summarized in Table 2.1. [2]

2.1 Australia's multi pillars of retirement income provision

The Age Pension was introduced in 1909 as a general-revenue financed, means tested, safety-net payment for the retired. It is universal to the extent that all residents of qualifying age are eligible, but targeted to the extent that it is subject to income and assets means tests. Until the introduction of mandatory private retirement savings (the Superannuation Guarantee) in the final decade of the 20th century, the Age Pension was the main retirement policy instrument in Australia.

The Superannuation Guarantee was introduced in 1992. All employers are required to make superannuation contributions of at least 9% of earnings on behalf of their employees to a superannuation fund. The contributions are immediately vested, portable and preserved to a statutory preservation age. These arrangements apply to all employers and to almost all employees aged 18-70 earning more than $A450 per month (around 9% of average male

[2] The discussion on the Australian retirement income arrangements is drawn from Bateman, Piggott and Kingston (2001) and Bateman (2007).

earnings). The self-employed are not covered by the mandatory arrangements but have access to tax concessions for voluntary contributions and since July 2007 have been able to participate in the government co-contribution scheme. The mandatory contributions are placed in privately managed superannuation funds, mainly of the defined contributions variety[3], and benefits can be accessed at the statutory preservation age – currently age 55, increasing to age 60 by 2024. The Superannuation Guarantee replaced productivity award superannuation which from 1987 had extended superannuation coverage to workers covered by industrial awards.

The Age Pension and Superannuation Guarantee are supplemented by voluntary retirement saving which includes voluntary occupational superannuation, and other forms of long term saving through property, shares, managed investments and home-ownership. Voluntary occupational superannuation has been available to public sector workers and middle to high-income workers in the private sector for many decades. Initially these were defined benefit arrangements, but over the past twenty years or so have been largely replaced by defined contribution schemes. Aggregate voluntary contributions account for around 7% of wages and salaries (Connolly 2007).

Voluntary contributions are encouraged by the concessional tax treatment of superannuation savings, as well as the government co-contribution scheme which provides a government contribution of 150% of the employee/self employed contribution for low and middle income earners.[4]

In 2007, more than 90% of Australian workers were covered by mandatory and voluntary superannuation - comprising 96% of full time employees, 79% of part timers, 72% of casuals and 73% of the self employed. This represents an increase in coverage of about 50% since before the introduction of the mandatory arrangements.

[3] Pre existing defined benefit arrangements comply under certain conditions.
[4] Access to the government co-contribution cuts out once income reaches $A58,000 pa. It applies to an annual maximum contribution of $A1,000 pa, which results in a government co-contribution of $A1,500 pa

Table 2.1: Retirement income provision in Australia

<table>
<tr><th>Age Pension</th><th>Superannuation Guarantee</th><th>Voluntary retirement saving</th></tr>
<tr><td>Established: 1909</td><td>Established: 1992</td><td rowspan="6">Voluntary occupational and personal superannuation, encouraged by:
• Tax concessions
• Government co-contribution: for employees on incomes less than $A58,000, and the self employed

Home ownership: around 85% retirees own their own home</td></tr>
<tr><td>Contributions: Non contributory</td><td>Contributions: 9% earnings (paid by employer)</td></tr>
<tr><td>Potential coverage: Available to males aged 65 and over and females aged 63.5 and over (increasing to age 65 by 2014), subject to income and assets tests.</td><td>Potential coverage: Employees aged 18-70 earning at least $A450 per month</td></tr>
<tr><td>Funding: General revenue</td><td>Funding: Individual accounts in privately managed superannuation funds</td></tr>
<tr><td>Benefits: 25% average male earnings (single), 20% average earnings (married). Indexed to greater of CPI and average earnings.</td><td>Benefits: Based on defined contributions, preserved to age 55 (increasing to age 60), no early withdrawals, choice of lump sum or income stream.</td></tr>
<tr><td>Taxation: Untaxed as a result of the Pensioner Tax Offset</td><td>Taxation: TTE (since July 2007)</td></tr>
<tr><td>Actual coverage: Around 75% of persons of eligible age receive some Age Pension. 60% of recipients receive the full rate of Age Pension.</td><td colspan="2">Actual coverage: Mandatory and voluntary superannuation – 96% full time employees, 79% part time employees, 72% casual employees, 73% self employed.</td></tr>
</table>

Source: Derived from Bateman and Piggott (2008).

Homeownership is the most important non-superannuation asset for most Australians. Dwellings account for 65% of total Australian household assets, and around 85% of retirees own their home.

2.2 The Australian superannuation industry

Since 2005 superannuation members have been able to choose the superannuation fund into which their contributions are made, and many superannuation funds offer considerable choice of investment options and strategies. Prior to this, under the Superannuation Guarantee, employers were responsible for choice of fund.

The Australian superannuation industry is characterised by its diversity, with contributors able to choose between many alternative fund types. As well, some individuals may choose to set up and manage their own superannuation fund. In brief, in Australia, superannuation involves mandatory and/or voluntary contributions which can be made into five different types of superannuation funds – corporate funds, industry funds, public sector funds, retail funds or small (self managed) superannuation funds. These can be single-employer funds (corporate funds), multi-employer funds (industry funds), funds for public sector employees (public sector funds), funds offered in the retail sector (retail funds) or small funds with member directors (small self managed superannuation funds). As well, the superannuation funds may be 'open' to the general public (public offer funds) or 'closed' to all except members of a firm or industry (non public offer funds) and may differ by benefit type (defined contributions or defined benefits or both) and by their profit maximization motive (not-for-profit' or 'for-profit' funds). Finally, superannuation funds can be regulated by the industry regulator (the Australian Prudential Regulation Authority – APRA) if they are corporate, industry, public sector, retail or small APRA funds, or the Australian Taxation Office (ATO) if they are self managed superannuation funds.

While the compulsory Superannuation Guarantee is a defined contribution arrangement which is immediately vested, portable and fully preserved to a statutory ‘preservation’ or eligibility age, the previous and complementary voluntary arrangements had and have a wide range of design features.

Superannuation funds have existed in Australia since the 1850s. The first funds were set up for high income private sector workers (corporate funds) and public sector employees (public sector funds). Most of these were employer-sponsored defined benefit arrangements and the associated superannuation funds were closed to the general public. Retail funds commenced operation in the early to mid 1900s to take personal contributions, while industry funds became popular from the mid 1980s following the extension of superannuation to employees covered by industrial awards (under productivity award superannuation). As well, over the past few decades small superannuation funds have become popular for individuals who wish to manage their own superannuation. At the same time there has been a move away from defined benefit towards defined contribution funds, and from closed funds to so-called public offer funds. A current trend is for employers to close down their ‘corporate funds’ and contract-out their superannuation obligations to commercial ‘retail funds’. As a result, the current superannuation industry reflects features of the previous voluntary arrangements, the mandatory Superannuation Guarantee and recent industry developments. This diversity of the Australian superannuation industry is summarized in Table 2.2.

The standard classification of Australian superannuation funds is by fund type – corporate funds, industry funds, public sector funds, retail funds or small funds.[5] The current structure of the industry under this classification is summarized in Table 2.3. An important distinction is that retail funds offer superannuation to the public on a commercial basis, while the others are not-for-profit funds.

[5] This definition of small fund includes all superannuation funds with less than 5 members. These may be small APRA funds of self-managed superannuation funds regulated by the ATO.

Table 2.2: Types and design of superannuation funds

Functional Definition (Fund type, sponsor type)	Regulatory Definition (Regulatory classification)	Benefit Type	Maximization Objective
Employer sponsor **Corporate funds** *Sponsored by single employer or group of employers, current trend to 'contract-out' to retail funds.* **Industry funds** *Industry wide, current trend to become public offer funds.* **Public sector funds** *Sponsored by single or group of public sector employers.* **No employer sponsor** **Retail funds** *Superannuation offered in the retail sector. Includes personal superannuation and contracted-out occupational superannuation.* **Small funds** *Less than 5 members. Includes small APRA funds and self-managed superannuation funds regulated by the ATO.*	**Regulated by APRA** **Public offer funds** *Open to the general public. Includes all retail funds and some industry, corporate and public sector funds.* **Non Public offer funds** *Available only to employers of particular firms or industries.* **Small APRA funds** *Funds with less than 5 members which have elected to be regulated by APRA.* **Other –** *which include other funds regulated by APRA -* **approved deposit funds** *and* **eligible rollover funds** **Regulated by the ATO** **Self-managed superannuation funds** *Funds with less than 5 members which have not elected to be regulated by APRA*	**Defined benefit** *Benefits defined in advance. Sponsor bears the investment risks. Mainly public sector and corporate funds.* **Defined contribution** *Benefits based on contributions and investment income. Fund member bears investment risk.* **Hybrid** *A combination of defined benefit and defined contribution arrangements.*	**Not-for-profit** *Stakeholders include members, employers and trustees. Generally trustee board includes equal representation of employers and employees* **For-profit** *Stakeholders include members, employers, trustees and shareholders Generally trustee board includes directors who are also employees of the company managing the superannuation fund*

Table 2.3: The Australian superannuation industry at March 2008

	Assets ($A billion)	Assets/ member($A)	Number of funds	Assets/fund $A million)	Members ('000)**
Fund type					
Corporate	64.0	94,675	229	279	676
Industry	197.5	18,538	72	2,743	10,654
Public sector	170.2	58,188	40	4,255	2,925
Retail	343.8	22,271	166	2,071	15,437
Sub total (large funds)	**755.6**	**25,448**	**507**	**1,490**	**29,692**
Small APRA funds	4.0	413,248	5,651	0.755	702
Self managed	286.1		378,656		
Other *	37.2		140		
Total ***	**1,102.9**		**385,044**		**30,384**

* Single member approved deposit funds and balance of life office statutory funds.
** June 2007.
*** Retirement Savings Accounts, account for $A1.1 billion of assets in 8 providers.
Source: APRA Quarterly Superannuation Statistics, March 2008 – APRA (2008a)

Total assets of superannuation funds in 2008 are in excess of $1A trillion which is more than 100% of GDP. There has been considerable growth over the past 10 years. In 1997 total assets were only $A245 billion or 40% of GDP. A perusal of Table 2.3 indicates significant differences in assets, members and average account sizes by fund type. Excluding small funds, corporate funds are the most numerous (229) while retail funds (in aggregate) have the most assets ($A343.8 million) and members (15.437 million). Industry funds have the highest average members per fund (147,972), public sector funds the highest average assets per fund ($A4.255 billion) and small APRA and self managed funds have the largest average member's account ($A413,248). Industry funds have the smallest average member account ($A18,538).

There has been considerable consolidation in the industry over the past 10 years with the number of large superannuation funds (ie excluding small superannuation funds) falling from around 4,750 in 1996 to just over 500 by 2008.

As noted above, superannuation funds can also be distinguished in terms of whether they are open to the general public (public offer funds) or closed to all except employees of a given firm or industry. Traditionally retail funds were public offer funds, and all other funds were closed. However, funds are increasingly becoming public offer. By 2007, 87% of industry fund members belonged to industry funds which had elected to become public offer funds, as did 25% of corporate fund members and 37% of public sector fund members. Membership of closed funds tends to be a barrier to account consolidation.

Finally, as indicated in Table 2.4, superannuation funds can be distinguished by benefit structure. The classification is made on the basis of 'accumulation' funds, 'defined benefit' funds and 'hybrid' (accumulation/defined benefit) funds. In line with the global trend, there has been a shift away from defined benefit funds over the past twenty years. This is largely because the Superannuation Guarantee is specified in terms of a defined contribution (and while defined benefits can comply the regulations are more onerous). As well, employer sponsors are opting to shift the administrative burden associated with superannuation to commercial funds and to shift the investment risks back to fund members. In the 1980s around 80 percent of superannuation fund members belonged to defined benefit plans. Today only 2% of members belong to defined benefit plans, with 38% belonging to hybrid defined benefit-defined contribution plans and 60% to accumulation plans.

Table 2.4: Classification by Benefit Type, 2007

	Accumulation	Defined Benefit	Hybrid
% members	**59%**	**2%**	**38%**
% assets	**46%**	**8%**	**46%**

Source: APRA Annual Superannuation Statistics, June 2007 (APRA 2008b).

2.3 Discussion

The preceding discussion highlights a number of key issues which both alone and together, may have contributed to the prevalence of 'lost' superannuation accounts. These include:

- The design of the Superannuation Guarantee as a mandatory employer-provided benefit, with a non indexed minimum income threshold.
- The focus of the Superannuation Guarantee and the previous voluntary arrangements on employer-provided superannuation while placing much of the responsibility to engage and make decisions on individuals (who often lack the necessary levels of financial literacy).
- The prevalence of a range of superannuation structures which may inhibit portability and consolidation of superannuation accounts. These include pre existing defined benefit plans and the previous prevalence of 'closed' superannuation funds.

These issues and other possible reasons for the increasing prevalence of 'lost' accounts are canvassed further in section 4.

3. What are lost superannuation accounts?

In Australia a 'lost' superannuation account refers to a superannuation account for which the member cannot be located. That is, the member is lost, not the monies in the account. A member is deemed to be lost where:

- The member is inactive. A member is considered to be inactive if they joined more than 2 years ago and there have been no contributions or rollover amounts in the last 2 years; or
- The account was transferred from another superannuation fund which had reported the member as a lost member, and the member hasn't been found nor has the fund been advised of a new address; or
- The member cannot be contacted. If one piece of mail is returned unclaimed by the member, a fund may report the member as lost. If two pieces are returned the member MUST be reported as lost.

Under the current legislation, *The Superannuation (Unclaimed Money and Lost Members) Act 1999*, superannuation funds are required to report the details of member accounts they consider to be ‘lost’ twice each year to the Australian Taxation Office.

The Australian Taxation Office keeps this information in a register of accounts called the Lost Members’ Register (LMR). The LMR includes details of lost accounts held by superannuation funds, approved deposit funds, eligible rollover funds and retirement savings account providers (see Table 2.2 for definitions).

At the end of June 2007 an estimated $A11.9 billion of Australian superannuation in around 6.1 million accounts was reported to be ‘lost’. This represents an increase from $A9.7 billion in 5.7 million accounts from a year earlier (Australian Taxation Office 2007). The growth of ‘lost’ accounts in recent years is summarized in Table 3.1.

Table 3.1: Number and amount of ‘lost’ accounts

	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Number of ‘lost’ accounts, mill	4.7	3.8	4.7	4.6	4.9	5.4	5.7	6.1
% total accounts	21.9	16.7	19.7	18.3	18.3	19.5	19.6	20.0
Amount of lost accounts, $A bill	7.3	5.5	6.8	7.3	7.3	8.2	9.7	11.7
% total superannuation assets	1.5	1.1	1.3	1.3	1.1	1.1	1.1	1.0

Source: Australian Taxation Office (2000, 2005, 2007).

It is noted that while the total number and amount of ‘lost’ superannuation accounts have increased over time, this is a net figure: a large number of accounts have also been reunited with their owners. For example, the net increase in ‘lost’ superannuation accounts in 2005 of 0.5 million represented 1.2 million new ‘lost’ accounts, less 0.7 million previously ‘lost’ accounts which were reunited with their owners. Also important is the significant fall in the number and amount of ‘lost’ accounts between 2000 and 2001 following the decision to allow Tax File Numbers to be used to match taxpayers and superannuation accounts.

Since 2001, the number of 'lost' accounts as a proportion of total superannuation accounts has remained reasonably constant at around 20%. However, it is clear that these millions of 'lost' accounts are individually of very small amounts, as they account for less than 2% of total superannuation assets.

What happens to 'lost' superannuation?

A 'lost' account is not really lost. It is an account which remains unclaimed by its owner. A superannuation account becomes 'lost' when a superannuation fund loses track of its owner (the member). Twice each year superannuation funds are required to pass details of 'lost' accounts to the Australian Taxation Office. The Australian Taxation Office includes these details on the Lost Members' Register. However, the monies in the 'lost' account are NOT transferred to a central fund in the Australian Taxation Office. Instead the account remains within the superannuation fund and is invested according to their rules, or is transferred to a holding fund called an eligible rollover fund.

Where the account is transferred to an eligible rollover fund, it is possible that the net earnings may be lower than for a standard superannuation fund. Many eligible rollover funds have low rates of return and high fees. For example, it has been estimated that aggregate fees of eligible rollover funds may be close to 2% of assets (ACA 2006).[6] As well, eligible rollover funds do not have the same insurance and investment choice options as standard superannuation funds.

At June 2007 there were 17 such eligible rollover funds in Australia, with assets of $A5.7 billion in 5,244 accounts. This accounts for around 50% of the 'lost'

[6] However there is considerable variation in eligible rollover funds. AUSfund is an example of a low cost eligible rollover fund. It has over 1.75 million comprising small, lost or inactive accounts. AUSfund actively works to find members and encourages 'found' members to transfer their account back to a standard superannuation fund. The AUSfund trustees choose the investment strategy. Their current strategy is considered to be 'diversified' and comprises a mix of Australian shares (23.5%), International shares (23.5%), private equity (5%), Direct property (10%), Australian fixed interest (7%), Australian alternative debt (5%), International fixed interest (12%), cash (5.5%), Infrastructure (8.5%). AUSfund has achieved a net rate of return of 11.5% pa over past 5 years.

superannuation. Recent trends in eligible rollover funds are summarised in Table 3.2.

Table 3.2: Recent trends in eligible rollover funds

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Assets $Abill	0.7	2.0	2.0	2.0	3.0	3.1	3.4	3.6	4.3	5.0	5.5	5.7
% total assets	0.3	0.6	0.6	0.5	0.6	0.6	0.6	0.7	0.7	0.7	0.6	0.7
No. accounts (mill)	0.6	1.2	1.6	2.0	2.6	3.0	3.2	3.6	4.1	4.6	4.8	5.2
No. funds	13	13	14	12	10	10	10	14	15	16	18	17

Source: APRA (2007, 2008b).

It is noted, however, that whether the 'lost' account remains in the original superannuation fund or is transferred to an eligible rollover fund, the so-called 'member protection' legislation ensures that accounts with a balance of less than $A1,000 are protected from account keeping fees. In other words, 'lost' accounts cannot be dissipated by fees.

Finally, prior to July 2007, any superannuation that was not claimed by the time the 'lost' member reached the age of 65 was transferred to State and Territory government agencies as unclaimed money. It is estimated that there is around $A50 million, or around $A2,000 per 'lost' account, in such unclaimed superannuation monies. Since July 2007 any superannuation which remains unclaimed by the time it is due to be paid out, is reported and paid to the Australian Taxation Office.[7] [8]

[7] However, this only applies to unclaimed superannuation from private sector and Commonwealth government schemes. As a result of constitutional restrictions, any unclaimed super from State or Territory government schemes are still paid to the relevant State or Territory authority.
[8] Since July 2007 the requirement that superannuation be paid out by age 65 has been removed.

4. Why does superannuation go missing?

The prevalence of 'lost' superannuation accounts is due to a number of factors. These include the design features of voluntary superannuation and mandatory superannuation under the Superannuation Guarantee, the structure and dynamics of the Australian labour force, the actions (or inactions) of fund members and barriers to the consolidation of multiple (and generally small) accounts. The factors are discussed below.

Policy design:

Some basic design features of the mandatory Superannuation Guarantee and the complementary voluntary arrangements are responsible for the incidence of 'lost' accounts. These design features include the disconnect between the responsibility of employers to pay superannuation contributions on behalf of employees and/or sponsor superannuation funds and the responsibility for members to keep track of the accounts and make most other decisions in relation to these accounts, the low and non indexed income threshold for participation in the mandatory arrangements, the low minimum age for participation in the Superannuation Guarantee, and the already complex voluntary superannuation system upon which the mandatory Superannuation Guarantee was imposed.

When the Superannuation Guarantee was introduced in 1992 it was designed as an employer contribution of 9% of earnings to be made into a superannuation fund chosen by the employer. The employer had the responsibility for setting up the superannuation arrangements and (prior to the introduction of member choice of fund in 2005) employers were not legally required to provide any information to employees. Some employees do not know that contributions are (or were) being made on their behalf, or the superannuation find into which they were being made. In other words, employees may not have a vested interest in employer provided or organized superannuation.

Another implication of this design (that is, where employers made contributions in the fund of their choice) was that often a separate superannuation account was being set up each time a person changed jobs. Often these accounts are very small and the owners fail to stay in contact with the superannuation funds when they change jobs. These issues have been alleviated a little since the introduction of employee choice of fund in July 2005. Data for 2007-08 indicates that around one fifth of new employees or employees changing jobs had elected for their choice of fund, rather than the default fund used by the employer.

Therefore under private mandatory retirement saving arrangements, the responsibility to keep track of superannuation accounts and to maintain contact with the superannuation funds is shifted back to the members. This assumes that members are 'engaged' with their retirement saving and have appropriate levels of financial literacy.

This is very different to publicly provided pensions where the government plays a coordinating role through centralized collection and account management. Australia (unlike other countries with systems of mandatory private retirement saving, such as Sweden) did not set up a centralized clearing house.[9]

When the Superannuation Guarantee was introduced in 1992, a minimum income threshold of $A450 per month was set. In 1992 this represented around 15% of average male earnings. However, this threshold was not indexed and now represents less than 9% of average male earnings. As a result, employer superannuation contributions are compulsory for many casual and part time workers and increasingly workers on very low incomes. These problems are exacerbated by the mandatory coverage of employees aged 18-65. It is likely that many 18-21 year olds are students with one or more casual jobs on very low incomes, yet they are covered by mandatory superannuation and may have several superannuation accounts set up on their behalf.

As well, when the Superannuation Guarantee was introduced in 1992, it was an 'add on' to an already complex and diverse voluntary system, with an aggregate coverage of around 50% of employees: This compares with many other countries

[9] Although this is now being canvassed by the Minister for Superannuation and Corporate Law (Sherry 2008).

which had or have introduced mandatory private retirement saving which had no or very little previous private retirement income provision. As noted in section 2 above, the pre 1992 Australian superannuation arrangements comprising many thousand superannuation funds categorized as defined benefit and defined contribution schemes, 'open' and 'closed' superannuation funds, single and mutli-employer superannuation funds, superannuation funds for private and public sector employers, not-for-profit and commercial superannuation funds and even self managed superannuation funds. The combination of this complexity and the rigidities arising from defined benefit arrangements and 'closed' superannuation funds has been conducive to the prevalence of both multiple accounts and 'lost' accounts.

The structure of the Australian labour force:

The Australian labour force is diverse, and becoming even more so over time. In recent years there has been an increase in the labour force participation of women, students and older workers. The participation of women has increased from 49% to 58% over the past 20 years. This increase is even more pronounced in the older ages where the participation of females aged 55 to 64 increased from 22% to 48% over this period. The participation rate of males age 55-64 increased from 62% to 68% (ABS 2008a).

As well there has been an increasing role played by part time and casual workers. In 2008, around 30% of employed persons worked part time compared with 19% in 1997. By gender, around 45% of females and 15% of males currently work on a part time basis, with around 25% of workers are employed on a casual basis and an increasing number of workers are holding more than one job (ABS 2008b). This greater casualisation has also led to a more transient labour force. It has been estimated that on average Australian workers change jobs every 7 years (ACA 2006).

The mandatory Superannuation Guarantee applies to all employees whether they are employed on a full time basis, a part time basis or a casual basis, provided they satisfy the age and minimum income thresholds. The greater reliance on part time and casual workers and on women and students has increasingly led to the creation of many small amount accounts which have the propensity to be forgotten or left behind when workers change jobs.

The behaviour of superannuation fund members:

By their very nature, many fund members themselves are responsible for the ‘lost’ accounts. Often superannuation fund members do not keep track of their superannuation accounts, whether small or large and fail to take action when they should. For example, they may fail to notify their superannuation fund when they change address or jobs, they may lose details of their fund membership and may not even inform their spouse or family members of their superannuation accounts. As discussed earlier, part of this procrastination may be due the complexity of the Australian superannuation industry and partly confusion due to the recent rationalization which has seen the number of superannuation funds falling from around 5,000 to 500.

This lack of action is also prevalent among a wide range of financial institutions and products which is evident by the large amounts of unclaimed monies held with Australian government bodies.

Barriers to the consolidation of ‘multiple accounts’:

Over the period 1996 to 2007 the total number of superannuation accounts has increased from 16.3 million to 30.4 million. This represented growth of 87% over 11 years. Over the same period the labour force has grown by 19%. As a result, the number of accounts per person has increased from 1.8 in 1996 to 2.8 in 2007.[10] These trends are summarized in Table 4.1. While one account per

[10] Some accounts included in the official figures are those of people who have already retired and are no longer making superannuation contributions. That is, they are in the decumulation phase of retirement saving. ASFA estimates that this may account for around 1 million accounts (Clare 2007). Some accounts may belong to people who are no longer resident in Australia. ASFA estimates this group may account for around 1 million accounts (Clare 2007). Accounts set up on behalf of other non workers – such as children or spouses.

member would be desirable, there are a number of barriers to consolidation. Lack of consolidation may be responsible for some members losing track of their accounts.

Table 4.1: The growth of multiple superannuation accounts in Australia

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Superannuation accounts											
No. (mill)	17.2	18.2	19.7	21.5	22.7	23.9	25.1	26.7	27.7	29.1	30.4
Growth %	5.5	5.8	8.2	9.1	5.6	5.3	5.0	6.4	3.7	5.1	4.5
Labour force											
Lab force (‘000)	9,181	9,346	9,390	9,608	9,760	9,865	10,060	10,206	10,518	10,693	10,932
Growth %	0.7	1.8	0.5	2.3	1.6	1.1	2.0	1.5	3.1	1.7	2.2
Accounts/ person	1.9	1.9	2.1	2.2	2.3	2.4	2.5	2.6	2.6	2.7	2.8

Source: APRA (2007, 2008b); ABS (2008b).

The incidence of multiple superannuation accounts and consequent ‘loss’ of some accounts could be due to one or more of the following factors:

- The onerous administrative requirements on both members and superannuation funds in order to consolidate accounts – although this may have improved following the Simplified Superannuation reforms in 2006 and 2007.
- Some accounts cannot be consolidated. For example it is generally the case that the ‘defined benefit’ arrangements, which were prevalent in Australia in the past, cannot be consolidated with the more recent defined contribution (or accumulation) schemes. In any case, it may be advantageous for members of existing defined benefit schemes to set up a defined contribution plan within the same superannuation fund to give them additional flexibility – such as to make additional voluntary contributions. At June 2007 there were 679,000 defined benefit accounts (and 11,422 hybrid

accounts – which included both defined benefit and defined contribution components).

- Sometimes consolidation may be possible, but not optimal. For example some superannuation arrangements come with valuable insurance benefits which would be lost if accounts were consolidated.
- Until 2005 employees did not have a statutory right to choose their superannuation fund under the Superannuation Guarantee. This often meant that with each change of job the employer set up a new account in a different fund.
- Some ‘old style’ superannuation funds charge high exit fees.
- Some superannuation funds are ‘closed’ to all except employees of specific firms.
- No or inadequate advice given to superannuation fund members. As a result, some fund members do not realize that they can consolidate their accounts.

5. Policies to address ‘lost’ superannuation accounts

Following the commencement of the Superannuation Guarantee in 1992, which mandates coverage of superannuation, policies were introduced to minimise the incidence of multiple superannuation accounts and consequently the prevalence of ‘lost’ accounts. These measures were strengthened in the 2006 Budget in a series of measures known as ‘Simplified Superannuation’ (Treasury 2006a, 2006b).

The measures include initial and subsequent design features of the Superannuation Guarantee (such as the minimum income threshold and employee choice of superannuation fund), means by which ‘lost’ superannuation accounts can be tracked (the Lost Members’ Register) and matched to members (using Tax File Numbers), and policies to improve financial literacy. These measures have been enhanced by the consolidation of the superannuation industry which has seen a large fall in the number of superannuation funds and a trend towards defined contribution funds operating as public offer funds.

The proliferation of too many small amount superannuation accounts was addressed by the original design of the Superannuation Guarantee as a defined contributions arrangement (to enhance portability) with a minimum income threshold for participation. These design features have been enhanced by the introduction of choice of fund legislation in 2005, which means that employees can require their employers to pay superannuation into the account of ‘their’ choice and a new account does not need to be set up each time a worker starts a new job. Employee choice of fund also encourages fund members to take more control of and interest in their own superannuation. However, these design features could be improved with the minimum income threshold (of income of $A450 per month) indexed and increased, less onerous administrative requirements for portability and an increase in the coverage of employees able to choose their superannuation fund from the current 50%.

Not all policy initiatives have been successful. Following the introduction of the Superannuation Guarantee in 1992 there was some concern about the management of small amount accounts and the possibility of lost accounts. In response a central fund called the Superannuation Holding Accounts Reserve - SHAR – to be administered by the Australian Taxation Office, was established in 1995. This fund was designed to accept contributions from employers who were unable to find superannuation funds to take very small contributions. The idea was that superannuation members would accumulate the small amounts in the SHAR and then transfer them to other superannuation funds once their income/contributions increased. However, this initiative was not successful and many accounts were left in the SHAR and essentially became ‘lost’. It has since closed to new members.

Two measures which have been particularly successful are the decision to extend the pre existing system of Tax File Numbers to superannuation accounts and to set up a Lost Members' Register. In 1996 the Lost Member Register was established within the Australian Taxation Office, which is the statutory body responsible for compliance with the mandatory superannuation guarantee arrangements. Superannuation funds were (and still are) required to report 'lost' members to the Australian Taxation Office, and the Australian Taxation Office was given the responsibility of assisting members to locate their lost accounts.

The use of the Lost Members' Register to match 'lost' accounts with their member owners was enhanced in 2001 when the pre existing system of Tax File Numbers (until then used for personal taxation compliance) was extended to superannuation accounts. From 2001, all superannuation fund members were encouraged to provide their Tax File Number to their superannuation fund, or be subject to penal taxation of their superannuation contributions. The ability of the Lost Members' Register and the system of Tax File Numbers to assist in the search for lost accounts and lost members was enhanced further in 2003 with the development of electronic tools to assist superannuation fund members, industry professionals and the Australian Taxation Office to search for and match 'lost' accounts and members. .

As well, there has been an increasing recognition of the role of financial literacy. This is evident with the public funding of initiatives such as the Financial Literacy Foundation, although superannuation funds themselves have also increased the quantity and quality of generic advice and information provided to their members.

Simplified Superannuation

These measures have been strengthened by the Simplified Superannuation initiatives introduced in the May 2006 Budget and implemented throughout 2006 and 2007 (Treasury 2006a, 2006b). As well as simplifying the taxation of superannuation and its integration with public benefits (Bateman and Kingston 2007), measures were introduced to simplify portability and facilitate the matching of fund members with ‘lost’ accounts.

Portability of accounts has been enhanced by reducing the maximum period of time a fund is given to transfer a benefit from 90 days to 30 days. As well a standard form for transfers has been introduced to simplify the administrative requirements.

More importantly improved arrangements for the Lost Members’ Register were introduced with the aim of making it easier for the Australian Taxation Office to manage ‘lost’ accounts. The initiatives included:

- Requiring all superannuation fund members to report their Tax File Numbers to superannuation funds. Previously this was voluntary. However, since 2007, a fund member has been required to quote their Tax File Number to superannuation funds when making personal contributions. As well, if a Tax File Number is not reported when employer contributions are made, a tax rate of 46.5% rather than 15% will apply on employer contributions.
- Requiring more comprehensive reporting of ‘lost members from superannuation funds to the Australian Taxation Office.
- Allowing accounts with total amounts of less than $A200 to be paid out tax free.
- Increasing public spending on information to members promoting the benefits of searching for their ‘lost’ superannuation. In particular, the Australian Taxation Office has been instructed to undertake an extensive letter campaign to lost members in 2007-08 and 2008-09 with lost account reviews to be conducted over a four year period through a combination of outbound phone calls and letters.

The Australian Taxation Office has set up a number of internet-based tools, through which members can locate their ‘lost’ accounts using their Tax File Number. This includes the ‘SuperSeeker’ interface for superannuation fund members, and the ‘SuperMatch’ interface for superannuation funds and superannuation professionals. In summary:

- **SuperSeeker** allows individuals to access the Lost Members’ Register online or through a self help phone service 24 hours a day, 7 days a week. Searching SuperSeeker is easy and can be done on-line and in real time. All an individual is required to do is to fill out their personal details – Tax File Number, name and date of birth. If there is a match the results will be shown, including the name and contact details of any superannuation fund holding the lost account. It is then the responsibility of the individual to contact the superannuation fund.
- **SuperMatch**, is a bulk matching facility that provides tax and superannuation professionals (eg tax agents, financial advisers, financial planners, accountants) with electronic access to the Lost Members’ Register. This allows superannuation funds or tax professionals to search for lost accounts on behalf of members.

As well, the Australian Taxation Office has set up an information line and has undertaken an extensive mailout campaign.

These measures have been quite successful. Since February 2005, accounts worth $A2.6 billion have been removed from the Lost Members’ Register. The Australian Taxation Office plans to enhance these arrangements by introducing an on-line mechanism to enable members to electronically request consolidation of their superannuation accounts through the Australian Taxation Office website by 2009-2010.

Industry initiatives

In addition, the superannuation industry itself has introduced measures to assist with the matching of superannuation fund members with ‘lost’ accounts, and minimising the number of multiple accounts. Many superannuation funds themselves have set up on-line infrastructure to help fund members find their ‘lost’ superannuation. These tend to be prominently placed on superannuation fund websites. As well, groups of funds are facilitating finding lost members and accounts by setting up their own protocols. For example, one of the large eligible rollover funds operates a so-called cross fund matching (CFM) service with a number of participating superannuation funds.

Finally, a number of private sector operators have set up businesses which specialising in matching individuals and 'lost' superannuation accounts.

6. Discussion and concluding comments

Australian has an estimated $A11.9 billion of 'lost' superannuation in around 6.1 million accounts. This represents one fifth of all superannuation accounts, but only 1% of total assets. This problem has arisen due to design features of the mandatory and voluntary superannuation arrangements, the diversity of the superannuation industry, the structure and dynamics of the Australian labour force, and structural barriers including the inactivity of superannuation fund members and administrative complexity.

However, both government and industry have recognised that 'lost' superannuation accounts are a problem and have cooperated on the development of a streamlined on-line search facility. The current government (newly elected in late 2007) has signalled that it will give priority to reducing the number and aggregate amount of 'lost' accounts (Sherry 2008).

The 'lost' superannuation accounts are one of a number of implications of the privatisation of an activity (that is, retirement income provision) which was previously the responsibility of the public sector. The increasing role of the private sector in retirement income provision has significantly increased the responsibilities placed on individuals and the private superannuation and pension funds.

Not only are superannuation fund members required to keep track of possibly a number of superannuation accounts, they are required to make a myriad of decisions throughout the accumulation and decumulation of their retirement saving. In Australia this includes deciding:

- How much and how to contribute?
- Which superannuation fund in which to place their contributions?
- Which investment options to choose?
- Whether to change their superannuation fund and/or investment options?
- Whether to seek financial advice and which type of advice?
- When to retire?
- What type of retirement benefit to take, and possibly which underlying asset allocation?

Currently it is not clear that Australian retirement savers are fully engaged. For example, close to 60% of retirement savers allowed to choose their portfolio allocation are in the default option and very few retirement savers activate their choice of superannuation fund option.

A challenge for retirement income policies which focus on private provision is to ensure that retirement savers are equipped with the necessary financial skills to enable them to understand the importance of remaining engaged with their superannuation accounts throughout their working life and into retirement. This continues to be difficult given the predisposition of individuals to put off or delay making decisions, particularly if they are complex or for the long term.

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