



20 July 2018

Mr Brad Ruting  
Senior Research Economist  
Productivity Commission  
Level 12, 530 Collins Street  
MELBOURNE VIC 3000

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Dear Mr Ruting,

**Supplementary submission to the Productivity Commission superannuation inquiry**

We are responding to your email of 18 July inviting AIST to further detail our proposal for an automatic rollover process that would address the problem of unnecessarily duplicated superannuation accounts. In this supplementary submission, we provide additional details and respond to the particular matter raised in your email.

**Key points**

Unnecessarily duplicated accounts can be removed from the superannuation system as part of an integrated online process without the major disruption proposed by the Productivity Commission.

Each time an employee starts a job, the ATO mandatory online commencement process should require them to:

- Review their superannuation choices;
- Be strongly encouraged to having their super paid into a high-performing fund on a FWC-approved shortlist relevant for that employee; and
- Consolidate their super into their chosen fund unless they elect not to.

This approach will promote increased member engagement with their super, largely eliminate the incidence of unnecessarily duplicated accounts, support the selection of high-performing funds and is administratively convenient and non-disruptive.

**Introduction**

The purpose of this supplementary submission is for AIST to further elaborate on policy proposals to prevent the creation of unnecessarily duplicated accounts.

The case for this was advocated by AIST in the Commission's recent public hearings, in our primary response to the Commission's draft report and has been our consistent policy position since at least 2011.

In this submission, AIST demonstrates how existing initiatives can be used to prevent the creation of unnecessary accounts, without the disruption inherent in the Commission's preferred model.

## **AIST proposals**

### **Background to issue**

In our primary submission lodged on 13 July 2018, we identified how:

- SuperStream is reducing the incidence of multiple accounts.
- Previous policy proposals for auto-consolidation could be re-activated to support consolidation.
- New requirements for fund reporting to the ATO can be used to clean up lost accounts.

In this supplementary submission, we show both conceptually and practically how these initiatives can be used as the foundation stone to prevent the creation of unnecessary accounts.

This proposal is made in the context of supporting the existing default fund selection process, as improved by the legislated but unimplemented changes to the Fair Work Commission processes.

AIST has been actively involved in promoting and designing digital solutions to the unnecessary proliferation of unnecessary duplicated accounts since at least 2011 and has been a key participant in various governmental and ATO projects about this.

The digital solutions proposed by the ATO have been used by the Commission to support their preferred assisted employee choice model. AIST submits that these solutions can also be developed in a way that supports the FWC default fund model more effectively.

### **The AIST model supports good funds, encourages engagement and eliminates multiple accounts**

The model put forward by AIST is based on relatively minor modifications of the online new employee commencement processes being developed by the ATO in conjunction with key stakeholders, including AIST.

The Commission's preferred model is aimed at supporting high-performing funds and addressing multiple accounts. However, the Commission's approach is at the expense of increased member engagement with super, may be highly disruptive, breaks industry and workplace connections with super, and is administratively inconvenient. The AIST model includes the same benefits as the Commission's model but without any of its deficiencies.

In the AIST model:

- Employees changing jobs will be presented with more and more meaningful information about the superannuation options available to them in an online choice form;
- Based on the anticipated higher standards for MySuper products and the FWC's application of an effective quality filter, employees will be guided to a shortlist of better quality products suited to people working in their industry;
- This would be the list of default funds in the relevant Award or Enterprise Bargaining Agreement that will cover the employee;
- They would be strongly encouraged to choose a higher performing fund that is relevant and tailored to the industry in which they will be working;
- This will also remove the risk of an employee making a bad choice and will steer competition to more beneficial outcomes;
- The employee will also be advised of the fund chosen by the employer if they do not make a choice;
- The balance of responsibility for making the final choice of fund will largely shift from the employer to the employee;
- The employee would still be able to choose another fund if they so wished;
- The consolidation of existing accounts would be built into this model; and
- Many of the design features of the Commission's assisted employee choice model are incorporated into this model.

The shortlist ensures that people joining the workforce for the first time or starting with a new employer are asked to choose from only the very best funds that meet the high hurdle of Award/EBA selection. This also addresses the concern expressed by the Commission that having too many options can impede choice.

The first listed fund on the shortlist should be the fund preferred by the employee's new employer. However, the employee will also see the other funds on the shortlist and will be encouraged to consider these as well. Links to further information about all these funds should be provided.

In identifying their employer's preferred fund, the new employee should be advised that their super contributions will be paid into this account (and other accounts consolidated into this account) if they do not make a choice. The ordering of the other funds in the list can be randomised for each employee to remove ordering biases.

This is a better approach for employees who fail to choose than the random 'cab rank' allocation preferred by the Commission. While an employer does not have a fiduciary responsibility in relation to the super fund they select for their employees, they nonetheless:

- Know which super funds their employees are in;
- May engage with these funds about contributions and other matters;
- May be aware of the fund's industry tailored offerings, especially insurance;
- Have some knowledge of these funds and their suitability for their employees;
- May facilitate the distribution of information about these funds, and support associated educational services;
- May support a large proportion of their employees being in a small number of funds.

The online form may also provide for a new employee to select one of their existing funds, although it should be made clear whether an existing fund meets the higher standards of a MySuper product.

#### **How the AIST model avoids account proliferation**

The consolidation of existing accounts should be built into the model outlined above.

Having completed the online choice of fund form as part of the commencement process, the process should then facilitate account consolidation. Account consolidation should occur automatically on an opt-out basis for all accounts that have not received a contribution in the past 13 months and which have default insurance cover only.

AIST propose that this process incorporate all accounts that fulfil these criteria irrespective of size or type. However, to support a controlled and orderly transition to these arrangements, AIST proposes that this occur on a staggered basis as follows:

- Year one – accounts with balances of less than \$6,000
- Year two – accounts with balances of less than \$10,000
- Year three – all accounts

Like the Commission's preferred model, the AIST model would allow an individual to maintain multiple accounts if they so wish, and allows individuals the option to have additional choice insurance cover.

As the Commission notes, the increasing role of a properly-funded ATO in managing the infrastructure of the superannuation system can be harnessed to virtually eliminate unintended account proliferation.

## Responses to Commission's questions about this approach

### 1. The magnitude of rollovers each year (people and balances)

According to the most recent APRA annual fund-level superannuation statistics, in the year to June 2017, there were 1.97 million outward rollovers worth \$47.3 billion.<sup>1</sup> The average rollover had a value of approximately \$23,900 and total rollovers represented approximately 1.8% of assets in APRA-regulated funds. While this is an increase on the two preceding years, the number and value were in the same general order of magnitude.

The Commission has estimated that there are approximately 10 million unnecessarily duplicated accounts. Assuming AIST's model is implemented over a three-year implementation period, it would be necessary for there to be an approximate doubling in the current number of rollovers.

This process would be facilitated by the abolition of exit and entry fees, and by the smooth operation of SuperStream compliant rollover processes. While these volumes are achievable by superannuation administrators, AIST nonetheless recommends that there be a process of consultation with the industry prior to implementation.

### 2. How members with multiple jobs could be handled

Notwithstanding commentary in the draft report, AIST submits that people are more likely to have multiple jobs within the one industry. Hospitality workers are more likely to work several bars and cafes; community care workers in different age and health care facilities; and in administrative or temporary staff in various white-collar settings. The industry-based approach proposed by AIST reflects this propensity and would be likely to see these members with multiple jobs nudged toward the industry-based fund best suited to these members.

Also, the auto-consolidation processes proposed by AIST are structured to occur for accounts that have not received a contribution in the past 13 months. These would avoid confusion when members have multiple accounts but would allow consolidation of accounts when the members' employment arrangements become more focused on a single employer in the future.

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<sup>1</sup> <https://www.apra.gov.au/publications/annual-fund-level-superannuation-statistics>. See table 10a Changes in membership profile by fund type – trend.

### 3. Impacts on member engagement

Under the AIST model, members would be required to think about their super and which fund best meets their needs when they change jobs. A change of jobs is often associated with a change in member circumstances and being required to do this (on average) each 6 to 7 years is a reasonable prompt without becoming overly intrusive.

Giving employees the list of default funds in their award to choose from means they are choosing from a best in show list:

- That meets high standards of enhanced MySuper, has been subject to a rigorous additional quality filter, and is part of a process that will be subject to a regular four yearly review;
- That is aligned with the industry they will be working in, with insurance offering tailored for that industry; and
- That is big enough to provide choice but small enough so as not to overwhelm users.

### 4. Administrative costs

Costs of superannuation administration have greatly reduced under SuperStream, and are less of an impost on employers and super funds.

The adoption of SuperStream for rollover transactions commenced in July 2014, and has been highly successful. According to the SuperStream Program Benefits Report<sup>2</sup> released in December 2016:

- Digital channels (rather than manual transactions) now account for over 95% of all transactions;
- Straight through processing is now widespread, with automation rates of 95% for rollovers;
- The great majority of rollovers are now completed in less than three days, compared to a median experience of 45-60 days pre-SuperStream;
- SuperStream has resulted in a reduction of mail-room processing costs for rollovers of 90% and of reduction in error remediation costs of 60%; and
- Efficiencies in rollovers up to 2016 are estimated by the ATO to have resulted in cost savings of \$80-\$100 million.

An increase in the level of rollovers associated with the implementation of this proposal is unlikely to result in a significant or onerous cost burden on funds or administrators.

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<sup>2</sup> <https://www.ato.gov.au/Super/SuperStream/In-detail/SuperStream-benefits-report/>

## 5. Investment risks with switching

Switching involves people crystallising their super benefit.

Crystallising losses usually occurs in the context of members moving to cash or defensive assets in the event of a market downturn. By contrast, members who choose to move from one default/MySuper fund to another default fund at the point of starting a new job, they will most likely be moving from one diversified investment strategy to another. In such a scenario, the costs will mostly be transaction-related.

## 6. Impacts on funds' investment strategies

Even if the adoption of our model results in a doubling of rollovers:

1. This is likely to be a short-term, transitional phenomenon; and
2. In the transitional phase, this is likely to represent less than 5% turnover of superannuation assets. This will not materially change the investment strategies of funds. In any event, funds are required to maintain liquidity so that they can pay members benefits within 30 days in normal market conditions. Under SuperStream, they are also required to process a member's request for a rollover to another fund within three working days. In the context of these requirements, our model does not require reconsideration of fund investment strategies.

## 7. Impacts on insurance coverage/offering

Our proposal will massively reduce the number of superannuation accounts, and funds will be able to assume their members generally will have only one account. This will enable funds to develop strategies (e.g., investment and insurance) that are better able to have regard to the needs of the individual member.

## 8. Interaction with the online standard choice form the ATO is developing

This interaction has been addressed extensively in the main body of our submission.

For further information regarding our submission, please contact David Haynes, Senior Manager Policy on 03 8677 3800 or at [dhaynes@aist.asn.au](mailto:dhaynes@aist.asn.au) .

Yours sincerely,



Eva Scheerlinck  
**Chief Executive Officer**

*The Australian Institute of Superannuation Trustees is a national not-for-profit organisation whose membership consists of the trustee directors and staff of industry, corporate and public-sector funds.*

*As the principal advocate and peak representative body for the \$1.2 trillion profit-to-members superannuation sector, AIST plays a key role in policy development and is a leading provider of research.*

*AIST provides professional training and support for trustees and fund staff to help them meet the challenges of managing superannuation funds and advancing the interests of their fund members. Each year, AIST hosts the Conference of Major Superannuation Funds (CMSF), in addition to numerous other industry conferences and events.*