# CHAPTER 6:

# MULTIPLE SMALL ACCOUNTS

**The problem**

6.1 Employers usually choose the superannuation funds into which they pay superannuation contributions on behalf of their employees. They will generally attempt to pay all contributions that are payable in respect of their employees into one fund. The consequence for part-time and casual workers is that they will frequently have several superannuation accounts, each resulting from different employment. Furthermore, fees and charges are incurred on each account.

6.2 Mr Peter Woodcock, of Supercard Australia Pty Ltd, advised the Committee that approximately 700,000 rollovers are recorded annually and that this is expected to increase given the extension of coverage by SG. Exit or 'benefit calculation' fees charged by the majority of institutions and funds reduce retirement benefits.[1]

6.3 Mr Woodcock submitted that not only do small sums from many employers exacerbate the administrative charges problem but that many employees may be unaware of the number of funds into which contributions are being made and may fail to notify funds of a change of address. This contributes the funds' difficulties in keeping track of members.

6.4 In his submission to the Committee, Mr David Bourke, of Bungendore, NSW, outlined his personal experiences of having multiple superannuation accounts. Mr Bourke did not believe that the trend towards casual and part-time employment during the last two decades was taken into consideration in implementing SG.

6.5 A frequent occurrence is that an individual accumulates multiple accounts and pays multiple administrative fees, resulting in an unproductive form of retirement savings. Attempts to combine these accounts into one fund can be unsuccessful for a number of reasons, including employer refusal to make contributions into the employee nominated fund, as well as the daunting rollover fees imposed by the individual funds.[2]

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1 SGCREV Sub No 2

2 SGCREV Sub No 54

6.6 Mr Gregory Fogarty, of Kedron in Queensland, is a computer analyst. He works as a contractor from an agency, which is considered to be his employer and is therefore obligated to pay SG contributions on his behalf. The agency apparently does so by deducting the contribution from his gross salary. Although he had his own fund prior to the introduction of the SG, he encounters difficulties in persuading some agencies to place the contributions into his account. At the present time, he has three superannuation accounts and anticipates that before his professional career ceases he is likely to have a dozen or more accounts, each of which will be eroded by administrative charges. The foregone wages also makes it harder for him to service his own account.[3]

**Amalgamating superannuation accounts**

6.7 The submission by the Australian Federation of Consumer Organisations (AFCO) identifies the primary purpose of superannuation as providing retirement income. Under the current system, multiple accounts are promoted, especially for casual and part-time workers. AFCO believes the best method of achieving an effective retirement income:

> is for superannuation contributions to be consolidated into a single account. This will allow capital accumulation and compound interest to build a sizeable retirement investment.[4]

6.8 Such an amalgamation would result in only one set of administrative fees and charges being imposed, as against the current situation where some employees are subject to a number of imposts.

6.9 The NSW Cabinet Office supported the need for employees to amalgamate multiple accounts. An option already available in NSW was cited, where, with employer agreement, employees receiving superannuation through awards or agreements could nominate a single fund into which their contributions should be paid.[5]

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3 SGCREV Sub No 106

4 SGCREV Sub No 20

5 SGCREV Sub No 19

6.10 The Heywood Branch of the Victorian Farmers' Federation encouraged the establishment of full portability of superannuation to enable people to reduce the erosion [caused by multiple administrative costs] on superannuation accruals of people who have more than one superannuation account.[6]

6.11 Mr Charles Copeman, of Roseville, NSW, submitted that measures were needed for the part-time earnings of older people who already have adequate superannuation coverage. The 'disproportionate' amount of fees and charges levied on superannuation accounts to which he had commenced contributions as a non-executive director of several companies would not eventually be offset by the final benefit as retirement was imminent.[7]

**Choice of fund**

6.12 Employers choose the fund into which SG contributions are made. A casual or part-time employee who is a member of a superannuation fund can have additional superannuation accounts opened on her/his behalf by employers who do not wish to make contributions to the fund to which the employee already belongs as a result of previous employment. The reason given by employers for this inflexibility is because of the extra costs involved in administering superannuation payments to numerous funds. The result is that the employee becomes a member of a number of funds, each of which charges fees. This reasoning has been met with varying responses.

6.13 AFCO believes that 'consumer choice should be at the heart of the Government's superannuation policy'.[8] Lack of choice is identified as a contributing factor to the small amounts problem. Being able to choose a fund that best suits an employee's needs and the option for amalgamating multiple accounts would result in a single account 'they could carry with them throughout their working career'.[9]

6.14 The NSW Nurses' Association stated that NSW legislation 'permits the employee to have [the] right of nomination'.[10] However, in combination with the SG provision that employers choose the fund into which SG is paid, a situation has arisen where some nurses have award superannuation contributions paid into

6 SGCREV Sub No 31

7 SGCREV Sub No 34

8 SGCREV Sub No 20

9 SGCREV Sub No 20

10 SGCREV Sub No 26

the award fund of their choice, and the balance up to the appropriate SG level of contribution, paid into the employer-established account. The existence of multiple accounts results in multiple administrative fees which 'inexorably diminish the amount intended for the superannuation payout on retirement'.[11]

6.15 This lack of choice 'appears to be the outcome of assumptions that both continuous work and continuous employment in a certain industry'.[12] Ms Eva Cox, Women's Economic Think Tank, believes that occupational or employer based schemes present numerous problems for women because women's employment is less occupationally based and open to intermittency.

6.16 Mr Craig Tehan, of Hillarys, WA, has experienced the shortcomings of lack of choice. In evidence put to the Committee, Mr Tehan related his personal experiences resulting from casual employment.[13] Because of intermittent work patterns, Mr Tehan has a number of accounts being eroded by administrative fees and is unable to rollover his entitlements from a superannuation account administered by the WA Government Employees Superannuation Board until he has been out of State public sector employment for 12 months. Mr Tehan advised the Committee that employers do not approach the employee about choice of fund.

6.17 In Mr Tehan's situation, a choice of fund would allow multiple employer contributions to be paid into one fund and a sense of ownership of the account by having a say in 'what interest could be earned and what fees could be charged. At the moment employers are just getting the best deal for themselves'.[14]

6.18 Mr Mark Smith, of Practising Accountants Centre for Education (PACE), informed the Committee that a questionnaire had been sent to practicing accountants in the PACE organisation on superannuation and how it related to them. Responses were received from 119 practitioners which 'represented a minimum of 1000 funds':

11 SGCREV Sub No 26

12 SGCREV Sub No 27

13 SGCREV Sub No 60

14 Evidence, p 269

> An interesting finding was that people wanted control over their investments and their destiny, and they wanted their investments to be cost effective. They did not like paying fees and superannuation contributions to large institutions only to see those funds consumed by large administration expenses...[15]

6.19 Professor David Allen argued that 'it would be far better for individuals to make their own choice of pension schemes... I think that individuals are in a situation to judge their own circumstances'.[16] Individual requirements of wealth, age and position in the life cycle would be considered by individuals in making decisions about superannuation provisions. Professor Allen believes 'it is better to make decisions at the micro level rather than have decisions done by proxy':

> I think it is a reasonably accepted observation in financial economics that if you have decisions made by proxy, by third parties, then you get what are termed agency costs and you do not get a reconciliation of interests or objectives.[17]

6.20 The WA Farmers Federation/WA Shearing Contractors Association was represented by Mr Neville Munns who appeared before the Committee. Mr Munns told of the inability for employees to choose a fund outside the ones nominated in the award. An election of fund beyond those stipulated, while of advantage to the employee, may be detrimental to the employer. An example was given of:

> a shearing contractor with, say, 60 employees, who has 75,000 funds to choose from, could have 60 funds into which he would be paying cheques. He would spend a week drawing the cheques.[18]

6.21 AFCO believes the administrative burden of employee choice would be minimised by increasing technology in the workplace.

> Many of these employers... are now direct crediting wages into certain accounts. So it would not be that much more difficult to have a computer mechanism to pay in into a fund.[19]

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15 Evidence, p 333

16 Evidence, p 360

17 Evidence, p 361

18 Evidence, p 354

19 Evidence, p 574

6.22 The Committee noted that the Treasurer's Statement of 28 June 1994, foreshadowing the introduction of 'member protection' rules,[20] would ameliorate one of the main problems experienced by holders of multiple superannuation accounts, that is, the erosion of small accounts through administrative charges. However, once the balance in each account reached the proposed protected threshold of $1,000, charges would again be applied, and account holders would again become subject to multiple charges which could only serve to substantially reduce their final retirement benefits. This is especially apposite given that the majority of multiple superannuation account holders are part-time or casual workers in respect of whom superannuation entitlements are likely to accumulate at a comparatively slow rate because of the lower level of contributions that are generally paid on their behalf.

**Supercard**

6.23 The Committee received evidence from a number of witnesses concerning possible solutions to the small amounts problems. One which targeted persons with the prospect of multiple accounts was Supercard.

6.24 Supercard is a superannuation product which was introduced in Sydney by Supercard Australia Pty Ltd on 1 July 1994, after almost five years of research, testing and development. The aim of Supercard is to provide consumers with a low cost superannuation product which has complete portability across all jobs and industries.[21]

6.25 Each member is issued a unique identification number on a plastic card. Contributions can be made by quoting their Supercard number. Contributions can be made simultaneously by more than one employer and members can make own contributions if they choose to. By verifying identification over the phone, a balance of the account is easily accessible. A benefit may be transferred via a rollover form or by Electronic Funds Transfer.

6.26 The Supercard is capable of accepting small sums from casual and part-time employees and is structured to incorporate an initial step into a savings account followed by a further step into a managed account, as follows:

- For account balances up to $100, a savings account is established with a once only $50 registration fee. There are no additional account keeping fees on this holding account;

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20 See Chapter 5

21 SGCREV Sub. No 2

- Account balances over $100 are moved into a managed account where:

  (i) an active account fee exists of 82.5c per <u>week</u>, payable in those <u>months</u> where contributions are received; or

  (ii) a dormant account fee exists of 38.0c per week when a member is not working. (These fees are fixed until July 1997).

6.27 Supercard has no annual policy fees, no monthly contribution fees, no exit or benefit calculation fees, no fees when transferring from another fund and no special fees for lump sum payments.

6.28 The submission stated that 'the greatest advantage of Supercard is possibly its portability'. The employee simply quotes their identification to their new employer(s) and SG contributions can continue. No payment is required for enrolling a new employer onto the Supercard system. Supercard can accommodate fluctuating contributions and additional amounts can be paid at any time.

6.29 At the end of the financial year, employees receive an annual statement and report. Employers receive a statement showing contributions made to Supercard members.

6.30 When appearing before the Committee, Mr Peter Woodcock stated that since making his written submission in January 1994, Supercard had introduced provisions to protect members with balances of less than $1,000. A holding account linked to a cash management account has been established for people with small amounts. Except for an establishment fee of $20, members will not have to pay any charges until the balance reaches $1,000 when the money will be transferred to a managed account, where dormant/non-dormant charges apply (see paragraph 6.26 above).

6.31 In summary, Mr Woodcock stated:

> The whole concept of Supercard is based on one very, very simply premise: if you keep the fees low and the performance slightly above average, the person in the end that benefits is the card member or the member of the scheme, certainly not the entities that actually form part of the management or the administration of the fund... I can see that in this particular industry, in this particular sphere, the consumer was really not getting a very good deal. So we deliberately set out to create a scheme where the consumer really had a great deal of choice and a great deal of control over what was going on.[22]

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22 Evidence, p 13

6.32 The Committee acknowledges the role that products such as Supercard play in handling small amounts and would like to thank Supercard Pty Ltd for their submission and evidence.

**Transfer protocol**

*Background*

6.33 As part of the announcement on new initiatives to help improve the effectiveness of the current superannuation system, the Treasurer indicated that the Government will be encouraging and supporting initiatives already commenced by the industry. These initiatives are 'aimed at producing more cost effective procedures for transferring accounts between superannuation funds, through the development of a transfer protocol'.[23]

6.34 The initiatives referred to by the Treasurer as having already commenced involve a transfer protocol being developed by Australian Administration Services, Nexis and Jacques Martin.[24]

*Outline of proposal*

6.35 This transfer protocol is 'designed to facilitate a more cost effective electronic means of amalgamating the multiple accounts of mobile workers in the system'.[25] In essence, the protocol would allow trustees, upon request of members, to authorise fund administrators to exchange information periodically and transfer former accounts held by members to their current fund.

6.36 Employees joining a new fund will be asked whether they have benefits in other funds and whether they wish to transfer these benefits to the new fund. Such requests for transfer will be processed on a quarterly basis and at a standard industry wide charge.

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23 The Hon Ralph Willis, MP, Treasurer, *Statement on superannuation policy*, 28 June 1994

24 The Hon Ralph Willis, MP, Treasurer, *Superannuation policy - statement of measures*, 28 June 1994

25 The Hon Ralph Willis, MP, Treasurer, *Superannuation policy - statement of measures*, 28 June 1994

6.37 The fundamental principles of transfer protocol have been agreed upon by fund administrators. Further deliberation was curtailed pending the Government's policy response to the small amounts problem.[26]

6.38 The Treasurer indicated that the Government:

> will encourage the adoption of a transfer protocol and will facilitate the protocol, and account transfers between funds more generally, by relaxing where possible the taxation reporting and other regulatory burdens in respect of accounts transferred within the superannuation industry.[27]

*Responses to the initiative*

6.39 Mr John Northcott, of Merino, Victoria, believes that 'you need to be able to amalgamate all polices - with no fuss'.[28] Mr Northcott was referring to people in one or more part-time jobs, with one or more superannuation accounts.

6.40 The Trades and Labor Council of WA (WATLC), in its submission, attests a range of administrative issues involving inactive and lost members, and unclaimed benefits.

6.41 In addition to utilising the TFN as a means of improving the location of lost and inactive members, the WATLC also recommends that superannuation funds be able to offer the option of:

> (a) Roll over to another fund nominated by the member;
>
> (b) The money to be held by the existing fund;
>
> (c) Or roll over to a central fund;
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> (d) In the event of no response from the member the default should be for rollover to a central fund; and,
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> (e) To accept rollovers from other funds.[29]

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26 The Hon Ralph Willis, MP, Treasurer, *Superannuation policy - statement of measures*, 28 June 1994

27 The Hon Ralph Willis, MP, Treasurer, *Superannuation policy - statement of measures*, 28 June 1994

28 SGCREV Sub No 23

29 SGCREV Sub No 59

6.42 The Office of the Status of Women (OSW) also indicated support for the establishment of a transfer protocol to allow the amalgamation of multiple accounts held by casual employees. OSW believes that 'even when SG contributions rise, there will still be some workers whose multiple employers and mix of time in and out of the workforce will continue to disadvantage them'.[30]

6.43 In situations where members are dissatisfied with their current fund(s), attempts to transfer to a new fund can result in penalties imposed in the form of fees. Toowong Mitsubishi submitted that the transfer of a member's balance to another fund should be allowed without the imposition of fees. The submission concludes that 'compulsory superannuation is good and necessary, but to prevent the movement of deposits between funds and allow them to charge any "fees" they like is legislation for theft'.[31]

6.44 The ACTU takes the transfer protocol one step further and recommends allowing:

> access being made available for funds to transfer small inactive accounts to a nominated ERF. It would then be possible for the ERF to transfer the funds back once the account becomes active again.[32]

6.45 In evidence put to the Committee, AFCO indicated that 'coverage of the transfer of protocol is by no means certain'.[33] There is still uncertainty as to whether all funds will participate. AFCO believes the protocol is reasonably complex and this will only contribute further to the multiple accounts problem.

*Summary*

6.46 The Committee believes that, in principle, the implementation of the transfer protocol will reduce problems currently experienced by workers, particularly part-timers and casuals, in relation to a multiplicity of superannuation fund accounts. Such amalgamations will be beneficial because they will prevent the erosion of benefits by multiple administrative charges, even after the implementation of the member protection rules, and may result in a more substantial benefit upon which future contributions may continue to grow.

30 SGCREV Sub No 68

31 SGCREV Sub No 91

32 SGCREV Sub No 107

33 Evidence, p 568

**Recommendation 6.1:**

**The Committee recommends that the Government ensure that appropriate transfer protocols are adopted by all participating funds.**

6.47 The effectiveness of the protocol will be largely dependent upon the cost to the member.

6.48 The Committee believes that this protocol should pave the way for a rationalisation of transfer and exit fees. Once the transfer protocol is implemented, fees should be set at a level which reflects minimum cost to the member. ***The cost should not be punitive and should not hinder portability.***