Regulation Impact Statement – Protecting Your Super Package

Table of Contents

Background 5

1. The problem 7

2. Case for government action and objective of reform 9

3. Policy options 10

Option 1 10

Option 2 10

Option 3 11

4. Cost benefit analysis of each option / Impact analysis 11

Option 1 11

Insurance in superannuation 11

Fees in superannuation 12

Inactive superannuation accounts 13

Option 2 13

Insurance in superannuation 14

Fees in superannuation 17

Inactive superannuation accounts 18

Option 3 20

Insurance in superannuation 21

Fees in superannuation 23

Inactive superannuation accounts 24

5. Consultation overview 26

6. Option selection / Conclusion 27

7. Implementation and evaluation / review 29

Background

Superannuation is a major part of Australia's retirement income system. Superannuation is now the second-largest savings vehicle for Australian households (accounting for 17 per cent of household assets). The system is projected to grow rapidly in the coming decades.

Superannuation funds are required to place members who do not make a choice about their superannuation fund (default members) in MySuper products. These products have a simple set of product features and opt-out life insurance, and place heightened obligations on the trustees that offer them. Trustees may also offer choice products which can provide members additional features (such as investment options). Choice products require a member to make an active choice for the product to receive their superannuation contributions.

MySuper products are subject to legislated restrictions on when fees can be applied and the basis of their application (for example some fees can only be charged on a cost recovery basis). There is more discretion on fees charged for choice products.

There are currently no special protections for lower balance accounts, which face disproportionately high fees and insurance premiums.

Fees

For accounts with balances below $6,000, the principal source of growth is through compulsory contributions as opposed to growth driven by investment returns. However, passively incurred fees (such as administration and investment fees) largely mute this growth. Current fee structures are highly regressive in their impact on low balance accounts.

Fees applied on exit – even where limited to cost recovery - can be significant, and act as a barrier to consolidation of accounts, and the transfer of accounts between funds more generally. In many cases exit fees comprise a significant proportion, and sometimes more than a member's account balance – particularly for very low balance accounts.

Insurance

Life insurance in superannuation can be on an individual or group basis. Trustees have substantial discretion to determine insurance arrangements in the interests of members. Except for MySuper products, they are simply required to have an insurance strategy and an insurance management framework.

All trustees are obliged to ensure life insurance does not unduly erode member balances. This reflects that, even where designed appropriately, insurance premiums are a key driver of account balance erosion, and can reduce a low income earner's retirement balance by 10 per cent or more (compared to no insurance)[1] – with the effect increasing for every set of policies held.

The Productivity Commission's draft report on the competitiveness and efficiency of the superannuation system includes a draft finding that default insurance in superannuation offers good

[1] Treasury analysis

value for many, but not for all, members. For some members, insurance in superannuation is of little or no value — either because it is ill-suited to their needs or because they are not able to claim against the policy. Younger members and those with intermittent labour force attachment — groups which commonly have lower incomes — are more likely to have policies of low or no value to them.

Multiple accounts

The impact of fees and insurance premiums on outcomes for individuals through our superannuation system are inextricably linked to, and exacerbated by the presence of multiple accounts for individual members.

Historically, there have been high levels of member disengagement with the superannuation sector. Past and current restrictions on a member's ability to choose a fund, as well as the inadvertent creation of additional accounts through the default system, have led individuals to hold multiple accounts, often with bundled insurance. The combination of these factors has led to market outcomes that do not meet the needs of the default and low balance members.

While there is a regime for transferring some lost superannuation balances to the Commissioner of Taxation (the Commissioner) to protect them from erosion, this regime requires long periods of inactivity, which can be up to five years, before amounts are transferred, assuming that the low balance account has not been entirely eroded by fees and insurance premiums by this time. It is also subject to several exceptions that allow accounts to remain with funds.

The Government has, over time, taken other steps to reduce the existence of duplicate accounts. Individuals are able to consolidate at their own initiative, either through mechanisms made available by funds, or through existing services made available to them by the Australian Taxation Office (ATO) through the MyGov portal. However, the need to obtain consent from disengaged members means these mechanisms are not operating effectively. Proposed new electronic on-boarding arrangements being developed by the ATO will assist employees in making decisions about how to manage their accounts when they commence a new job.

Max

The operation of the current system is exemplified by the cameo modelling of Max, included in material released by the Government at Budget on 8 May 2018.

Max starts his first job at the age of 25, and works 4 jobs over his career. Each time he starts a new job, a new account is opened and starts to receive contributions, with contributions to the previous account ceasing. By the time Max is age 31 he has 4 superannuation accounts. Three are inactive.

Under current settings, Max's accounts that no longer receive superannuation contributions will be eroded over time by fees and insurance. As a result, Max will have a total superannuation balance at retirement worth $397,000.

Under the reforms set out in Option 2 of this Regulation Impact Statement: his active accounts under $6,000 will have certain fees capped; insurance within Max's inactive accounts will be provided only on an opt-in basis; exit fees will be banned; and accounts which are inactive and below $6,000 will be claimed by the ATO and reunited with his active account.

This results in Max having a higher total superannuation balance at retirement of $454,000, a difference of $57,000.

This analysis has a number of underlying assumptions. It assumes Max works part-time with a starting salary of $24,000 in 2019-20 and a new account is opened with every new job, with default insurance cover. This also assumes 7.5% annual returns, 0.85% investment fees, $66 annual fixed fee and $190 annual insurance premiums. Under the package, Max will have fewer default insurance policies and, as a result, an insurance payout may be lower if an insured event were to occur.

Balances at retirement are in 2019-20 dollars.

This Regulatory Impact Statement seeks to analyse options for addressing the erosion of retirement savings by fees, insurance premiums as well as ways to drive greater consolidation of superannuation accounts in the current system, to improve outcomes relative to those achievable under the current system.

1. The problem

The current superannuation regulatory framework provides no special protection for the erosion of retirement savings of low balance accounts through fees and premiums for bundled insurance.

The scope of the RIS is the impact of excessive fees, inappropriate insurance arrangements and duplication of accounts on individuals. Addressing the root causes of account proliferation is beyond the scope of this RIS.

- The Government has legislation before Parliament intended to remove remaining restrictions on choice of fund for individuals – a significant cause of account proliferation – and is awaiting the final findings of the Productivity Commission report into the competitiveness and efficiency of the superannuation system which will further inform these matters.
- It is important to recognise that any system which allows individuals to choose how many accounts they have, and what amounts are held in those accounts, must be appropriately designed to ensure that adverse consequences for individuals who do have more than one account are minimised.

Low balance account holders are usually young members, who generally have lower superannuation balances, as well as low income earners (who disproportionately include women) and seasonal workers. Typically, these people are disengaged from superannuation and do not actively monitor or organise their accounts to minimise erosion of balances.

Low balance accounts comprise a significant proportion of the overall superannuation system and are at particular risk of erosion by fees and insurance premiums. As at 30 June 2016, there were around 9.5 million accounts with balances below $6,000. This is around 40 per cent of all accounts within the superannuation system. Of these low balance accounts, over 60 per cent (around 6 million accounts) had not received a contribution (or rollover) in the last 13 months.[2]

Low balance accounts are particularly vulnerable to erosion by fees and charges. Under the current fee rules for MySuper products, fees are generally required to be charged to all members on the same basis (subject to a few exceptions, such as caps on percentage-based fees). Charging fees on the same basis can lead to significant erosion for low balance accounts, particularly where flat fees are imposed on small accounts receiving small or no contributions.

Another key factor is the erosion of low balance accounts by insurance premiums. Currently, trustees of superannuation funds are generally required to provide their MySuper (default) members with default death and total and permanent disability (TPD) insurance on an opt-out basis. Some trustees bundle this with income protection insurance (so that members are covered unless they choose to opt-out).

Under the current insurance covenant, trustees must only offer insurance coverage if it does not inappropriately erode the retirement savings of members. However, even where trustees comply with this obligation, they do not have visibility of members' other superannuation accounts with insurance. In addition, the obligation to provide all MySuper members with opt-out death and TPD insurance means that trustees are required to provide all new default members with insurance, meaning that multiple accounts with insurance can be accrued with ease under current settings.

Of the around 11 million Australians with insurance inside superannuation, around 2.5 million individuals (over 20 per cent) have duplicate cover. Over 10 per cent of duplicate coverage holders

[2] Treasury analysis using 2015-16 data sourced from the Australian Taxation Office.

are under the age of 25.[3] These members are likely to be over-insured and are therefore having their superannuation savings inappropriately depleted by insurance premiums.

The problem compounds for those who have multiple low balance accounts with duplicate insurance cover and account fees. At 30 June 2017, over 14.8 million Australians had a superannuation account. Approximately 40 per cent of these people had more than one superannuation account.[4]

In addition, as the Productivity Commission found it its draft report[5], young members are less likely to derive value from insurance in superannuation as they are less likely to have dependants and are more likely to have lower incomes. This means that even where a young person has an account balance over $6,000, they may not be receiving value for money from their default insurance, and as a result, their superannuation balance may be needlessly eroded by insurance premiums for cover that is not appropriate for their circumstances. In 2015-16, there were 600,000 accounts belonging to members under the age of 25 with balances greater than $6,000.Under the current legislation, the burden of locating and consolidating superannuation generally falls on individual account holders. They must contact either their superannuation funds or the ATO (depending on timing of inactivity on the account) and request consolidation. The role of the ATO is limited to notifying people about lost or duplicate accounts (including through MyGov).

The ATO currently undertakes a number of initiatives to encourage members to claim ATO-held superannuation. For instance, following the ATO's postcode campaign in October 2017, close to 50,000 accounts worth $315 million were consolidated.[6] The ATO held $3.2 billion in unclaimed superannuation in 2016-17. The ATO's postcode campaign is an initiative designed at encouraging the public to consider the consequences of holding multiple superannuation accounts. The ATO releases data collected through the lost and unclaimed superannuation regime, of the postcodes in Australia that have the highest levels of lost and unclaimed superannuation. This information is published on the ATO website alongside a description of the costs of holding multiple accounts and ways in which individuals can consolidate accounts.

2. Case for government action and objective of reform

The objective of reform is to limit the erosion of retirement balances for young and low balance account holders.

Government intervention is required to address the current regulatory settings and market failure which has resulted in mandating insurance for some members and the market failure of the insurance products not being appropriately tailored to the needs of its members.

The current default system where members are potentially allocated a new fund on every change of job, as well as past and current restrictions on members' ability to choose their fund, have resulted

[3] Treasury analysis using 2015-16 data sourced from the Australian Taxation Office.

[4] ATO - Super accounts data overview: https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Super-statistics/Super-accounts-data/Super-accounts-data-overview/

[5] Productivity Commission draft stage 3 report on the competitiveness and efficiency of the superannuation system

[6] James O'Halloran, Deputy Commissioner, Superannuation, ATO Speech to the Australian Institute of Superannuation Trustees (AIST) Conference of Major Superannuation Funds Wednesday 14 March 2018

in many individuals holding multiple accounts. When members are defaulted to the MySuper product under the current regulatory settings they receive default insurance unless they choose to opt-out. The insurance provided is often not relevant to the needs of young and low balance account holders. This issue is compounded by the lack of engagement from young members and low balance account holders in signalling their requirements and preferences to providers of superannuation and bundled insurance services.

Under the current framework, trustees have limited visibility of the number of accounts of members outside their fund. When a trustee is determining the necessary insurance arrangements for its members, it does not factor in other accounts and relevant insurance coverage. Due to this information asymmetry, beyond encouraging members to consolidate accounts, the trustee does not assist individuals in determining whether insurance settings across all of their accounts is appropriate for their needs.

The current regulatory settings do not differentiate the charging of fees as a factor of account balance. This has resulted in fees having a disproportionate effect on low balance accounts. For example, a median annual MySuper account with a balance of $1,000 can be subject to average administration and investment fees of 9 per cent of its balance.[7]

Whilst a superannuation fund provides members with assistance to consolidate accounts, they usually require the consent of the individual prior to consolidation. This form of consolidation would result in a beneficial outcome for the member, however obtaining this consent can be difficult due to the levels of disengagement in the superannuation sector.

Due to the interactions between the taxation system and the superannuation system the ATO is able to monitor the number of superannuation accounts held by an individual. Under the current system the ATO reports figures in aggregate publicly, allows for consolidation using the MyGov system and conducts postcode campaigns to encourage individuals to consolidate their accounts. Actual consolidation of accounts is dependent on member engagement and assessment of need.

3. Policy options

Option 1

Under this option, the status quo would be maintained. This involves no specific protections for low balance accounts or accounts held by young members from fees or insurance premium erosion and a reliance on individual action to consolidate accounts. This option is the only non-regulatory option proposed.

Option 2

This proposal would:

- prevent trustees from offering insurance on an opt-out basis to new members under the age of 25;

[7] Treasury analysis.

- prevent trustees from providing insurance on an opt-out basis to new and existing account holders with balances below $6,000;
- require insurance to only be offered on an opt-in basis on accounts that have not received a contribution or rollover for 13 months unless the member has indicated to the fund that they wish to maintain cover;
- impose a 3 per cent cap on administration and investment fees for accounts with balances less than $6,000 to address fee erosion;
- ban any exit fees for all superannuation accounts – removing a barrier to account consolidation and also protecting accounts from fee erosion (but not percentage-based buy-sell spreads);
- significantly overhaul the current lost and unclaimed superannuation regime by requiring all balances below $6,000 to be transferred to the ATO after 13 months of inactivity (that is, no contributions or rollovers); and
- give the ATO the legislative power to pay balances held by the ATO into a member's active superannuation account without their direction.

Option 3

This option would:

- prevent trustees from offering any insurance to members under the age of 25 or with balances under $6,000;
- prevent trustees from charging administration and investment fees to accounts with balances less than $6,000; and
- require all balances below $6,000 to be transferred to the ATO after 13 months of inactivity (that is, no contributions or rollovers) and held until the individual directs the ATO to consolidate accounts.

4. Cost benefit analysis of each option / Impact analysis

Option 1

This option would retain current arrangements governing fees, insurance and the consolidation of lost and unclaimed accounts and therefore involves no further regulatory change. It has been used as the benchmark for considering the costs and benefits of the other options.

Insurance in superannuation

- Currently insurance is provided to members generally on an opt-out basis.
- The primary types of life insurance cover provided through superannuation include:
  - Death cover (also called life cover) — which pays a lump sum upon the member's death, to the member's beneficiaries or dependants.

  - Total and permanent disability (TPD) cover (also called permanent incapacity cover) — which typically pays a lump sum if the member becomes totally and permanently disabled and can no longer work in their current occupation or another occupation for which they are reasonably qualified.
  - Income protection insurance (also called salary continuance cover) — which pays a regular income for a period of time (usually up to 75% of previous income for up to two years) if the member cannot work in the short term because of illness or injury.
- Trustees of MySuper products are required to offer death and long-term disability insurance (generally lump sum total and permanent disability cover) on an opt-out basis (subject to reasonable conditions). They are permitted (but not required) to offer short-term disability insurance (e.g. income protection, which generally covers up to 75 per cent of salary for up to 2 years). Death cover must meet minimum age-based benefit thresholds ($50,000 falling to $7,000).
- Trustees of choice products may provide insurance to their members on an opt-in or opt-out basis at their discretion, limited only by the obligations in the *Superannuation Industry (Supervision) Act 1993* (SIS Act).
- Trustees play a key role in this space – they have a duty to act in the best interests of members and to ensure that insurance arrangements do not unduly erode retirement balances. The design of insurance cover is a matter for trustees to decide.
  - Specifically, the SIS Act requires trustees to formulate, review regularly and give effect to an insurance strategy for the benefit of all beneficiaries. In addition, trustees are only allowed to offer or acquire insurance of a particular kind, or at a particular level, if the cost of the insurance does not inappropriately erode the retirement income of the beneficiaries. This requires a careful balance to be struck between providing benefits that adequately meet members' needs and ensuring that the cost of insured benefits is not unduly high.
  - However, there is little guidance for trustees around these obligations, and as a result there is wide variation in the cost and quality of insurance provided through superannuation.
- Under this option, millions of individuals are susceptible to having their retirement savings eroded by inappropriate insurance premiums. Insurance premiums can reduce low income earners' retirement balances by 10 per cent or more (compared to no insurance), increasing with the number of policies held by an individual.

Fees in superannuation

- Under the current regulatory framework there are restrictions on the types of fees charged and the basis (for example whether they have to be charged on a cost recovery basis or not) that these fees are charged. However, there is no longer any restriction on the amount of fees that can be charged in relation to the balance or earnings of an account.
- Exit fees can be charged at the discretion of the fund.

- Under this option, low balance account holders are subject to disproportionate fees that reduce retirement savings. Exit fees also act as a disincentive for account consolidation and combined with the disengaged nature of many individuals, results in millions of inactive superannuation accounts in the sector being eroded by fees. These accounts also create unnecessary administration costs for industry to administer.

Inactive superannuation accounts

- Currently protections for inactive superannuation accounts are provided in limited circumstances by the lost and unclaimed money regime. A person's superannuation account may be transferred to the ATO where either:
  - the member has been a member of a fund for longer than two years, and they joined the fund as a standard employer-sponsored member, and the fund has not received a contribution or rollover for the member within the last five years of their membership of the fund, and the balance of that account is less than $6,000, unless within the last two years the fund has verified that the member's address is correct and has no reason to believe that the address is now incorrect, or the member is permanently excluded from being a lost member under an exception; or
  - where the person has been an inactive member for 12 months and the superannuation fund is satisfied that it will never be possible to pay an amount to that member.
- To claim ATO held superannuation under the current lost and unclaimed money regime the person must request the money from the ATO and direct that it be paid into a superannuation account, or where the balance is below $200 to the person.
- Under this option, consolidation is dependent on individuals contacting either their fund or the ATO to consolidate account. The disengagement of members has resulted in industry holding around $14 billion of individual's retirement savings as lost or unclaimed amounts. These amounts continue to be subject to fees until they are transferred to the ATO.

Option 2

Regulatory burden estimate (RBE) table

Total Option 2 Costs - Average annual regulatory costs (ten years)				
Change in costs ($ million)	Business	Community organisations	Individuals	Total change in cost
Total, by sector	$28.5		$71.4	$99.9

There is a significant regulatory cost of this option. The majority of costs are incurred in the first year of implementation. For industry, the updating of the current systems to enable them to implement the reforms and communicate to members drives the majority of the cost. The option for the systems update assumed that systems rebuild was not necessary for funds that operated an internal administration system. For individuals, the majority of the cost was on the basis that members would need to review the revised disclosure documents from funds notifying them of the changes.

The communication costs of this option have been costed assuming that the changes to the fee cap and insurance arrangements are done concurrently and therefore an update to the Product Disclosure Statements and communication with members is achieved through a consolidated approach. There would be a new cost on individuals as compared with the status quo as they review and comprehend the communications from industry on changes.

It was assumed that individuals would take one hour to review the new information and assess their individual needs.

Regulatory burden estimate (RBE) table

Notification - Average annual regulatory costs (ten years)				
Change in costs ($ million)	Business	Community organisations	Individuals	Total change in cost
Total, by sector	$4.2		$73.6	$77.8

Insurance in superannuation

Existing regulatory arrangements for insurance over the ages of 25 and above $6,000 will not be changed as a result of this option. That is, trustees will still be required to provide their MySuper members with opt-out death and TPD insurance unless they are under-25, have an inactive account, or have a balance below $6,000.

Under this option, the new arrangements for members under the age of 25 would only apply to new accounts from the commencement date (unless such a balance is under $6,000). However, the new arrangements would apply to both existing and new balances below $6,000 from the commencement date.

Excluding existing accounts of members under the age of 25 (unless they are under $6,000 or inactive) recognises that these members may have accrued balances that are not at risk of erosion from their insurance premiums and may have held insurance coverage in these accounts for some time. However, going forward this option reflects the assumption that young people should not be provided insurance on an opt-out basis given that they are less likely to have dependants or significant debts and are likely to be more vulnerable to account erosion.

This option would also require all insurance coverage to be opt-in after 13 months of no contributions or rollovers (inactivity) to an existing or new account, regardless of the member’s age or account balance. The move to opt-in insurance is intended to apply to all inactive accounts as inactive accounts are at particular risk of erosion. In addition, it is likely that an inactive account is a duplicate account, or that the holder of the account is not currently working and therefore that the insurance may not be appropriate for their current circumstances. Holders of such accounts, if they deem it appropriate, can communicate with their fund that they wish to maintain their insurance coverage despite inactivity.

Superannuation funds would be required to communicate to their members about their insurance coverage, including when their account is becoming at risk of being deemed inactive (that is, when an account has been inactive for 6 and 9 months).

This option does not prevent members from opting in to the insurance offerings of the fund at any time irrespective of age, account balance and inactivity.

Benefits

Over 60 per cent of the accounts with balances below $6,000 — or about 6 million accounts —are inactive. Insurance premiums are a key driver of account erosion for these accounts. Holders of these accounts, which include large numbers of young Australians, low income earners (which disproportionately include women) and seasonal workers, are more likely to have their superannuation balances unduly eroded.

Holders of duplicate low-balance accounts are likely to be over-insured in relation to their insurance needs. There is also a particularly costly outcome in relation to income protection, as members can only receive a benefit from one income protection policy, even if they are paying for multiple cover.

Costs

Costs for individuals

Relative to the status quo, this will result in circumstances where fewer people receive insurance payouts for an adverse event. Some individuals will have no insurance cover as a result of these changes depending on their circumstances. Others will continue to have cover, through a reduced number of policies. Claim rates for affected cohorts are not zero. Therefore it is expected that some individuals will no longer receive any form of payout. Resulting impacts on Government payments were factored into the overall cost of these measures as published in Budget Paper Number 2 2018-19.

Individuals in affected cohorts will be in a position to determine whether or not they wish to mitigate against an adverse event by opting-in to insurance within superannuation, as opposed to under option 3 where they are prevented from doing so. In addition, other proposals included in this option that increase consolidation of accounts through the ATO increase the likelihood that an individual would have an account over $6,000 (and thus be provided insurance on an opt-out basis) relative to the status quo.

It is also expected that costs would be mitigated by information provided by industry, encouraging members to more actively consider their circumstances and whether or not they should obtain insurance. It can be expected that as a consequence members under 25, with low balances or inactive accounts who genuinely consider that insurance in superannuation is in their best interests will be better informed about the appropriateness and availability of such cover.

Those members that continue to hold default insurance in superannuation may also face increased premiums as a result of changes to the number of accounts and risk profile of the group insurance arrangements. There would be an effect on the cost of insurance as the fixed costs of providing insurance would be divided over fewer accounts. Any increase due to a change in risk profile would reflect an unwinding of cross-subsidisation across cohorts.

The proposal also results in transaction cost savings to individuals who have balances below $6,000 and/or are younger than age 25, and currently opt-out of default insurance coverage. This cohort would no longer be required to actively opt-out. However, there would be a transaction cost imposed on individuals and industry, wishing to opt-in for insurance coverage (who would have been

automatically covered under current arrangements) especially if that insurance coverage was individually underwritten.

The regulatory burden estimate results in a slight benefit of the policy change to individuals. The costing incorporated members who had accounts below $6,000 and members who were under the age of 25 (but held balances over $6,000) to ensure no cohorts were double counted. The costing assumed that it would take longer for these cohorts to opt-out of insurance (pre-option 2) compared to the same cohorts opting-in to insurance (post implementation of option 2).

Costs for industry

The primary cost to industry under this option would be reduced premium inflow for insurers (up to $3 billion[8] offset by lower expenses from claims). However, to the extent that this reduction would affect duplicate or otherwise unneeded policies held by disengaged members (discussed above), the net effect would be a material efficiency gain at the economy-wide level. Superannuation funds would still be able to encourage young and low balance members to opt-in to insurance coverage.

Superannuation funds would also face a cost around the provision of information to their members regarding the changes. For existing members with accounts that would have their insurance cease upon commencement, or for individuals with inactive accounts, applying these proposals would require sufficient disclosure to members before their insurance coverage ceases. Changes to funds' product disclosure statements would be required, as well as timely and frequent communication to the member in the lead up to insurance coverage no longer being applicable, such that they have a sufficient opportunity to exercise choice around whether to maintain cover.

This proposal would impose a regulatory burden on superannuation funds, as they would have to update policies to account for the new proposals. This is likely to require revisions to insurance coverage and risk analysis, as well as re-negotiating the underlying group insurance contract with their insurance provider.

Some superannuation funds might also be required to modify their administrative and information technology systems to enable them to identify member cohorts at the opt-in and opt-out thresholds.

Regulatory burden estimate (RBE) table

Insurance in superannuation - Average annual regulatory costs (ten years)				
Change in costs ($ million)	Business	Community organisations	Individuals	Total change in cost
Total, by sector	$15.1		($0.6)	$14.5

Overall Cost Benefit outcome

While this option would result in significant costs to funds and insurance providers, this is outweighed by the overall benefit to individuals in the form of better targeted insurance coverage and less erosion of retirement savings. The option would allow an estimated 5 million Australians

[8] Treasury analysis based on 2015-16 data sourced from the ATO

who paid a combined $3 billion in insurance premiums in 2015-16 with the opportunity to choose if they want to be covered, rather than paying for it by default.

Fees in superannuation

This option would impose a cap restricting administration and investment fees on low balance accounts to no more than 3 per cent of the balance. Funds would be required to assess annually account balance size, and thus eligibility for the fee cap.

This proposal would also ban exit fees for all superannuation accounts.

From the implementation date, both fee protections would apply to all new and existing accounts.

The Australian Prudential Regulation Authority (APRA) would monitor how funds respond to the fee protections as part of their existing monitoring role to ensure that funds did not shift fees.

Benefits

By limiting the amount of administration and investment fees that superannuation funds can charge eligible accounts, the fee cap would significantly reduce the erosion of low balance accounts and help members grow their retirement savings.

Low balance accounts pay disproportionately high fees. Treasury analysis shows that the median annual administration and investment MySuper fees on these accounts are 9 per cent of their balance.

Treasury analysis indicates that a 3 per cent cap on administration and investment fees would have saved low balance members $120 million in fees had it been applied in 2015-16.

The ban on exit fees would remove a barrier to account mobility. The ban would also ensure that exit fees do not reduce account balances as funds transfer accounts to the ATO.

Approximately one third of funds (79 funds) charge exit fees. At June 2017, the average exit fee disclosed by superannuation funds for MySuper products was $68, with total exit fees collected across the industry totalling $52 million[9].

Costs

Costs for individuals

As accounts generally open with balances below $6,000, over time most individuals in the future will benefit from the fee cap.

Superannuation funds may need to amend their fee structures in response to the fee protections and, where they need to change fees due to restrictions on the amounts of fees charged to low balance accounts. Flow on implications of this reduction for other members cannot be predicted with certainty – it will be a matter for trustees. Fees on accounts above the $6,000 threshold may increase, however pricing decisions will also be affected by the significant reduction in overall administration costs for the industry that is expected to result from the reduction in the number of accounts as inactive low balance accounts are removed and consolidated through the inactive superannuation accounts element.

[9] Table 6 APRA Annual Super Bulletin 2017

Costs for industry
As funds would need to reduce fees for eligible accounts, they would face a loss in revenue. However, as the inactive superannuation accounts proposal would reduce the number of low balance accounts over time, funds would face lower total costs of administering low balance accounts. Fees for accounts above the threshold could increase as the overall administration and investment cost is distributed over fewer accounts. However, this would be the unwinding of the current status quo whereby low balance accounts pay disproportionate fees.

The regulatory burden costing assumed that funds would face a one off administrative cost in adjusting their fee structures. This cost would involve a revised fee analysis. The costing assumed that a systems update would be required to be able to determine accounts subject to the cap as well as the requirement that funds may need to seek legal advice to implement this option. Funds would also be required to communicate fee changes to members, including by updating or revising existing disclosure material such as product disclosure statements and MySuper dashboards.

Funds would be required to assess the balance of all accounts annually and would need to monitor fees charged to accounts subject to the cap. However, as funds have the freedom to do the calculation in line with their end of financial year processes, the additional regulatory cost for funds of assessing the balance of accounts is unlikely to be significant compared to the status quo.

Regulatory burden estimate (RBE) table

Superannuation Fee Protections - Average annual regulatory costs (ten years)				
Change in costs ($ million)	Business	Community organisations	Individuals	Total change in cost
Total, by sector	$7.2			$7.2

Overall Cost Benefit outcome
Though superannuation funds would face a regulatory cost of applying the fee cap, this option would significantly reduce fee erosion of low balance accounts. Accounts above the threshold could face increased fees however only due to the removal of the cross subsidy that low balance accounts previously provided.

This option would also remove a disincentive from members to consolidate accounts or exercise a choice to roll their balance to another fund. Consolidation of accounts, in particular, reduces members' exposure to duplication of fees across multiple low balance accounts and reduces undue of erosion of their aggregate superannuation balances.

Inactive superannuation accounts

This element would involve the introduction of legislation requiring superannuation funds to transfer all balances below $6,000 to the ATO after 13 months of inactivity (that is, no contributions or rollovers).

It would involve giving the ATO the legislative power to pay unclaimed amounts back into a member's active superannuation account without requiring the consent of the individual. Under the

current policy settings members must actively participate in account consolidation. They can request their money be reunited either through lodging a form with the ATO or through the MyGov system.

Benefits

This option would generate significant system-wide efficiencies by allowing more inactive and low balance accounts to be transferred to the ATO, where they would be protected from fee erosion and would receive earnings based on CPI until such time as they can be reunited. It would also speed-up the process of reuniting accounts that have been transferred to the ATO. In the first year of this option, it is estimates that just under $6 billion will be returned to around 3 million individuals.[10]

While this option does not prevent the creation of new multiple accounts by members, it reduces the stock of duplicate accounts in the system by removing the requirement for the individual to actively locate and then consolidate them. This option would also reduce the adverse consequences of multiple inactive low balance accounts on relevant members. If this element had been applied in 2015-16, it is estimated that around 4 million Australians with inactive low balance accounts would have saved around $450 million in fees. As the changes would also result in a significant reduction in the overall costs of administering the system, the flow on implications for this would be substantially smaller, or even positive depending on the fee and cost structures of particular funds, for other account holders than those which may arise from the application of the fee cap to active low balance accounts.

This option would also allow for higher consolidation of accounts despite the significant level of disengagement of members with the superannuation industry as individuals would no longer need to request for the consolidation to occur, but instead would benefit from the ATO action.

Under the proposed process, the ATO would use existing data matching techniques (which account for name changes) to assist in the reunification process.

By removing the requirement for the individual to locate an ATO-held amount and then consolidate funds, this proposal would seek to increase account consolidation and reduce the number of low balance accounts. Consolidation of low balance accounts would reduce the amount of fees paid on total superannuation balances. The ATO has estimated that for accounts that can be successfully matched to an active account, it would take less than a month to transfer the funds once they are received from the superannuation fund.

The regulatory benefit to individuals results from the change in policy that ensures that individuals do not need to request the ATO to reunite lost or unclaimed superannuation balances, as it would be proactively reunified by the ATO using data matching techniques. The value of an individual's time was costed using the recommended standard hourly wage rate of $31 for leisure time. The benefit to individuals was calculated using an assumption on the current levels of members applying for consolidation.

[10] Treasury analysis analysis based on 2015-16 data sourced from the ATO.

The superannuation industry as a whole would also likely benefit from the consolidation of accounts as it would result in a lower administrative burden from maintaining multiple low balance accounts across funds.

Costs

While transferring inactive low balance accounts to the ATO would protect balances from erosion, it is possible that a small number of account holders intend to maintain multiple accounts. Under this proposal, if an account is inactive for 13 months, it would automatically be transferred to the ATO. Sufficiently engaged members wishing to retain multiple accounts could avoid this by making a nominal contribution to the account every 13 months. An after tax contribution can typically be made directly to the superannuation account by the member through a direct money transfer such as BPAY or direct debit payment.

Those members who wish to maintain insurance coverage will not be affected where they exercise their proposed right to direct that coverage does not cease on their account.

Under current legislation, the superannuation industry is already required to transfer certain lost or unclaimed superannuation accounts to the ATO. The costing assumed that the reset of the system would only occur in the first year.

This proposal would expand the conditions under which an account was required to be transferred to the ATO for accounts with balances less than $6,000 (low balance accounts) to 13 months of no contributions or roll overs to that account and the cessation of insurance linked to that account.

Regulatory burden estimate (RBE) table

Inactive superannuation accounts - Average annual regulatory costs (ten years)				
Change in costs ($ million)	Business	Community organisations	Individuals	Total change in cost
Total, by sector	$2.0		($1.6)	$0.4

Overall Cost Benefit outcome

This option would significantly reduce the erosion of low balance accounts. Superannuation funds would face an initial regulatory cost of updating the system for transferring inactive accounts below $6,000 to the ATO. However, the benefit to members in both protecting their superannuation from duplicate fees across multiple accounts and a reduced regulatory cost on individuals who no longer need to initiate the consolidation, strongly outweighs these costs. In the first year of the policy, it is estimated that just under $6 billion will be returned to around 3 million individuals through this process.

Option 3

Regulatory burden estimate (RBE) table

Total Option 3 Costs - Average annual regulatory costs (ten years)				
Change in costs ($ million)	Business	Community organisations	Individuals	Total change in cost
Total, by sector	$24.9		$95.8	$120.7

There is a significantly higher regulatory cost of this option compared to option 2 as there are fewer benefits to individuals under this option. As is the case with option 2, the majority of costs are incurred in the first year of implementation. For industry, the updating of the current systems to enable them to achieve the reforms and the communication to members drive the majority of the cost. The option for the systems update assumed that systems rebuild was not necessary for funds that operated an internal administration system. For individuals, the majority of the cost was on the basis that members would need to review the revised disclosure documents from funds notifying them of the changes and more individuals would have to apply for the consolidation of superannuation accounts.

This option has been costed assuming that the changes to fees and insurance arrangements are done concurrently and therefore an update to the Product Disclosure Statements and communication with members is achieved through a consolidated approach. There would be a new cost on individuals as compared with the status quo as they review and comprehend the communications from industry on changes.

It was assumed that individuals would take one hour to review the new information and assess their individual needs.

Regulatory burden estimate (RBE) table

Notification - Average annual regulatory costs (ten years)				
Change in costs ($ million)	Business	Community organisations	Individuals	Total change in cost
Total, by sector	$4.2		$73.6	$77.8

Insurance in superannuation

Under this proposal, trustees would be prevented from providing insurance inside of superannuation to members under the age of 25 or to members with accounts below $6,000. In contrast to option 2, even if these members wished to take up insurance inside of superannuation, they would be prevented from doing so.

Benefits

Benefits to individuals

As discussed above, insurance premiums and fees are a significant driver of account balance erosion, particularly for low balance accounts. Prohibiting insurance on low balance and accounts held by individuals under the age of 25 would ensure that such accounts are not eroded by the costs of insurance, allowing them to more rapidly increase balances. Ultimately, this would lead to higher superannuation balances at retirement.

In addition, this option would reduce instances of inappropriate default insurance within superannuation. That is, members who are under the age of 25, who are less likely to need cover for dependants or liabilities (such as mortgages) would not be provided with unneeded insurance.

The regulatory burden estimate generated a slight benefit of the policy change to individuals, who would have previously opted out of insurance and no longer had to, as insurance was not available under option 3.

Benefits to industry

Superannuation funds would no longer be required to offer insurance to these members. This may simplify underlying systems (for example, they would no longer need to provide services to allow members to opt-out of coverage) and reduce existing disclosure requirements to the extent these members would otherwise be required to be notified.

Costs

Costs to individuals

The primary cost would be for those members with account balances under $6,000 or who are under 25 who would lose access to insurance within superannuation (which is subject to concessional tax treatment and often allows members to be covered under automatic acceptance rules). Individuals who wished to hold life insurance would be forced to do so outside superannuation – which is not always concessionally taxed and is unlikely to be offered under a group insurance arrangement (meaning likely to be more expensive and harder to obtain).

While 70 per cent of life insurance is currently held through superannuation[11], only a small per cent of affected members would be expected to seek out insurance outside of superannuation.

As with option 2, those members who continue to hold default insurance in superannuation may also face increased premiums. However this is balanced against the benefits which accrue to those individuals who may be over-insured and therefore are having their superannuation savings inappropriately eroded through excess premiums.

The costing incorporated members who had accounts below $6,000 and members who were under the age of 25 (but held balances over $6,000) to ensure no cohorts were double counted. The regulatory impact overall was a cost, when factoring in the assumed number of both cohorts that would have to seek insurance arrangements outside of superannuation.

Costs for industry

The costs for industry would be similar to those identified in option 2. Funds would be required to send notification to current members that would be impacted by the changes and would be required to update disclosure material. This approach would likely have a higher impact on revenue.

Funds could be required to renegotiate contracts with their insurance providers, and insurance providers to superannuation funds would incur a cost from the reduction in the amount of default insurance cover provided.

[11] Rice Warner, Insurance through Superannuation, 20 April 2016.

Regulatory burden estimate (RBE) table

Insurance in superannuation - Average annual regulatory costs (ten years)				
Change in costs ($ million)	Business	Community organisations	Individuals	Total change in cost
Total, by sector	$13.5		$8.6	$22.1

Overall Cost Benefit outcome

This option would be administratively simpler for industry to implement. This option would result in benefits to members in relation to retirement savings but would more strictly prevent a proportion of people from accessing insurance in superannuation.

Fees in superannuation

This proposal would prevent trustees from charging administration and investment fees to low balance accounts. Funds would be required to assess eligibility for the fee ban twice a year at the unclaimed money reporting dates.

As part of their existing monitoring role, APRA would monitor how funds respond to the fee ban to ensure that funds did not shift fees.

Benefits

This proposed fee ban would prevent the erosion of accounts by passively incurred fees such as administration and investment fees for low balance accounts, providing more complete protection for members' retirement savings.

Costs

Costs for members

While members with accounts below $6,000 will be protected by fees, this will increase the level of fees charged on members with balances above $6,000. Superannuation funds would likely have to shift fees to members with accounts above the threshold of the ban, as they would not be able to recover any of the costs associated with administering accounts with balances below $6,000.

Costs for industry

As funds could not recover fees from low balance accounts, they may face a loss in revenue, to the extent that they would be unable to recover it from other accounts. Funds that have a large share of low balance accounts would be particularly adversely affected.

Similarly to option 2, this proposal would impose an additional regulatory burden on superannuation funds. Funds would face a one off regulatory cost associated with reviewing fee structures and updating product disclosure.

As the inactive superannuation element under this option would rely on assessments completed on the unclaimed reporting dates, the ongoing regulatory cost for funds of assessing the balance off accounts is unlikely to be significant.

Funds would face a one off administrative cost in adjusting their fee structures. Funds would also be required to communicate fee changes to members, including by updating or revising existing disclosure material such as product disclosure statements and MySuper dashboards.

Regulatory burden estimate (RBE) table

Superannuation Fee Protections - Average annual regulatory costs (ten years)				
Change in costs ($ million)	Business	Community organisations	Individuals	Total change in cost
Total, by sector	$5.1			$5.1

Overall Cost Benefit outcome

This option would still require systems updates and revised PDS documentation to be sent to members. The fee ban would significantly reduce the revenue for superannuation funds, creating risks to the viability of some funds. It would also likely result in a greater increase in fee shifting than under option 2 for accounts with balances above $6,000.

Inactive superannuation accounts

Under this proposal the superannuation funds would be required to transfer all balances below $6,000 to the ATO after 13 months of inactivity (that is, no contributions or rollovers). While held by the ATO, the accounts would not be subject to any fees and would be adjusted for CPI.

Unlike option 2, under this option individuals would then need to contact the ATO (through existing mechanisms) in order to consolidate the ATO held funds with the superannuation account of their choice.

Benefits

This proposal would generate efficiencies by allowing more inactive accounts below $6,000 to be transferred to the ATO, where they would be protected from fee erosion and would receive indexation at CPI.

While this proposal would not prevent the creation of new multiple accounts by members, it would reduce the stock of inactive accounts below $6,000 in the system by moving them to the ATO. This proposal would reduce some of the adverse consequences of multiple inactive low balance accounts on relevant members.

Under this approach the balances would be consolidated with the account chosen by the member. Compared to option 2, this option would limit the risk of consolidation to an unwanted account in the event that an individual has multiple active accounts.

Costs

Costs for members

The majority of costs for individuals will relate to search costs in order to recover funds. To recover the money transferred to the ATO, a member would be required to either use the MyGov superannuation platform, or submit a request to the ATO in writing. If an individual does not have a MyGov account, they would need to establish the account and then link it to the ATO segment of the

site. Once linked however, the individual would be able to view all superannuation information available to the ATO that relates to them. Under this approach it is likely that the funds will be held by the ATO for a longer period assumed under option 2 due to the low levels of engagement in the sector. While the account is with the ATO it will not be subject to funds, however will not receive earnings other than CPI indexation. Members may be financially disadvantaged depending on the returns that could be achieved following the consolidation of accounts within a fund. This option requires the member to be sufficiently engaged to actively request their superannuation to be transferred into an active account to benefit from the consolidation of their accounts.

The costing assumed that as more accounts were transferred to the ATO, a higher volume compared to the status quo would apply for consolidation of accounts. The costing was informed by the latest available estimate of the number of accounts that would be in scope to be transferred to the ATO and an assumption on rates of consolidation was applied. This assumption was higher in the first year, as more people would be aware of the change when it was announced, and reduced over time. The regulatory impact overall was a cost, as more individuals had to forgo leisure time (using the assumed $31 per hour rate).

Costs for Industry

This option would result in a higher cost to industry as compared to option 2 as funds would be held by the ATO for longer periods than under the previous option. Due to the high levels of member disengagement with the system, member initiated consolidation is low. This would mean that as inactive balances are removed from funds and held by the ATO, the system as a whole would have lower balances to invest and generate returns. However, the affected amount is marginal relative to total funds under management in the sector. Option 2 has the advantage of more timely consolidation as the ATO will be proactively identifying accounts and transferring balances, reducing the amount of time that members' balances are outside the superannuation industry.

Under current legislation, the superannuation industry is required to transfer lost or unclaimed superannuation accounts to the ATO. The regulatory costing was calculated for industry on the same assumptions as option 2.

Regulatory burden estimate (RBE) table

Inactive superannuation accounts - Average annual regulatory costs (ten years)				
Change in costs ($ million)	Business	Community organisations	Individuals	Total change in cost
Total, by sector	$2.0		$13.5	$15.5

Overall Cost Benefit outcome

Under this option members would benefit from the protection of inactive accounts with balances below $6,000 from fee erosion by transferring them to the ATO, and the indexation at CPI those accounts would receive while held by the ATO. However account holders would have to actively claim these accounts from the ATO to consolidate them into an active superannuation account which would impose a time cost. Under this proposal members would not automatically enjoy the benefits of account consolidation that option 2 allows.

The current issue of inactive accounts below $6,000 is largely a result of member disengagement. Based on current rates of requested returns from ATO held lost and unclaimed superannuation money, it is unlikely that a large proportion of accounts would be requested from the ATO.

Option 3 would provide more limited benefits to superannuation funds compared to option 2 due to lower rates of consolidation and fewer funds held. However, it would still impose a cost on superannuation funds to update their reporting and IT systems to transfer accounts to the ATO. On balance the costs outweigh the benefits of this option.

Option 3 would be administratively simpler for the ATO to implement than option 2 because it would not involve updating systems to accommodate the proactive consolidation of ATO held accounts.

5. Consultation overview

Stakeholder consultation on exposure draft legislation to implement the Protecting Your Super Package commenced on Budget night and closed on 29 May 2018. During this period, Treasury met with 22 organisations and received 44 written submissions.

The key areas for consultation were consideration of current fee structures of relevant accounts, the effect of altering current insurance arrangements and arrangements for transferring superannuation accounts to the ATO. In addition, consultation sought views on the best method of communicating to members any proposed changes, as well as on the changes to systems and procedures required by industry to enact and comply with any possible changes.

The Government has been cognisant of a range of other public consultative processes that either directly or indirectly involve elements of the proposed package. Fees in the superannuation industry have been a matter of consideration by the Productivity Commission through its inquiry into the competiveness and efficiency of Australia's superannuation system. Insurance through superannuation arrangements have recently been discussed through the Insurance in Superannuation Working Group process with the formulation of the industry's voluntary code of practice. In addition, the Government was mindful of the findings of the Parliamentary Joint Committee on Life Insurance Industry. The Pre-Budget Submissions for the 2018-19 Budget, also articulated some industry concerns with the current ATO held superannuation accounts.

The key issues that were raised in consultation, and how they were addressed, are as follows:

Fee changes

A number of stakeholders raised concerns about the administrative complexity of implementing the proposed fee cap on a six monthly basis and prospectively. In response to this feedback, the drafting was amended to simplify the fee cap such that it is calculated annually on a backward looking basis (i.e. rebated where actual fees exceed the threshold), lowering the regulatory burden for funds while achieving the same outcome.

Stakeholders also sought clarification as to which fees and costs were captured by the cap. The legislation was subsequently amended to clarify that the fee cap includes any amounts directly or indirectly deducted from members' returns where they relate to administration or investment.

Some stakeholders raised concerns that the ban on exit fees would result in the cost of transferring out of funds being pushed into less transparent fees such as buy-spread spreads. No change was made in response to these concerns, as trustees are required to charge buy-sell spreads on MySuper and choice products on a cost recovery basis and APRA's ongoing reporting and monitoring would allow any changes of this nature to be identified over time should they arise.

Insurance changes

In relation to the insurance elements, a key theme of consultation was the impact of the changes on levels of default cover or costs of insurance. No changes were made in response to these concerns as the purpose of the changes is to ensure that default insurance is better targeted. Any increase in the cost of premiums will be dependent on the responses that funds and insurers determine in response to the changes.

Some stakeholders raised concerns about the administratively burden that would be placed on employers and individuals who currently are provided insurance through employer-paid insurance schemes within their superannuation. In response to this feedback, a carve-out was drafted for members who hold insurance within superannuation through these schemes, where the employer pays the premiums in full and in excess of the mandatory superannuation guarantee (SG) obligations. This will ensure that the intent of the policy is achieved (that is, account balance erosion is better balanced against the provision of insurance) while minimising burden on individuals and businesses.

ATO consolidation regime

Many stakeholders sought clarification of how the transfer would work in practice, for example how the requirements would interact with accounts that have insurance coverage. While already provided for, clarifying amendments have been made in the legislation and Explanatory Memorandum to allow the interactions to be more easily understood and applied.

A number of stakeholders called for a carve-out for accounts in the pension phase, self-managed superannuation funds and small-APRA regulated funds, which was subsequently adopted in the final legislation.

Some stakeholders called for a longer period of inactivity before the account is required to be transferred to the ATO. No change is recommended in response to this feedback as this period takes into account the erosion that low balance inactive accounts can face as well as average periods of maternity leave.

6. Option selection / Conclusion

Throughout stakeholder consultation the vast majority of stakeholders supported the proposals under option 2. Most parties recognise the need to address the erosion of low balance accounts by fees and inappropriate insurance premiums as well as a greater need for consolidation of accounts in the system.

A number of stakeholders raised concerns about the regulatory costs of updating systems and implementing new procedures required to implement the changes. All of the proposed options

would require some type of systems update (as well as changes to disclosure documents). A number of stakeholders indicated that the systems updates for the fee cap calculation are similar to systems previously used to implement the Member Protection Standard that applies prior to MySuper. This would allow funds to re-activate this functionality in their system and update the parameters for the proposed setting, reducing the cost of implementing the fee cap.

The imposition of a fee cap as opposed to the option of banning all fees for accounts below $6,000 is the preferred option as it provides protection for low balance accounts while recognising that there is an inherent cost in the provision of superannuation products. Option 2 would therefore result in less cross-subsidisation of administration and investment costs associated with low balance accounts by other members in the system.

A significant number of stakeholders raised the importance of the provision of insurance through superannuation. This highlighted the value insurance provides for a number of young and low balance superannuation account holders. Stakeholders also noted the work that had been done to date through the Voluntary Code of Practice established by the Insurance in Superannuation Working Group (ISWG), which has already proposed measures that would require new notification requirements and updates to funds' PDSs (such as the automatic cessation of insurance in the event of inactivity or the specific consideration of certain cohorts of members (e.g. young members) by trustees when designing insurance benefits).

A number of stakeholders raised concerns around the reduced levels of insurance coverage that will result from the package. While there will be some people who will no longer have insurance coverage as a result of the package, this will be balanced against the benefits that will accrue to individuals that currently hold duplicate or inappropriate insurance products, whose retirement savings are being unduly eroded by premiums as a result. For this reason the proposed option 2 offers the highest net benefit at a system and individual level. Under this approach, individuals will still have the option to request the insurance products they deem to be necessary for their personal circumstances, however they will not be defaulted into arrangements which could unnecessarily erode their retirement balance. There will be a regulatory cost of updating systems to account for the monitoring of accounts for the proposed option. However, this option retains the aspect of choice for young members which would be removed under option 3.

In addition, account consolidation was a key issue raised by stakeholders throughout the consultation process. A number of stakeholders raised that there was a large number of inactive accounts in the system and the disengagement of members of funds made it difficult to address this issue.

Some stakeholders proposed an alternate model whereby the ATO would advise funds where members hold active accounts, and the consolidation would be facilitated through a direct fund to fund transfer. This approach has the advantage that member's accounts do not lose the financial gains from investment returns during the reunification process. However, option 2 remains the preferred approach. The advantage identified by stakeholders who raised the alternate model was that accounts would lose earnings for the time the ATO would take to reunite accounts. However, for an average account, the ATO estimate that when an active account has been identified, it would take less than a month from the time the funds are transferred to the ATO to when the funds are

transferred to an active account. This timing should not have a material adverse effect on the earnings of accounts.

In addition, as the ability to reunite inactive balances is a significant responsibility it is important that the reunification process be administered by an independent party who has no interest other than the timely reunification of accounts. Clearer accountabilities come from executing reunification via the ATO. For accounts where no active account can be located, the account will remain with the ATO and receive earnings based on CPI and not be subject to erosion from fees or premiums.

Overall, option 2 is the preferred approach as it provides the greatest benefit to members at the lowest regulatory burden for industry.

7. Implementation and evaluation / review

The implementation of the policy will require system updates and reviews of current practices for the industry, as well as engagement with individual members of funds to ensure they are aware of the changes.

The legislation to amend the current regulatory framework has been drafted to ensure the changes take effect on the same date so that a streamlined approach can be made to update processes and communication with members. As previously stated, there is a high level of member disengagement in the superannuation sector, and this is likely to be the biggest challenge to implementation. Funds will have an element of discretion on how they communicate with their members to inform them of the changes to fee structures, insurance arrangements and the alteration to the consolidation regime administered by the ATO. To reduce costs in communication with members these materials can be provided in a consolidated form as well as through electronic means.

Changes to the fee structure through the introduction of a fee cap and the banning on exit fees will need to be communicated to members, however no action is required from members to obtain these benefits.

Insurance arrangements will require the active consideration by members to assess their need for insurance cover and therefore communication will be essential. Funds will communicate with members on the change from opt-out to opt-in as well as be required to send periodic updates to members as they approach the inactivity threshold of 13 months.

Due to the introduction of the new inactivity requirement for the ATO consolidation regime, there is likely to be a significant number of accounts transferred to the ATO in the first year of the new framework. This system will utilise the existing arrangements for transfer of funds to the ATO which will reduce the implementation risk. Following the initial transfer in the first year of new policy, transfers to the ATO should operate in a similar manner to the current framework, albeit with fewer exclusions.

The overall performance of the package of measures will be assessed through the analysis of member contribution statistics. This analysis will reveal the level of account consolidation following the introduction of the policy, as well as detail the amount of accounts subject to fee protections and changes to insurance arrangements.

Successful implementation of the package will result in a reduction in multiple superannuation accounts and duplicate insurance cover and minimised account balance erosion as a result of excessive fees and insurance premiums. A noticeable consolidation of multiple low balance superannuation accounts should occur within the first year, as the ATO expects that a large proportion of the money it holds will be reunited within the first year of the policy.

While the package does not target the root cause of account proliferation, as noted above any system which allows for – or indeed requires – individuals to hold multiple account needs to address the problems identified in this RIS. While other processes underway, namely the Productivity Commission's review of the competitiveness and efficiency of the superannuation system, can be expected to provide recommendations which address some of these root causes, any potential future Government action in this regard would not alleviate the need for the measures in this package.

As the measures outlined in the RIS are being progressed in the context of other significant reviews into the competitiveness, efficiency and effectiveness of the insurance and superannuation systems – some complete, others ongoing or yet to commence – the timing and scope of future reviews into the reforms set out in the RIS would be better determined when those reviews are more advanced. However, APRA and ASIC, in their ongoing supervisory duties and data collection roles, will be able to monitor the impacts of the package on the superannuation industry including any potential unintended consequences.