

The Auditor-General
Audit Report No.31 2010–11
Performance Audit

Administration of the Superannuation Lost Members Register

Australian Taxation Office

Australian National Audit Office

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of Australia 2011

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Canberra ACT
24 February 2011

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Australian Taxation Office in accordance with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit, and the accompanying brochure, to the Parliament. The report is titled *Administration of the Superannuation Lost Members Register*.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian McPhee', is positioned above the printed name.

Ian McPhee
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office (ANAO). The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Australian Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Abbreviations

ANAO	Australian National Audit Office
APRA	Australian Prudential Regulation Authority
ASIC	Australian Security and Investments Commission
CAS	Client Account Services
CPS	Community Perceptions Survey
CRIS	Cost Recovery Impact Statement
CRT	Client Relationship Team
ECI	Electronic Commerce Interface
EST	Enterprise Solutions and Technology
ICP	Integrated Core Processing
IVR	Interactive Voice Response
JCPAA	Joint Committee of Public Accounts and Audit
LMR	Lost Members Register
LMS	Lost Members Statement
MCS	Member Contribution Statement
NLA	Non Lodgment Advice
OA	Operational Analytics
PBS	Portfolio Budget Statement
SCF	Strategic Costing Framework
SFWG	Superannuation Funds Working Group

SMSF	Self-Managed Superannuation Fund
SRSC	Superannuation Risk Sub Committee
TFN	Tax File Number

Glossary

Electronic Commerce Interface (ECI)	A system which allows superannuation funds and other businesses to interact electronically with the Tax Office. It is particularly designed to assist organisations that need to send large amounts of data to the Tax Office.
Change Program	The Tax Office's long-term project to replace its information and communications technology systems in support of its goal to make compliance with tax and superannuation law easier, cheaper and more personalised.
Integrated Core Processing (ICP)	The Tax Office's core suite of software, incorporating the key structural elements of a client register, an accounting sub-system and a generic forms-processing sub-system.
SuperMatch	A search function allowing funds to match in bulk details of their members against information on the Lost Members Register.
SuperSeeker	A web-based tool that provides a search interface with the Lost Members Register for the public.

Summary and Recommendations

Summary

Introduction

1. The Australian Taxation Office (the Tax Office) is the Australian Government's principal revenue collection agency. The role of the Tax Office is to manage and shape taxation, excise and superannuation administrative systems that fund services for Australians, giving effect to social and economic policy.¹ In 2009–10 the Tax Office collected over \$253 billion in tax, superannuation and excise revenue, incurred expenses of some \$3 billion, and had a staffing level of 21 766.²

2. Superannuation is intended to provide individuals with a secure income during retirement, above the safety net provided by the age pension, by investing a proportion of their income during their working lives. In 1992 the Government announced a system to be known as the superannuation guarantee, in which employers would be required to make tax-deductible superannuation contributions on behalf of their employees. This resulted in a significant extension of the number of employees covered by superannuation, and allowed the Government to enforce superannuation arrangements through its taxation powers.³

3. Superannuation is a large and complex area of administration. Australia's superannuation regime is designed to ensure the benefits of superannuation members are secure. The Australian Prudential Regulation Authority (APRA) is the main regulator of the superannuation industry. Under the *Superannuation Industry (Supervision) Act 1993*, there are two major categories of superannuation fund: regulated funds, and self-managed superannuation funds (SMSFs). Regulated funds—also known as APRA funds—are supervised by APRA, and their trustees must be corporate bodies with a set of governing rules.⁴ SMSFs are regulated by the Tax Office. They

¹ Australian Taxation Office, *Australian Taxation Office Annual Report 2008–09*, Canberra, 2009, p. iii.

² Australian Taxation Office, *Australian Taxation Office Annual Report 2009–10*, Canberra, 2010, pp.iv–v, 259.

³ Australian Prudential Regulation Authority, 'A recent history of superannuation in Australia', *APRA Insight* Issue Two, 2007, pp.3–4.

⁴ *Superannuation Industry (Supervision) Act 1993*, s19.

must have fewer than five members, and all of their trustees must be individual members of the fund.⁵

The Lost Members' Register

4. The Tax Office's role in the superannuation system, along with regulating SMSFs, is to administer the co-contributions scheme,⁶ assist individuals to reunite with lost superannuation, and to look for other opportunities to improve individuals' engagement with their superannuation savings.⁷ APRA funds may have lost members with whom they have been unable to maintain contact or who are no longer making contributions to their accounts, and these funds are subject to the Tax Office's arrangements for reuniting individuals with their lost superannuation. The Tax Office-regulated SMSFs are unlikely to have lost members, given that their management is undertaken by trustees who must also be members of the fund. As a result, SMSFs are not subject to the Tax Office's lost superannuation arrangements.

5. To assist individuals to reunite with their lost superannuation, the Tax Office facilitates a relationship between lost members and superannuation funds through the Lost Members Register (LMR). The *Superannuation (Unclaimed Money and Lost Members) Act 1999* (the Act) provides for the administration of the LMR. The LMR is intended to help those workers at risk of becoming 'lost' members, often due to loss of paperwork or disrupted employment patterns, such as for casual and itinerant workers. The LMR aims to reunite members with their accounts before the money in those accounts becomes unclaimed.⁸

6. At 30 June 2010 the LMR contained information about 5.8 million member accounts with accumulated balances of some \$18.8 billion. These accounts most commonly contained balances of between \$200 and \$500, held by individuals aged between 35 and 40 years.

⁵ *Superannuation Industry (Supervision) Act 1993*, s17A.

⁶ The superannuation co-contribution is a government initiative to help eligible individuals boost their superannuation savings by matching personal superannuation contributions—currently up to \$1000—with an equal government contribution.

⁷ Australian Taxation Office, *Australian Taxation Office Annual Report 2008–09*, Canberra, 2009, p. 87.

⁸ In general, unclaimed superannuation is a superannuation account that is payable to the Tax Office or to a state or territory authority because the member has reached the eligibility age (65 years), and for which the superannuation fund has not received a contribution in the last two years and has not been able, after reasonable efforts, to contact the member for five years.

7. The money in accounts recorded on the LMR remains with the superannuation fund and continues to attract all of the same benefits and costs as accounts which are not 'lost'. However, by claiming or consolidating their lost accounts, individuals may reduce the costs they incur in the management of their superannuation and as a result benefit from increased retirement savings. Superannuation industry regulations protect members from having their small accounts (less than \$1000) eroded by administration fees.⁹ However, this protection does not apply to premiums for life insurance policies incorporated into many superannuation products.¹⁰

8. Responsibility for the LMR was allocated to the Tax Office because of its experience in systems administration.¹¹ The Commissioner must keep a register of lost members¹² that contains information given to the Commissioner by superannuation providers. The register may also contain any other information given to the Commissioner for other purposes and which is of the type contained in the register.¹³ Superannuation arrangements increasingly encourage individuals to provide their Tax File Number (TFN), which superannuation funds must then report to the LMR as appropriate.¹⁴ The Tax Office uses TFNs as the basis for matching reports of lost members to other information about those individuals in Tax Office systems.

9. The LMR is funded in part by superannuation funds through the financial sector levies imposed by APRA. The Tax Office has also received funding through the Super Simplification initiative to improve the information technology systems supporting the LMR and to undertake activities to alert individuals to the location of their lost superannuation accounts.

10. The provision of access to the LMR is an important part of the Tax Office's overall role in the superannuation system. The Tax Office offers two

⁹ *Superannuation Industry (Supervision) Regulations 1994*, Regulation 5.17 s2.

¹⁰ *Superannuation Industry (Supervision) Regulations 1994*, Regulation 5.15D.

¹¹ Superannuation (Unclaimed Money and Lost Members) Bill 1999, Second Reading Speech, Monday 23 August 1999.

¹² Criteria for defining lost members are set out in *Superannuation Industry (Supervision) Regulations 1994*, Regulation 1.03A.

¹³ *Superannuation (Unclaimed Money and Lost Members) Act 1999* ss23(2).

¹⁴ While TFN quotation is not compulsory to open a superannuation account, accounts without a TFN cannot receive personal contributions or government co-contributions.

mechanisms for members, tax practitioners and superannuation funds to search for lost members' superannuation benefits. These are:

- SuperSeeker; an internet-based tool which enables members to use their name, TFN and date of birth to search the LMR, and provides them with possible matches on their lost accounts; and
- SuperMatch; an Electronic Commerce Interface (ECI)¹⁵ tool which superannuation funds can search on behalf of any of their members for lost superannuation that may be on the LMR.

Audit objective and scope

11. The objective of the audit was to examine the Tax Office's administration of the Lost Members Register. In particular, the audit examined the Tax Office's governance arrangements for the LMR; its strategies for managing data quality; and its provision of access to LMR data. The audit also considered how the Tax Office's administration of the LMR has responded to recommendations made in the ANAO's earlier review (Audit Report No.17, 2005–06 *Administration of the Superannuation Lost Members Register*), relevant changes in funding and legislation supporting the LMR, as well as the Change Program.¹⁶

Overall conclusion

12. During the period 2004 to 2010 the number of superannuation accounts classified as lost, and included on the LMR, has risen from some 5.0 million to 5.8 million, peaking at approximately 6.4 million accounts at 30 June 2008.

13. Of the 5.8 million accounts recorded on the LMR at 30 June 2010, the Tax Office has been able to link 4.9 million accounts, through each account holder's TFN, to 3.7 million people identified in its tax administration systems. This leaves approximately 900 000 accounts valued at some \$1 billion which are considered to be 'unmatched'. These unmatched accounts represent the core of the lost superannuation issue that the LMR was established to address.

¹⁵ ECI is the electronic commerce interface which allows superannuation funds and other businesses to interact electronically with the Tax Office. It is particularly designed to assist organisations that need to exchange large amounts of data with the Tax Office.

¹⁶ Change Program is the name given to the Tax Office's long-term project to replace its information and communications technology systems in support of its goal to make compliance with tax and superannuation law easier, cheaper and more personalised.

14. The way in which the Tax Office currently administers the LMR system requires a high confidence identity match based on an individual's TFN. This means that the 900 000 unmatched accounts are not able to be reunited with their owners by the Tax Office, either through outreach activities carried out by the Tax Office or by using 'self-service' options such as its SuperSeeker search facility.

15. Since the inception of the LMR, successive governments have addressed the issue of lost superannuation with a range of legislative changes and funding arrangements designed to increase the number of members who are able to find their lost superannuation or to be removed from the LMR for other reasons. The Tax Office has budgeted more than \$100 million of its special Super Simplification funding to activities specifically related to the LMR. However, there is scope for the Tax Office to make improvements to its administration in a number of areas.

16. The Tax Office has an established governance framework that facilitates the management of its complex administrative structures and is designed to enable business areas to develop specialist skills and apply them to a range of 'products' like the LMR. This framework includes planning and reporting processes that are based on risk analysis and management.

17. The LMR is one component of the Tax Office's administration of the Australian superannuation system. Planning and reporting processes for the LMR are appropriately managed within the Tax Office's governance framework, and risk analyses are used to inform decision-making. Some identified risks, such as risks relating to funds' compliance with LMR reporting obligations, have also been successfully managed within this framework. There is scope for improvement in developing specific and measurable targets for LMR activities, in monitoring the effectiveness of some risk mitigation measures, and in reporting externally on the costs and effectiveness of the LMR regime. In particular, the Tax Office has not clearly explained to industry the extent to which LMR activities are funded through the financial sector levy.

18. The implementation of the LMR within the Tax Office's 'easier, cheaper and more personalised' system (Change Program), completed in April 2009, provided an opportunity for the Tax Office to re-examine and re-engineer its processes for administering the LMR. However, this opportunity was not fully exploited, and the current systems reflect a number of inherent shortcomings. For example, the Tax Office identified data quality issues as a risk to its

management of the LMR, but placed considerable reliance on technological updates provided by its Change Program system implementation to manage these risks, rather than addressing the difficulties caused by the existing reporting arrangements. As a result, the Tax Office has developed the new LMR on the basis of existing processes, which resulted in the implementation of a system that replicates old problems in a new environment.

19. The upgrade of the LMR as part of the Change Program has provided an ability to better categorise the lost members represented on the register according to the two sub-categories of 'inactive' members (those not making contributions to their funds) and 'uncontactable' members (those who have ceased contact with their funds) described in the Act. Some data analysis capabilities originally specified for the LMR as part of the Change Program upgrade have not yet been delivered. The Tax Office is pursuing new approaches to analysis of LMR data, such as matching with Income Tax Return and Member Contributions Statement data. These processes can help to identify the correct contact details for lost members, and could potentially help to link lost superannuation with active accounts. These processes are not currently well supported by Tax Office IT systems, and require substantial manual intervention.

20. A key tool to assist members to reunite with their lost superannuation is the Tax Office's SuperSeeker system. SuperSeeker allows individuals to search the LMR for details of their lost accounts, and also provides assistance with contacting funds to claim or roll over these lost accounts. 'Unmatched' accounts, which the Tax Office has been unable to link with a high degree of confidence to a TFN in its systems, are not made available for searching within SuperSeeker. SuperSeeker search capabilities are basic, and some members who have 'matched' accounts may not find their lost superannuation because they have not entered search terms exactly as they are recorded in Tax Office systems. By considering a more flexible approach to data matching and searching in SuperSeeker, the Tax Office may be able to make lost accounts easier to find by a larger proportion of members on the LMR.

21. The Tax Office's role in relation to lost superannuation extends beyond maintaining the data in the LMR to include taking proactive steps to reunite members with their lost accounts. This has led to a range of activities aimed at publicising the LMR, and communicating directly with members about their lost accounts. Some of these activities, such as the 'letters campaigns', have attracted considerable additional government funding. The Tax Office is able to state in broad terms the level of success for only some of these initiatives.

However, it has not conducted sufficient analyses of its LMR communications strategies to enable informed comparisons of the most efficient and effective tools for either reuniting members with their lost superannuation or for reducing the number of accounts classified as unmatched.

22. The ANAO has made five recommendations aimed at improving the transparency of LMR funding arrangements, increasing the Tax Office's ability to analyse lost members data and improve its quality, providing more flexible access to the LMR, and better understanding the effectiveness of LMR communication strategies.

Key findings by chapter

Governance arrangements (Chapter 2)

23. The Tax Office has an established framework for governance of its business activities, particularly in relation to activities that are managed across business lines. The management arrangements for the Superannuation business line are guided by the Compliance sub-plan, and provide an appropriate focus on the strategic management of the LMR. Operational aspects of the LMR are administered through the Enterprise Solutions and Technology (EST) and Operations sub-plans that contribute expertise in organisational information technology solutions and in managing taxpayer interactions. These arrangements enable business lines to focus on their core roles and areas of expertise, although they also introduce a degree of complexity to the management of initiatives such as the LMR, requiring effective communication between business lines and overall monitoring arrangements.

24. The performance measures identified for the LMR are appropriately articulated in higher level Tax Office plans but could be made more specific to the LMR. Similarly, the measures at all levels lacked clear and measurable targets, and were not clearly identified and reported against in management reports. The Tax Office could benefit from reviewing its performance measures and targets for the LMR at all levels of planning to improve their usefulness as a management and accountability tool.

25. Overall, there is an established governance system in place to identify and address risks in appropriate forums. However, there is scope to improve some elements of the risk management process for the LMR, particularly by better monitoring the effectiveness of existing risk mitigation strategies. The Tax Office identified data quality issues as a risk to its management of the

LMR, and relied on its Change Program system implementation to address these risks. This approach has resulted in the development of a system that replicates old problems in the new environment. The opportunity to re-examine and re-engineer its processes to reduce data errors was not taken.

26. Section 41 of the *Superannuation (Unclaimed Money and Lost Members) Act 1999* (the Act) requires the Tax Office to report on the 'working' of the Act after the end of each financial year. The Tax Office does this through its annual report to Parliament. The commentary on the LMR in the annual report is very brief and does not provide trend data that would indicate the extent to which the Act is working to reunite members with their lost superannuation, or information on the extent to which superannuation funds are able to comply with their reporting requirements. LMR reporting also does not indicate the targets that have been set for LMR activities, against which results should be measured.

27. The LMR is funded in part by the financial sector levy charged to the superannuation industry by APRA. To determine the amount to be charged for the Tax Office's component of the levy each year, the Tax Office uses an organisation-wide Strategic Costing Framework (SCF). The SCF enables the capture of cost information for nominated projects and activities regardless of which part of the organisation carries out the activities. This is important given that key activities for the LMR are carried out outside the Superannuation business line.

28. In addition to funding through the financial sector levy, the Tax Office has received additional appropriations for activities supporting the LMR through the Super Simplification initiative. Activities funded through such special funding arrangements are not included in the calculation of the financial sector levy to be charged to industry. This is not made clear in the Tax Office's explanation to industry through APRA of its calculation of the levy each year, with the result that industry representatives do not clearly understand the extent of the activities they are funding. By providing a more specific explanation of its costs and activities in relation to the LMR, the Tax Office would give stakeholders a clearer understanding of the sources of funding used to manage the LMR.

29. The majority of funds collected through financial sector levies are to recover APRA's costs in undertaking its industry supervision responsibilities. In accordance with the Australian Government's Cost Recovery Policy, APRA prepares Cost Recovery Impact Statements (CRIS) in relation to this role. The

Tax Office has not prepared a CRIS in relation to the cost component associated with managing the LMR.

Data quality (Chapter 3)

30. Superannuation funds report their lost members twice yearly through a Lost Members Statement (LMS). The Tax Office mitigates the risks of non-lodgement of LMSs using a targeted approach to funds it assesses as being at high risk of not meeting their LMR reporting obligations. This mainly involves contacting funds that fail to lodge an LMS, and relies on the LMR Product Team's knowledge of the population of superannuation funds to identify which funds should be submitting an LMS. The rate of late and non-lodgement of LMSs by superannuation funds has consistently fallen over recent years.

31. To address risks associated with the lodgement of incomplete or inaccurate lost member data by funds, the Tax Office has adopted mitigation strategies involving both education and compliance. Key elements of these have been the establishment of a dedicated Client Relationship Team (CRT), development of the LMR Protocol Document that provides administrative and technical guidance to superannuation funds, and a program of active compliance audits of funds.

32. LMS accuracy and completeness audits are conducted according to well-defined audit processes, underpinned by the requirements of the *Taxpayers' Charter*. The framework and core processes for these audits are soundly based. In addition, funds reported a good relationship with both the CRT and the audit teams.

33. LMSs are entered into a Tax Office database, and the data is validated through checks of data structures and required components. Identity matching is performed as the data is loaded into the Integrated Core Processing (ICP) system.¹⁷ The Tax Office currently requires superannuation funds to report on their lost members using an 'exception' system, where only members who have had a change in their previous status are reported to the LMR. An alternate method, which was used in preparation for the transfer of the LMR to ICP in 2008, is known as the 're-report' method. Re-reporting involves the funds reporting the details of all of the members they consider meet the criteria

¹⁷ ICP is a suite of software, incorporating the key structural elements of a client register, an accounting sub-system and a generic forms-processing sub-system.

of 'lost' at a point in time, regardless of whether they have been previously reported to the register.

34. LMR reporting currently uses the 'exception' system. Using this system, the LMR matches a report of a 'found' member to its previously reported 'lost' member record using three data elements. These data elements must be exactly matched in both the 'lost' and 'found' records. If these elements of the two records do not match exactly, the member will continue to be recorded as lost.

35. While the Tax Office will inform funds of errors, its systems do not reject reports of accounts which have been reclassified by the fund as found but which do not exactly match the details of that account when it was previously reported as lost. Instead, funds are expected to correct the account data to achieve an exact match and resubmit the previously incorrect reports. If funds do not do this, the data in the LMR goes uncorrected and becomes increasingly unreliable as time goes on. The 2008 re-report process appeared to have largely eliminated these errors. Since that time reporting has returned to the exceptions system, and the Tax Office has already observed a corresponding deterioration in data quality.

36. The process adopted by the Tax Office to perform identity matching has implications for how people access LMR data about their lost accounts. After identity matching exercises are undertaken, the residual member accounts in the LMR are regarded as 'unmatched'. This is because the Tax Office does not have sufficient confidence that the information it holds can identify the correct person and can therefore assign the correct TFN. However, the Tax Office's key tool for enabling members to identify and claim their lost superannuation requires searching using an individual's TFN. Any 'unmatched' records in the LMR are excluded from these searches. This means that a decision not to accept a lower-confidence match potentially precludes those records from being made available and hence being identified by their owners.

37. In 2009 the Tax Office undertook a pilot project, subsequently assessed as successful, to provide up-to-date addresses of lost members to superannuation funds so that they could re-establish contact with those members. While such an approach is likely to reduce the volume of members represented on the LMR, the Tax Office would need to be confident that superannuation funds will act appropriately on this information. Funds will require a high confidence match before they will be able to verify members'

details using Tax Office data. Alternately, there are potential advantages in recording lower confidence matches that would assist members in searching for lost superannuation. The Tax Office could record the level of confidence it has applied to each matched identity and initiate subsequent actions having regard to the indicated confidence level.

38. The Tax Office is aware that a significant hurdle to reducing the size of the LMR lies in encouraging members to take action in relation to their lost accounts. One of its strategies to address this problem is the development of a 'portability form'. This form is designed to make it easier for members to claim or roll over lost accounts by pre-filling a 'request to transfer' form with information from the LMR. By also drawing on Member Contribution Statement (MCS) data about active superannuation accounts, the Tax Office could assist lost members to identify both the account they want to close and roll over and the account to which they would like to transfer their funds.

39. A purpose of the LMR is to 'reduce at an early stage the number of accounts which become unclaimed money',¹⁸ which must then be paid by funds to the Commonwealth. Generally, unclaimed money is lost superannuation which should be paid to the member, usually because the account owner has reached retirement age. The Act requires the Commissioner to keep a register of unclaimed money, and penalties apply to superannuation funds who do not report on unclaimed money or pay amounts to the Commonwealth as required by law. Late payments of unclaimed monies are also subject to the General Interest Charge.¹⁹ There is a close link between the LMR and the Unclaimed Money Register. Cross-checking between the two registers provides a useful quality check for both databases, and provides an avenue for the Tax Office to identify lost superannuation accounts which should have been paid to it as unclaimed money. However, there is currently no direct connection between these two databases, and only manual comparisons between the two are possible.

40. Data analysis can help to highlight compliance issues and reporting errors, identify systemic data processing problems, and inform overall strategy by recognising trends in the population represented by the data. The LMR

¹⁸ *Superannuation (Unclaimed Money and Lost Members) Act 1999* s7.

¹⁹ The General Interest Charge (GIC) is a uniform interest charge imposed where there is a late payment of a tax debt. It replaced the late payment penalties system from 1 July 1999 and is a common rate of interest which is applied across all liabilities administered by the Tax Office.

Product Team has identified a lack of management reports from the LMR database as a key area of concern since the transfer to ICP. While both regular and ad hoc reports are available, they often require significant levels of manual work in their preparation. In addition, any ad hoc reports which the Superannuation LMR Product Team request require the involvement of the Client Account Services (CAS) business line. This can inhibit innovation in developing strategies to address lost superannuation issues, as CAS resourcing is required to assist with investigative queries of the database.

Data access by stakeholders (Chapter 4)

41. SuperSeeker is a web-based tool that provides a search facility for the LMR. SuperSeeker searches for lost members who have been matched against other Tax Office system data. The data requirements for searching SuperSeeker are very specific, and if the individual does not input and search for details exactly as they appear in the LMR, SuperSeeker will not return a result. This requirement serves as a potential barrier to reuniting lost accounts with their owners.

42. SuperMatch is a search function which allows superannuation funds to match, in bulk, details of their members against information on the LMR. Funds generally advised the ANAO that they found SuperMatch to be a useful tool for identifying lost accounts for their members. The Tax Office is currently unable to record how many successful matches are produced by SuperMatch, or how many lost accounts may be removed from the LMR by funds as a result of SuperMatch searches. There are not currently any performance measures or targets, such as system availability or timeliness of searches, for SuperMatch and there has been no reporting on its effectiveness.

43. The Tax Office aims to increase public awareness of how to prevent superannuation from becoming lost. To achieve this objective, and to raise awareness of SuperSeeker, the Tax Office uses a wide range of communication tools and channels. The selection of marketing and communication approaches for the LMR is informed by responses to the Tax Office's annual Community Perceptions Survey (CPS).

44. There are difficulties in measuring the outcome of some marketing activities. This is because many competing influences, such as compliance activities, media interest, superannuation fund promotions and the superannuation environment generally can distort the impact of a specific Tax Office campaign. However, the Tax Office is able to link the timing of its

advertising and other paid campaigns to spikes in traffic on the SuperSeeker web page. There is currently no mechanism for assessing the effectiveness of paid media campaigns in reducing the number of lost member accounts, and demonstrating definitive links is likely to be difficult.

45. The Tax Office has developed an 'e-tax' software program that individuals can use to prepare and lodge their income tax returns. In 2008 the Tax Office began using e-tax to provide taxpayers with a message about lost superannuation, and a link to the SuperSeeker website. The effectiveness of these targeted messages in encouraging individuals to search SuperSeeker has not been evaluated. Using e-tax could enable closer targeting of messages by taking into account answers to questions in e-tax about the individual's circumstances. It also has the potential to track the responses to the messages that are delivered. As it is likely to be a relatively low cost tool, the Tax Office could provide an important benchmark to assist in measuring the effectiveness of other communication channels by conducting evaluations of the effectiveness of its e-tax messages.

46. A large proportion of the Tax Office's expenditure relating to lost superannuation has been through its various telephony and correspondence campaigns that aim to alert individuals to their lost accounts and motivate them to reclaim them. In 2008–09 funding was provided for one million letters and 250 000 account reviews by phone. Following difficulties with ICP, this target was reduced to 50 000 letters and 125 000 telephone account reviews. The revised targets were not met, with only 69 586 accounts reviewed for 30 679 members, and 12 056 letters sent. The Tax Office has not conducted a detailed analysis of which target groups have responded best to letters and telephony campaigns but notes an overall success rate of 18 per cent for letters campaigns and 16 per cent for telephony. Only matched accounts are included in letter and telephony campaigns.

47. In the 2006–07 budget, the Tax Office was provided with additional funding to proactively contact lost members and to develop a 'portability form'. Few people who conduct a successful search using SuperSeeker also download a portability form. It is not currently possible to determine whether people who access the form successfully fill it in and transfer their superannuation. A lack of knowledge about the detail of their active superannuation accounts may prevent some members from taking this step. Matching of LMR data against superannuation Member Contribution Statements and the planned development of an electronic portability form may assist members to facilitate such transfers.

Summary of agency response

48. The Tax Office's full response is at Appendix 1. The Tax Office welcomed the report and agreed to the five recommendations.

49. The Tax Office noted that the report identified opportunities for further improvement. These will be considered along with other organisational priorities, including the recent Super Reform program.

Recommendations

Recommendation No.1

Para 2.57

To provide greater transparency regarding the calculation of the financial sector levy, the ANAO recommends that the Tax Office provide greater clarity to APRA on the component costs of the LMR, and calculate these costs in accordance with the Australian Government Cost Recovery Guidelines.

Tax Office Response: *Agreed.*

Recommendation No.2

Para 3.63

To improve the efficiency and effectiveness of both the Lost Members Register and the superannuation Unclaimed Money Register, the ANAO recommends that the Tax Office explore the benefits of linking these two databases as part of any future IT redesign.

Tax Office Response: *Agreed.*

Recommendation No.3

Para 3.90

To assist in analysis of the population represented in the LMR and to devise appropriate strategies, the ANAO recommends that the Tax Office improve the LMR operational analytics, management reporting and data matching capabilities.

Tax Office Response: *Agreed.*

Recommendation No.4

Para 4.17

To improve the likelihood of members locating their lost superannuation, the ANAO recommends that the Tax Office consider reconfiguring the search functionality in SuperSeeker to allow members to identify potential matches, while continuing to appropriately protect privacy.

Tax Office Response: *Agreed.*

**Recommendation
No.5**

Para.4.71

To assist funding decisions, the ANAO recommends that the Tax Office develop measures that will enable more accurate assessment of the relative effectiveness of the communication and marketing strategies and tools used to assist members to identify and reclaim their lost superannuation accounts.

Tax Office Response: *Agreed.*

Audit Findings

1. Introduction

This chapter provides an overview of the Tax Office's administration of the Lost Members Register and information on the conduct of the audit.

Background

The Australian Taxation Office

1.1 The Australian Taxation Office (the Tax Office), as the Australian Government's principal revenue collection agency, has a role in managing and shaping taxation, excise and superannuation administrative systems that fund services for Australians, giving effect to social and economic policy.²⁰ In 2009–10 the Tax Office collected over \$253 billion in tax, superannuation and excise revenue, incurred expenses of some \$3 billion and had a staffing level of 21 766.²¹

The Superannuation regime

1.2 Superannuation, as a form of savings to provide financial assistance for older Australians in retirement, has existed for more than a century in Australia. It became more widespread from the 1970s, when it began to be included in industrial awards. In 1992 the Government announced a new system to be known as the superannuation guarantee, in which employers would be required to make tax-deductible superannuation contributions on behalf of their employees so as to supplement retirement savings above the safety net provided by the age pension. The superannuation guarantee, enforceable through the Commonwealth's taxation powers, provided for a major extension of superannuation coverage to employees not already covered by superannuation.²²

1.3 Superannuation is a large and complex area of administration. Australia's superannuation regime is designed to ensure the benefits of superannuation members are secure. The Australian Prudential Regulation Authority (APRA) is the main regulator of the industry. Under the

²⁰ Australian Taxation Office, *Annual Report 2008–09*, Canberra, 2009, p. iii.

²¹ Australian Taxation Office, *Annual Report 2009–10*, Canberra, 2010, pp.iv–v, 259.

²² Australian Prudential Regulation Authority, 'A recent history of superannuation in Australia', *APRA Insight* Issue Two, 2007, pp.3–4.

Superannuation Industry (Supervision) Act 1993, there are two major categories of superannuation fund: regulated funds, and self-managed superannuation funds (SMSFs). Regulated funds—also known as APRA funds—are supervised by APRA, and their trustees must be corporate bodies with a set of governing rules.²³ SMSFs are regulated by the Tax Office. They must have fewer than five members, and all of their trustees must be individual members of the fund.²⁴

1.4 The Tax Office's role, along with regulating self-managed superannuation funds, is to administer the co-contributions scheme,²⁵ assist individuals to reunite with lost superannuation, and look for other opportunities to improve individuals' engagement with their superannuation savings.²⁶ The Tax Office-regulated SMSFs are unlikely to have lost members. APRA funds do have members with whom they have been unable to maintain contact or who are no longer making contributions to their accounts. These funds are subject to the Tax Office's arrangements for reuniting individuals with their lost superannuation.

Growth in superannuation

1.5 As at June 2010, the superannuation industry consisted of 4 477 APRA-regulated funds and 428 198 SMSFs managing \$1.2 trillion in members' savings. The Tax Office's administration of superannuation activity covered approximately 11 million Australian employees,²⁷ 32 million member accounts; and 432 675 superannuation funds. This included regulation of the SMSF sector and the supervision of other responsibilities such as compliance with reporting requirements for other types of funds. Superannuation members contributed \$34 billion to their accounts in 2009–10. Their employers made an additional \$72 billion in contributions. In the same year \$60 billion in member benefits was paid.²⁸

²³ *Superannuation Industry (Supervision) Act 1993*, s19.

²⁴ *Superannuation Industry (Supervision) Act 1993*, s17A.

²⁵ The superannuation co-contribution is a government initiative to help eligible individuals boost their superannuation savings by matching up to \$1000 in personal superannuation contributions with an equal government contribution.

²⁶ Australian Taxation Office, *Annual Report 2008–09*, Canberra, 2009, p. 87.

²⁷ As at December 2010. See <<http://abs.gov.au/ausstats/abs@.nsf/mf/6202.0>> [accessed 2 February 2011].

²⁸ Australian Prudential Regulation Authority, *Annual Superannuation Bulletin June 2010 (Issued 19 January 2011)*, Australian Prudential Regulation Authority, Sydney, 2011, p. 28.

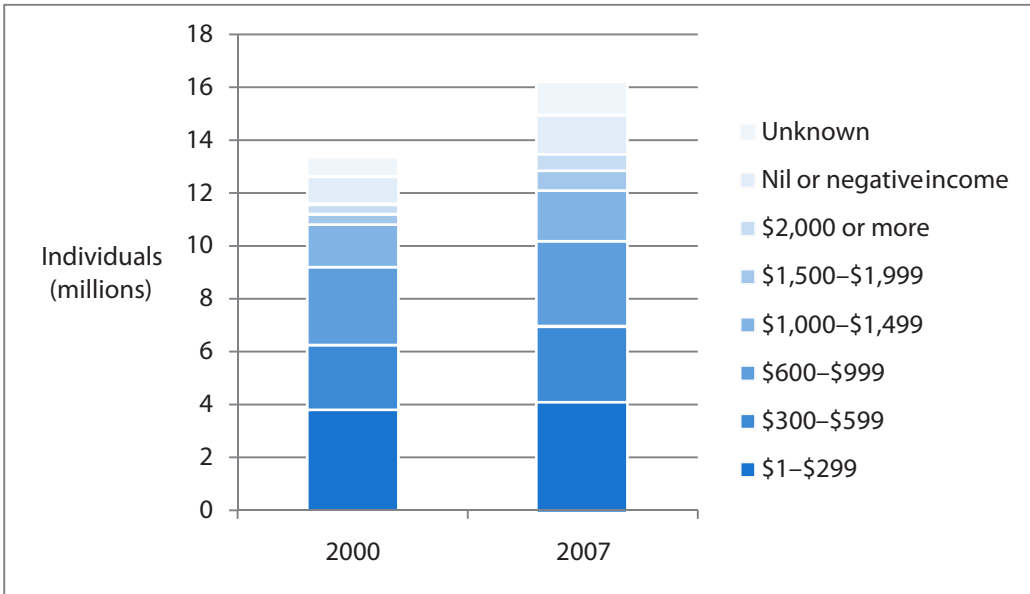
1.6 In the 2010–11 budget the Government proposed raising the superannuation guarantee rate from nine per cent to 12 per cent over the period 1 July 2013 to 1 July 2019, with increments of 0.25 percentage points in the first two years, and 0.5 percentage points in later years. The Government expects the measure to increase the superannuation savings of 3.5 million low income workers.

1.7 As shown in Figure 1.1 below, the number of workers with superannuation continues to rise. With the increase in the number of workers covered there is an increased chance of members losing contact with their superannuation funds. This is a growing issue, particularly given the increase in the proportion of low income earners with superannuation savings, for whom those savings are likely to be especially important. To assist individuals to reunite with their lost superannuation, the Tax Office facilitates a relationship between lost members and superannuation funds through the Lost Members Register (LMR).

1.8 The Tax Office's role becomes increasingly important as the value and importance of Australians' retirement savings grows. From 30 June 2005 to 30 June 2010, the number of superannuation accounts in Australia grew by 19 per cent, from 27 million to 32 million accounts. In the same period, the value of those accounts grew by more than 90 per cent, from \$625 billion to \$1.2 trillion. During this time, the number of accounts reported to the Tax Office as 'lost' had peaked at 6.4 million in 2008, and declined to 4.8 million at 30 June 2009. The number of accounts increased again to 5.8 million as at 30 June 2010. Over this period, the value of those accounts increased by 129 per cent to \$18.8 billion in 2010.

Figure 1.1

Employees covered by superannuation by gross weekly income



Source: ANAO analysis of ABS data.

1.9 Superannuation industry regulations protect members from having their small accounts (less than \$1000) eroded by administration fees.²⁹ However, this protection does not apply in respect of premiums for life insurance policies incorporated into many superannuation products.³⁰ In the context of the recent review of Australia's superannuation system, known as the Cooper Review, superannuation industry representatives have noted:

There is clearly an issue in regard to members' retirement savings being eroded by excess or unnecessary insurance premiums and this is made worse where people have multiple superannuation accounts from which premiums are being deducted.³¹

1.10 This matter is particularly relevant for 'lost' superannuation members, who may have lost contact with their superannuation funds or be otherwise unaware that they hold multiple superannuation accounts.

²⁹ *Superannuation Industry (Supervision) Regulations 1994*, Regulation 5.17 s2.

³⁰ *Superannuation Industry (Supervision) Regulations 1994*, Regulation 5.15D.

³¹ David Graus, *ASFA Submission – Super System Review – Phase Three: Structure (incl. SMSFs)*, Association of Superannuation Funds of Australia, Sydney, 2010, p. 2, available at <http://www.super.systemreview.gov.au/content/submissions/downloads/ASFA_100219.pdf> [accessed 2 February 2011].

The Lost Members Register

1.11 *The Superannuation (Unclaimed Money and Lost Members) Act 1999* (the Act) provides for the administration of the LMR. The LMR is intended to help workers, particularly casual and itinerant workers, who become 'lost' members due to loss of paperwork or disrupted employment patterns. The LMR aims to reunite members with their accounts before the money in those accounts becomes unclaimed.³²

1.12 In a 1992 policy statement the then Treasurer identified increasing industry concern with the issue of lost member accounts. This was especially related to itinerant and casual workers with 'broken employment patterns' who would be covered under the new superannuation guarantee legislation. The Treasurer proposed the creation of arrangements to 'maximise the prospects' of members receiving the benefits to which they were entitled.

1.13 The 1999 Act was designed to improve the efficiency of these existing arrangements, principally by consolidating provisions relating to unclaimed money and lost members which were spread over four items of legislation, extending the use of Tax File Numbers (TFNs) to the LMR, and allowing the Commissioner to publish details relating to unclaimed money. The objects of the Act relating to the LMR include:

- keeping a register of details relating to lost members; and
- matching of benefits of lost members and persons entitled to them.

1.14 Responsibility for the LMR was allocated to the Tax Office because of its experience in systems administration.³³ The Commissioner must keep a register of lost members that contains information given to the Commissioner by superannuation providers. The register may also contain any other information given to the Commissioner for other purposes and which is of the type contained in the register.³⁴

³² In general, unclaimed superannuation is a superannuation account that is payable to the Tax Office or to a state or territory authority because the member has reached the eligibility age (65 years), and for which the superannuation fund has not received a contribution in the last two years and has not been able, after reasonable efforts, to contact the member for five years.

³³ Superannuation (Unclaimed Money and Lost Members) Bill 1999, Second Reading Speech, Monday 23 August 1999.

³⁴ *Superannuation (Unclaimed Money and Lost Members) Act 1999* ss23(2).

1.15 Superannuation funds are responsible for determining if a member has become lost by applying the criteria defined in Regulation 1.03A of the *Superannuation Industry (Supervision) Regulations 1994*.

1.16 Generally, a member of a fund is taken to be a lost member at a particular time if:

- the member cannot be contacted because:
 - the provider has never had an address for the person; or
 - the provider has written to the person's last known address twice, and the letters have been returned as unclaimed mail; or
- the member has become inactive because:
 - they have been a member for longer than two years; and
 - the fund has not received a contribution or rollover in five years; or
- the member joined as a lost member from another fund.³⁵

1.17 When a superannuation fund determines that a member has become lost, Regulation 5 of the *Superannuation (Unclaimed Money and Lost Members) Regulations 1999* requires it to provide this information to the Commissioner of Taxation, in a specified format, by the prescribed LMR reporting dates. These dates are 31 October for the 6 months 1 January to 30 June in the same year; and 30 April for the 6 months 1 July to 31 December of the previous year. This delay between the date at which a member has become 'lost' and the date at which this may be reported to the Tax Office means that the LMR can only provide a snapshot of the extent of lost superannuation at any one time.

1.18 The provision of access to the LMR is an important part of the Tax Office's overall role in the superannuation system. The Tax Office offers two key mechanisms for members, tax practitioners and superannuation funds to search for lost members' superannuation benefits. These are:

- SuperSeeker; an internet-based tool which enables members to use their name, TFN and date of birth to search the LMR, and provides them with possible matches on their lost accounts; and

³⁵ This may occur, for instance, if a fund is winding-up and transfers its members, including its lost members, to another fund.

- SuperMatch; an Electronic Commerce Interface (ECI)³⁶ tool which superannuation funds can search on behalf of any of their members for lost superannuation that may be on the LMR.

Legislative changes

1.19 There have been three significant changes to the Act since its enactment in 1999. These were:

- the introduction of Simplified Superannuation (2007);
- changes allowing the payment to the Commissioner of superannuation entitlements of temporary residents who have departed Australia (2008); and
- changes requiring the payment of amounts held in small and insoluble accounts to the Commissioner (2009).

1.20 As part of the 2007 Simplified Superannuation initiative, the Act was amended to assist the Tax Office to establish a single access point for lost and unclaimed superannuation and a simpler national claims process, by allowing private sector funds to pass unclaimed monies to the Tax Office.³⁷ Previously, unclaimed monies were paid to state or territory authorities.

1.21 In 2008 the Government sought to reduce the number and value of lost accounts and unclaimed money in the superannuation system that arise when temporary visa holders leave Australia without taking their superannuation benefits. The changes allow these accounts to be treated as unclaimed money and transferred to the Commonwealth after the temporary resident has left Australia.³⁸

1.22 In 2009 the Act was amended to require superannuation funds to transfer monies held in small and insoluble accounts held by lost members to the Commonwealth. Small accounts are those that are valued at less than \$200. Insoluble accounts are inactive accounts for which the fund is satisfied that it

³⁶ ECI is the electronic commerce interface which allows superannuation funds and other businesses to interact electronically with the Tax Office. It is particularly designed to assist organisations that need to exchange large amounts of data with the Tax Office.

³⁷ *Explanatory Memorandum, Superannuation Legislation Amendment (Simplification) Bill 2007 (Cth)* p. 4.

³⁸ *Explanatory Memorandum, Temporary Residents' Superannuation Legislation Amendment Bill 2008 (Cth)*.

will never be possible to pay the account to the member because insufficient information about the member is available.³⁹

The Tax Office's administration of the Lost Members Register

1.23 The Superannuation Business Line administers the LMR, which is recognised as a distinct product for planning and reporting purposes. In 2005 the Tax Office restructured the administration of the Lost Members Register, assigning a role in its management to the:

- Operations (now Client Account Services) Business Line, for the operational aspects of superannuation products; and
- Information and Communication Technology Business Line, for superannuation IT systems.

1.24 In addition, there are several other business areas within the Tax Office that administer elements of the LMR, including:

- Marketing and Communications;
- Compliance Support and Capability;
- Change Program; and
- Tax Practitioner and Lodgement Strategy.

Identified risks

1.25 The Tax Office has identified a number of risks to the effective administration of the Lost Members Register, relating to superannuation funds' capacity to lodge timely, complete and accurate data on lost members, and to levels of awareness by the public of their lost superannuation and how to find it. The Tax Office has also identified risks to its internal capability to manage the LMR, noting that 'a significant element of the funding of the Active Compliance and LMR activities is scheduled to finish after 2010–11'.

³⁹ *Explanatory Memorandum, Tax Laws Amendment (2009 Budget Measures No 2) Bill 2009 (Cth)* paragraphs 473 to 477.

Funding for the LMR

1.26 The Tax Office has been provided with additional funds for superannuation administration by government on a number of occasions, including for the purpose of reducing the number of lost members on the LMR, or to improve its management. The Tax Office received a total of \$10.7 million over the three years 2004–05 to 2006–07 to conduct a ‘letters project’ that would promote the LMR and motivate individuals to identify and reclaim lost accounts. Additional funding for the LMR of more than \$100 million was included in Budget amounts allocated to Super Simplification measures⁴⁰ between 2007–08 and 2010–11.

The number of lost members

1.27 In its 2009–10 Annual Report the Tax Office reported that 5.8 million accounts with a value of \$18.8 billion were included in the LMR. This was an increase of 1 million accounts from the end of the previous financial year, and represented an increase in the overall value of lost accounts in that year of \$5.2 billion.

1.28 An earlier reduction in the number of LMR accounts, from 6.4 million in 2007–08 to 4.8 million in 2008–09, was attributed to ‘a full review of the information on the lost members register’ in preparation for an update to the LMR as part of the Change Program.⁴¹ Updates were made to more than 7.5 million taxpayer addresses to ensure that the accuracy of LMR correspondence was of the highest integrity.⁴² Since 2005 the Tax Office has also undertaken a number of other projects aimed at reducing the number of lost members. Despite this, the number of lost members had in most years continued to grow. Figure 1.2 below illustrates the changes in the number and value of lost member accounts.

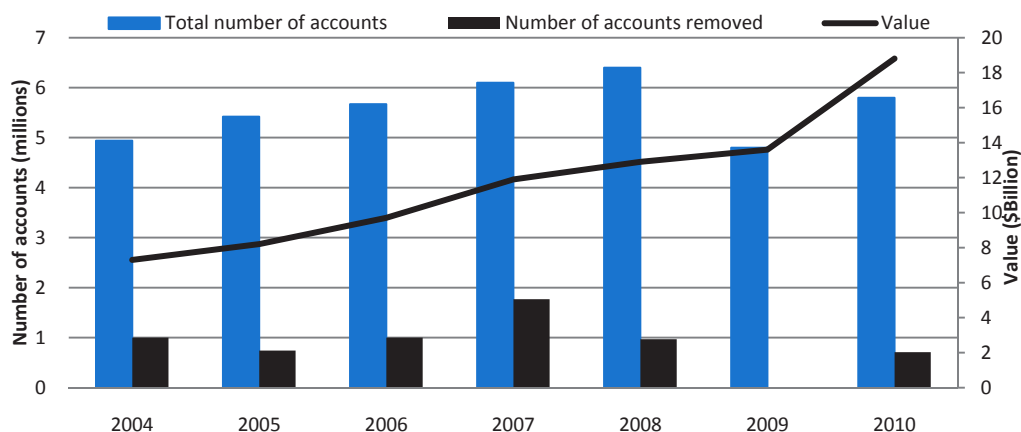
⁴⁰ Super Simplification is a 2006–07 budget initiative aimed at providing greater flexibility as to how and when superannuation can be accessed, and to improve incentives for older Australians to stay in the workforce.

⁴¹ Change Program is the name given to the Tax Office’s long-term project to replace its information and communications technology systems in support of its goal to make compliance with tax and superannuation law easier, cheaper and more personalised.

⁴² Australian Taxation Office, *Annual Report 2008–09*, Australian Taxation Office, Canberra, 2009, p. 51.

Figure 1.2

Number and value of accounts, and number of removed accounts since 2004



Note: Actual number of accounts removed for 2009 is unavailable. Reduction in number of accounts from previous year reflects net accounts removed and added.

Source: ANAO analysis of Tax Office information.

Categories of lost members

1.29 The definition of a lost member in the Act includes two sub-categories, which are referred to informally within the Tax Office and by superannuation funds as ‘inactives’ and ‘uncontactables’. Inactive members are members for whom no contribution has been made to their account for at least five years. Uncontactable lost members are those members for whom funds have had mail, which was sent to the member’s last known address, returned on at least one occasion.

1.30 While both categories are lost members according to the Act and therefore are required to be recorded in the LMR, both the superannuation funds and more recently the Tax Office have distinguished between these two sub-categories. Superannuation funds’ experience suggests that many of their inactive members are not ‘truly lost’, but rather have made a decision to leave their accounts in place even though they are no longer making contributions. This approach to inactive superannuation accounts was also identified by recent research conducted for the Tax Office on attitudes to superannuation in

Australia.⁴³ Fund managers cite instances where due to the requirement to contact members some individuals have, for a variety of reasons, been irritated at being 'tracked down' in relation to their inactive accounts where they were aware of the existence of those balances. On the other hand, research also indicates that many individuals appreciate being contacted about their lost superannuation.⁴⁴ The Tax Office believes that the inclusion of inactive members in reporting on the LMR may not give a true reflection of the size of the Register, and that its primary target for action is the uncontactable category of lost members.

1.31 The transfer of the LMR to the Tax Office's Integrated Core Processing (ICP) system,⁴⁵ has enabled the Tax Office to distinguish between these two categories of lost members. Differentiated strategies may be adopted for each type of lost member.

Matched and unmatched lost members

1.32 Lost member data reported to the Tax Office by funds is identity matched against Tax Office data. The Tax Office's processes for loading data into the LMR are discussed in more detail in Chapter 3.

1.33 Because the level of detail provided to funds by their members is sometimes limited, the Tax Office is not always able to confidently match the identity of a member reported by a fund to its own records. This means that some lost members remain 'unmatched' against Tax Office systems. The accounts of unmatched members are effectively not available for possible identification by the public or by superannuation funds. They are not searched by SuperSeeker, are not selected for direct contact activities such as letter and telephony campaigns, and cannot be linked to individual taxpayers through the Tax Office's individual tax return preparation software, e-tax.⁴⁶

⁴³ Joanne Trevelyan, *Understanding Superannuation Preliminary Report: Qualitative Investigation with Employers, Consumers & Industry*, Colmar Brunton Social Research, March 2010, p. 79.

⁴⁴ Ibid., p. 47.

⁴⁵ ICP is a suite of software, incorporating the key structural elements of a client register, an accounting sub-system and a generic forms-processing sub-system. The transfer of the LMR to ICP is discussed in more detail at various points throughout this report.

⁴⁶ The Tax Office's strategies for reuniting members with their lost superannuation are discussed further in Chapter 4.

1.34 The number of accounts held by matched and unmatched members in each of the sub-categories of Inactive and Uncontactable is detailed in Table 1.1 below.

Table 1.1

Lost member accounts by category at 30 June 2010

	Inactive ('000s)	Uncontactable ('000s)	Total ('000s)
Matched ('000s)	1 282	3 647	4 929
Unmatched ('000s)	71	857	928
Total ('000s)	1 353	4 504	5 858

Source: ANAO analysis of Tax Office data.

Approaches to the member categories

1.35 As discussed earlier, superannuation funds and the Tax Office agree that inactive members—whether matched or unmatched—are generally not ‘truly lost’. Although the Tax Office has not excluded inactive members from its campaigns in the past, it is likely to expend fewer resources on this group in the future, particularly as it is now able to differentiate inactive members from uncontactable members within its systems. Matched inactive accounts are available for searching by their owners in SuperSeeker, and by funds through SuperMatch.

1.36 Uncontactable members who have been matched to an individual recorded in Tax Office systems are the target of many of the existing strategies for reuniting lost members with their superannuation. They may be selected to receive a letter or telephone call to alert them to their lost account, and can successfully search SuperSeeker. Because the Tax Office has been able to identify up-to-date details for these accounts for which the superannuation funds do not have sufficient detail, the Tax Office is developing strategies to share this information with funds. This will enable funds to re-establish contact with these lost members.

1.37 Unmatched lost members—particularly uncontactable members with whom the superannuation fund is also unable to communicate—are largely unaddressed by current strategies. This represents the core group of lost superannuation fund members. The ANAO’s analysis of the makeup of the

LMR is discussed further in Chapter 3. The approaches the Tax Office uses to engage with lost members are discussed in more detail in Chapter 4.

Findings of Audit Report No.17, 2005–06

1.38 The ANAO previously reviewed the Tax Office’s administration of the LMR in 2005. That report concluded that the Tax Office had strengthened the overall governance of the LMR by implementing a new structure that was designed to integrate superannuation products with the Tax Office’s broader operations.

1.39 The Tax Office had established systems and controls to capture lost members data from providers. However, the audit found shortcomings in the Tax Office’s arrangements for estimating and reporting the cost of the LMR, in managing the completeness and integrity of both the LMR database and the data within it, and in efficient access to the LMR. These findings resulted in eight recommendations. While the Tax Office agreed with all of the report’s recommendations, it noted that it would not implement most of the recommendations as this would require systems redevelopment work.

1.40 Since that time, the Tax Office has included the LMR in its Change Program systems implementation project, providing the opportunity to redevelop its systems for the LMR. The Tax Office has reported to the ANAO that as a result it has implemented, or begun implementation of, all of the ANAO’s previous recommendations.

1.41 The Tax Office’s approach to the LMR has been to transfer its existing functionality into the new ICP environment. Rather than taking the opportunity to re-examine and re-engineer its processes for the LMR, the Tax Office has implemented a new system which largely reflects inherent shortcomings that were present in the older systems. The Tax Office’s implementation of the recommendations of the previous audit is further discussed throughout this report.

Joint Committee of Public Accounts and Audit review

1.42 The Joint Committee of Public Accounts and Audit (JCPAA) reported in August 2008 on its review of the ANAO’s report on the Lost Members Register. The committee made two recommendations in relation to the LMR. The first of these was that, in light of the significant funding provided for the letters project to promote the LMR and motivate individuals to identify and reclaim lost accounts, the Tax Office should evaluate and report on the

effectiveness of this campaign in reducing the number of members in the LMR. In its 2007–08 Annual Report the Tax Office reported that it had sent 2.2 million letters to the owners of 3.2 million lost accounts, and removed accounts worth \$1.36 billion from the Register.⁴⁷ There was no reference to an evaluation of letters campaigns in the 2008–09 report, and in its 2009–10 report the Tax Office noted that it had sent 52 984 letters and made telephone calls regarding 321 212 accounts. It did not provide any assessment of how many accounts had been removed from the LMR as a result of these activities.⁴⁸

1.43 In its second recommendation the committee supported the recommendations of the ANAO report. It urged the Tax Office to reassess the full implementation of the systems-related recommendations in light of the broader superannuation system changes already being undertaken in response to Superannuation Simplification and the Change Program.

Relevant ANAO reports

1.44 In addition to *Audit Report No.17, 2005-06, Administration of the Superannuation Lost Members Register*, there are four other reports in the ANAO's series of reviews of the Tax Office's administration of its superannuation responsibilities. These are:

- *Audit Report No.35, 2009–10, The Australian Taxation Office's Administration of the Superannuation Co-contribution Scheme;*
- *Audit Report No.19, 2007–08, The Australian Taxation Office's Approach to Managing Self Managed Superannuation Fund Compliance Risks;*
- *Audit Report No.52, 2006–07, The Australian Taxation Office's Approach to Registering and Regulating Self Managed Superannuation Funds; and*
- *Audit Report No.39, 2004–05, The Australian Taxation Office's Administration of the Superannuation Contributions Surcharge.*

⁴⁷ Australian Taxation Office, *Annual Report 2007–08*, Australian Taxation Office, Canberra ACT, 2008, p. 84.

⁴⁸ Australian Taxation Office, *Annual Report 2009–10*, Australian Taxation Office, Canberra ACT, 2010, p. 102.

Audit approach

Audit objective

1.45 The objective of the audit was to examine the Tax Office's administration of the Lost Members Register.

1.46 In particular, the audit examined the Tax Office's governance arrangements for the LMR; its strategies for managing data quality; and its provision of access to LMR data. The audit also looked at how the Tax Office's administration of the LMR has responded to recommendations made in the ANAO's earlier review (Audit Report No.17, 2005–06 Administration of the Superannuation Lost Members Register), relevant changes in funding and legislation supporting the LMR, as well as the Change Program.

Audit criteria

1.47 To allow a degree of comparability over time in administrative effectiveness, the criteria for this audit reflect the key areas noted in the eight recommendations of the 2005–06 audit. While addressing the implementation status of the previous recommendations, the criteria also allow for a review of issues arising since the 2005 audit. The criteria for the audit, and their relationship to the recommendations of the 2005 audit, are illustrated in Table 1.2 below.

Table 1.2

Audit criteria

Governance—Audit Criteria	Prior Recommendations Addressed
Does the Tax Office have systems in place for transparent and accountable estimation and reporting of LMR costs?	Recommendation No.1: Improve the transparency and accountability of the financial sector levy by revisiting the model used to estimate LMR costs and providing relevant information to the Australian Prudential Regulation Authority to allow it to report on the ATO's costs in administering the LMR as part of the disclosure requirement under the Government's cost recovery policy.
Does the Tax Office have adequate assurance that the LMR is operating as intended and in accordance with legislation?	Recommendation No.3: Provide adequate assurance that the LMR is operating as intended and in accordance with LMR legislation by compiling baseline specifications and introducing robust controls.
Data Quality—Audit Criteria	Prior Recommendations Addressed
Does the Tax Office have strategies in place to encourage compliant reporting by superannuation funds and to identify non-compliant funds?	Recommendation No.4: Manage the completeness of lost member data lodgements by improving the functionality of the LMR system to record relevant compliance information particularly in relation to Non-Lodgement Advices and the transfer of members to eligible rollover funds.
Are the Tax Office's data capture and data matching processes efficient and effective and do they promote data quality in the LMR?	Recommendation No.2: Improve the efficiency and effectiveness of the lost member data capture and identity-matching process by identity-matching all lost member accounts prior to their inclusion on the Lost Members Register. Recommendation No.5: Improve the quality of data in the Lost Members Register by matching lost member data with other superannuation data sets received from superannuation providers.
Does the Tax Office have arrangements in place to share data on unclaimed superannuation with the states and territories?	Recommendation No.6: Improve the reporting of unclaimed superannuation monies by providers, and the quality of data stored on the LMR by establishing comprehensive data sharing arrangements with all state and territory holders of unclaimed superannuation.
Data Access—Audit Criteria	Prior Recommendations Addressed
Are the superannuation funds satisfied with the operation of SuperMatch?	Recommendation No.7: Improve the timeliness of SuperMatch exercises by identity-matching all SuperMatch input records before matching these against details stored on the LMR.
Is the Tax Office able to measure the effectiveness of SuperSeeker?	Recommendation No.8: Measure the effectiveness of SuperSeeker access by members by measuring and reporting on the proportion of SuperSeeker enquiries that result in a match with ATO records.

Source: ANAO.

Audit methodology

1.48 The ANAO conducted fieldwork and interviewed Tax Office staff from relevant Superannuation, Client Account Services and Finance business areas. The ANAO also examined relevant Tax Office documents and business plans, and analysed data in the Lost Members Register. A range of stakeholders were consulted, including the Department of the Treasury, the Australian Prudential Regulation Authority (APRA), superannuation industry groups, funds and administrators.

1.49 The audit was conducted in accordance with ANAO auditing standards at a cost to the ANAO of approximately \$293 000.

Report structure

1.50 The audit report structure reflects the current audit criteria, while taking into account the previous report:

- Chapter 2 examines the governance arrangements underpinning the administration of the superannuation Lost Members Register.
- Chapter 3 examines the Tax Office's approaches to managing the quality of data contained in the LMR. It addresses the Tax Office's processes for improving superannuation funds' compliance with their responsibilities to provide complete and accurate data, and the ways in which the Tax Office captures and analyses that data.
- Chapter 4 assesses the Tax Office's activities that provide access for the public and superannuation funds to the data contained in the LMR. This assessment includes the marketing and communications campaigns conducted by the Tax Office to encourage individuals and funds to access the LMR.

2. Governance Arrangements

This chapter examines the governance arrangements underpinning the Tax Office's administration of the superannuation Lost Members Register.

Introduction

2.1 Governance refers to the processes by which organisations are directed, controlled and held to account. It encompasses authority, accountability, stewardship, leadership, direction and control exercised in the organisation. Public sector governance is explained in the Australian National Audit Office (ANAO) Better Practice Guide, *Public Sector Governance*.⁴⁹

2.2 To assess the effectiveness of the Tax Office's governance arrangements supporting the administration of the LMR, the ANAO examined five key areas:

- organisational arrangements for administering the LMR;
- planning processes;
- risk management approaches;
- performance monitoring and reporting; and
- costing the LMR.

2.3 The costing of the LMR is also examined with reference to the 2005 audit. The ANAO also examined the extent to which the Tax Office has adequate assurance that the LMR is operating as intended and in accordance with legislation.

Organisational arrangements

2.4 The Tax Office is a large organisation, with an annual budget of \$3.2 billion and a staffing level of 21 766 for 2009–10. It had a presence at 61 locations across Australia at June 2010.⁵⁰

2.5 The management of the Tax Office is based on an integrated planning and management model. This model is framed around the ATO Plan and four

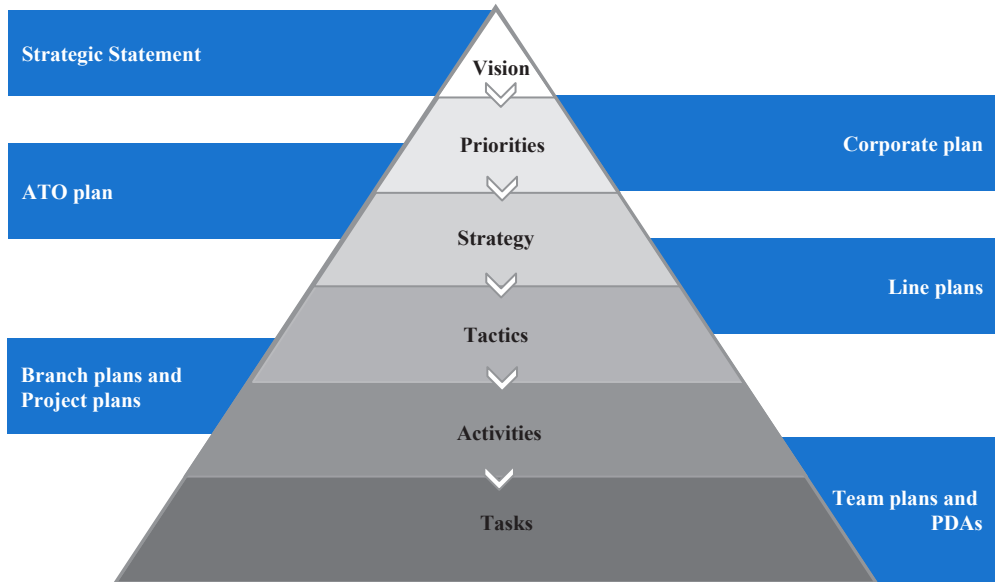
⁴⁹ ANAO Better Practice Guide—*Public Sector Governance*, July 2003, Canberra, volume 1, p. 6.

⁵⁰ Australian Taxation Office, *Annual Report 2009–10*, Australian Taxation Office, Canberra, ACT, 2010, p. 158.

associated sub-plans, and is applied to planning arrangements, the operation of executive committees and organisational management structures. Business and service lines are the delivery arms of the relevant sub-plans.

Figure 2.1

Line of sight through Tax Office planning processes



Source: Tax Office.

2.6 High-level arrangements for administering superannuation in the Tax Office are guided by the Compliance Sub-plan, and centre on the Superannuation Business Line. For governance and operating purposes, the Superannuation Business Line is divided into segments and further into functional units or product teams.

2.7 Responsibility for administering the LMR is held by the LMR Product Team, which is part of the Technical Leadership and Individuals Segment. The product team is led by a Director in Melbourne and comprises four staff. The main activities of these staff are: managing compliance risks and monitoring the effectiveness of mitigation strategies; developing marketing and education strategies; monitoring and reporting on the health of the administration of the LMR; providing product expertise and advice within the Tax Office and to other relevant bodies; contributing to the design and build of administrative systems; and managing administrative issues as they arise.

2.8 The management arrangements of the Superannuation business line within the Compliance sub-plan provide a strong focus on the strategic management of the LMR. Operational aspects are administered through the Enterprise Solutions and Technology (EST) and Operations sub-plans, which guide the provision of expertise in providing efficient and effective enterprise solutions and in managing taxpayer interactions with the Tax Office. The way in which the LMR fits into the sub-plan and business line framework is shown in Figure 2.2 below.

Figure 2.2

Principal areas of the Tax Office administering the LMR

Sub-plan	Business Line	Area	Role
COMPLIANCE	Superannuation	LMR Product Team	Responsible for risk analysis and intelligence regarding LMR, including developing risk mitigation strategies and managing general LMR issues.
		Superannuation Marketing and Education	Develop and undertake a range of marketing and education activities for the LMR product.
		Superannuation Active Compliance Capability Area	Conduct audits and reviews of superannuation funds Lost Member Statements using a combination of phone, desk and field activities.
	Tax Practitioner and Lodgement Strategy	Lodgement Compliance	Monitor Bi-annual Lost Member Statement lodgements. Provide reminder calls if required.
OPERATIONS	Client Account Services	Superannuation New Measures Team	Maintain system data, monitor and process forms and exceptions, provide reporting.
		Outbound Capability	Provide frontline services to the community. Call and send letters to LMR account member.
ENTERPRISE SOLUTIONS AND TECHNOLOGY	ICT	ICT	Provide ICT systems: infrastructure and architecture.

Source: ANAO analysis of Tax Office information.

2.9 While these arrangements allow business lines to focus on their core roles and areas of expertise, they also introduce a degree of complexity to the management of products such as the LMR. To manage the LMR in a coordinated way across the multiple functional units involved in its administration, the Tax Office has established a range of operating, committee, reporting and consultation arrangements.

2.10 At the activity and tactical levels, team leaders in the Superannuation LMR Product Team, CAS (Client Account Services) Superannuation New Measures Team and CAS Outbound Capability hold a weekly meeting to discuss current activities, examine trends in the make-up of the LMR and identify issues and areas of overlap between their various areas of responsibility. This forum's capacity to account for and maintain continuity of its own management processes would be further improved if the outcomes of these regular meetings were more formally documented in summary form and monitored.

2.11 Both Superannuation and CAS are represented on the Superannuation Risk Sub Committee (SRSC). The SRSC is responsible for identifying, assessing and prioritising superannuation compliance risks arising from client behaviour, administrative design and deficiencies in the law. The committee advises the Superannuation Product Committee on compliance risk priorities, and is the custodian of the superannuation risk register. The Superannuation Product Committee, in turn, advises the Compliance Executive Meeting (CEM) and the ATO Executive about superannuation products.

2.12 While these and other processes are in place to facilitate appropriate communications between areas responsible for the various elements of LMR administration, Tax Office staff advised that the nature of personal relationships and quality of interactions were at least equally as important. While the diverse framework in place for the administration of the LMR is adequate, given the range of different activities involved and the level of overlap with other superannuation products, the complexity of these arrangements means that they will require communication between business lines and overall monitoring.

Planning processes

2.13 A sound organisational planning framework is an essential element of effective governance. The Tax Office's high-level planning documents, particularly the Strategic Statement,⁵¹ Corporate Plan,⁵² Outcome and Program Framework,⁵³ and ATO Plan⁵⁴ set the overall direction for the organisation.

2.14 To determine whether planning for the administration of the LMR adequately addressed strategic and operational risks to support the achievement of program objectives, the ANAO analysed whether the relevant plans were cohesive and provided adequate performance measures.

Determining strategic priorities

2.15 The objects of the Act relevant to the Tax Office's role in administering the LMR include:

- the keeping of a register of details relating to lost members, so that the benefits of lost members can be claimed by persons entitled to them; and
- the matching of benefits of lost members and persons entitled to them.⁵⁵

2.16 The Tax Office states that the role of the LMR is to 'not only maintain an accurate register but to also actively assist individuals to reunite with their lost super.' This statement relies on section 7 of the Act, which notes that 'an aim of the scheme would be to reduce at an early stage the number of accounts which become unclaimed money'. This aim is reflected in the strategies developed for the LMR, such as the various letters campaigns that have been undertaken.

⁵¹ The Strategic Statement provides direction and a framework for the Tax Office's activities over a three-year period.

⁵² Collectively the Tax Office's four sub-plans form the *ATO Corporate Plan*. The Tax Office's sub-plans articulate the strategies, priorities, risks and performance measures it uses to manage performance in relation to outcomes to be achieved through the programs it administers.

⁵³ The Outcome and Program Framework builds on the Outcomes and Outputs framework introduced in 1999, and, as stated in the internal Tax Office document *Achieving our outcome – Applying our program framework*, is the 'building block of how the Tax Office delivers services and benefits to government and the community and provides a tangible link between government decisions, Tax Office strategies and the impacts of those actions.' The introduction of program reporting in the Tax Office aims to strengthen changes made to its outcome statement as part of the Government's Operation Sunlight reforms.

⁵⁴ The ATO Plan provides a consolidated view of all the sub-plans' work to support corporate priorities.

⁵⁵ *Superannuation (Unclaimed Money and Lost Members) Act 1999*, paragraphs 6(b) and 6(d).

2.17 The Tax Office's range of activities in this area is broad, and evidence that its pro-active strategies to re-engage individuals with their lost superannuation are effective is at present limited. In 2008 the then Minister for Superannuation and Corporate Law noted that 'initiatives such as SuperSeeker, SuperMatch and direct "write out" campaigns [have been] unable to stem the growth [of the LMR]'. The Tax Office notes that the value of accounts registered in the LMR has remained relatively constant when compared to total superannuation assets under management. There would be value in the Tax Office considering alternative strategies that concentrate resources on maintaining high quality data while continuing to provide targeted reminders to taxpayers about their lost superannuation, such as when they are approaching retirement, or through notices of assessment or e-tax. The Tax Office's strategies for re-connecting lost members with their superannuation are further discussed in Chapter 4.

Cohesion of LMR planning and performance measures

2.18 To be cohesive, planning approaches for the LMR need to be integrated with other relevant Tax Office plans, and identify and address key priorities, including by incorporating risk management processes and mitigation strategies relating to the LMR.

2.19 The Superannuation Product Plan guides the work of the Tax Office, and in particular the Superannuation business line, in the administration of Australia's superannuation system. It identifies the strategic direction for the administration of superannuation and aligns areas of focus for the business line with overall corporate priorities.

2.20 The work measures identified for the LMR in the Product Plan and its supporting business line and team plans were appropriately articulated into higher level plans, allowing for local task and activity measures to be 'rolled up' into higher level strategic indicators. However, the measures at all levels lacked clear and measurable targets, and were not clearly identified and reported against in management reports such as the monthly Line Report. The ANAO's better practice guide on performance information provides advice on developing useful and meaningful performance measures. The guide suggests that performance indicators and measures should:

- provide a balanced picture of performance and reinforce appropriate behaviour; and

- be the best available in terms of accurately reflecting what is being assessed and cost-effective to collect and report.⁵⁶

2.21 Superannuation Line Plans and Product Plans clearly specify the roles and responsibilities relating to aspects of the administration of the LMR within the Superannuation business line. The Product Plan also identified key internal partners, and their main roles, including CAS and EST. However, there was very little detail in either of these types of plans about the activities that CAS or EST would carry out in relation to the LMR. Similarly, there was no explicit coverage of the LMR in the CAS Line Delivery Plan.

2.22 To improve the coverage of the important relationships between LMR and CAS in key planning documents, the ANAO suggests that the Tax Office reviews the appropriateness of the coverage of these relationships in relevant Superannuation and CAS planning documents in future years. In addition, the Tax Office may find value in reviewing performance measures for the LMR at all levels of planning to assess whether they are specific, measurable, balanced and cost-effective to report.

Risk management

2.23 Risk management is an integral component of an effective governance framework. In accordance with the Tax Office's risk and issues management framework, the Superannuation business line has a responsibility for the identification, assessment and treatment of both internal and external risks that threaten the effective and efficient delivery of various products within its responsibility.

LMR risk management framework and its application

2.24 Risk is managed at many levels in any organisation. In the Tax Office this is broken down into three levels of detail: at the corporate level where 'enterprise' risks are managed; at the level of sub-plans, business and service lines and capability areas where 'operating' level risks are dealt with; and at the team and individual level where 'tactical' level risks are identified and managed. The Tax Office has a comprehensive system for identifying, prioritising and managing these risks.

⁵⁶ ANAO Better Practice Guide—*Better Practice in Annual Performance Reporting, Self Assessment Tool*, April 2004, Canberra, p. 2.

2.25 Strategic risks⁵⁷ relating to the LMR have been primarily identified as relating to a failure to lodge Lost Member Statements (LMS)⁵⁸ by superannuation funds, which may damage the Tax Office's reputation regarding its management of the superannuation system. The magnitude of this risk has been assessed as steadily declining in recent times, due to continued active compliance activity, improved reporting of lodgement outcomes to funds, and the introduction of alternative penalty regimes, which will enable the Tax Office to impose fines on funds that provide inaccurate LMSs.

2.26 An additional three risks relating to the quality of the data in the LMR were being managed at the product team level, and at June 2009 were assessed as being appropriately mitigated through marketing and communication activities, such as the LMR Protocol Document, and the 2008 re-report. A fourth risk related to the ability of the Tax Office to derive a TFN.⁵⁹

2.27 This assessment of the existing mitigation strategies suggests that the cause of the data problems within the LMR are recognised by the Product Team as arising at least in part from the design of the lost members reporting regime itself. Some degree of reliance was placed on the re-report—initially a one-off process to improve data quality in preparation for the move to the Tax Office's Integrated Core Processing (ICP)⁶⁰ system—to solve future risks to data quality. This process did not sufficiently acknowledge that the complexities of the existing 'exceptions' reporting arrangements had to some extent created the problems superannuation funds experienced in lodging quality data. Because the causes of the data quality issues were not sufficiently acknowledged in the assessment of strategic risks, short-term mitigation strategies were accepted as adequate, when long-term redesign of the reporting regime would have been more appropriate. The various business areas responsible for the LMR have begun working together to re-design the

⁵⁷ A strategic risk is a risk that is identified at an organisation-wide level that has been rated as 'high' or 'severe'.

⁵⁸ A Lost Members Statement is the bi-annual report by superannuation funds, required by the Act, of lost, found and transferred members.

⁵⁹ In 2010 these risks remained at similar levels, with the exception of the risk of non-lodgment of LMSs by funds, which is now assessed as 'low'.

⁶⁰ ICP is a suite of software, incorporating the key structural elements of a client register, an accounting sub-system and a generic forms-processing sub-system.

reporting system. Issues relating to the quality of the data in the LMR are discussed in more detail in Chapter 3.

2.28 Reflecting this environment, the March 2010 LMR annual product diagnostic⁶¹ found that the health of the system had deteriorated and was rated at ‘amber’ meaning that

the product is not fully healthy; caution is required; [there are] some specific risks that can be dealt with in the normal course of business but may have the potential to escalate; the area requires active monitoring, additional attention and some priority.

2.29 This heightened rating was entirely due to an assessment of the effectiveness and sustainability of the design of the LMR product. All other areas assessed during the diagnostic process, such as costs to operate, the role of intermediaries and policy factors, were rated as sound.

2.30 The most significant impact was the implementation of ICP for the LMR, which:

- caused lengthy delays in processing and a reduction of outbound campaigns (letters and phone calls to individuals on the LMR), meaning that the Tax Office did not meet its commitments to government for these activities;
- caused a ten-month delay in loading updated data to SuperSeeker;
- does not reject lodgements that contain significant ‘mismatches’ with previously lodged records;
- does not enable lost members to be found if their record does not provide sufficient information to identify a TFN;
- provides only limited operational analytics (OA)⁶² functionality, meaning that sophisticated targeting of lost members is not currently possible; and
- does not provide adequate internal management reports.

⁶¹ Product diagnostics are tools used by the Tax Office to analyse and document the health of a product and its risks, and the proposed mitigation of them.

⁶² Operational Analytics is the process of using queries to extract pre-defined sets of data from a database.

2.31 The deployment to ICP has brought some benefits, including:

- improved reporting to superannuation funds on lodgement of their reports; and
- an ability to differentiate between ‘inactive’ and ‘uncontactable’ account holders, which allows improved targeting of campaigns.

2.32 The approach to addressing LMR risks through the established risk management framework has generally been sound. This is reflected in the priority given to the accuracy and completeness audit program delivered by Superannuation Active Compliance, which seeks to address data quality issues by working with superannuation funds to ensure they report their lost members correctly. However, given the importance of ICP in enabling the mitigation of the strategic risks associated with data quality in the LMR, further resources could have been invested in helping to ensure that the new system delivered on more of the functionality specified by the Product Team. Shortcomings in ICP’s support for the LMR are further discussed in later chapters of this report.

2.33 The ANAO considers that there is scope to improve some elements of the application of risk processes to the LMR by better monitoring the effectiveness of the existing risk mitigation strategies, tracking key performance measures over time and including targets where possible.

Performance monitoring and reporting

2.34 Performance monitoring and reporting underpins sound management and governance. Ongoing and regular monitoring and reporting of performance supports agencies to manage programs and meet external accountabilities to the Government and the Parliament. In this regard, the Tax Office has emphasised the importance of using ‘meaningful and robust performance indicators to signal to the public and government the relative success of a program in meeting its objectives’.⁶³ Further, the timely collection and regular analysis and reporting of relevant performance information assists in more effective decisions about the ongoing resourcing and impact of LMR activities.

⁶³ Internal Tax Office document.

Internal performance monitoring and reporting

2.35 LMR administration is only a small component of the Tax Office's overall administration of superannuation. As such, input into core quarterly and monthly governance reporting mechanisms is typically integrated with other Superannuation and Tax Office-wide activities.

2.36 The key reporting mechanism for LMR activities is the monthly Superannuation line delivery report, which is 'rolled up' at the end of each year into an annual report. The Superannuation Executive Team uses the Line report to monitor progress on commitments to government, to track expenditure and progress towards targets at a 'portfolio' or branch level, and to align its work against Tax Office-wide program reporting.

2.37 The line reporting format provides a clear link between the work of the business line and higher-level program reporting requirements. However, not all of the tactics relating to the LMR identified in the 2009–10 superannuation line plan were subsequently reported against in the end-of-year line report.

External reporting of performance

2.38 External reporting through annual reports is a key mechanism by which agencies are accountable through the Government to the Parliament for the efficiency, effectiveness and economy with which they manage the resources they administer.⁶⁴ Internal reporting ideally provides the basis for external reporting.

Commissioner of Taxation annual reporting

2.39 Reporting in annual reports largely comprises the presentation of actual results against the specific performance standards for the outcomes and programs set out in an agency's Portfolio Budget Statement (PBS) and Portfolio Additional Estimates Statements.

2.40 The LMR's contribution to the programs identified in the PBS can be traced through the Tax Office's planning hierarchy, and it is not necessary to include specific measures relating to the LMR in high-level accountability documents such as the PBS. The Tax Office does report specifically on the LMR in its annual report in response to Section 41 of the Act which requires the Commissioner to give to the Treasurer, for presentation to the Parliament, a

⁶⁴ ANAO Better Practice Guide—*Annual Performance Reporting*, 2004, Canberra, p. v.

report on the ‘working’ of the Act after the end of the financial year. The Tax Office considers that this coverage in the annual report fulfils its responsibility to report annually on the Lost Members and Unclaimed Money Registers.⁶⁵

2.41 Coverage of LMR in annual reports is generally very brief and may not provide an adequate picture of the ‘working’ of the Act. The report sections generally do not, for example, provide trend data that would indicate the extent to which the Act is working to reunite members with their lost or unclaimed superannuation, or information on the extent to which superannuation funds are able to comply with their reporting requirements. LMR reporting also does not include the targets set for activities such as the letters and telephony campaigns.

2.42 The lack of performance targets and trend data that enable comparisons with previous years makes it difficult for readers to gain a clear understanding of the performance or extent of LMR activities. While the LMR remains a small area of responsibility for the Tax Office, more comprehensive reporting would enable a better understanding of the LMR operations and outcomes than is currently provided. The ANAO notes that the Tax Office now reports separately on the number of inactive and uncontactable members in the LMR. However, as the distinction between these two categories is not explained in the report, readers may not fully appreciate their meaning.⁶⁶

Costing the Lost Members Register

2.43 In its 2005 Report the ANAO noted that the Tax Office’s LMR activities are indirectly funded by levies imposed by APRA.⁶⁷ That audit found that the Tax Office’s method for calculating the amount to be recovered from industry through the levy was not sufficiently transparent, and in particular did not adequately reflect the Government’s cost recovery policy. The ANAO recommended that the Tax Office review its existing costing model and

⁶⁵ The Tax Commissioner’s annual reports to parliament include an appendix listing the laws administered by the Commissioner which include reporting requirements that are addressed by the annual report. See, for example Annual Report 2009–10 p. 152.

⁶⁶ Australian Taxation Office, *Annual Report 2009–10*, Australian Taxation Office, Canberra, 2010, p. 102.

⁶⁷ Financial sector levies are set to cover the operational costs of APRA, certain market integrity and consumer protection functions undertaken by the Australian Securities and Investments Commission (ASIC) and the Tax Office’s costs in administering the LMR. The levy is not paid directly to the Tax Office, but rather an amount equivalent to the levy is included in the Tax Office’s general appropriation.

provide greater information to APRA about its costings, in compliance with the cost recovery policy.⁶⁸

2.44 Shortly after the previous audit the Tax Office introduced a new organisation-wide Strategic Costing Framework (SCF), which maps activities (such as ‘provide tailored advice’) carried out by each organisational cost centre to the ‘market segment’ (such as ‘small and medium enterprises’) and the ‘revenue product’ (such as ‘income tax’) to which they relate. Indirect costs for corporate operations such as personnel management are also attributed to segments and products according to an established formula.

2.45 The SCF allows costs to be attributed at the sub-product level for superannuation products. This means that the LMR, along with other superannuation sub-products such as excess contributions tax, can be clearly costed regardless of which part of the organisation carries out the activities supporting them. This is important given the complexity of the management of products such as the LMR, where key activities are delivered outside the Superannuation business line.

2.46 The ANAO’s 2005 audit noted that the amounts collected through the financial sector levy had been consistently lower than the cost to the Tax Office of administering the LMR,⁶⁹ and these differences have become more pronounced since 2006–07, when additional funding for Super Simplification activities was introduced. Activities funded by special initiatives such as Super Simplification are not included in the calculation of the levy.

2.47 The Tax Office has cited the ANAO’s 2005 recommendation that the Tax Office revisit its costing methodology, and the introduction of the SCF as the reasons for increases in the levy.⁷⁰ However, this explanation does not appear to be entirely consistent with the changes in the Tax Office’s component of the financial sector levy. For example, although the SCF was introduced in 2005, the costs of the LMR passed on to industry through the levy did not increase until 2008–09. The rate of the levy and the actual costs to the Tax Office of the LMR are outlined in Table 2.1 below.

⁶⁸ ANAO Audit Report No.17 2005–06, *Administration of the Superannuation Lost Members Register*, p. 20.

⁶⁹ *Ibid.*, pp. 40–41.

⁷⁰ The Treasury and APRA produce a discussion paper for industry each year which outlines the proposed new levy and explains how it has been calculated and the reasons for any fluctuations. The Tax Office and ASIC provide details of their components of the levy in this discussion paper.

Table 2.1**Tax Office component of financial sector levy**

Year	Levy amount (\$m)	Actual cost (\$ m)	Shortfall (\$m)	Increase in levy (%)
2002–03	2.4	4.2 ^A	1.8	–
2003–04	2.4	6.2 ^A	3.8	0
2004–05	3.8	5.2 ^A	1.4	58.3
2005–06	3.8	6.3 ^B	2.5	0
2006–07	3.8	22.9 ^{B,C}	19.1	0
2007–08	3.8	45.9 ^{B,C}	42.1	0
2008–09	6.4	7.7 ^{B,C}	1.3	68.4
2009–10	7.3	15.7 ^{B,C}	8.4	14.1
2010–11	6.8	n/a	n/a	-6.8

Note A: As reported in ANAO Audit Report No.17 2005–06.

Note B: As reported in recent SCF calculations.

Note C: Significant fluctuations in the actual cost of the LMR from 2006–07 relate to activities funded through the Super Simplification initiative.

Source: ANAO analysis of Tax Office and APRA information.

2.48 The ANAO's 2005 report on the LMR also recommended that the Tax Office provide more explanation to the industry about how it calculates its portion of the LMR, in order to provide clarity to stakeholders regarding use of its levy monies.⁷¹ While APRA reported that the Tax Office was now providing more detailed information about the levy, this information consists largely of an explanation of the SCF used to calculate the levy amount.

2.49 One superannuation industry group has expressed concern that the Tax Office is exceeding its obligations in relation to providing the LMR service. A breakdown of the cost of LMR-related activities, such as communications and marketing, client contact and IT design, build and maintenance, would provide greater transparency to the industry regarding the services it is indirectly paying for. This breakdown would also make more apparent the components of the Tax Office's work on the LMR which have been funded through the levy and those funded through other budget appropriations, such as Super Simplification funds.

⁷¹ ANAO Audit Report No.17 2005–06, *Administration of the Superannuation Lost Members Register*, p. 43.

2.50 The budget allocated to the LMR in 2009–10 totalled some \$20 million, while actual spending came to some \$16 million. As illustrated in Table 2.2, the two major areas of expenditure included processing and accounts (\$9.8 million), carried out by CAS, and client contact (\$2.3 million) delivered by CAS and Customer Services and Solutions.⁷²

Table 2.2

LMR costs by activity 2009–10

Activity	Actual costs (\$'000)
Policy advice	209
Design & build administrative systems	1 145
Law design, legal services & law assurance	167
Registrations	571
Processing and accounts	9 815
Client contact	2 271
Marketing & communications	280
Interpretive advice & assistance	309
Active compliance & compliance risk identification	772
Government relations & issues management	140
Australian Business Register	14
Total	15 693

Source: ANAO analysis of Tax Office information.

Australian Government Cost Recovery Guidelines

2.51 All agencies governed by the *Financial Management and Accountability Act 1997* must comply with the Australian Government Cost Recovery Guidelines. These guidelines ‘provide a framework to assist agencies to design and implement cost recovery arrangements that comply with the cost recovery policy,’⁷³ and provide for a five-stage process for developing, implementing and reviewing cost recovery arrangements.

⁷² Customer Services and Solutions is responsible for delivering the Tax Office’s call centre operations.

⁷³ Department of Finance and Administration, Financial Management Guidance No.4—Cost Recovery Guidelines, Canberra, July 2005, p. 10.

2.52 Financial sector levies are raised under the *Financial Institutions Supervisory Levies Collection Act 1998* and six other Acts applying to the main industry sectors. They cover the cost of supervising these industries through APRA, as well as for some activities—including administration of the LMR—inherited by ASIC and the Tax Office from the former Insurance and Superannuation Commission on the creation of APRA.⁷⁴

2.53 The Government's cost recovery policy is activity-based, not agency-based.⁷⁵ APRA collects levies on behalf of the Tax Office and ASIC, who provide information to APRA each year on the costs of the activities which are to be recovered through the levy. The portion of the funds levied to cover the cost of the LMR is not paid directly to the Tax Office; the Tax Office funds the LMR from its general appropriations, rather than receiving an amount earmarked for the LMR.

Cost recovery calculation

2.54 The Cost Recovery Guidelines provide advice on which costs are appropriate for recovery. While the Guidelines allow agencies to include indirect or overhead costs in their cost recovery calculations, they also advise that if recovering indirect costs will have little impact on the agency's overheads or capital expenditure, it would be more appropriate to recover direct costs only.⁷⁶ The Tax Office states in its advice to industry that the LMR levy amount includes indirect costs. The total cost of the levy represents 0.2 per cent of the Tax Office's overall operating cost budget of \$3.2 billion. As indicated previously, fee receipts are returned to the budget and not to the Tax Office.

Cost Recovery Impact Statements

2.55 APRA has prepared Cost Recovery Impact Statements in relation to the financial sector levies, in accordance with the Cost Recovery Guidelines, and relies on the Tax Office and the Treasury for appropriate monitoring of the Tax Office's component of the levy. The Tax Office reported that no Cost Recovery Impact Statement had been prepared for the LMR.

⁷⁴ Department of the Treasury and the Australian Prudential Regulation Authority, *Review of Financial Sector Levies: Issues and Discussion Paper*, The Treasury/APRA, Canberra, April 2003, p. 1.

⁷⁵ *Ibid.*, p. 31.

⁷⁶ Department of Finance and Administration, *Financial Management Guidance No.4—Cost Recovery Guidelines*, Canberra, July 2005. p. 49.

2.56 While all cost recovery arrangements must comply with the Cost Recovery Policy and Guidelines, only ‘significant arrangements’ need to be documented with a formal Cost Recovery Impact Statement (CRIS). Significant arrangements include those with total receipts of \$5 million or more per annum.⁷⁷ The costs of the LMR are small within the Tax Office’s overall budget context, but they have nevertheless met the definition of significant arrangements since 2008–09. For pre-existing arrangements, the 2005 Guidelines require a CRIS to be prepared when material amendments are made, such as price changes greater than the Consumer Price Index.⁷⁸ In 2008–09 the cost of the LMR levy rose 68.4 per cent, from \$3.8 million the previous year to \$6.4 million, indicating that a Cost Recovery Impact Statement should have been prepared at that time.

Recommendation No.1

2.57 To provide greater transparency regarding the calculation of the financial sector levy, the ANAO recommends that the Tax Office provide greater clarity to APRA on the component costs of the LMR, and calculate these costs in accordance with the Australian Government Cost Recovery Guidelines.

Agency Response: *Agreed.*

2.58 The ATO proposes to provide, in consultation with Treasury who request Lost Members Register (LMR) cost information from the ATO each year:

- proposed costs of the LMR by deliverable; and
- a summary of activities to be undertaken on LMR administration in the upcoming year.

This information can then be included by APRA in their Cost Recovery Impact Statement.

⁷⁷ Department of Finance and Administration, Finance Circular No.2005/09—Australian Government Cost Recovery Guidelines, Canberra, 18 July 2005, p. 52.

⁷⁸ Ibid.

Compliance costs

Funds

2.59 A fund's primary LMR obligation is to lodge an LMS with accurate lost member data in a timely manner. Reporting problems generate errors and reverse workflows for funds, which result in a cost to the fund to rectify the error and resubmit the report.

2.60 A common view of superannuation industry representatives contacted as part of the audit was that compliance costs were usually at a reasonable level, but have been higher recently, largely due to the deployment of ICP and problems associated with the system's initial implementation. These representatives acknowledged that the Tax Office was aware of the costs and disruption to funds of changing IT systems, but they believed that the Tax Office nevertheless made more changes than the funds considered necessary. Indirect costs mentioned by funds and administrators included the cost of handling queries from members who have been contacted by the Tax Office.⁷⁹

Individuals

2.61 The design of LMR is such that 'found' members need to contact their funds, lodge forms and provide proof of identity if they wish to have benefits paid out or rolled over to their chosen superannuation accounts. This can impose costs on individuals who may need to pay to have proof-of-identity documents copied and certified. In addition, funds often charge exit fees to individuals claiming their benefits before retirement. Superannuation industry regulations protect members from having their small accounts (less than \$1000) eroded by administration fees.⁸⁰ However, this protection does not apply to premiums for the life insurance policies that are incorporated into many superannuation products.⁸¹

2.62 At 30 June 2010 there were more than 424 000 accounts on the LMR valued at less than \$20. While the costs of claiming are generally small, any additional costs can significantly deplete the value of small accounts, making them uneconomical to be reclaimed. Research on attitudes to superannuation conducted for the Tax Office also found that members can be discouraged from

⁷⁹ Chapter 4 provides further information about the Tax Office's work in contacting lost members.

⁸⁰ *Superannuation Industry (Supervision) Regulations 1994*, Regulation 5.17 s2.

⁸¹ *Superannuation Industry (Supervision) Regulations 1994*, Regulation 5.15D.

claiming small accounts because of the effort involved and the fees that have been applied to those accounts.⁸²

2.63 The recent changes to arrangements for small and insoluble lost accounts are designed to remove these accounts from the LMR, with these amounts being transferred to the Commissioner. Individuals will need to reclaim these accounts from the Tax Office, rather than from their superannuation fund, and may continue to incur similar costs in order to prove their entitlement to unclaimed accounts. However, no fees are deducted from these funds once they have been paid to the Tax Office.

Findings relating to Report No.17 2005–06, Recommendations 1 and 3.

2.64 The 2005–06 audit included two recommendations relating to LMR governance. One concerned the financial sector levy and the other related to database governance.

Recommendation No.1—transparency and the financial sector levy

Recommendation No.1

The ANAO recommends that, to improve the transparency and accountability of the financial sector levy, the ATO:

- revisit the existing model used to estimate LMR costs with a view to implementing a robust methodology for determining LMR costs; and
- 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.

2.65 The Tax Office advises that it has implemented this recommendation as follows:

(a) The ATO's costing methodology is the strategic costing framework (SCF). This was introduced in 2004/05 to provide the ATO with a single source of strategic corporate financial and FTE information which aligns with the ATO's outcome, output and enabling output framework. This process supports sub-output and output views of the organisation's budget, expenditure and FTE. ATO Finance is responsible for the administration of the SCF model. Business lines are responsible for the provision of driver

⁸² Corey Fisher and James Wunsch, *Investigating Superannuation: Quantitative Investigation with Superannuation Consumers Final Quantitative Report*, Colmar Brunton Social Research, February 2010, pp. 46–47.

information which is used to determine what proportion of overall costs are attributable to revenue products, super sub-products and market segments. The cost of LMR work is derived from information provided by all business areas undertaking LMR work. Specifically, information is provided by all business areas that undertake work on the superannuation revenue product on a monthly basis. Superannuation revenue product costs are then further attributed to one of the super sub products, one of which is the LMR.

(b) The Tax Office revised its Memorandum of Understanding with APRA to allow APRA to report on the ATO's cost in administering the LMR as part of the disclosure requirements under the Government's cost recovery policy. The updated MOU between the ATO and APRA was signed on the 28th May 2007.

There is a now new MOU with APRA for the Provision of Mutual Assistance and Exchange of Information for the period 1 September 2010 to 1 September 2013. Under Section 5—Financial Requirements of Administrative Arrangement 1 the ATO will provide the contact officer:

(a) the annual cost of administering the Lost Members Register (LMR) as soon as practicable after the completion of the annual audit of the ATO's financial statements; and

(b) the half yearly (July-December) cost of administering the LMR as soon as practicable.

2.66 As discussed earlier, the Strategic Costing Framework provides a robust methodology for budgeting and for reporting on actual costs across complex administrative structures. The Tax Office's current application of the SCF to the calculation of the financial sector levy may not comply with the Australian Government Cost Recovery Policy.

2.67 Similarly, the Tax Office has improved its reporting on LMR costs by describing for stakeholders the methodology it uses to calculate those costs. APRA also noted that the Tax Office's reporting in this area had improved since the 2005 audit. Providing more detail of the activities being funded through the levy would provide stakeholders with greater transparency.

Recommendation No.3—database governance

Recommendation No.3

The ANAO recommends that, to provide adequate assurance that the LMR is operating as intended and in accordance with the LMR legislation, the ATO:

- compile a complete set of baseline specifications to document the LMR system; and
- introduce a robust system of controls to maintain the currency and completeness of the LMR baseline specifications.

2.68 The Tax Office advises that it has implemented this recommendation as follows:

As part of the ATO's delivery of the Superannuation Simplification measure, the LMR has been re-factored as part of the ATO's Change Program delivery and now forms part of the Integrated Core Processing (ICP) system. The specifications to support the LMR are part of the ICP documentation suite, ie there are Form Designs, Service Designs, code tables etc all under document control and change control processes. The Change Program undertook law conformance reviews as part of its design and implementation process of which the LMR was subjected to prior to its phased implementation during September and October of 2008.

2.69 As the LMR has now been transferred to ICP through the Tax Office's Change Program, the ANAO understands that specifications and change control procedures have been developed for the new environment.

3. Data Quality

This chapter examines the Tax Office's approaches to managing the quality of data contained in the LMR. It addresses the Tax Office's processes for improving superannuation funds' compliance with their responsibilities to provide complete and accurate data, and the ways in which the Tax Office captures and analyses that data.

Introduction

3.1 Data quality is influenced by the ability of the Tax Office to ensure the information held on the LMR is accurate and complete. This ability relies on superannuation funds submitting timely, accurate records and on these records being appropriately captured by the Tax Office and presented correctly for access by the public.

3.2 To examine the Tax Office's management of data quality the ANAO reviewed:

- fund compliance—whether timely, accurate and complete records have been provided by superannuation funds in their LMSs;
- data capture—whether the Tax Office's procedures for entering data into its system and confirming the identity of lost members are working as intended; and
- data analysis—whether the Tax Office has systems in place to use the data for effective results.

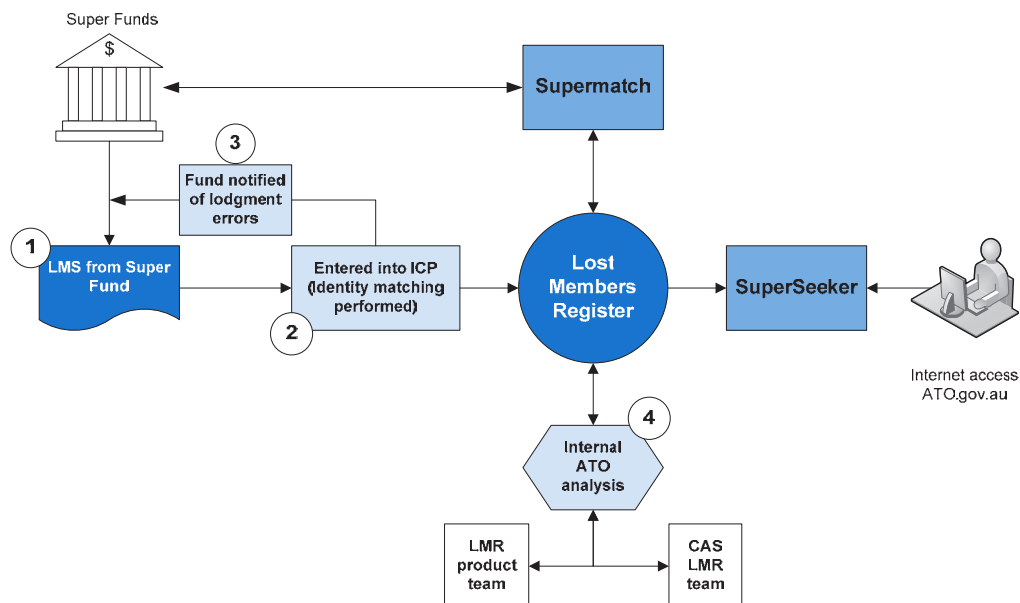
3.3 In examining these issues the ANAO also considered the extent to which the Tax Office has implemented the recommendations of Report No.17, 2005–06.

3.4 As shown in Figure 3.1 below, the process to capture and validate data for inclusion in the LMR has four main stages. These are:

1. receipt of an LMS from the superannuation fund;
2. entering data into ICP and associated identity matching;
3. outcome of lodgement reporting; and
4. internal Tax Office analysis, including data matching from other Tax Office sources.

Figure 3.1

Data capture and validation process



Source: ANAO analysis of Tax Office information

Fund compliance

3.5 The Tax Office must monitor superannuation funds' compliance with their obligations under the Act. The Tax Office has identified two main risks associated with the integrity of information supplied by superannuation funds for LMR purposes. These risks relate to the:

- lodgement of LMSs by superannuation funds; and
- accuracy and completeness of the information contained in superannuation funds' LMSs.

Lodgement of LMSs by superannuation funds

3.6 The ANAO examined Tax Office data about superannuation fund lodgement characteristics, and the associated lodgement compliance processes, to determine the effectiveness of the Tax Office in encouraging timely and accurate lodgement.

3.7 The Act and its associated regulations outline superannuation funds' reporting obligations, and the Tax Office explains these for funds in its LMR

Protocol Document, which is discussed later in this Chapter. These include the requirements to report lost, found and transferred member information in the approved form by the specified due date.

3.8 The approved form is the LMS, which must be lodged:

- for the half year 1 January to 30 June in a year—on or before 31 October in that year;
- for the half year 1 July to 31 December in a year—on or before 30 April in the following year; and
- if the Commissioner has granted an extension—on or before the extended due date.

3.9 This delay between the date at which a member has become ‘lost’ and the date at which this may be reported to the Tax Office means that the LMR can only ever provide a snapshot of the extent of lost superannuation at any one time. Reporting is compulsory, and where there are no lost member details for the period (because, for example, there are no new lost, found or transferred members to report), funds must still provide an LMS.⁸³

3.10 There are two main elements to the appropriate lodgement of LMSs—that funds do lodge as required, and that they lodge on a timely basis. The Tax Office has identified a strategic risk that significant rates of non-lodgement by funds will cause members to miss out on reuniting with their lost superannuation, and may as a result lose confidence in the Tax Office’s ability to manage the superannuation system.

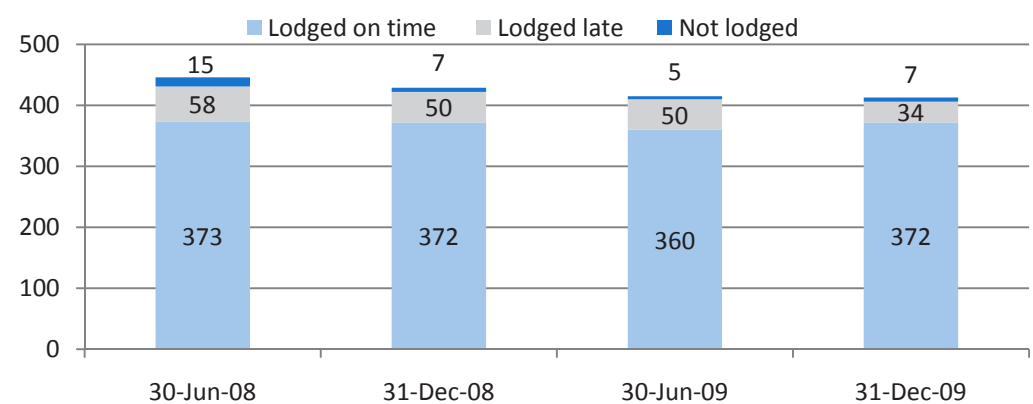
3.11 The Tax Office seeks to mitigate the risks of non-lodgement of superannuation returns, including the LMS, by using a targeted approach to high-risk funds and understanding the lodgement population. The Tax Office’s Tax Practitioner and Lodgement Strategy is responsible for compliance activity to promote the timely lodgement by funds of their LMS. This activity mainly involves contacting funds that fail to lodge a LMS, or in some cases contacting the funds before the lodgement due date to encourage timely lodgement. Figure 3.2 below shows the lodgement compliance by superannuation funds, with late and non-lodgement reducing from 16 per cent of those funds

⁸³ Before 1 July 2008, the LMR Non-Lodgement Advice (NLA) was reported separately to the LMS, and was not compulsory. Reports must be provided in the format set out in *Lost members statement – electronic reporting specification version 5.4*. Funds that have less than 100 lost members can choose to lodge via an LMS paper form.

required to lodge LMSs, to 10 per cent between 30 June 2008 and 31 December 2009.

Figure 3.2

Lodgement of LMSs by superannuation funds 2008–09



Source: ANAO analysis of Tax Office data

3.12 These strategies rely on the LMR Product Team’s knowledge of the population of superannuation funds to identify which funds should be submitting an LMS at each lodgement date. All APRA-regulated funds with five or more members must lodge an LMS each period, even if there are no lost members to report. However, if a fund has fewer than five members and no lost members to report they do not have to lodge an LMS.⁸⁴ The ANAO notes that this arrangement leaves a potential for the Tax Office to be unaware of the lodgement obligations of small APRA funds. However, given the size of these funds, and the current trend for funds of this size to transfer to an SMSF format, the risk of lost members remaining unreported remains low.

3.13 In June 2010, the Tax Office received the power to impose fines without court action for non-lodgement of LMSs.⁸⁵ As at October 2010 the Tax Office has not applied any such penalties for non lodgement, as it was developing procedures and training for staff to enable them to implement the new penalty

⁸⁴ *Superannuation (Unclaimed Money and Lost Members) Act 1999*, s24C.

⁸⁵ If a superannuation fund fails to provide the required lost members information by the relevant due dates they can be penalised up to \$11 000 (or \$55 000 for a corporate trustee). The new regime also applies to MCSs and Departing Australia Superannuation Payment (DASP) reports.

regime. The Tax Office notes that the rate of late lodgement by superannuation funds has consistently fallen over the past two years.

Accuracy and completeness of information contained in superannuation funds' LMSs

3.14 To address the risks associated with the lodgement of incomplete or inaccurate lost member data by funds, the Tax Office has adopted mitigation strategies involving both education and compliance. Key elements of these approaches have been the development of the LMR Protocol Document and a program of 'accuracy and completeness audits' of LMS reporting by superannuation funds.

LMR Protocol Document

3.15 The CAS business line's Client Relationship Team (CRT) provides a single point of contact for funds on any Tax Office superannuation issue, including the LMR. The CRT has provided one-on-one lodgement assistance and has run workshops to assist with common lodgement problems. Funds advised the ANAO of a good relationship with the CRT.

3.16 The Tax Office has produced the LMR Protocol Document which supports funds in meeting their reporting obligations by providing administrative and technical guidance, explaining key terms, describing better industry practices, and outlining practices to be adopted across the industry.

Accuracy and completeness audits

3.17 The Tax Office considers that without a prominent compliance presence, it runs the risk of an increased level of incorrect or incomplete data in the LMR, or both. Failure of funds to lodge superannuation returns continues to be identified as a strategic risk for the Tax Office. The Tax Office has received funding for LMR compliance activities in relation to the Compliance Challenges and Super Simplification initiatives.⁸⁶

3.18 LMR accuracy and completeness audits of funds typically examine four audit issues. These issues are whether:

⁸⁶ Compliance Challenges was a budget-funded initiative launched in 2004–05 which sought to raise the level of voluntary compliance with taxation and superannuation obligations, and to allow the Tax Office to undertake additional compliance activities such as reviews and audits. Super Simplification was a 2006–07 budget initiative aimed at providing greater flexibility as to how and when superannuation can be accessed, and to improve incentives for older Australians to stay in the workforce.

- members reported as ‘lost’ had satisfied the inactive or uncontactable criteria or joined the fund as a lost member;
- all available member data was reported accurately and completely;
- members who ceased to be lost members of the fund were reported correctly as either found or transferred; and
- LMSs have been lodged on time.

3.19 The number of fund audits conducted encompassing LMS accuracy and completeness checks rose from two on their introduction in 2005–06 to 61 audits in 2008–09 before declining to 15 in 2009–10. In the past, accuracy and completeness LMS audits have had mixed findings. For example, in 2007–08, 32 audited funds (59 per cent) had an adverse finding returned against at least one audit issue, and the remaining 22 funds audited were found to be compliant across all audit issues. These trends have continued, with 60 per cent of audits conducted in 2009–10 identifying adverse findings. Table 3.1 below summarises the adverse findings against the four issues routinely examined in LMR accuracy and completeness audits for the reviews conducted in 2009–10 that were not ‘follow-up’ or ‘rectifications’ audits.

Table 3.1

Adverse findings in new LMR audits 2009–10

	Meets ‘lost’ criteria	Data accurate and complete	‘Found’ members reported	On-time lodgement
Fund 1	Compliant	Compliant	Non-compliant	Compliant
Fund 2	Non-compliant	Compliant	Compliant	Compliant
Fund 3	Compliant	Compliant	Non-compliant	Non-compliant
Fund 4	Non-compliant	Compliant	Non-compliant	Compliant
Fund 5	Compliant	Compliant	Non-compliant	Compliant
Fund 6	Non-compliant	Compliant	Non-compliant	Compliant

Note: Wholly compliant funds and follow-up or ‘rectification’ audits excluded.

Source: Tax Office.

Fund selection for accuracy and completeness audits

3.20 The LMR Product Team is responsible for audit strategy and fund selection, while the audits are conducted by Active Compliance teams. The LMR Product Team had identified the need for operational analytics capabilities which would help it to target funds for audit, based on criteria

such as the ratio of total members to lost members, or a low proportion of TFN quotation. This capability was not provided with the transfer of the LMR to ICP. As a result, fund selection for accuracy and completeness audit targeting involves substantial manual work.

3.21 Funds can be selected for audit in relation to a range of superannuation obligations, such as LMR reporting and the Member Contributions Statement (MCS) required for co-contribution purposes. Active Compliance teams attempt to coordinate audits that address a range of products in a single fund and minimise the impact on funds. Some fund administrators—which provide membership management services to a large number of funds—noted that there are efficiencies for both administrators and the Tax Office in targeting the range of funds which use a single administrator. Such an approach could lessen the inconvenience caused to administrators, while also assisting Active Compliance teams in their role of identifying and addressing any systemic issues that may underlie accuracy and completeness problems.

Conducting accuracy and completeness audits

3.22 LMS accuracy and completeness audits are conducted according to well-defined audit processes, underpinned by the requirements of the Taxpayers' Charter to keep funds appropriately informed at key stages. Each month the Active Compliance team provides a summary, outlining any major findings, and findings for individual audits to the LMR Product Team. The summary also aims to outline the causes underlying common errors. Active Compliance's assessment is that the main causes of non-compliance with LMS requirements are:

- a lack of understanding of LMS requirements, often due to staff turnover;
- systems issues, made more complex by legislative changes; and
- inadequate quality assurance by funds.

3.23 The audit reports provided are comprehensive, and systematically follow the evidence gathered and report on how the funds' systems comply or not with the four issues. The ANAO considers the framework and core processes for these audits to be sound.

Data capture

3.24 LMR data capture and validation refers to the process the Tax Office uses to accurately capture incoming LMR data from LMSs submitted in a standard format by superannuation funds and processed by the Tax Office's IT systems. To encourage the timely and accurate provision of high quality LMR information from superannuation funds, the Tax Office maintains two lodgement options—paper and electronic format.

3.25 Electronic lodgement, which funds are encouraged to use, is the Tax Office's preferred option for a number of reasons, but particularly as it improves input data quality. The method of electronic data submission is through ECI, which caters for funds that need to submit information in bulk. ECI must be used if more than 100 members are being reported about in an LMS. Currently approximately 10 per cent of LMSs are lodged on paper.

ICP entry

3.26 LMSs are entered into Tax Office systems, either directly through ECI, or in the case of paper forms, through manual keying by Tax Office staff. Tax Office systems then validate the data by checking whether simple data structures and required components are valid.

3.27 Identity matching is performed as the data enters the ICP system. Both matched and unmatched forms are held within the LMR system. However, only matched forms can be selected for telephone or letter campaigns. These campaigns are discussed further in Chapter 4. Funds lodging an LMS through ECI receive an 'Outcome of Lodgement Report', which provides:

- summary details of the report's contents and of all error types found on rejected statements;
- a list of all rejected member records; and
- details of accepted records.

Management of lodgement errors

3.28 If LMSs submitted through ECI do not meet the Tax Office's data parameters, the system will not complete the process of loading the data into Tax Office systems for matching against existing records. If records are rejected, they are considered to have not been formally lodged with the Tax Office. Rejected records must be corrected and re-submitted for funds to meet their legal lodgement obligations. The data in the rejected records is retained

within the Tax Office's systems, adding to the total of data that must be stored and managed.

3.29 When an LMS contains errors it is first 'suspended', and an officer is notified that the report should be checked. While staff review the report, and may contact the superannuation fund to resolve errors, there is little monitoring of the trends in errors occurring in LMS lodgements. Monitoring of this data may provide an additional avenue for understanding the compliance issues faced by superannuation funds, leading to better quality data in the LMR.

3.30 There are also no internal performance standards governing the time in which lodgement errors must be resolved. As a result, suspended reports can remain 'stuck' in the system for long periods without being fully processed, and funds may subsequently report members as 'found' when the original lost report is yet to be processed, resulting in additional invalid data being lodged in the system.

Exception reporting versus full re-report

3.31 The Tax Office currently requires superannuation funds to report on their lost members using an 'exception' system. In this arrangement, for each reporting period, superannuation funds must report any member who:

- satisfies the definition of lost and has:
 - not been previously reported; and
 - does not meet the definition of a small and/or insoluble lost member account.
- has previously been reported as lost and has since:
 - been successfully contacted or re-established contact;
 - indicated by a positive act that they wish to remain a member (an example of a positive act is a telephone call or written communication);
 - been transferred to another superannuation fund;
 - been reported and their account paid to the Tax Office as Unclaimed Money (including small and/or insoluble lost member accounts and temporary residents), or

- been reported to a state or territory authority as unclaimed money.⁸⁷
- was previously reported in error.

3.32 An alternate method, which the Tax Office used in preparation for the transfer to ICP in 2008, is known as the ‘re-report’ method. Re-reporting involves the superannuation fund reporting the details of all of the members it considers meet the criteria to be considered lost at a point in time.

Exception reporting

3.33 Lost members who have been ‘found’ can only be removed from the LMR if their superannuation fund reports them as ‘found’ in its LMS. For the LMR to match the report of the ‘found’ member to its previously reported ‘lost’ member record, three data elements must be exactly matched in both the ‘lost’ and ‘found’ records. They are:

- the superannuation fund’s TFN;
- the member’s superannuation account number; and
- the member client identification used by the superannuation fund.

3.34 The volatility of membership of the superannuation industry means that there is a high risk that funds will mis-report the information required to match a found member with its lost record. The number of superannuation funds with lost members reporting requirements has reduced in recent years, largely due to funds winding up or merging with others, while the number of lost superannuation accounts continues to grow. Lost accounts that have been transferred to a new fund as the result of a take-over or merger, or have been rolled over into an Eligible Rollover Fund (ERF),⁸⁸ may have changes to any or all of the three data elements required for a match and its consequent removal from the LMR.

3.35 Where the required information is not supplied with the report of the found member, or is not exactly the same as the information supplied when that member was reported as lost, the Tax Office may be unable to match this

⁸⁷ Public sector superannuation funds are still required to transfer their unclaimed monies to the relevant state or territory authority.

⁸⁸ ERFs are superannuation funds which are designed to receive benefits that other funds do not want or cannot keep. If a lost account is transferred to an ERF, the ERF in turn will report the lost member and this may cause duplicate lost records on LMR.

information with the original record. This can cause ICP to reject the report of the found account and not update the information. As the LMR then retains the new form, even if it is not matched to the previous 'lost' report, this process can result in an additional record being held by the LMR, while not removing the originally reported lost account.

3.36 The incidence of this problem may be reduced by proposed changes to the use of TFNs by superannuation funds. In response to the recent review of Australia's superannuation system, the Government has released exposure draft legislation that proposes that funds be allowed to use TFNs as the primary means of identifying fund members.⁸⁹ This legislation forms part of the Stronger Super reforms and, if implemented on 1 July 2011 as planned, may increase the rate at which reports of found accounts can be matched to their corresponding 'lost' report by reducing the variation in one of the key data elements required to enable a match.

3.37 There are currently further problems in ICP which allow an additional group of found members to remain recorded in the LMR as lost. The ICP environment attempts to match all LMS reports to a TFN, so that the records of each account can be held against its owner's identity in Tax Office systems. Where the superannuation fund does not provide a TFN for an individual, the Tax Office may be able to derive a TFN from other information in the report. However, since the introduction of ICP, accounts reported as 'found' by superannuation funds and given a derived TFN by the Tax Office are not being removed from the LMR. In addition, some Tax Office identity matching processes are matching LMR reports to incorrect members.

3.38 The problems with the current exceptions reporting system mean that new errors are introduced to the LMR each reporting period, requiring an increasing level of resources to resolve them, and obscuring the true extent of the lost superannuation issue. The Tax Office conducted a re-report exercise in 2008—discussed further below—to eliminate these errors before the transfer to ICP. However, since that time reporting has returned to the previous exceptions system, and the Tax Office has already observed a deterioration in data quality in that time.

⁸⁹ Department of the Treasury, Exposure Draft – *Using Tax File Numbers as an identifier and to facilitate account consolidation*, Canberra, [Internet]. Department of the Treasury, [2011], available at <http://strongersuper.treasury.gov.au/content/Content.aspx?doc=consultations/tfn_account_consolidation/default.htm> [accessed 4 February 2011].

The 2008 re-report

3.39 In preparation for the transfer of LMR data to the ICP environment, the Tax Office required a full 're-report' of lost members data from superannuation funds. This required superannuation funds to report all of their members identified at that time in their systems as 'lost', regardless of whether they had been previously reported to the LMR.

3.40 The Tax Office reported that this:

significantly improved data on the register and resulted in the total number of reported lost accounts reducing significantly to 4.8 million (down 1.6 million from 30 June 2008), with only a relatively minor increase in the reported value to \$13.6 billion (up \$700 million from 30 June 2008).⁹⁰

This is the only time in recent years that the overall number of accounts on the LMR has reduced, suggesting that a significant number of accounts are once again recorded on the LMR in error.

3.41 The Tax Office put in place a number of checks before and after the re-report to help ensure that records were not incorrectly omitted from the new database. This included taking a 'snapshot' of the database, in order to examine and account for differences in the data before and after the re-report, and scheduling additional accuracy and completeness audits of funds' reports.

Ongoing re-reporting

3.42 The drop in the number of lost members following the re-report illustrates the extent of the difficulties funds have in providing correct data under the existing exceptions reporting regime. To address this issue the Tax Office is contemplating a full re-report at each lodgement date. This means that at each lodgement date, funds would report all of the lost members in their systems at each lodgement date.

3.43 Funds are supportive of this approach, and the results from 2008 would seem to indicate that this is a more satisfactory option. However, this approach means that the LMR database will essentially be re-written at each reporting date, as happened at the 2008 re-report.

3.44 The Tax Office needs to carefully consider the risks of this approach, and particularly the risks presented by losing historical information about lost

⁹⁰ Australian Taxation Office, *Annual Report 2008-09*, Canberra, 2009, p. 38.

members. For example, the LMR product team's experience is that 'newly lost' uncontactable members have a greater chance of being found than those that have been lost for some time, because they are more likely to recall that they have an account and to have retained documents confirming their ownership of the account. A full re-report each reporting period could make analysis of this type of historical information about lost members impossible. The Tax Office has proposed that a maintenance strategy to directly target newly lost members be implemented from 2010–11 onwards. This approach may not be possible if the Tax Office does not preserve details of the date at which a member becomes lost in its database.

Data matching

3.45 Data within the LMR can be matched to other data sets to fulfil two distinct purposes. The first of these is to verify that the information in the LMR is attributed to the correct superannuation fund or individual. The second enables the Tax Office to discover additional information about the member and their account which might assist them to be reunited.

Identity matching

3.46 The Tax Office matches LMR reports against existing client records in ICP to verify that the correct person (or superannuation fund) has been identified in the incoming lodgement. The process of matching members being reported as 'found' against those reported as 'lost' uses a different set of criteria, but nevertheless is intended to ensure that the correct individual has been matched with the incoming information. As already discussed, there are currently problems with both of these processes.

Identity matching confidence levels

3.47 The decisions the Tax Office has made about identity matching have an impact on how people can access LMR data about themselves and their lost accounts. After identity matching against existing Tax Office records, a pool of member accounts remains in the LMR that is regarded as 'unmatched' because the Tax Office does not have sufficient confidence that the information it holds can identify the correct person.

3.48 For most Tax Office activities it is crucial that the correct person has been identified, because decisions about identity can directly impact on their rights and obligations. This is not true to the same extent for LMR data. If a person finds an account on the LMR which appears to belong to them, they

will still need to provide sufficient proof to the superannuation fund (or to the Tax Office in the case of unclaimed money) of this ownership before they can reclaim the account. This means that the Tax Office may be able to tolerate a greater level of uncertainty regarding the initial identity matching of individuals in LMR records than would be appropriate for other types of data.

3.49 The Tax Office currently matches LMR data to a high degree of confidence. Confidence levels are determined by a scoring system, which gives weighted scores around a group of key identity elements. An LMR match requires a score of 70, meaning that there is a strong match on a number of data elements such as date of birth, name and address details in both the Tax Office's existing records and the LMR report. In comparison, a lower-scored confidence match might occur when there is a strong match between the person's name and only one or two other data elements, such as their postcode or another element of their address.

3.50 The Tax Office's key tool for enabling members to identify and claim their lost superannuation is the online search tool SuperSeeker. SuperSeeker requires searching using an individual's TFN. Any 'unmatched' records in the LMR—that is, any records that have not been matched against existing Tax Office information with a high degree of confidence—are excluded from the SuperSeeker search engine. This means that a decision not to accept a lower-confidence match precludes those otherwise unmatched records from being potentially identified through SuperSeeker.

3.51 The product team has flagged possible systems changes to decrease the number of unmatched accounts, through regular resubmission to the Tax Office's identity matching system, through manual examinations, or by allowing SuperSeeker searches without a TFN. The ANAO considers that the Tax Office should continue to explore these kinds of activities which may result in more individuals being able to find their lost accounts through SuperSeeker. The operation of SuperSeeker is discussed further in Chapter 4.

Matching with other superannuation information—internal sources

3.52 Once the identity of an account holder has been established the Tax Office is able to match LMR records with other data sources. This can establish additional information about the account-holder to assist in reuniting them with their lost superannuation. In addition to LMR reporting, the Tax Office obtains a range of other information about transactions that may be relevant to superannuation accounts and their holders. These include individuals' income

tax returns, MCSs from superannuation funds, and data held in the Unclaimed Money Register.

Income Tax Returns

3.53 Superannuation fund members can become lost if they are no longer making contributions to their account and their fund does not have an up-to-date record of their address. However, many of these people are required to lodge an income tax return with the Tax Office each year with their current contact details. This means that the Tax Office is likely to have current address details for many lost members with whom a superannuation fund has lost contact.

3.54 As seen in the Table 3.2 below, the number of members considered lost by their superannuation funds but who the Tax Office can match with a high degree of confidence to a current address make up a significant portion of the LMR. As at August 2010, there were 669 143 lost members holding 871 280 accounts who have also lodged income tax returns for the 2009–10 financial year. This represents almost twenty per cent of the uncontactable accounts recorded in the LMR, with a combined value of more than \$2.7 billion.

Table 3.2

Number of lost and inactive members recognised as lodging income tax returns per year

ITR year	Uncontactable accounts ('000)	Uncontactable members ('000)	Uncontactable value (\$'000)	Inactive accounts ('000)	Inactive members ('000)	Inactive value (\$'000)
2008	361	251	1 189 835	127	111	624 358
2009	1 593	1 175	5 783 982	661	589	3 724 924
2010	640	465	1 846 087	230	204	898 892

Note: Amounts are per year and are not cumulative. Figures are for returns lodged for each income year as at August 2010.

Source: ANAO analysis of Tax Office data.

3.55 In 2009 the Tax Office undertook a pilot project to provide up-to-date addresses of lost members to superannuation funds so that they can re-establish contact with their members.⁹¹ While the Tax Office found that this

⁹¹ The Tax Office obtained advice from the Privacy Commissioner that this use of LMR data was acceptable under the Information Privacy Principles.

process achieved similar rates of removal of previously lost members from the LMR to those achieved with letter and telephone campaigns,⁹² it is difficult to make accurate comparisons as the target groups for each campaign were different.

3.56 Superannuation funds have reported that they would prefer this approach to the current letter and telephony campaigns. While such an approach is likely to provide immediate results in terms of the volume of members represented on the LMR, the Tax Office should take care that it also supports the aims of the LMR legislation. Funds may require a high confidence match to allow them to verify members' details using Tax Office data. However, there are potential advantages in allowing lower confidence matches that would provide members with flexibility in searching for lost superannuation. The Tax Office could overcome these inconsistencies by recording the level of confidence it has applied to each matched identity and selecting lost member records for different types of action on that basis.

Member Contribution Statement (MCS)

3.57 The MCS is an annual report lodged by superannuation funds to enable the Tax Office to calculate entitlements to superannuation co-contributions, identify liabilities for excess contributions tax and monitor compliance with superannuation guarantee requirements. It contains information about superannuation account holders, their active accounts and their employers.

3.58 In 2010 the Tax Office began matching MCS data with the LMR to identify lost members—many of whom by definition have inactive superannuation accounts—who also have other, active superannuation accounts. Early results for this process appear promising. According to annual MCS returns for 2010, there were 275 175 lost members' accounts that could be matched to members who also had active accounts with the same superannuation provider. An additional 2 500 855 lost member accounts could be linked through MCS data to active superannuation accounts held with a different fund.

⁹² Letters campaigns have achieved a removal rate of 18 per cent, and telephone campaigns have achieved 16 per cent. The addresses pilot resulted in 19 per cent of members contacted being removed from the LMR. Letter and telephone campaigns are discussed in more detail in Chapter 4.

3.59 The Tax Office is aware that a significant hurdle to reducing the size of the LMR lies in encouraging lost members to take action in relation to their lost accounts. One of its strategies to address this problem is the development of the portability form attached to SuperSeeker. The form is designed to make it easier for lost members to claim or roll over lost accounts they find through SuperSeeker by pre-filling a 'request to transfer' with information from the LMR. By also drawing on MCS data about active superannuation accounts, the Tax Office could assist lost members to identify both the account they want to close and roll over and the account to which they would like to transfer their benefits. This information could also be important should the Government choose to pursue the previously canvassed policy of automatic consolidation of lost superannuation accounts.

Unclaimed Money Register

3.60 A purpose of the LMR is to prevent lost superannuation accounts from becoming unclaimed money, which must then be paid by superannuation funds to the Commonwealth. Generally, a superannuation account becomes unclaimed when it is lost and:

- has a balance of less than \$200;
- the fund is satisfied that it will never be possible, given the available information, to pay an amount to the member; or
- the account holder has reached eligibility age—usually 65 years of age.⁹³

In addition, funds must pay as unclaimed money accounts for which the Commissioner is satisfied that the account belongs to a former temporary resident and would have been payable to the person had they requested it.⁹⁴

3.61 There is a close link between the LMR and the Unclaimed Money Register. This is reflected in the administrative arrangements for the two registers, which are managed by the same product team in the Superannuation business line.

3.62 One of the key flags for an accuracy and completeness audit of a fund's LMR reporting is the inclusion of lost members who are aged over 65. These

⁹³ *Superannuation (Unclaimed Money and Lost Members) Regulations 1999* Regulation 4A.

⁹⁴ *Superannuation (Unclaimed Money and Lost Members) Act 1999*, s. 7.

accounts should be transferred as unclaimed money, and as a consequence could be removed from the LMR. Cross-checking between the two registers provides a useful quality check for both superannuation sub-products. However, there is no direct connection between these two databases, and only manual comparisons between the two are currently possible. This is likely to become a more significant issue as the number of unclaimed accounts being transferred to the Commonwealth under the new small and insoluble accounts rules becomes greater.

Recommendation No.2

3.63 To improve the efficiency and effectiveness of both the Lost Members Register and the superannuation Unclaimed Money Register, the ANAO recommends that the Tax Office explore the benefits of linking these two databases as part of any future IT redesign.

Agency Response: *Agreed.*

3.64 The ATO acknowledges the benefits of improving the capacity to interrogate and analyse both databases. The options for achieving this will be assessed and, where required, added to the design scope of any future IT redesign

Matching with other superannuation information—external sources

3.65 The Tax Office is increasingly using external sources of data, matched against the data it already holds, in its compliance activities. Consideration has been given to matching LMR data with data sets such as state government death records, which would assist in identifying lost accounts which should be transferred as unclaimed money. However, the Tax Office believes that, as its own systems contain triggers for recording the death of a taxpayer, the additional certainty provided by more authoritative data sets must be weighed against privacy considerations. This is particularly relevant for LMR information, which the Tax Office would need to share with superannuation funds to enable them to transfer unclaimed monies.

Data analysis

3.66 Data analysis can help to highlight compliance issues and reporting errors, identify systemic data processing problems, and inform overall strategy by recognising trends in the population represented by the data. The Tax Office uses weekly reporting from the LMR database to track fluctuations in

the overall composition of the Register. The LMR product teams in both Superannuation and CAS receive regular reports on data characteristics such as the age range of lost members, the number of members who have lodged income tax returns, details of funds who have lodged their reports for each period, and the number of lost accounts held by each fund.

3.67 Regular data analysis is carried out to identify funds for accuracy and completeness audits or that require follow-up action for late or non-lodgement of LMSs. The Product Team reviews data to determine the number of candidates to be selected for particular communications campaigns. Key targets are high value accounts, multiple account holders, and lost members who are nearing 60 years of age.

3.68 Other analysis is performed at the fund level, and can identify systemic problems with funds' lost members reporting. The Product Team identifies funds that have reported members with extremely large balances and seeks reviews of these accounts to determine if they are accurate. In one instance, a fund which had reported 21 inactive accounts valued at \$65 million found errors in 16 of these accounts—valued at \$51 million—which meant that they had been reported as lost in error. The product teams in both Superannuation and CAS also conducted data checks and analyses as part of the 2008 re-report, to help ensure that data was not unintentionally lost during this process.

Management information

3.69 The LMR Product Team has identified a lack of internal management information from the database as a key area of concern since the transfer to ICP. While both regular and ad hoc reports are available, they often require significant levels of manual work in their preparation.

3.70 Under the Tax Office's management structures for the LMR, the Superannuation business line is responsible for the LMR product as whole, while the CAS business line is responsible for the development and management of the LMR database, and for the ongoing maintenance of the data within it. As a result, most data extraction and reporting from the LMR is managed in CAS.

3.71 CAS and Superannuation have agreed on the content of a weekly data report which serves many of the management needs of both business lines. Any ad hoc reports which the Superannuation LMR Product Team requires must be requested from CAS. While the relationship between the various LMR teams is a strong one, the LMR Product Team in Superannuation is aware that

requests for ad hoc reports represent a call on the resources of another business line. This can help to ensure that the Product Team has clearly considered and defined its data needs before making a request to CAS. It can also inhibit innovation in the team's strategies for addressing lost superannuation issues, as resources may not be available in CAS to assist with more investigative and/or experimental queries of the database.

3.72 Because the LMR Product Team, responsible for developing overall strategy for the LMR, has limited access to LMR data, the Tax Office may also be missing opportunities to identify systemic issues affecting the LMR data and to refine its LMR marketing strategies. Marketing of the LMR is discussed further in Chapter 4. The LMR Product Team has requested more direct access to LMR data to enable it to make these kinds of queries.

Operational analytics

3.73 OA is the process of using queries to extract pre-defined sets of data from a database. It is used to retrieve data from ICP to use in case management work and for outbound activities such as letters and telephone contact with lost members. These campaigns are discussed in greater detail in Chapter 4. With the introduction of ICP a new OA query was created for the LMR which would identify members and their accounts suitable for either letters or telephone contact—referred to as 'treatments'. When initially implemented in 2009, the new system took more than two days of full-time processing to load candidates for the two treatments and had to be abandoned. While manual 'work-arounds' are now in place, the OA available for LMR activities remains limited.

ANAO analysis of LMR data

3.74 Because the LMR Product Team currently has limited tools that allow it to analyse LMR data, the ANAO undertook data analysis of the unmatched accounts in the LMR. The ANAO selected this sub-set of the LMR because, as discussed in Chapter 1, unmatched lost member accounts—and particularly unmatched uncontactable members—are unlikely to be reunited with their owners using current Tax Office strategies.⁹⁵

⁹⁵ These strategies are discussed further in Chapter 4.

3.75 The data supplied by the Tax Office shows that, at 15 October 2010 there were 1.07 million unmatched accounts on the LMR. These were made up of 71 223 inactive accounts and 855 685 uncontactable accounts. The results of this data analysis are summarised in Appendix 1 to this report.

3.76 There are 44 data fields relating to the personal details of members and their accounts in each LMS. Of these fields, eight are mandatory. The remainder are optional, but funds must provide the information if they have it. Table 3.3 describes the eight mandatory fields.

Table 3.3

Mandatory reporting fields for lost members information.

Field name	Field format	Example entry
Member account number	Alpha numeric	ABC00123456789DEF
Member tax file number (TFN)	Numeric	123456789
Member sex	Alphabetic	M/F/U ^{A,B}
Member date of birth	Date	01012011
Member date of birth deemed	Alphabetic	Y/N ^B
Date account opened	Date	02012011
Member account balance	Numeric	0000123456 ^C
Member money status	Numeric	00/01/02/03/04/05/06/07/08/09/10 ^{B,D}

Source: Adapted from Electronic Reporting Specifications Lost members Statement v5.5.

Note A: Unknown.

Note B: Set valid entries only.

Note C: The last 2 numbers are cents so this entry is \$1 234.56.

Note D: Each number represents where money was paid to if account is a transfer.⁹⁶

3.77 Of the approximately 1 million unmatched records, only 78 do not include a family name for the member owning the account. Almost 99 per cent have an entry in the 'given name' field, 89 per cent have a postcode, and 83 per cent include a full date of birth. These accounts have not been matched against existing Tax Office records and therefore have been excluded from the SuperSeeker search function. This may be because there are errors in the information recorded in these fields which mean that the do not exactly match

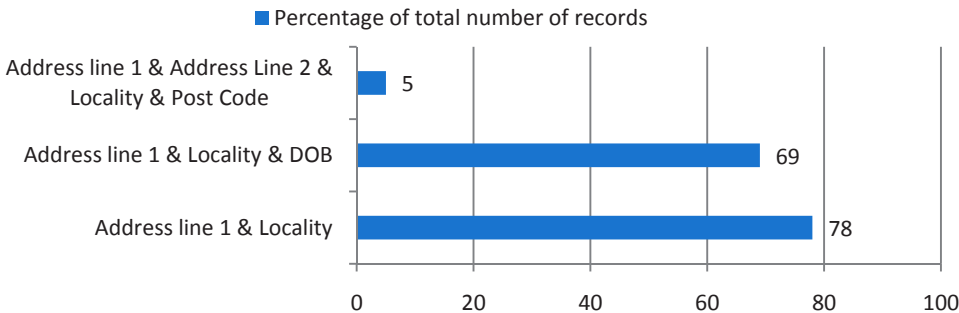
⁹⁶ These codes have the following meanings: 00-still held by reporting provider or paid to member; 01-paid to the ATO as USM; 02-paid to NSW as USM; 03-paid to VIC as USM; 04-paid to QLD as USM; 05-paid to WA as USM; 06-paid to SA as USM; 07-paid to TAS as USM; 08-paid to ACT as USM; 09-paid to NT as USM; 10-transferred to another superannuation provider.

Tax Office data, or because there is not a combination of information for an account that satisfies minimum Tax Office identity matching requirements.

3.78 Currently, SuperSeeker does not allow searching on unmatched accounts. However, a large proportion of unmatched records do include combinations of important information which, while it might not satisfy minimum Tax Office identity matching requirements, could help individuals to identify accounts which belong to them if it were made available. For example, 78 per cent of all unmatched records (both inactive and uncontactable) have an entry for both the ‘address line 1’ field (usually intended for a street name entry) and a ‘locality’ (such as a suburb). Records that have data for both of these fields plus a date of birth make up 69 per cent of the unmatched records. Figure 3.3 below illustrates these combinations of information, and Appendix 1 provides more details about the data available for unmatched accounts in the LMR.

Figure 3.3

Multiple values as percentage of total number of unmatched records



Source: ANAO analysis of Tax Office data.

Unmatched inactive accounts

3.79 As discussed in Chapter 1, both the Tax Office and superannuation funds believe that, generally speaking, members classified as ‘inactive’ are not ‘truly lost’. Inactive members are those whose accounts have not received a payment for at least five years, but with whom the superannuation fund believes it is still able to make contact. Since the implementation of the LMR in ICP, the Tax Office is able to differentiate between inactive and uncontactable accounts, and does not intend to make campaigns relating to inactive accounts a priority in the future.

3.80 There are over 71 000 inactive accounts on the LMR which are also unmatched because the Tax Office has been unable to identify their owners to a sufficient degree of confidence. While the total number in this category is small, it would on the face of it be unusual for the superannuation funds to be able to contact a member which the Tax Office cannot identify. Accounts in this category may, then, have been incorrectly reported as inactive, may represent entries with data errors, or could be an indicator of fraudulent activity.

Unmatched uncontactable accounts

3.81 The larger subset of unmatched accounts is the uncontactable group. These are accounts for which both the superannuation fund and the Tax Office has been able to identify an owner, and in many respects represent the core of the lost member issue. While matched uncontactable members may be able to be reunited with their superannuation in the future through the Tax Office's data, this is unlikely to happen for unmatched uncontactable accounts.

3.82 There are 855 685 unmatched uncontactable accounts on the LMR. The ANAO's analysis revealed a number of types of errors in the data recorded for these accounts which, if corrected, could potentially reduce the number of accounts in this category. For example, the ANAO identified 71 450 accounts for which the superannuation fund had included their own address instead of the address details of the fund member. A further 1 066 had entries such as 'return to sender' or 'return mail', rather than the last known details of the member. Another 19 053 had non-address information in the field such as 'unknown' or 'lost member'. While a single account record may contain more than one error, the total number of these types of errors was 91 569, or up to 11 per cent of the unmatched uncontactable population. These errors are summarised in Appendix 1.

3.83 It is important to note that correcting these errors will not necessarily enable these accounts to be matched, and in many cases this information is likely to have been entered because the available information was out of date, or no other address information was available. However, providing even partial or out of date address information, where available, may increase the likelihood of an account being matched to a member in the Tax Office's systems. This information could also be useful to members in identifying their

lost accounts should the Tax Office implement a more flexible search option for SuperSeeker.⁹⁷

3.84 While it is not the Tax Office's role to investigate funds' recordkeeping or information collection practices, it may be appropriate for the Tax Office to supply relevant information to APRA to assist it to discharge its obligations under the appropriate legislation. The ANAO considers this is an appropriate application of section 3.1 of the recently signed Memorandum of Understanding between the Tax Office and APRA:

3.1 Subject to legislative and operational considerations, the Agencies agree that information available to one Agency which is relevant to the responsibilities of the other Agency will be shared, in a timely manner, regardless of whether a request has been made by the other Agency.

3.85 This may include information about cases where returned mail has meant an original address has been deleted, the fund has not collected enough information for the proper identification of members, or has recorded its own address as the member's address.

3.86 Another category of potential error is the group of accounts which are recorded as lost but which should be paid to the Commonwealth as unclaimed money. This includes accounts for which the member is over 65 years of age, which are small (less than \$200), or are insoluble (the superannuation fund believes the member will never be able to be contacted). These accounts should be recorded on the Unclaimed Money Register, and could be removed from the LMR.

3.87 In the unmatched uncontactable group there are 21 991 accounts which appear to be held by people who are now over 65 years of age. There are also 492 630 accounts with balances of \$200 or less. Taking action to have these accounts transferred as unclaimed money, as is now required by the Act, would enable a further reduction in the size of the LMR. However, the Tax Office should be cautious about acting in this way on information which it does not believe is sufficient for other purposes because it is unmatched.

3.88 As for the unmatched category of accounts more generally, most unmatched uncontactable accounts have combinations of data elements which, while not satisfying Tax Office identity matching requirements, could help

⁹⁷ Searching using SuperSeeker is further discussed in Chapter 4.

individuals to identify accounts which belong to them. For example, 63 per cent of the records in the unmatched uncontactable subset have an entry for the 'address line 1' field and a locality. Unmatched uncontactable records that have data for these two address fields, plus locality and a date of birth, make up 4 per cent of the total unmatched uncontactable records.

3.89 There will always remain a pool of accounts which the Tax Office and superannuation funds will never be able to identify because insufficient information is available. For example, there are 99 808 unmatched accounts which have no address details provided. There may be benefit in the Tax Office defining, identifying and 'writing off' this sub-group, in order to report more accurately on the scope of lost member issues and continue to focus its priorities on those lost members that have greater potential to be identified.

Recommendation No.3

3.90 To assist in analysis of the population represented in the LMR and to devise appropriate strategies, the ANAO recommends that the Tax Office improve the LMR operational analytics, management reporting and data matching capabilities.

Agency Response: *Agreed*

3.91 The ATO will focus on improvements in:

- having internal management information more readily available requiring less manual preparation work;
- providing the LMR Product Team with more direct access to the LMR to improve capacity to identify systemic issues affecting LMR data and to refine its marketing strategies; and
- implementing an OA query which will identify members and their accounts suitable for outbound activities such as letters or telephone contact.

3.92 Improvements that require changes to core systems arising from the above will be added to the design scope of any future IT redesign.

Findings relating to Report No.17 2005–06, Recommendations 2, 4, 5 and 6.

3.93 The 2005–06 audit included four recommendations relating to the quality of LMR data. One concerned the financial sector levy and the other

related to database governance. These related to identity-matching processes, monitoring of funds' reporting compliance, and matching with other superannuation information, including information then held by state and territory authorities.

Recommendation No.2—identity matching

Recommendation No.2

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.

3.94 The Tax Office advises that it has implemented this recommendation as follows:

This recommendation was implemented with the introduction of lost member processing into the ATO's integrated core processing system. Only Lost Memberships which we have been able to match to a client with a specified confidence score are available for external interrogation (via supermatch/superseeker). Unmatched individual records are recorded against the Superannuation Provider and are available for internal action but are not publicly exposed.

3.95 As the Tax Office's response notes, although its new systems now conduct identity matching on all accounts before they are included in the LMR, there remain some accounts for which there is insufficient information provided by the superannuation fund to produce a match. The Tax Office's response to this recommendation addresses the issue of consistent treatment of lost members reports. However, the Tax Office's solution also introduces new access considerations, which the ANAO examines further in Chapter 4.

Recommendation No.4—compliance information

Recommendation No.4

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:

- obtain a comprehensive understanding of the number of providers that transfer their lost members to eligible rollover funds; and
- 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).

3.96 The Tax Office advises that it has implemented this recommendation in part as follows:

Significant changes were made to the LMR reporting specifications introduced in July 2008. The new specifications and LMS paper statements require funds with more than 5 members to lodge an LMS listing any lost, found or transferred accounts or if they have no lost members to report, a Non Lodgment Advice (NLA) which is mandatory.

This information enables the ATO to determine that, of the reporting population, which funds have & have not met their reporting obligations. In terms of risk, non lodgment of LMS is now considered low as the number of late/non lodgers has reduced markedly each reporting period and we are able to identify this population and undertake lodgment compliance action.

Additional information required when a fund lodges an NLA is the name of the fund that any lost accounts are transferred to. The data is then captured in ICP.

The name of the fund to which lost accounts are transferred is not presently required for other statements lodged by funds. Introduction of this reporting requirement is not proposed, as it would increase compliance costs for funds in circumstances where reported details do allow for tracking of accounts to eligible rollover funds (ERFs) where needed and show the value of accounts with ERFs.

3.97 As the Tax Office's response indicates, NLAs are now a mandatory part of the LMR reporting regime, and the incidence of non-lodgement of LMSs has been steadily reducing due to the strong relationship the Tax Office has built with the superannuation industry. Although the risk of non-lodgement has significantly reduced, the ANAO notes that the providers report requested by the LMR product team in the new ICP environment has not been delivered and that manual work is still required to identify non-lodgers.

Recommendation No.5—matching with superannuation data sets

Recommendation No.5

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.

3.98 The Tax Office advises that it has implemented this recommendation as follows:

Prior to the implementation of the Change Program, we implemented a range of data matching initiatives that improved the quality of data held on the LMR and which provided for a systematic matching regime within the capabilities of the system environment and data sets at the time.

Further improvements to data matching processes have been provided through the implementation of the Change Program and Superannuation Simplification processes. This has provided for an integrated systematic data matching process ongoing into the future. Complementing this is the requirement for a full re-report of lost members which was undertaken in October 2008. Reporting requirements have been enhanced with expanded mandatory fields, including tax file number and review of the lost member definition framework, eg “inactive” has been expanded from 2 to 5 years.

3.99 The ANAO notes the improvement in the range of data about lost accounts available since the deployment of the LMR into ICP. The Tax Office has also begun matching LMR data against Member Contribution Statements. The ANAO considers that these are important initiatives and encourages the Tax Office to continue to explore new uses of this data.

Recommendation No.6—data sharing regarding unclaimed superannuation

Recommendation No.6

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 also allow holders to properly address potential compliance risks relating to the transfer of unclaimed superannuation.

3.100 The Tax Office advises that this recommendation is no longer relevant to the administration of the LMR:

The recommendation is no longer applicable. Since 1 July 2007, unclaimed super money (USM) from private sector funds is paid to the ATO. Data on the LMR is analysed to determine the accuracy and completeness of both the LMR

and USM register and appropriate compliance activity is then undertaken to address discrepancies noted with the records held.

Note, in the May 2010 budget, a further announcement was made which will allow the States and Territories to transfer their existing stock of USM to the ATO. Since the election, legislation has again been presented in the House of Representatives. The Victorian Government has also passed legislation to allow for the transfer of its USM stock to the ATO.

3.101 While the issue of data sharing with the states and territories is no longer applicable, the aim of the recommendation was to allow the states to use LMR data to identify whether funds had correctly paid to them money that was now classified as unclaimed. As the Tax Office's response explains, these monies are now paid to the Tax Office, which undertakes analyses of both LMR and Unclaimed Money Register data. However, as noted previously, these two databases are not currently linked within the Tax Office.

4. Data Access by Stakeholders

This chapter assesses the Tax Office's activities that provide access for the public and superannuation funds to the data contained in the LMR. This assessment includes the marketing and communications campaigns conducted by the Tax Office to encourage individuals and funds to access the LMR.

Introduction

4.1 The LMR was established to maximise the prospects of superannuation fund members receiving the benefits to which they were entitled, by helping them to re-establish contact with their lost superannuation accounts. Members may lose track of their superannuation accounts because of broken employment patterns, such as casual and itinerant workers with multiple employers and superannuation providers, through loss of associated paperwork, or because the member was a temporary resident who has left Australia.

4.2 As part of its 2006 Super Simplification initiative, the then Government provided the Tax Office with additional funding to allow it to:

contact people with lost accounts and provide them with a simple standard form to complete if they wish to consolidate their accounts. The ATO would then organise the consolidation, avoiding the need for the individual to deal with multiple funds with different procedures.⁹⁸

4.3 As discussed in Chapter 2, the Tax Office continues to take this broad view of its role in reuniting lost members with their superannuation. This proactive approach informs its strategies for providing access to the LMR.

4.4 The Act allows the Commissioner to publish information (apart from TFNs) contained in the LMR, to allow individuals to identify and claim their lost superannuation. To facilitate this access the Tax Office has developed SuperSeeker and SuperMatch. These tools are supported by marketing campaigns and communication activities aimed at raising awareness of lost superannuation and how to find it.

⁹⁸ [Costello, Peter] (The Treasurer) [2006], Continuing superannuation reform, ministerial statement, Parliament House, Canberra, [Internet]. Department of the Treasury, [May 2006], available at <<http://www.budget.gov.au/2006-07/ministerial/html/treasury-03.htm>> [accessed 2 February 2011].

4.5 To assess the extent to which members are able to find their lost superannuation using the LMR, the ANAO examined the Tax Office's selection and monitoring of key access tools including:

- SuperSeeker;
- SuperMatch;
- communication and marketing strategies;
- proactive contact with lost members; and
- the portability form.

SuperSeeker

4.6 SuperSeeker is a web-based tool that provides a search facility for the LMR for individuals. Users must first 'log in' to SuperSeeker by completing a proof-of-identity check using their TFN, date of birth, and family and given names. SuperSeeker then returns any lost member accounts that have been matched to the TFN entered. Unmatched accounts are excluded from SuperSeeker searching.⁹⁹

Flexibility of searching

4.7 SuperSeeker uses the personal details provided by users to perform an identity check, and all of the required fields must be entered for a check to be initiated and any matching records returned. This means that if the Tax Office does not identity match a lost account to a TFN on its own system, the account owner will not be able to successfully search for this account, even if the account is registered on the LMR by a fund as 'lost'. If the individual does not pass the identity check by entering details exactly as they appear in Tax Office systems, SuperSeeker will not return a result. Even when all details are correct but additional information, such as an additional given name is entered by the individual, SuperSeeker will not provide a result.

4.8 Once the proof-of-identity check has been passed, any records that have been associated with the TFN through the Tax Office's identity matching processes will be presented to the user. This can include records with alternative names or spellings, provided that other information provided in the

⁹⁹ The categories of matched and unmatched members and their accounts are discussed in Chapter 1.

record, such as TFNs, other names, dates of birth or address details, combine to provide a sufficient match with other Tax Office data.

Table 4.1

Examples of search term matching

Search term	Tax Office data	Result returned (Y/N)
Robert	Robert	Y
Bob	Robert	N
Robert J	Robert	N
1/2/1975	1/2/1975	Y
2/1/1975	1/2/1975	N

Source: ANAO analysis

4.9 This reliance on proof-of-identity details to enable searching of the LMR serves as a potential barrier to reuniting lost members with their superannuation. The Tax Office recognises that there is a low number of successful searches of SuperSeeker, (59 per cent in 2009–10) due to incorrect TFNs, dates of birth, or name combinations being used as search terms.

4.10 If a search fails to find a lost account the results page suggests:

If you think you still have lost super you can:

- Conduct another search at this site in the future as funds are required to provide updated details of lost super to the tax office by 30 April and 31 October
- Contact your fund directly and ask them to conduct a search of their records.

Suggestions offered for finding details of previous funds that may be holding a superannuation balance for the member include contacting previous employers, unions or work colleagues.

4.11 Where an account exists for an individual on the LMR, the Tax Office has concerns that unsuccessful SuperSeeker searches could result in people assuming that they have no lost superannuation and therefore not accessing their lost and unclaimed accounts. The response provided by SuperSeeker to an unsuccessful search does not suggest that there may be lost accounts on the Register which have not been returned by an individual's search. So that members are not deterred from looking further, the Tax Office could better explain why a search might not have been successful and consider offering

further suggestions for identifying lost superannuation, such as alternative search terms, or contacting the superannuation hotline.

4.12 An example of a more flexible database search interface is the Australian Security and Investments Commission (ASIC) 'Fido' search. ASIC retains information about lost bank accounts, Australian shares and life insurance policies, and provides an online search service to allow individuals to find these assets.¹⁰⁰ A simple Fido search requires only a single name—either a family or a given name—and returns details of all potential lost account names and amounts, the account owner's name,¹⁰¹ and an associated address. However, the Fido search is similar to SuperSeeker in that it only performs a search for an exact match, and will not return similar entries, such as returning results for 'Rob' when 'Robert' is used as the search term.¹⁰²

Identity matching confidence levels

4.13 As discussed in Chapter 3, the LMR system is based on accurate TFN matching to identify individuals. However, the superannuation system does not require a TFN for an account to be opened.¹⁰³ In addition, the level of information required to open a superannuation account varies between funds. As a result, a lost member may be identified in the LMR with sufficient information to discover an account that is likely to belong to them, but with an insufficient level of confidence for other Tax Office purposes.

4.14 If the Tax Office were to provide the results of potential matches with a lower level of confidence for searching by SuperSeeker than is currently required, a larger range of accounts would be searchable and therefore available for possible claim by their lost owners. An additional advantage of more flexible approaches to matching and searching through SuperSeeker would be the ability of legitimate beneficiaries, other than the lost member—

¹⁰⁰ See Fido <<http://www.fido.gov.au/unclaimedmoney>> [accessed 2 February 2011].

¹⁰¹ The account owner's name may be different from the account name if, for example, an individual takes out a policy to insure a spouse's life.

¹⁰² Australian Securities and Investment Commission, *Search Tips* [Internet]. Australian Securities and Investment Commission, [Canberra], available from <<https://www.edge.asic.gov.au/unclaimed/searchtips.html>> [accessed 2 February 2011].

¹⁰³ However, superannuation members who do not provide their TFNs cannot make personal contributions to their accounts or claim superannuation co-contributions.

such as beneficiaries of deceased members¹⁰⁴ or former spouses—to identify accounts of whose existence they may not have been aware.

Privacy of lost member information

4.15 The Act does not prevent the Tax Office from providing, and allowing searching on, similar information to that provided by ASIC through Fido. Section 44 of the Act gives the Commissioner discretion to publish any information contained within the LMR:

(1) The Commissioner may authorise information in the registers mentioned in section 19 and subsection 23(2) to be:

- (a) published in the Gazette; or
- (b) made available to the public (whether or not on the payment of a fee) in such other manner as the Commissioner determines; or
- (c) made available to a particular person (whether or not on the payment of a fee) in such manner as the Commissioner determines.

The authorisation may extend to so much of the information in the registers as the Commissioner considers appropriate.

Tax file numbers must not be published or made available

(2) Subsection (1) does not apply to tax file numbers.

4.16 One possible way that the Tax Office could address the competing demands of access and privacy is by implementing a two-step search process. In the first step, a ‘basic’ search function, similar to that provided by ASIC, would reveal limited details of potential matches. Individuals could then log in for an ‘accredited’ search using their TFN and date of birth, which would check that the details revealed in the basic search are a correct match for the user’s TFN and other details. If this is the case individuals would then receive more detailed information about these matched accounts, and assistance with claiming them. Users who do not have sufficient information to log in, or who identify accounts with low confidence matches, could be directed to approach the superannuation fund holding the account to take further steps to substantiate their claims.

¹⁰⁴ Note, however, that deceased members should not appear in the LMR, as their accounts should have been transferred by the fund as unclaimed money.

Recommendation No.4

4.17 To improve the likelihood of members locating their lost superannuation, the ANAO recommends that the Tax Office consider reconfiguring the search functionality in SuperSeeker to allow members to identify potential matches, while continuing to appropriately protect privacy.

Agency Response: *Agreed.*

4.18 The ATO will assess options for broadening the initial search functionality in SuperSeeker as part of any future IT redesign, to allow members greater flexibility in searching, while continuing to appropriately protect privacy.

Other channels for accessing SuperSeeker

4.19 For individuals who do not have access to the online SuperSeeker, or who are reluctant to use the online service, the Tax Office provides an interactive voice response (IVR) telephone interface to search the LMR. This search requires callers to provide the same identifying details as for the online search.

4.20 Individuals can also call the Tax Office's superannuation hotline (13 10 20) to request a search, or they can complete and mail a hard copy form requesting a search. This last service does not require a TFN, and individuals can provide additional information which may enable their accounts to be identified, such as current and previous address details or information about past superannuation funds. However, if the form does not contain a combination of name, date of birth, address and TFN which the Tax Office considers sufficient to conduct a search, the individual will be sent a letter requesting further information. If there is sufficient information provided the officer will conduct a search of the LMR, and the Superannuation Holding Account and the Unclaimed Money Register, as well as superannuation guarantee and superannuation co-contributions information. Callers to the superannuation hotline can also request a search of other Tax Office systems, and this may reveal details of these other superannuation accounts which are not returned through an LMR search.

4.21 The Tax Office is able to compare the rates of use of SuperSeeker through these different channels. Table 4.2 below compares the number of hits on the SuperSeeker online page on ato.gov.au and the resulting number of searches, with the corresponding details for calls to the IVR service, the Superannuation information line, and for paper forms.

Table 4.2**Use of all SuperSeeker channels**

Channel	2007–2008		2008–2009		2009–2010	
SuperSeeker online						
	Total	% of views	Total	% of views	Total	% of views
SuperSeeker website views	1 185 688	100	635 216	100	1 303 893	100
Attempted SuperSeeker searches ^A	1 112 915	94	999 118	157 ^B	1 136 945	87
Successful SuperSeeker searches	782 106	66	680 041	107 ^B	739 954	57
Portability forms downloaded	Data not collected				50 793	4
SuperSeeker telephone						
	Total	% of calls	Total	% of calls	Total	% of calls
Calls for lost super to 13 10 20	Data not collected				32 300	100
Calls to SuperSeeker IVR	106 730	100	48 637	100	84 700	100
Successful SuperSeeker IVR searches	60 502	57	29 424	60	49 400	58
SuperSeeker mail						
	Total		Total		Total	
Paper forms received ^C	5 000		4 300		9 000	
Paper forms matched	Data not collected					

Note A: Searches attempted means individuals who completed identity verification. It does not necessarily indicate a successful search.

Note B: The Tax Office is unable to explain why the number of searches is greater than the number of views for this year.

Note C: Estimate only.

Source: ANAO analysis of Tax Office information.

4.22 While this data indicates that online searching is by far the most popular method for accessing SuperSeeker, there is insufficient information available to determine if it is also the most effective method. There may also be benefit in understanding the demographics of those people using each channel, to determine the extent to which different access channels are used by key target groups.

4.23 The Tax Office is able to track the proportion of online SuperSeeker searches that result in a match, and also which of these result in the individual downloading a portability form. This information is not available for the less-

used channels, although it is possible to track how many IVR users complete SuperSeeker identity verification. The Tax Office cannot currently advise how many searches result in the member subsequently being reported as found by their superannuation fund. This makes it difficult to measure the overall effectiveness of SuperSeeker and the tools associated with it such as the portability form, or to compare them with other strategies.

4.24 The Tax Office has identified as an area for further research the large number of calls to SuperSeeker IVR that are not completed. Understanding the reasons behind this result could provide important information for strategy development. Also, while the Tax Office is able to track the gross numbers of calls to SuperSeeker IVR, no demographic analysis is performed regarding these users, even though callers must identify themselves to the system in order to gain access. The Tax Office would be better placed to target its communication and marketing activities if it knew more about the profile of the people who are using SuperSeeker, whether successfully or not.

4.25 SuperSeeker is consistently one of the most visited pages designed to provide advice to individual taxpayers on ato.gov.au, which suggests that the marketing campaigns aimed at raising awareness of SuperSeeker and lost superannuation have had an effect. However, this high level of interest and awareness does not translate into an overall reduction in the size of the LMR. This may suggest that other strategies that enable members and funds to take this next step should be given greater emphasis. Without a stronger understanding, through clear and targeted management information and performance measures, about the operation of tools such as SuperSeeker, it will remain difficult to make improvements to the strategies designed to reunite individuals with their lost superannuation.

SuperMatch

4.26 SuperMatch is an ECI-based search function which allows funds to match, in bulk, details of their members against information on the LMR, the Superannuation Guarantee system and the Superannuation Holding Account. Funds can then inform their members of these amounts and arrange for them to be rolled over into their active superannuation account. Funds must have a digital certificate and Tax Office authorisation, and sign a formal agreement before access to SuperMatch is granted.

4.27 Superannuation funds generally reported to the ANAO that they found SuperMatch to be a useful tool for identifying lost accounts for their active

members. Some carry out an annual SuperMatch exercise, while others use the facility when they have new accounts. While the Tax Office reported to the ANAO that processing times for SuperMatch queries had improved since the last audit, there were differing views from superannuation funds, some of whom believed that the responsiveness had deteriorated since the move to ICP.

4.28 SuperMatch was unavailable from October 2008 to April 2009 while the LMR was being deployed into ICP. This is reflected in the usage figures for SuperMatch outlined in the table below. The Tax Office is currently unable to record how many successful matches are produced by SuperMatch, or how many lost accounts may be removed from the LMR by funds as a result of SuperMatch searches. The Tax Office does not currently have in place any performance measures or targets for SuperMatch, such as for availability or timeliness of searches. Although the LMR product team has set itself goals to increase the use of SuperMatch, as well as of SuperSeeker, through targeted communications, there has been no reporting on the effectiveness of these communications, or of SuperMatch itself.

Table 4.3
SuperMatch use

	2007–08	2008–09	2009–10
Files processed	258	97	160
Member records searched ^A	5 700 000	670 000	6 800 000

Note: Rounded figures.

Source: Tax Office.

Communications and marketing

4.29 The Superannuation business line’s Communications and Marketing team is responsible for delivering LMR awareness activities, and works with the Product Team to develop appropriate strategies for reducing the size of the LMR by reuniting people with their lost superannuation. A key strategy identified for communications about the LMR during 2009–10 was ‘to increase individuals’ awareness of lost and unclaimed super, the benefits of using SuperSeeker, and how to consolidate it.’¹⁰⁵ In addition, specific

¹⁰⁵ Internal Tax Office document.

communications activities were carried out informing superannuation funds of the changes to the treatment of small and insoluble lost accounts.

4.30 Strategy selection for the LMR is informed by responses to the Tax Office's annual Community Perceptions Survey (CPS). Since 2006 the CPS has asked questions particularly relating to lost superannuation. These questions seek to determine whether individuals know that they have a lost account, whether they have done anything about claiming lost accounts, and, if applicable, the reasons why they have not done anything to claim these accounts.¹⁰⁶

4.31 Most results relating to lost superannuation in the 2009 CPS were broadly similar to those of previous years. This has led to recommendations that SuperSeeker be promoted to counter the problem, identified in the surveys, that people do not know how to claim their lost superannuation, and do not see the Tax Office as an obvious source of information about superannuation. The Tax Office has responded to this recommendation with a broad media strategy focused on encouraging individuals to use SuperSeeker, supported by initiatives such as the portability form—discussed later in this chapter—to make consolidation of any accounts found through SuperSeeker as easy as possible.

4.32 The CPS has identified over the years differing reasons for individuals not claiming their lost superannuation. In 2009 the most common reason for not claiming lost superannuation was because survey respondents did not know how to claim it. In 2008 most respondents believed there was not enough money in their lost accounts to justify the effort of claiming it. In 2007 the most common response to this question was that individuals would 'claim it at a later date'.

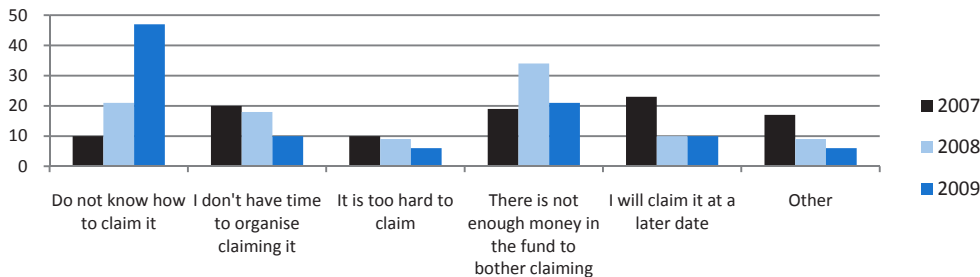
4.33 These differing responses would tend to suggest the need for different strategies in communicating with lost members. For example, if people do not know how to claim their lost superannuation, marketing campaigns like the current strategy of raising general awareness about SuperSeeker would appear to be the most appropriate response. Alternately, if more people have not claimed their lost superannuation because they plan to do it at a later time, it may be more appropriate to target communications only at older people who

¹⁰⁶ DBM Consultants, *Community Perceptions Survey 2009 Report* [Internet]. Australian Taxation Office, [Canberra], 2009, available from <<http://www.ato.gov.au/content/downloads/cor00227095/cps2009.pdf>> [accessed 2 February 2011] pp. 184–186.

are nearing retirement and more likely to take an interest in their retirement savings.

Figure 4.1

Reasons for not claiming lost superannuation and number of responses



Source: ANAO analysis of Tax Office data.

4.34 The 2008 survey report noted large changes from the previous year in the reasons respondents gave for not claiming lost superannuation. The report authors noted the very small sample size (56 people in 2008) who responded to this question.¹⁰⁷ This suggests that the results for this question are not reliable, and may provide a poor basis for selecting communication strategies for the LMR. By increasing the number of people who are surveyed about the LMR in future CPS exercises the Tax Office may be able to gain greater certainty about the reasons individuals do not claim their lost superannuation. In addition, greater data from the CPS about the respondents to LMR questions—such as age, gender and income demographics—could provide useful information in targeting future LMR communications strategies.

4.35 The most recent research conducted for the Tax Office on attitudes to superannuation encountered similar issues and problems in relation to lost members. As for the CPS, the recent research canvassed only very small numbers of people for some of the questions relating to lost superannuation, and cautions against placing too much significance on differences between results. However, some of the questions canvassed that have not been previously asked in the CPS may add weight to the Tax Office’s anecdotal understanding of lost members. For example, the survey found that young

¹⁰⁷ Research International, *Community Perceptions Survey 2008* [Internet]. Australian Taxation Office, Canberra, 2008, available from <<http://www.ato.gov.au/content/downloads/cor00168803/cpsjune08.pdf>> [accessed 2 February 2011], pp. 192–193.

people (aged 18 to 29 years) were most likely to have lost contact with their superannuation fund because they had changed jobs. Older people (aged 45 and over) believe they have lost contact with their superannuation fund because of other changes in their personal details such as their name or address.¹⁰⁸

Communication and marketing channels

4.36 In addition to encouraging people to reconnect with their lost accounts through SuperSeeker, the Tax Office has an objective of increasing awareness of how to prevent superannuation from becoming lost. To achieve both objectives the Tax Office uses a wide range of communication tools and channels.

4.37 The Superannuation business line's communication and marketing teams conduct analyses of their strategies each year, including for new communication channels such as postcard, Short Message Service (SMS) and Twitter campaigns. These analyses are used to inform the selection of marketing and communication channels in subsequent plans.

4.38 These evaluations do not generally include details of the costs of various communication methods or cost benefit analyses. There is little explanation of how planning for various marketing activities differed from what was achieved. In all of the last three financial years marketing and communications spending across the Tax Office has been significantly below what was budgeted for this activity in relation to the LMR, indicating that more marketing was planned than was delivered. Although the spending on marketing for the LMR is small, more detail of budgets and actual spending would enable clearer comparisons of the costs and benefits of the strategies being recommended.

¹⁰⁸ Corey Fisher and James Wunsch, *Investigating Superannuation: Quantitative Investigation with Superannuation Consumers Final Quantitative Report*, Colmar Brunton Social Research, February 2010, p. 141.

Table 4.4**Tax Office spending on LMR marketing and communication**

	2007–08		2008–09		2009–10	
	Budget	Actual	Budget	Actual	Budget	Actual
Amount (\$)	6 371 428	4 063 545	1 757 181	883 227	542 471	280 059
Proportion of budget (%)	64		50		52	

Source: ANAO analysis of Tax Office data.

Paid media

4.39 In 2009–10 the Tax Office spent more than \$157 000 on paid media campaigns for the LMR. This represents a return to the level of spending on paid media prior to the move to ICP, when advertising of LMR products was curtailed. Table 4.5 below outlines the spending on various types of paid media in recent years.

Table 4.5**Spending on paid media for LMR campaigns**

Medium	2007–08 (\$)	2008–09 (\$)	2009–10 (\$)
Avant Card ^A	67 276	—	—
Newspapers	138 204	59 924	50 234
Radio	—	—	32 913
Online	—	—	64 373
Magazines	12 331	—	10 103
Total	150 535	59 924	157 623

Note A: The Avant Card campaign is discussed later in this Issues Paper.

Source: Internal Tax Office document

4.40 Paid media strategies are used in support of the dual aims of encouraging people to use SuperSeeker, and to take other action to prevent their superannuation from becoming lost. Advertising was conducted during May and June of 2010, based on previous evaluations that showed an increase in awareness of lost superannuation at this time. This timing aimed to leverage the Tax Office’s relationship with intermediaries at ‘tax time’, and to use low cost channels to reach the mass market where possible.

4.41 The Tax Office acknowledges the difficulty of measuring the outcome of some marketing activities. However, the Tax Office is able to link the timing

of its advertising and other paid campaigns to spikes in traffic on the SuperSeeker web page. There is currently no mechanism for linking paid media campaigns to actual changes in the LMR, and the ANAO acknowledges that demonstrating definitive links is likely to be difficult.

Publications

4.42 In May 2008 the Tax Office produced a brochure titled *Lost something important?* This brochure is on display in Tax Office shopfronts, can be handed out at events or printed from the website. Medicare has copies on display in its customer service centres, and in 2009–10 ordered 16 000 copies of the brochure.

4.43 Tax Help Volunteers have been used as a distribution channel for the brochure during ‘tax time’, distributing brochures to 12 400 people in 2009. Volunteers are also trained to perform searches of SuperSeeker for their clients.¹⁰⁹ Apart from these bulk deliveries, the Tax Office describes the distribution of the brochure as ‘very low’. The cost to October 2010 of printing the brochure has been \$10 272.

4.44 In 2008 the Tax Office also produced a series of postcards in conjunction with Avant Card,¹¹⁰ depicting lost superannuation messages using similar images to those used for the brochure. Both the brochure and the Avant Card images were the subject of user testing in their planning, but the Tax Office has also noted that is difficult to measure the impact of this channel on SuperSeeker use. In 2008 the Tax Office was able to detect a spike in SuperSeeker use following the release of the brochure, the Avant Card campaign and an ‘advertorial’ campaign. The Tax Office has not been able to attribute with certainty this increased interest to any one campaign and, as for other communication tools already discussed, there is currently no mechanism for linking increased use of SuperSeeker with members being found and removed from the LMR.

¹⁰⁹ Tax Help volunteers are trained community volunteers who are available to give help and guidance to low income earners to complete their tax returns. In 2009 over 4 500 people were assisted with searching SuperSeeker, resulting in over 700 individuals finding lost superannuation.

¹¹⁰ Avant Card produces advertising postcards which are distributed without charge to the public through cafes, entertainment venues and the like.

E-tax

4.45 The Tax Office provides individuals with software—called e-tax—to assist them with preparing their income tax returns. In 2009 more than 2.3 million individuals lodged their tax returns through e-tax.¹¹¹

4.46 In 2008 the Tax Office began using e-tax to provide taxpayers with a message about lost superannuation, and a link to the SuperSeeker website. At the end of the process for completing their tax returns, users were presented with the following message:

Do you have lost superannuation?

If you've ever changed your name, address or job, you may have lost some of your superannuation. Do a quick search online using SuperSeeker [hyperlinked] to find it.

4.47 In 2009 this message was further tailored to target e-tax users who indicated that they had changed their address since their last tax return. This is consistent with research, discussed earlier in this chapter, that a key reason for individuals losing track of their superannuation is through changes of address.

4.48 For the 2010 version of e-tax, additional lost superannuation messages are provided when users indicate that they have changed their name or their employer since their last tax return. In the future, the LMR product team would like to include tailored results from SuperSeeker searches within e-tax, and in notices of assessment and communications with tax agents.

4.49 There has been little evaluation done of the effectiveness of these targeted messages in encouraging individuals to search SuperSeeker. As for paid media campaigns, the Tax Office is able to trace changes in the rate of SuperSeeker access and associate them in general terms with the release of measures such as e-tax. The effectiveness of e-tax's link to SuperSeeker is particularly amenable to being tracked as users must provide identity checks to lodge their tax returns using e-tax. As has been discussed earlier, once a user has logged into SuperSeeker, there is the potential to further track whether they are reported as found and removed from the LMR as a result of their SuperSeeker search.

¹¹¹ Australian Taxation Office, *General information about e-tax—what is e-tax?*, [Internet]. Australian Taxation Office, [Canberra], October 2010, available from <<http://www.ato.gov.au/individuals/content.asp?doc=/content/32185.htm&pc=001/002/014/014/001&mnu=&mfp=&st=&cy=1>>, [accessed 2 February 2011].

4.50 Using e-tax to provide lost superannuation messages is likely to have a number of advantages. These include being able to closely target messages to individual circumstances, and to track responses to the messages that are delivered. It is also likely to be a relatively low cost communications tool. By conducting evaluations of the effectiveness of its e-tax messages, the Tax Office could test these assumptions and provide a benchmark against which it can measure the effectiveness of other communication channels.

Unpaid media

4.51 The Tax Office uses a number of its in-house online and email publications to raise awareness of lost superannuation with key audiences. While not all of these publications are exclusively superannuation-oriented, they do provide an easy means of access to a variety of interested parties.

4.52 The Tax Office has begun experimenting with the use of social media such as Twitter to deliver superannuation and other messages. Twitter is a web-based service that allows subscribers to send short messages—called ‘tweets’—to other subscribers who have elected to ‘follow’ them. In 2010 there were four tweets on superannuation topics, including two directly related to lost superannuation.

4.53 This is an emerging area of marketing, and the Tax Office’s interest in using new channels demonstrates an innovative approach to marketing SuperSeeker and the LMR. The Tax Office has noted in its evaluation of its use of Twitter that there is currently no method for measuring the number of its Twitter followers who act on the messages in these tweets. At October 2010 the Tax Office had over 2000 followers on Twitter. While users may share only limited information about themselves on their Twitter ‘profiles’, there may be benefit to the Tax Office in analysing the demographics of its Twitter followers in order to better tailor its messages to this emerging channel.

Proactive contact with lost members

4.54 The Tax Office has been provided with additional funds by government on a number of occasions, aimed at reducing the number of lost members on the LMR, or at improving its management. The Tax Office received a total of \$10.7 million over the three years 2004–05 and 2006–07 to conduct a ‘letters project’ that would promote the LMR and motivate individuals to identify and reclaim lost accounts. Additional funding for the LMR of more than \$100 million was included in Budget amounts allocated to Super Simplification measures between 2007–08 and 2010–11.

4.55 The bulk of the Tax Office's spending on marketing of the LMR has been through its various telephony and correspondence campaigns. CAS has been unable to provide detailed costing figures, but the Tax Office notes that:

a letter campaign has the lowest cost due to minimal labour costs but higher supplier costs (mail handling and postage);

a phone campaign has the highest cost due to labour requirements and nil supplier costs; and

the updated addresses pilot had high labour costs (given the high level of quality assurance applied for the pilot) but nil supplier costs.¹¹²

4.56 The 'processing and accounts' and 'client contact' activities carried out by CAS for the LMR, associated with producing correspondence and making telephone calls to members, made up almost 70 per cent of the \$15.7 million spent on the LMR in 2009–10. In 2008–09 CAS had planned to spend \$29.5 million on these activities, but, due to problems associated with the transfer of the LMR to ICP, spent only \$1.3 million—or four per cent of what was forecast—on processing and client contact activities.

4.57 Between 2004–05 and 2009–10 the Tax Office:

- sent 5.32 million letters to individuals on the LMR; and
- reviewed more than half a million lost accounts over the telephone with their owners.

4.58 The 2008–09 component of these figures was significantly less than had been originally committed. Funding was provided for one million letters and 250 000 account reviews by phone. Following the difficulties with ICP, this target was reduced to 50 000 letters and 125 000 telephone account reviews. The revised targets were not met, with only 69 586 accounts reviewed for 30 679 members, and 12 056 letters sent. While there was no ongoing commitment to government for letter and telephone campaigns for 2009–10, CAS gave an undertaking to continue to deliver on the campaign. The Tax Office has proposed that a maintenance strategy to directly target newly lost members be implemented from 2010–11 onwards. This approach may not be possible if the Tax Office does not preserve details of the date at which a member becomes lost in its database when it introduces its proposed 're-report' data lodgement method, as discussed in Chapter 3.

¹¹² Internal Tax Office document.

Outbound campaigns in ICP

4.59 The barriers to reaching the 2008–09 commitment came from a number of problems encountered in the transfer of the LMR to ICP. These included:

- problems with OA (used to select candidates for letters and telephony) which caused slow loading times, so that the initial OA process had to be halted; and
- system design issues which did not allow the Tax Office sufficient control over the quantity of letters that would be sent for members of a given superannuation fund.¹¹³

4.60 Manual ‘work-arounds’ are now in place to address both of these issues. However, these problems do continue to impact on the ability of the Tax Office to implement targeted strategies, such as the addresses project, discussed in Chapter 3, because of the large amount of manual work required to extract relevant data from ICP.

4.61 The OA function for the LMR works by identifying candidates for two ‘treatments’. Lost members with a current address are selected for a letters treatment, and those with a current telephone number are selected for a telephony treatment. It is possible for a member to be selected for both treatments. The OA processes delivered in ICP are geared toward the telephone and correspondence treatments provided by CAS, although the Superannuation business line has noted that it may not continue to use these channels as preferred treatments in the future.

4.62 Some of the manual checks of this data can be quite time consuming, such as removing tax agents from the treatments—so that they do not receive multiple calls about their clients—by checking for duplicate telephone numbers. However, ICP has delivered some improvements to the management of LMR data, including more detailed information about lost members and their accounts.

Tracking outcomes of letter and telephony campaigns

4.63 The JCPAA reported in August 2008 on its review of the ANAO’s 2005–06 Report on the LMR. The committee made two recommendations in

¹¹³ Superannuation funds need notification of when letters will be sent to their lost members in order to prepare for increased contact from members following each campaign. Funds’ attitudes to the letters and telephone campaigns are discussed later in this chapter.

relation to the LMR. The first of these was that, in light of the significant funding provided for the Letters Project, the Tax Office should evaluate and report on the effectiveness of this campaign in reducing the number of lost members in the LMR. In its 2007–08 Annual Report the Tax Office reported that it had sent 2.2 million letters to the owners of 3.2 million lost accounts, and removed accounts worth \$1.36 billion from the Register.¹¹⁴ There was no evaluation of letters campaigns in 2008–09. In 2009–10 the total number of lost members and the value of their accounts increased, and the Tax Office does not report if any were removed as a result of its letters and telephony campaigns.

4.64 Letter, telephony and other direct-contact campaigns such as e-tax have the advantage of allowing the Tax Office to make a direct connection between its communications with lost members and their subsequent removal from the LMR. Lost members have been targeted for these campaigns in the past on the basis of age and ownership of high value accounts. There have also been one million letters sent to owners of low value accounts. Holders of multiple lost accounts have been a target for telephony projects. The continuing limitations of OA make these kinds of targets difficult to develop. The Tax Office has not conducted any detailed analyses of which target groups have responded best to letters and telephony campaigns but notes an overall success rate of 18 per cent for letters campaigns and 16 per cent for telephony.

Superannuation funds' attitude to letters campaigns

4.65 As discussed in Chapter 1, the definition of a lost member in the Act provides for two different sub categories, referred to as 'inactive' and 'uncontactable'. Superannuation funds, and the LMR product team, note that 'inactives' in the definition of a lost member is not consistent with the true intent of the LMR legislation. Many inactive members know about their accounts when contacted, and CAS is sometimes required to make a note of people who ask not to be contacted about their account again. Funds would prefer the focus of Tax Office efforts to be on uncontactable members, as inactive members who are contacted by the Tax Office because they are 'lost' often feel this reflects badly on their superannuation fund. The change to ICP has enabled the Tax Office to differentiate between inactive and uncontactable members. Funds also had concerns that the data used to contact lost members

¹¹⁴ Australian Taxation Office, *Annual Report 2007–08*, Australian Taxation Office, Canberra ACT, 2008, p. 84.

during letters campaigns is not sufficiently current, so that their members may be contacted as ‘lost’ when they have already been found by their fund.

Portability form

4.66 In the 2006–07 budget, the Tax Office was provided with funding to proactively contact lost members and

provide them with a simple standard form to complete if they wish to consolidate their accounts. The ATO would then organise the consolidation, avoiding the need for the individual to deal with multiple funds with different procedures.¹¹⁵

4.67 In response, the Tax Office has developed a ‘portability form’, which is attached to SuperSeeker and is pre-populated with the details from a successful SuperSeeker search.¹¹⁶ At present users must print the form, complete the details for the fund to which they wish to roll over their lost account, provide proof-of-identity information, and mail the form to either the ‘losing’ or ‘gaining’ superannuation fund. The Tax Office is also developing an electronic version of this form to enable successful searchers to quickly request a transfer of their lost superannuation to a currently active fund.

4.68 The deployment of an electronic version of the portability form has been delayed by concerns from superannuation funds about adequate proof-of-identity checks. Threats involving the incorrect transfer of an individual’s superannuation are real and need to be addressed. The Tax Office has assessed the online provision of LMR data against the National e-Authentication Framework.¹¹⁷ That assessment determined that some information returned by SuperSeeker that is not entered by the user to initiate the search, such as member and account identifiers, is private information that should be protected from disclosure to third parties. This has led to the Tax Office requiring a log-in process to enable proof-of-identity before it could reveal additional details about a lost account.

¹¹⁵ [Costello, Peter] (The Treasurer) [2006], Continuing superannuation reform, ministerial statement, Parliament House, Canberra, [Internet]. Department of the Treasury, [May 2006], available at <<http://www.budget.gov.au/2006-07/ministerial/html/treasury-03.htm>> [accessed 2 February 2011].

¹¹⁶ It is also possible to download a blank form from the Tax Office website without first searching SuperSeeker.

¹¹⁷ Australian Government Information Management Office, *AGAF guide to authorisation and access management* [Internet]. Department of Finance and Deregulation, [Canberra], available from <http://www.finance.gov.au/publications/agaf-for-business/better-practice/docs/better_practice_guide.pdf> [accessed 2 February 2011].

4.69 Few people who conduct a successful search using SuperSeeker also download a portability form. It is not currently possible to determine whether people who access the form successfully fill it in and transfer their superannuation. A lack of knowledge about the detail of their active superannuation accounts may prevent some members from taking this step. Matching of LMR data against superannuation Member Contribution Statements and the planned development of an electronic portability form may assist members to facilitate such transfers.

4.70 The requirement to provide proof-of-identity before filling in a portability form—either on paper or in the future electronic version—means that the Tax Office knows the identity of people using the form, and this provides an opportunity to better understand which lost members are being attracted to SuperSeeker and conducting successful searches that enable them to be removed from the LMR. The Tax Office may wish to consider capturing demographic data about individuals using the portability form in order to conduct more detailed evaluations of its use and effectiveness.

Recommendation No.5

4.71 To assist funding decisions, the ANAO recommends that the Tax Office develop measures that will enable more accurate assessment of the relative effectiveness of the communication and marketing strategies and tools used to assist members to identify and reclaim their lost superannuation accounts.

Agency Response: *Agreed.*

4.72 The ATO will undertake research to set benchmarks and identify key measures that will enable the ATO to more clearly determine which communications and marketing tools are most effective in enabling members to identify and reclaim their lost superannuation accounts.

Working with superannuation funds

4.73 The Tax Office consults with funds about lost members through the Superannuation Steering Committee and its Superannuation Funds Working Group (SFWG). The Tax Office used the SFWG in particular to keep funds informed of issues surrounding the move of the LMR to ICP, delays in updating SuperSeeker, and arrangements for the addresses pilot. Funds generally reported that the SFWG was a useful avenue for communication with the Tax Office.

4.74 There is scope for the Tax Office to more actively include funds in its decision-making and design of lost superannuation campaigns and materials. Some funds conduct their own lost member awareness campaigns, and some expressed interest in combining their campaigns with Tax Office initiatives, such as by pre-promoting Tax Office letters campaigns to their members. The Tax Office should continue to explore avenues for consultation and co-design of LMR campaigns with superannuation funds and build on its good relationship with this group.

Findings relating to Report No.17 2005–06 Recommendations 7 and 8.

4.75 The 2005–06 audit included two recommendations relating to the Tax Office’s key tools for accessing the LMR—SuperSeeker and SuperMatch.

Recommendation No.7—SuperMatch

Recommendation No.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 in the LMR.

4.76 The Tax Office advises that it has implemented this recommendation as follows:

As the Lost Member Records available for external interrogation are matched against client records within the ATO, all Supermatch input records also need to be matched to a known client on the ATO Client register to access that individuals lost Super records, this meets this recommendation.

4.77 The ANAO notes that some superannuation funds reported that timeliness of SuperMatch searching had deteriorated since the introduction of ICP.

Recommendation No.8—SuperSeeker

Recommendation No.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 Accounts Reserve.

4.78 The Tax Office advises that it has begun to implement this recommendation:

There is currently a project underway to achieve this measure. It was not implemented in the LMR release. It was on track to deliver in December 2010. Legal Services Branch has advised that the Tax Office can lawfully proceed with the deployment of the electronic portability form. Deployment is now scheduled for February 2011.

4.79 The ANAO notes the Tax Office does record the number of searches that result in a match. This has also been expanded to the tracking of the number of portability forms that are downloaded. However there is no mechanism to track and relate this to any movements within the LMR. As users are required to identify themselves using a TFN in order to conduct a SuperSeeker search it should be possible to track a successful search to an eventual report that the member has been found. However, as is noted in the Tax Office's response, privacy issues may arise from tracking individual's access to Tax Office web sites.



Ian McPhee
Auditor-General

24 February 2011
Canberra ACT

Appendices

Appendix 1: Tax Office Response



Australian Government
Australian Taxation Office

SECOND COMMISSIONER OF TAXATION

Mr David Crossley
Executive Director
Performance Audit Services Group
GPO Box 707
CANBERRA ACT 2601

Dear Mr Crossley,

Performance Audit: The Australian Taxation Office's Administration of the Lost Members Register

Thank you for the opportunity to review and provide comments on the Australian National Audit Office report and recommendations on the ATO's administration of the Superannuation Lost Members Register.

On behalf of the ATO, I welcome the report and agree to the five recommendations as outlined in Appendix A.

It was pleasing to see that the ANAO found our planning and reporting processes are appropriately managed within our governance framework and that our risk analyses informed our decision making. The acknowledgement that our audit framework and core processes are sound is also appreciated.

We note that the report identified opportunities for further improvement. These will be considered along with other organisational priorities, including the Super Reform program.

I would like to take this opportunity to thank your Audit Team – Daniele Wickman and David Lacy – for the constructive and collaborative way in which this audit was conducted.

Yours sincerely,

Bruce Quigley
Second Commissioner
8 February 2011

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Recommendation No. 1

To provide greater transparency regarding the calculation of the financial sector levy, the ANAO recommends that Tax Office provide greater clarity to APRA on the component costs of the LMR, and calculate these costs in accordance with the Australian Government Cost Recovery Guidelines.

Response**Agreed**

The ATO proposes to provide, in consultation with Treasury who request Lost Members Register (LMR) cost information from the ATO each year:

- proposed costs of the LMR by deliverable; and

a summary of activities to be undertaken on LMR administration in the upcoming year. This information can then be included by APRA in their Cost Recovery Impact Statement.

Recommendation No. 2

In order to improve the efficiency and effectiveness of both the Lost Members Register and the Unclaimed Superannuation Money Register, the ANAO recommends that the Tax Office explore the benefits of linking these two databases as part of any future IT redesign.

Response**Agreed**

The ATO acknowledges the benefits of improving the capacity to interrogate and analyse both databases. The options for achieving this will be assessed and, where required, added to the design scope of any future IT redesign.

Recommendation No. 3

To assist in the analysis of the population represented in the LMR and to devise appropriate treatment strategies, the ANAO recommends that the Tax Office improve the Operational Analytics, management reporting and data matching capabilities.

<p>Response</p> <p>Agreed</p> <p>The ATO will focus on improvements in:</p> <ul style="list-style-type: none"> • having internal management information more readily available requiring less manual preparation work; • providing the LMR Product Team with more direct access to the LMR to improve capacity to identify systemic issues affecting LMR data and to refine its marketing strategies; and • implementing an OA query which will identify members and their accounts suitable for outbound activities such as letters or telephone contact. <p>Improvements that require changes to core systems arising from the above will be added to the design scope of any future IT redesign.</p>
<p>Recommendation No. 4</p> <p>To improve the likelihood of members locating their lost superannuation, the ANAO recommends that the Tax Office consider reconfiguring the initial search functionality in SuperSeeker to allow members to identify potential matches, while continuing to appropriately protect privacy.</p>
<p>Response</p> <p>Agreed</p> <p>The ATO will assess options for broadening the initial search functionality in SuperSeeker as part of any future IT redesign, to allow members greater flexibility in searching, while continuing to appropriately protect privacy..</p>
<p>Recommendation No. 5</p> <p>To assist funding decisions, the ANAO recommends that the Tax Office develop measures that will enable more accurate assessment of the effectiveness of the communications and marketing tools used to assist members to identify and reclaim their lost superannuation accounts.</p>
<p>ATO Response</p> <p>Agreed</p> <p>The ATO will undertake research to set benchmarks and identify key measures that will enable the ATO to more clearly determine which communications and marketing tools are most effective in enabling members to identify and reclaim their lost superannuation accounts</p>

Appendix 2: Analysis of Lost Members Register data

Data summary

The ANAO has undertaken analysis of the unmatched accounts in the LMR, particularly unmatched uncontactable accounts. Tables A 1, A 2 and A 3 below summarise some of the basic characteristics of the accounts represented in this data.

Table A 1

Unmatched accounts by lost member category

Status	Number of records	Value (\$)
Uncontactable	855 685	788 925 041
Inactive	71 223	167 340 290
Total	926 908	956 265 331

Table A 2

Unmatched uncontactable lost member accounts by age range of members

Age range	Number of records	Value (\$)
<= 18 Years	2 356	763 259
>18 to 24 Years	55 880	11 674 923
>24 to 30 Years	69 892	34 767 896
>30 to 35 Years	113 602	64 554 922
>35 to 40 Years	130 879	109 395 439
>40 to 45 Years	88 864	114 413 225
>45 to 50 Years	87 022	120 158 932
>50 to 55 Years	48 251	94 197 447
>55 to 60 Years	85 211	91 099 061
>60 to 65 Years	24 462	51 049 816
>65 Years	12 272	25 643 684
Unknown	136 994	71 204 393
Total	855 685	788 925 041

Table A 3**Unmatched uncontactable lost member accounts by state**

State/Territory	Number of records	Value (\$)
ACT	5 374	9 112 034
NSW	281 205	236 162 732
NT	7 627	9 168 201
QLD	112 792	109 432 256
SA	21 808	31 311 460
TAS	5 498	7 011 466
VIC	111 569	130 575 086
WA	42 046	49 180 394
OTH	9 777	19 416 218
Total	597 696	601 369 847

Available data

As discussed in the report, LMR accounts may be unmatched because there are errors in the information recorded in some fields, or because there is not a combination of information for an account that satisfies minimum Tax Office identity matching requirements. However, there may be sufficient information available to enable lost members to identify their own accounts if this data were searchable. Tables A 4 and A 5 show the number of accounts that have entries for important identifying information.

Table A 4**Unmatched uncontactable account records with entries for member data fields**

Data field	Number of records	Value (\$)
Family Name	855 635	788 854 278
Given name 1	852 259	785 234 953
Post code	769 364	744 582 702
DOB – full	718 866	717 774 525
Address 1	556 502	590 111 131
Locality	541 239	579 450 774
Given name 2	217 530	278 552 948
Address 2	39 862	56 681 822
TFN	29 655	59 508 995

Table A 5**Unmatched uncontactable account records with entries for combinations of member data**

Criteria	Number of records	Value (\$)
Address line 1 & Locality	540 370	578 086 645
Address line 1 & Locality & DOB	498 616	5 518 849 980
Address line 1 & Address Line 2 & Locality & Post Code	37 742	52 771 103

Substituted data

Because superannuation funds may not have sufficient information to identify some members, there will remain a proportion of accounts on the LMR which are unlikely to be matched with their owners. However, in cases where funds substitute out of date information with other entries such as ‘unknown’, the opportunities for lost members to identify those accounts using former identification information are further reduced. Tables A 6, A 7 and A 8 summarise examples where data other than the members’ address has been included in LMR records.

Table A 6**Unmatched uncontactable account records with entries indicating unknown address**

Entry	Number of records	Value (\$)
NO ADDRESS SUPPLIED	15 275	3 782 747
UNKNOWN or UNK	7 540	7 196 269
NOT PROVIDED	2 508	796 707
ADDRESS UNKNOWN or ADDRESS UNKOWN	2 018	1 991 666
N-A or N/A or NA	1 988	1 477 274
LOST MEMBER/CLIENT or LOST or LOST MEMBER	1 273	4 305 934
0	3 726	974 599
Total	19 053	20 531 707

Table A 7**Unmatched uncontactable account records with entries indicating returned mail**

Address line 1 entry	Number of records	Value (\$)
RETURN MAIL	519	686 417
RETURN TO SENDER	251	150 012
RETURNED MAIL	198	281 965
1995S'MENTRETURNEDSSG1	36	10 780
C/- XX (RETURNEDMAIL)	27	31 086
RETURNED TO SENDER	24	12 913
MAIL RETURNED	9	5 827
RETURNED MAIL DO NOT SEND	1	78 624
RETURNED MAIL FROM	1	6 420
Total	1 066	1 264 044

Table A 8**Unmatched uncontactable account records with fund address given for member address**

Fund address	Number of records	Value (\$)
Fund A	46 338	10 400 291
Fund B	10 992	1 087 292
Fund C	1 399	861 612
Fund D	2 938	896 510
Fund E	826	1 146 486
Fund F	2 136	1 857 131
Fund G	3 440	2 894 776
Fund H	1 548	508 487
Fund I	1 069	1 387 798
Fund J	764	260 578
Total	71 450	21 300 961

Incorrectly reported accounts

The ANAO's analysis identified some categories of accounts which do not need to be recorded on the LMR, including those which should be recorded on the Unclaimed Money Register because they have balances under \$200 or belong to people aged over 65. Table A 9 provides a summary of these accounts.

Table A 9**Unmatched uncontactable account records with entries indicating accounts reported in error**

Criterion	Number of records	Value (\$)
Balance under \$200	492 630	31 411 415
Member over 65	21 991	44 764 427
Zero Balance	20 244	—

Note: Totals are not provided for tables where data is not cumulative.

Source: ANAO analysis of Tax Office data.

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