

## Audit Report No. 17, 2005-06, Administration of the Superannuation Lost Members Register

### Background

- 7.1 The Lost Members Register (LMR) is a central register of separated superannuation fund members and retirement savings account holders maintained by the Australian Taxation Office (ATO). It was established on 1 July 1996 and is intended to re-unite people with their lost superannuation. It contains information sent to the ATO by a superannuation provider or its supplier, who are obliged to report every six months.
- 7.2 The ATO administered the LMR on delegation from the then Insurance and Superannuation Commission from 1996 to 1999 when the *Superannuation (Unclaimed Money and Lost Members) Act 1999* established the legislative framework to support the ATO's administration of the Register.
- 7.3 The ATO is responsible for:
- keeping a register of lost members containing the information received from providers;
  - granting lodgement extensions; and

- reducing at an early stage the amount of lost superannuation that becomes unclaimed.<sup>1</sup> Lost member accounts are deemed to be unclaimed superannuation when the superannuation monies become payable.

7.4 At the end of 2004-05, the LMR contained 5.4 million accounts worth approximately \$8.2 billion. Around 40 percent of these accounts had a value between \$1 and \$200 and less than 5 percent had a balance over \$10,000.<sup>2</sup>

## Audit objective and scope

The objective of the audit was to assess the ATO's administration of the LMR and specifically:

- examine and report on aspects of LMR governance;
- assess the systems, processes and controls used by the ATO to capture and process LMR data reported by providers;
- examine the mechanisms and strategies the ATO uses to gain assurance that providers are complying with LMR legislation; and
- assess the mechanisms and strategies the ATO uses to promote awareness of, and enable access to, the LMR.

## Overall audit conclusion

- 7.5 The ANAO found that since July 2004, the ATO had significantly restructured its governance arrangements for the delivery of superannuation products and strengthened the LMR governance framework.
- 7.6 The ATO had established systems and controls to capture lost member data received from providers. The ANAO found shortcomings, however, with the LMR system control framework and the ATO's approach to identity matching lost member data stored on the LMR.
- 7.7 The ANAO considered that the ATO should take further steps to strengthen LMR compliance by providers. In particular, it considered that the ATO should improve the functionality of the LMR system to support

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1 ANAO Audit Report No. 17, 2005-06, p. 12.

2 ANAO Audit Report No. 17, 2005-06, p. 13.

compliance activities and address problems with the quality and completeness of lost member data received from providers.

- 7.8 The ANAO also considered that it was timely for the ATO to evaluate the effectiveness of its strategies and tools used to reunite people with their lost superannuation.

## ANAO recommendations

The ANAO made eight recommendations. The ATO agreed with seven recommendations and agreed with qualification with one recommendation.

Table 7.1 ANAO recommendations, Audit Report No. 17, 2005-06

1.	<p>The ANAO recommends that, to improve the transparency and accountability of the financial sector levy, the ATO:</p> <ul style="list-style-type: none"> <li>• Revisit the existing model used to estimate LMR costs with a view to implementing a robust methodology for determining LMR costs; and</li> <li>• Provide relevant information to the Australian Prudential Regulation Authority to allow it to report on the ATO's cost in administering the LMR as part of the disclosure requirements under the Government's cost recovery policy.</li> </ul> <p><i>ATO response: Agreed</i></p>
2.	<p>The ANAO recommends that, to improve the efficiency and effectiveness of the lost member data capture and identity-matching process, the ATO identity-match all lost member accounts prior to their inclusion on the Lost Members Register.</p> <p><i>ATO response: Agreed</i></p>
3.	<p>The ANAO recommends that, to provide adequate assurance that the LMR is operating as intended and in accordance with the LMR legislation, the ATO:</p> <ul style="list-style-type: none"> <li>• Compile a complete set of baseline specifications to document the LMR system; and</li> <li>• Introduce a robust system of controls to maintain the currency and completeness of the LMR baseline specifications.</li> </ul> <p><i>ATO response: Agreed with qualification</i></p>
4.	<p>The ANAO recommends that to properly manage the completeness of lost member data lodgements, the ATO improve the functionality of the LMR system to record relevant compliance information not presently captured. Importantly, this should enable it to:</p> <ul style="list-style-type: none"> <li>• Obtain a comprehensive understanding of the number of providers that transfer their lost members to eligible rollover funds; and</li> <li>• Maintain an up to date listing of non lodgement advices (NLAs). In this regard, the ANAO considers the ATO should give consideration to making NLAs mandatory (as permitted by s.23(1)(e) of the LMR legislation).</li> </ul> <p><i>ATO response: Agreed</i></p>
5.	<p>The ANAO recommends that, to improve the quality of data stored on the Lost Members Register, the ATO implement a systematic approach to matching lost member data with other superannuation data sets received from superannuation providers.</p> <p><i>ATO response: Agreed</i></p>
6.	<p>The ANAO recommends that, to improve the reporting of unclaimed superannuation monies by providers, and the quality of data stored on the Lost Members Register, the ATO establish comprehensive data sharing arrangements with all state and territory holders of unclaimed superannuation. This will allow holders to properly address potential compliance risks relating to the transfer of unclaimed superannuation.</p> <p><i>ATO response: Agreed</i></p>

7. The ANAO recommends that to improve the timeliness of SuperMatch exercises, the ATO identity match all SuperMatch input records before matching these against details stored on the LMR.

*ATO response: Agreed*

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8. The ANAO recommends that to measure the effectiveness of SuperSeeker access by members, the ATO measure and report on the proportion of SuperSeeker enquiries that result in a match with ATO records. This should also differentiate matches that relate to the Lost Members Register, as opposed to the Superannuation Guarantee System or the Superannuation Holding Account Reserve.

*ATO response: Agreed*

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## The Committee's review

- 7.9 The Committee held a public hearing on 23 June 2006 with witnesses from the Australian Taxation Office and the Australian National Audit Office. The ATO also made a submission to the inquiry reporting on its progress in implementing the ANAO's recommendations.

- 7.10 The Committee notes that while the ATO indicated its agreement with all recommendations, it also stated that implementation of four of the recommendations would require system redevelopment work and would therefore not be implemented as envisaged by the ANAO.

- 7.11 In its submission, the ATO reiterates its earlier response to the ANAO that:

in October 2005 we indicated that where recommendations involved system changes we may have been unable to implement them in the way proposed. For the next three years the Tax Office system resources are fully committed to implementing new policy, the Change Program and to maintaining existing systems and undertaking urgent remediation work.<sup>3</sup>

- 7.12 The ATO goes on to state, however, that the government has announced a proposal for the simplification of superannuation that includes changes to the LMR. The Committee is pleased that the ATO is:

currently reconsidering our overall superannuation rebuild priorities in the light of these proposals...The system changes from these ANAO recommendations will be reconsidered as part of this process.<sup>4</sup>

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3 ATO submission, p. 1.

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## Composition of the LMR

- 7.13 The ANAO found that while the size of the LMR has grown since 1999-2000, the overall number and value of lost member accounts has remained relatively constant. However, in comparison to the total superannuation assets under management in this period, the LMR has decreased.
- 7.14 At the hearing, the Committee questioned the ATO about the extent to which people who are included in the LMR are actually lost as opposed to knowingly inactive. The ATO advised that there a number of people who are well aware that their accounts exist, but are choosing not to activate them at the present time.<sup>5</sup> The ATO is currently looking at means to encourage more members to contact their fund to advise that they are inactive members and have themselves removed from the LMR, so that the register reflects the people who are 'truly lost'.<sup>6</sup> The LMR legislation currently stipulates that a person must recontact the fund and advise they want to be a permanent inactive member in order for the fund to remove them from the LMR.<sup>7</sup>

## Identity matching

- 7.15 The LMR system is a mainframe system designed to capture and store up-to-date data on lost members that can be easily accessed by members and providers. The ANAO considered it essential that lost member data be accurately captured and verified against ATO systems to ensure the LMR remains up-to-date. Providers can lodge this data through magnetic media or through the ATO's Electronic Commerce Interface. This data is then transmitted directly to the LMR.<sup>8</sup> The current LMR reporting specifications include a limited number of mandatory fields and the quotation of a member's tax file number (TFN) is optional.
- 7.16 Lost member data is treated differently to other external data received by the ATO as it undergoes identity matching after it is already stored within the LMR. Identity matching is an important feature of the ATO's administration of the LMR as it allows the ATO to either verify the member's TFN or derive a TFN where one has not been quoted.

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5 Ms Jennie Granger, Australian Taxation Office, *Transcript of Evidence*, 23 June 2006, pp. 3-4.

6 Ms Raelene Vivian, Australian Taxation Office, *Transcript of Evidence*, 23 June 2006, p. 7.

7 Ms Raelene Vivian, Australian Taxation Office, *Transcript of Evidence*, 23 June 2006, p. 8.

8 ANAO Audit Report No. 17, 2005-06, p. 45.

- 7.17 As at 30 June 2005, about 81 percent of the accounts stored on the LMR had a TFN recorded against them. The remaining accounts were unmatched and effectively redundant for enquiry purposes as a TFN is a fundamental requirement for a member to be able to search the LMR.<sup>9</sup> At the hearing, the ATO advised that currently 27 percent of the LMR data it receives has a TFN. After ATO identity matching processes are completed, 83 percent of accounts on the LMR are matched to a TFN.<sup>10</sup>
- 7.18 The ANAO recommended the ATO identity-match all lost member accounts prior to the inclusion on the LMR to improve efficiency and effectiveness of the data capture and identity matching process.
- 7.19 The Committee was informed that the ATO has made progress in implementing this recommendation by:
- identity matching all existing records on the LMR through the ATO identity matching system;
  - implementing processes to identity match all new LMR data within one week of receipt, rather than on a monthly basis as was done at the time of the audit; and
  - rematching all unmatched records on a quarterly basis through the ATO identity matching system.<sup>11</sup>
- 7.20 The Committee notes, however, that full implementation as intended by the ANAO would require system modification which the ATO did not intend to undertake at the time of the Committee's review.
- 7.21 To improve the quality of data stored on the LMR, the ANAO also recommended that lost member data be matched with other superannuation data sets received from superannuation providers. The ATO advised the Committee that while it considers the most effective process is to match data against tax return identity information, it is piloting the use of other data streams, such as electoral data. It will also consider further matching against other superannuation datasets as part of implementing the superannuation simplification changes.<sup>12</sup>

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9 ANAO Audit Report No. 17, 2005-06, p. 48.

10 ATO submission, p. 3.

11 ATO submission, p. 2.

12 ATO submission, p. 3.

## Compliance with legislation

- 7.22 Superannuation providers have clear responsibilities under LMR legislation regarding the provision of lost member data to the ATO. The effective administration of the LMR relies on the ATO gaining sufficient assurance that providers are complying with their obligations.
- 7.23 The ANAO found that the ATO's general approach to compliance aims to balance active compliance (such as audits, risk reviews and prosecutions) with compliance assistance (help and education) activities. The ANAO examined the ATO's approach to managing lodgement compliance by providers, lost member data quality, and opportunities for lost member data matching.
- 7.24 The ANAO considered that the Superannuation Business Line's (SBL) approach to managing lodgement compliance by providers should provide sufficient assurance that all providers with a responsibility to lodge reports do so in a timely manner. The SBL completed a detailed LMR compliance project in 2000 that identified ways that the quality and quantity of data on the LMR could be improved. It did not follow through with these strategies until early 2003 when a project was initiated to improve the lodgement rate and quality of lost member data. This project targeted the top 300 providers and was successful in:
- improving the number of key client providers actually lodging lost member data or non-lodgement advices as appropriate;
  - ensuring the ongoing lodgement of lost member data by all eligible rollover funds; and
  - establishing more comprehensive LMR communications with key clients.<sup>13</sup>
- 7.25 There are a number of providers that fall outside the key client group and the SBL has not focussed on obtaining assurance that these providers are complying with the LMR lodgement obligations. As the complete lodgement of superannuation data (including lost members data) is the most severe risk facing the SBL, the ANAO considered that the SBL should broaden its focus from only key clients and apply additional effort towards improving the completeness of this data. The ANAO's recommendation included making non lodgement advices (NLAs) mandatory.

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13 ANAO Audit Report No. 17, 2005-06, p. 56.

- 7.26 The ATO advised the Committee that there are a relatively small number of funds which account for the majority of superfund members, with 500 funds accounting for approximately 95% of members. As at 30 June 2005, 310 funds, accounting for 92% of superfund members, were providing data to the LMR.<sup>14</sup>
- 7.27 Further, the ATO stated that if NLAs were made mandatory, an additional 8 450 funds would have an obligation to lodge, increasing their compliance costs but with minimal benefit to data holdings on the LMR. The Committee notes that the ATO was still to finalise its position on this recommendation at the time of the Committee's review.<sup>15</sup>
- 7.28 The second highest priority risk recognised by the SBL is the quality of data and a number of concerns have been identified, including:
- funds not reporting found or transferred members, resulting in members remaining on the LMR unnecessarily;
  - as at 30 June 2005, almost 540,000 lost member accounts had a nil balance; and
  - a number of providers lodge data with inaccurate name, TFN or contact details.<sup>16</sup>
- 7.29 The ANAO supports initiatives being undertaken by SBL to improve data quality, noting that providers have a vested interest in providing high quality data to the ATO as they indirectly contribute towards funding the operation of the LMR through financial sector levies.<sup>17</sup>

## Unclaimed superannuation

- 7.30 Where a lost member reaches 65 years of age or has died their superannuation monies become payable. These are deemed to be unclaimed superannuation and a provider must transfer the entire amount to the state or territory revenue office in which its headquarters is located.<sup>18</sup>

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14 ATO submission, p. 3.

15 ATO submission, p. 3.

16 ANAO Audit Report No. 17, 2005-06, p. 61.

17 ANAO Audit Report No. 17, 2005-06, p. 63.

18 ANAO Audit Report No. 17, 2005-06, p. 64.



- 7.31 The Committee notes that as at July 2006, \$6.3 million has been reported to the Tax Office by superannuation funds as transferred unclaimed monies.<sup>19</sup> This figure was \$5.08 million as at 30 June 2005 and compared with \$214.7 million of potentially unclaimed superannuation accounts based on the ANAO's assessment against lost member ages reported to the ATO.<sup>20</sup>
- 7.32 The ANAO recommended regularly sharing information with state or territory revenue offices to improve the ATO's understanding of the reasons behind this discrepancy.
- 7.33 The Committee is pleased that the ATO has addressed this recommendation and is currently determining the best means to provide this data and information to states and territories on an annual basis.<sup>21</sup>

## Accessing the LMR

- 7.34 The ATO has adopted a number of strategies to improve member awareness of and access to the LMR.

## Lost Members Week

- 7.35 Lost Members Week was conducted in October 2002 with industry groups. The ATO set up a number of information booths in shopping centres where the general public could directly access the LMR. Over 69,000 enquiries resulted in \$44.5 million worth of lost superannuation being found by 31 July 2003.

## Letters Project

- 7.36 The Letters Project commenced in February 2005 and is designed to increase awareness of the LMR and motivate people to reclaim lost superannuation accounts. The ATO informed the Committee that it has written or will write to about 3.1 million people, who represent 4.5 million accounts or the 83 percent of the LMR records that have been matched to a

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19 ATO supplementary submission, p. 1.

20 ANAO Audit Report No. 17, 2005-06, p. 65.

21 ATO submission, p. 3.

tax file number.<sup>22</sup> The ATO received \$10.7 million for 2004-05 to 2006-07 specifically to implement this project.<sup>23</sup>

- 7.37 The Committee concurs with the ANAO's comment that given the amount of funding received for the project, the ATO should assess how the project delivered against its key objectives. As discussed earlier, the ATO identified removing inactive (as opposed to lost) members as one objective during the hearing. The Committee therefore makes the following recommendation.

### **Recommendation 13**

**The Committee recommends that the ATO evaluate and report in its Annual Report on the effectiveness of the Letters Project in reuniting lost members with their superannuation and reducing the number of inactive members in the Lost Members Register.**

### **SuperMatch**

- 7.38 SuperMatch was introduced in 2001 to enable authorised providers to search for lost superannuation on behalf of their members. This is achieved by matching members' details against those stored on the LMR. Searches are undertaken against TFN, member's name and date of birth. For any matches, the ATO transmits the account number, name of provider and contact details to the provider, who may then seek their members' permission to consolidate any lost accounts with their existing benefit.
- 7.39 The ANAO found that most of the matches using SuperMatch were name rather than TFN based and that during the 2004-05 financial year, use of SuperMatch fell by more than 60 percent largely due to poor processing times.
- 7.40 The Committee notes that while the ATO agreed with the ANAO's recommendations to improve the timeliness of SuperMatch, it also indicated that as this would involve system redevelopment work, it would not be implemented.<sup>24</sup>

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22 Ms Raelene Vivian, Australian Taxation Office, *PROOF Transcript of Evidence*, 23 June 2006, p. 7.

23 ANAO Audit Report No. 17, 2005-06, p. 41.

24 ANAO Audit Report No. 17, 2005-06, p. 74.

## SuperSeeker

- 7.41 SuperSeeker was introduced in 2003 to enable members to directly access details stored on the LMR via either the internet or telephone. The ANAO found that it was difficult to gauge the effectiveness of SuperSeeker as the ATO does not measure how many enquiries result in a match. Again, while the ATO agreed with the ANAO's recommendation that it measure and report on the number of matches, it advised that as this would involve system redevelopment work, it would not be implemented.<sup>25</sup>
- 7.42 The Committee considers that it would be useful for the ATO to implement mechanisms to assess the effectiveness of this initiative.

## Committee comment

- 7.43 As discussed earlier, the ATO has indicated that it is revisiting potential system changes as part of the government's simplification of superannuation. The Committee strongly encourages the ATO to reassess implementation of those ANAO recommendations that require system redevelopment work and have not been fully implemented to date.

### **Recommendation 14**

**The Committee recommends that the ATO reassess full implementation of the recommendations arising from this audit that require system redevelopment work within the context of broader superannuation system changes.**

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25 ANAO Audit Report No. 17, 2005-06, p. 78.

