Australia’s ‘lost’ superannuation (private pension) accounts

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Overview

- In June 2007 an estimated $A11.9 billion of Australian superannuation (that is, private retirement saving) in around 6.1 million accounts (20% of all superannuation accounts) was reported as ‘lost’.

- This presentation outlines the causes of, and solutions to, ‘lost’ superannuation.

- It is argued that ‘lost’ superannuation is one of a number of consequences of the privatisation of retirement income provision, which places substantial responsibilities on individuals and private sector financial service providers.
Outline

- Introduction
- A summary of Australia’s retirement income arrangements
- What are ‘lost’ superannuation accounts?
- Why do superannuation fund members lose their accounts?
- Policies to address ‘lost’ superannuation
- Discussion and concluding comments
1. Introduction

- Superannuation becomes ‘lost’ when a superannuation (pension) fund loses track of the member and the member takes no action to contact the fund.

- The costs of ‘lost’ superannuation are borne by
  - individuals: lower retirement savings, search costs
  - superannuation funds: reporting, admin costs
  - government: regulation, public pension expenditure
2. Retirement income provision in Australia

There are 3 pillars of retirement income provision:

- **Public Age Pension** (means-tested safety net), since 1909
- **Superannuation Guarantee** (mandatory private retirement saving), since 1992
- **Voluntary retirement saving** (superannuation, other financial assets, housing), popular from mid 1900s
Coverage of retirement income pillars (in 2007)

- Public Age Pension (means-tested safety net):
  - 75% elderly, 60% of these at full rate

- Mandatory and voluntary superannuation:
  - 96% of full time employees
  - 79% of part time employees
  - 72% of casuals
  - 73% of the self employed
Design of the Superannuation Guarantee

- 9% employer contribution

- Required for all employees aged 18-65, earning at least $A450 per month (9% of average male earnings)

- Initially in superannuation fund chosen by employer (since 2005 employee can choose fund)

- Defined contribution, immediately vested, fully portable, fully preserved to eligibility age (55, increasing to 60)

- Choice of lump sum or income stream → current trend is account-based pensions (phased withdrawals)
Australia’s Superannuation industry is very diverse

- Five types of superannuation fund – corporate fund, public sector fund, industry fund, retail fund, small self managed fund
- These funds may be ‘closed’ to all except certain employees, or increasingly ‘open’ to the general public (public offer fund)
- The funds may provide benefits on a defined benefit basis, or increasingly defined contributions
- The funds may be ‘not-for-profit’ or operate on a commercial basis

Prior to the Superannuation Guarantee, 50% employees covered, most funds were ‘defined contribution’ and ‘closed’.
Distribution of superannuation funds

- 229 corporate funds: 5.8% assets, 2.2% accounts
- 72 industry funds: 17.9% assets, 35.1% accounts
- 40 public sector funds: 15.4% assets, 9.6% accounts
- 166 retail funds: 31.2% assets, 50.8% accounts
- 384,307 small funds: 26.3% assets, 2.3% members

- 2/3 accounts and 50% assets in public offer funds
- 59% members in defined contribution funds, 2% defined benefit, 38% hybrid

Total superannuation assets now in excess of $1 trillion (over 100% GDP)
Distribution of superannuation assets and accounts, 2007
3. What are ‘lost’ superannuation accounts?

- A ‘lost’ superannuation account is an account for which the member (owner of the account) is ‘lost’ → cannot be located.
- The member is ‘lost’ if:
  - No contribution for 2 years
  - Member cannot be contacted (2 pieces of mail returned to the superannuation fund)

→ The MEMBER is ‘lost’ NOT the MONIES in the account
Number and amount of ‘lost’ superannuation accounts

<table>
<thead>
<tr>
<th>Year</th>
<th>Number (mill)</th>
<th>Amount in lost accounts ($A bill)</th>
</tr>
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<tbody>
<tr>
<td>2000</td>
<td>5</td>
<td>8</td>
</tr>
<tr>
<td>2001</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>2002</td>
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<td>2004</td>
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<td>2005</td>
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<td>3</td>
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<td>2006</td>
<td>4</td>
<td>2</td>
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<tr>
<td>2007</td>
<td>4</td>
<td>1</td>
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## Prevalence of lost accounts

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<thead>
<tr>
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<th>2000</th>
<th>2003</th>
<th>2005</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number (mill)</strong></td>
<td>4.7</td>
<td>4.6</td>
<td>5.4</td>
<td>6.1</td>
</tr>
<tr>
<td><strong>% total accounts</strong></td>
<td>21.9</td>
<td>18.3</td>
<td>19.5</td>
<td>20.0</td>
</tr>
<tr>
<td><strong>$A in lost accounts</strong></td>
<td>7.3</td>
<td>7.3</td>
<td>8.2</td>
<td>11.7</td>
</tr>
<tr>
<td><strong>% total assets</strong></td>
<td>1.5</td>
<td>1.3</td>
<td>1.1</td>
<td>1.0</td>
</tr>
</tbody>
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What happens to ‘lost’ superannuation?

- Twice each year, superannuation funds are required to report ‘lost’ superannuation accounts to the Australian Taxation Office, which maintains a Lost Members’ Register.

- The monies in the account are not transferred to the Lost Members’ Register. Instead
  - Remain in the superannuation fund: or
  - Transferred to an ‘eligible rollover fund’

- Eligible rollover funds have fewer features and possibly lower net performance than standard superannuation funds.

- 50% ‘lost’ superannuation in eligible rollover funds.
## Trends in eligible rollover funds

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</tr>
</thead>
<tbody>
<tr>
<td>Assets ($A bill)</td>
<td>0.7</td>
<td>3.0</td>
<td>4.3</td>
<td>5.7</td>
</tr>
<tr>
<td>% total assets</td>
<td>0.3</td>
<td>0.6</td>
<td>0.7</td>
<td>0.7</td>
</tr>
<tr>
<td>No. Accounts (mill)</td>
<td>0.6</td>
<td>2.6</td>
<td>4.1</td>
<td>5.2</td>
</tr>
<tr>
<td>No. funds</td>
<td>13</td>
<td>10</td>
<td>15</td>
<td>17</td>
</tr>
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</table>
4. Why do superannuation fund members lose their accounts?

A. Policy design of Superannuation Guarantee and the Australian superannuation industry

B. Structure and dynamics of the labour force

C. Behaviour of superannuation fund members

D. Barriers to the matching of ‘lost’ members and accounts
A. Policy design and ‘lost’ accounts

- Focus of Superannuation Guarantee on employer contribution → yet members required to keep track of accounts and make ongoing decisions

- Pre 2005, employer choice of fund → employers generally set up new account for all new employees

- Prior to Superannuation Guarantee, many superannuation arrangements were ‘defined benefit’ and in ‘closed’ superannuation funds → portability and consolidation of accounts difficult

- Under Superannuation Guarantee, non indexed minimum threshold ($A450/month = 9% earnings) and minimum age 18 for coverage → many small accounts created
B. Diverse labour market and ‘lost’ accounts

- Australia’s labour market is diverse → increasing participation of women, students and older workers

- Over past 20 years:
  - Participation of women increased from 49% to 58% (and for ages 55-64, from 22% to 48%)
  - Part time workers increased from 19% to 30% (45% women currently part time)

- 25% workers are casual

- Average Australian worker change jobs every 7 years

  Low age and income thresholds for Superannuation Guarantee + dynamic labour force → many small superannuation accounts → propensity to be forgotten
C. Behaviour of superannuation fund members

- Superannuation Guarantee put onus on individuals to manage their superannuation accounts
- Behavioural finance suggests that individuals have a predisposition to avoid complex and longer term decisions → individuals fail to keep track of accounts, lose details of fund membership, don’t notify funds when move etc...
- Individuals may lack the appropriate personal finance skills
- Prevalent in other aspects of personal finance → at end 2007, $A214mill unclaimed bank accounts, $A212mill unclaimed company shareholdings, $A32mill unclaimed insurance monies
D. Barriers to matching of ‘lost’ members and accounts

- Onerous administrative/regulatory requirements for funds and individuals

- Inadequate advice to members

- Barriers to consolidation of accounts → small amount accounts get overlooked
  - accounts in ‘defined benefit’ and ‘closed’ funds cannot be consolidated
  - differential benefits from funds → optimal to keep more than one account
  - High exit fees
Growth of multiple superannuation accounts

In 2007, 2.8 superannuation accounts for every individual in the labour force
5. Policies to address ‘lost’ superannuation

- Policy design of Superannuation Guarantee
  - Defined contribution to enhance portability → but admin onerous + poorly informed members
  - Minimum income threshold of $A450 month → but NOT indexed
  - Employee choice of fund from 2005

- Policies to address small amount accounts
  - Establishment of Retirement Savings Accounts
  - Central fund for small accounts (managed by the Australian Taxation Office) → failure, recently closed

- Establishment of Lost Members’ Register in Australian Taxation Office (1996)
Policies to address ‘lost’ superannuation (cont)

- **Lost Members’ Register**
  - All superannuation funds required to report ‘lost’ accounts twice yearly to Australian Taxation Office
  - Australian Taxation Office attempts to match ‘lost’ members and accounts

- **Use of Tax File Numbers**
  - (Since 2007) all superannuation fund members required to report Tax File Numbers to superannuation funds (else penal taxation of contributions)

- **Increasing recognition of the importance of financial literacy**
  - Publicly funded (Financial Literacy Foundation) and by superannuation funds
Internet-based search facilities

- **SuperSeeker**
  - Individuals search Lost Members’ Register

- **SuperMatch**
  - Superannuation funds, tax and superannuation professionals search Lost Members’ Register

- Publicly funded marketing campaigns on the benefits of seeking lost accounts and account consolidation

→ **Success rate:** Since February 2005, $A2.6 billion of ‘lost’ superannuation has been found, BUT a further $A3.5 billion has become ‘lost’
6. Discussion and concluding comments

- 20% of all superannuation accounts are ‘lost’, due to
  - Design of Superannuation Guarantee
  - Diversity of superannuation industry
  - Diverse and dynamic labour force
  - Propensity for multiple accounts and barriers to account consolidation
  - Procrastination and inactivity of individuals (fund members)

- Policies to address lost accounts, including Lost Members’ Register, use of tax file numbers and internet search facilities → somewhat successful
Discussion and concluding comments (cont)

- ‘Lost’ superannuation accounts are one of a number of implications of greater reliance on private provision of retirement benefits
  - Greater onus on individual members to take an interest and remain engaged with retirement saving throughout their lives, and for private industry provide appropriate support
  - Greater requirement for individual members to acquire appropriate financial planning skills
  - Greater requirement for provision of financial advice
  - Need for streamlined administrative processes and public sector support for individual retirement savers AND superannuation funds and others in private industry
Discussion and concluding comments (cont)

- Other implications of greater reliance on private provision of retirement benefits include the failure of individuals to take-up offers to participate in retirement saving decisions
  - Employee choice of superannuation fund available since 2005, yet few exercise choice
  - Significant choice of investment option offered by many superannuation funds, yet 51% fund members opt for the ‘default’ investment option
  - Little evidence of superannuation fund members actively re-assessing their investment strategies over the lifecycle
  - Industry surveys indicate many consumers (particularly under age 40) are indifferent to retirement saving issues
Number of investment options

- Corporate fund
- Industry fund
- Public sector fund
- Retail fund
- Average all funds

Options:
- Corporate: 60
- Industry: 80
- Public sector: 20
- Retail: 120
- Average all: 40
% assets in default investment strategy

- Corporate fund
- Industry fund
- Public sector fund
- Retail fund
- Average all funds

CPS
Centre for pensions and superannuation
AUSTRALIAN SCHOOL OF BUSINESS
THE UNIVERSITY OF NEW SOUTH WALES
Discussion and concluding comments (cont)

- Where greater reliance on private retirement income provision, unclear whether individuals have the predisposition and the personal finance skills to be able to make the decisions required of them
  - How much and how to contribute?
  - Which superannuation fund?
  - Which investment option?
  - Whether to change fund or investment option?
  - Whether to seek financial advice?
  - When to retire?
  - Which type of retirement benefit – lump sum, income stream?
Current policy developments

Policies canvassed by Australia’s ‘new’ Minister for Superannuation

- To assist individuals with retirement saving decisions
  - Simplified ‘product disclosure’ requirements (currently product disclosure statement are long and complex)
  - Provision of low cost financial advice
- To reduce regulatory burden on business and superannuation funds
  - Optional superannuation clearing house facility
- To address ‘lost’ accounts
  - Automatic consolidation of all accounts into most recent (with an opt-out provision) using Tax File Numbers
Conclusion

- Private provision of retirement income provision means that the government is not responsible for the provision of the retirement benefits.

- The challenge for policymakers is to ensure that retirement savers are equipped with the necessary financial planning skills to enable them to make the many decisions now required of them over their lifecycle.
Thank You