

ERFing and Cross Fund Matching with AUSfund



The release of the Productivity Commission draft report 'Superannuation: Alternative Default Models' has sparked significant regulatory and media interest in the incidence of multiple accounts within the super sector. This interest has focused on both the harm to members, and the impact on the efficiency of the super system.

AUSfund believes that there is significant potential for auto-consolidation of lost and inactive accounts into a member's active account, facilitated by recent changes to the regulation of ERFs. Since May 2016, an ERF may proactively transfer monies held in the ERF to a member's active account without the member's consent or any need to provide notice to the member, so long as the receiving fund has received at least one contribution or rollover in respect of the member within the last 12 months¹.

We have now completed a trial of the efficacy of cross fund matching service in the current legislative environment. This involved matching the lost and inactive accounts exited to the ATO as Unclaimed Super Money (USM) in 2016 by six participating funds to the 'active' accounts in each fund or AUSfund. Where two or more matching accounts were identified, a member engagement index was applied to determine the most appropriate match.

Pleasingly, the results have highlighted that:

- **17.2%** of USM accounts **would have merged with an existing account in AUSfund** on being transferred to AUSfund instead of the ATO.
- **19.4%** of USM accounts **matched an account held in one or more other participating funds**.
- 59% of these matched accounts, or **11.4%** of the USM pool, **were eligible for auto-consolidation to an active participating fund account** without member consent due to having received a contribution within 12 months.
- A further **8%** of USM accounts **have the potential for future consolidation** after receipt of a new contribution or engaging non-contributing members to provide consent to transfer.
- A total of **26%** of USM accounts **would have been automatically merged or consolidated into existing accounts** held in one of the trial's seven participant funds (including AUSfund).

Further detail about the trial can be found on the back of this page.

Overall, we are excited to have validated our hypothesis that AUSfund can be a highly effective mechanism to reduce multiple account holdings across industry superfunds. Not only will this reduce small balance erosion and build member super balances of thousands of Australians, it also offsets the need for major change to the existing default system.

The success of cross fund matching is clearly dependent upon the participation of funds to transfer the accounts of lost, inactive and other vulnerable members to AUSfund in lieu of transferring these accounts to the ATO, and to provide access to their member records to conduct the matching service. We are now working with a number of funds to determine the operational rules that will govern our cross fund matching service going forward, with a view to relaunching live matching late this year.

For more information, or to obtain a copy of our participation agreement, please contact AUSfund.

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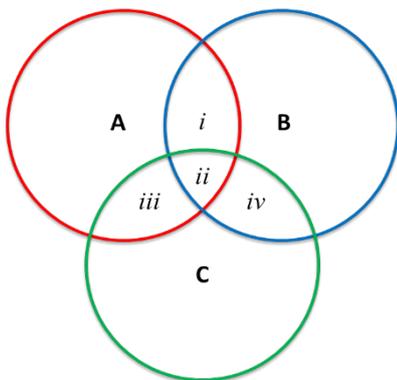
¹ *Tax and Superannuation Laws Amendment (2016 Measures No.2) Regulation 2016*

AUSfund Cross Fund Matching simulation

A pilot project to update AUSfund's Cross Fund Matching process for the current legislative and technological environment, and model what would have occurred if the accounts sent to the ATO as Unclaimed Super Money (USM) in 2016 had instead been sent to AUSfund and Cross Fund Matched.

Hypothesis: There would be more account consolidation and less overall outflow to the ATO if funds sent their lost and inactive accounts to AUSfund for Cross Fund Matching.

Method and results: A statistical formula was used to identify matching accounts between and within datasets. Where eligible matches (that is, accounts that had received a rollover or contribution in the past 12 months) were found in more than one Participating Fund, a Member Engagement Index (MEI) was applied to determine the best receiving fund. The model is summarised in the Venn diagram below, where A, B and C represent the datasets that were used for matching, and the intersections at i - iv are the results of the match.



Datasets used for matching

A	Pooled April and October 2016 USM files for six Participating Funds ¹	45,336 member accounts \$96.6 million
B	AUSfund member database as at 30 June 2016	866,002 accounts Average balance \$600
C	Current active member databases for six Participating Funds	5.2 million members 3.9 million active accounts (Source: APRA)

Match result		Accounts ²	Amount ²
Impact for Participating Funds			
<i>ii + iii</i>	Total USM that was sent to the ATO that could have been matched to an active account in a Participating Fund ³	8,782 (19.4%)	\$17.2 million (17.8%)
	Of these, 59% were eligible for auto-consolidation to an active fund account without member consent.	5,187 (11.4%)	\$9.4 million (9.8%)
<i>ii</i>	Merged into an existing AUSfund account then matched out to a Participating Fund ³	1,200 (2.6%)	\$2.2 million (2.3%) + approx. \$0.7 million AUSfund balance
<i>iii</i>	Unmerged USM accounts created in AUSfund then matched out to a Participating Fund ³	3,987 (8.8%)	\$7.2 million (7.5%)
<i>iv</i>	The pool of existing AUSfund members who could potentially be matched out to one of the Participating Funds	An estimated \$100 million from over 150,000 accounts	
Impact for AUSfund			
<i>i</i>	Merged into an existing AUSfund account and retained for future matching.	6,602 (14.6%)	\$13.7 million (14.2%)
<i>A - (i + ii + iii)</i>	Unmatched new accounts created in AUSfund. (Note some of these accounts will transfer to ATO after 12 months if Lost definition is met)	33,547 (74.0%)	\$73.5 million (76.1%)

1. No TFN was included in USM data for the purposes of this simulation. A separate calculation found an estimated 33% uplift in match rate where TFN was included. Results include the assumption of TFN availability that would occur in a live matching scenario.

2. Percentages in brackets are relative to the pool of USM represented by A.

3. Results are after the application of MEI and do not include double counts for multiple matches across Participating Funds.

(Re)commencing your Fund's ERFing process

Fund considerations

Policies

- Does your fund have a current ERFing policy in place or a former ERFing policy that needs updating?
- Will any policy updates need to go before a policy review committee or Board for approval?

Process

- Will your Business Rules need to be updated?
- What level of notice to your administration will be required to action a change to your process?

Disclosure

- How does your fund currently disclose its handling of lost and unclaimed super accounts to members who may be affected?
 - PDS / incorporated documents
 - Website
 - Fact sheets
- What resources are available for members who have been exited through such a process to search for their transferred accounts through your fund?
 - Awareness of processes by key member-facing and contact centre staff
 - Website links to AUSfund or other resources to search for lost and unclaimed super

Member communications

- Does your fund currently notify 'inactive' members when their accounts have been transferred to the ATO/an ERF? Does your exit letter require modification to address this?
- Will you need to prepare any additional disclosure updates or communications such as an SEN to advise members of any changes to your ERFing policy / process?

Getting started with AUSfund

Get in contact with AUSfund to let us know your intentions & provide you with assistance

Current key contacts:

Ms Kate Brown
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Mr Ned Meehan
Chief Financial Officer
Industry Fund Services

Ph: 03 8648 6986
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Complete the ERF nomination form

- Provide your key fund and Trustee office contact details – we will use these to prepare your Letter of Agreement.
- Provide your preferred web address if you would like to be added to the Participating Funds list on the AUSfund website. This may assist some of your exited members to better understand the link between your fund and AUSfund.

If your fund has a current or prior ERFing arrangement in place with AUSfund, it is not necessary to provide a new form, although it may be valuable to update your nomination to ensure that all key details are current.

Complete the Letter of Agreement

This establishes you as a Participating Fund for the purposes of our Cross Fund Matching program and outlines our mutual obligations, enabling you to receive member balances identified during the process.

If you are the trustee of multiple superannuation funds, the Agreement can be used to name each specific fund you wish to nominate as a Participating Fund.

There is no obligation to complete the Letter of Agreement if you do not wish to participate in Cross Fund Matching but do intend to transfer members to AUSfund, such as during a fund wind-up or merger, for instance.

How to ERF your accounts

Provide details of your technical contact or resource who will be responsible for preparing your data and initiating the transfer on behalf of your fund.

AUSfund will connect you with key contacts at our administration partner Link Group, who will make arrangements with your technical contact to facilitate the transfer. If your fund administration is also with Link, this may be a simple internal transfer. Your fund's account manager should be able to assist you with the requirements.

Current key contact:

Mr Ravi Bandara

AUSfund Account Manager

Link Administration Group

Ph: 03 9200 4136

Email: rbandara@superpartners.com.au

Non-Link Group administered funds will be provided with:

- The ERF file data requirements – refer AUSfund_ERF File data requirement.csv
- Details of the AUSfund operating bank account for the transfer of funds

Bank

Account name

Account number

- Assistance with arrangements for bulk vs individual transfers or any other requirements

Once you're ready to go ahead with a bulk transfer of accounts, we will require some key details from you in advance. This will allow us to schedule the resources to process your transfer.

- Expected number of member accounts
- Value of bulk transfer
- Proposed transfer date



What happens after AUSfund has received the transfer?

Once we have received your transfer, we will check the data for members that match existing AUSfund accounts and merge any duplicate accounts.

Any existing members will be sent a Transfer In Confirmation letter at their most current mailing address.

All new members will be sent a Welcome letter at the address details you provided to notify them of their new account details and provide options to reclaim their amounts.

What about members without a current address?

Where possible, we will endeavour to locate contact information for member accounts with missing or incorrect details. Updated addresses may be supplied by the ATO's Provision of Address program or we may engage the services of agents to search for members' current addresses and contact details.

Can I send my USM accounts to AUSfund instead of the ATO?

Yes. You are only required to pay lost and unclaimed member accounts to the Commissioner if the account is still held by you on the scheduled statement day corresponding to the unclaimed money day when the account was identified as lost.

If the circumstances of the account change between those two dates, such as transferring the account to another super provider or ERF, you must still lodge a statement including details of the account but no payment to the ATO is required.

If you transfer accounts prior to an unclaimed money day, you don't need to include them in your statement.

What approach will AUSfund take with my 'Lost' member accounts?

If 'lost' members are transferred to us without a valid address and we are unable to reconcile them to current address details or match them out in a Cross Fund Matching process, we will send them to the ATO as lost accounts after 12 months.

'Inactive' accounts with a current address can be retained in AUSfund until matched and transferred out or claimed by the member.



Cross Fund Matching FAQ

General information

What is Cross Fund Matching?

Cross Fund Matching is a service that returns lost super held with AUSfund to the active accounts of participating fund members.

Prior to each exercise, AUSfund requests certain information about the member databases of participating funds. We compare this data with the information we hold for current AUSfund members in order to find matching accounts. If we find a match in a participating fund and the account meets certain activity criteria, we will transfer the balance of the member's AUSfund account to that fund.

Note: The process only compares AUSfund-held accounts to each participating fund's data. It does not match the databases of participating funds against each other.

Which funds are eligible to participate?

Funds that use AUSfund as their Eligible Rollover Fund, and have completed an ERF transfer of lost, inactive or other members to us in the last 12 months, have access to AUSfund's Cross Fund Matching service.

For the 2017 Cross Fund Matching exercise, funds need only have completed one ERF transfer that substantially reflects the total number of lost and inactive accounts in the participating fund at the time of transfer, and signalled their intent to support the program on an ongoing basis.

As the success of the program is dependent on the provision of members to match, future exercises will be limited to funds that have initiated at minimum two transfers per annum as per the biannual ATO USM reporting schedule.

What does it cost?

AUSfund does not charge funds to participate in the Cross Fund Matching service. However your administrator may request a fee for service for the preparation of your data.

Is there any cost to members?

There is no additional cost to members. AUSfund's low administration fee is deducted from member accounts on exiting the fund, whether this is due to a Cross Fund Matching transfer, rollout or claim by the member, or the account is sent to the ATO as lost super. Refer to the AUSfund PDS for the current fees in effect.

How often is Cross Fund Matching available?

Annually, usually occurring in the first half of the calendar year. We aim to complete the exercise by the end of the financial year so that accounts repatriated to funds appear on member Annual Benefit Statements and affected members are not subject to the 30 June application of AUSfund's annual administration fee as well as on exit.

What paperwork is required?

If you haven't already done so, complete the Letter of Agreement. This establishes you as a Participating Fund for the purposes of our Cross Fund Matching program and outlines our mutual obligations, enabling you to receive member balances identified during the process.

Note, in the past we required the execution of a Successor Fund Transfer Deed to allow for the movement of members between the funds. Since the law now allows for proactive consolidation by ERFs, this is no longer a requirement and any historical agreements are considered to have now lapsed.

Your administrator may want you to supply additional information, such as a statement of work, for the extraction of data.



The Process

What member data do I need to provide?

AUSfund provides you with the file specification which you pass onto your administrator enabling them to provide membership data to AUSfund. Link Group/Empirics client funds may liaise directly with their account manager to provide access to their member database.

You will need to provide:

- Identity and contact information to facilitate the matching process
- Balance and activity information to establish eligibility* for auto-transfer of matched accounts
- Other account information to help establish member engagement in the event of multiple matches

*Note: Funds may choose to limit their supplied dataset to only those members who meet the eligibility criteria for auto-transfer, or they may provide a broader dataset for the identification of potential matches and subsequent campaign activity to engage the member.

What details are used for matching?

Matching is carried out using current and previously held (if available):

- Name details
- Date of birth
- Postal and street address details
- Phone and email contact details
- Tax File Number (where applicable)

A conservative approach is taken by AUSfund in the matching process to reduce the risk of matching the wrong members and creating additional work to rectify incorrect matches and resulting complaints.

What about TFNs?

Use of TFNs held within AUSfund for the purpose of Cross Fund Matching is consistent with the applicable law, policy and service of operating an ERF, however, participating funds are bound by the provisions of their Privacy Policy and member TFN consent status.

Funds may choose to supply only those TFNs for which a member consent is held for use in the matching process to improve match confidence, particularly where member names and addresses may have changed from those held on record.

Where no consent is held, if it is possible to identify a match without the use of TFN, a TFN confirmation may be used as a post-match validation step, either prior to AUSfund initiating the transfer or on receipt of matched accounts. Each fund should review its policy settings to determine its preferred approach.

What methodology is used to determine a match?

AUSfund has partnered with Empirics data solutions, a subsidiary of Link Group, to carry out the matching process. It involves a Bayes matching algorithm to identify matching account details between datasets with a high degree of confidence.

What are the eligibility criteria for auto-transfer?

Under the legislation, a transfer without the member's consent is only permitted if the receiving fund has received at least one contribution or rollover in respect of the member within the last 12 months.



In order to limit the effects of account erosion and the likelihood of the same account being returned to AUSfund in future ERF processes, only those members with a minimum account balance of \$1,000 held in the receiving fund will be considered eligible for auto-transfer.

We may vary the criteria from year to year, e.g. adjust the minimum balance criterion to align with each participating fund's ERFing policy settings, or limit matching to active members who have joined the fund since the last Cross Fund Matching exercise. We will work with you and your administration contact to ensure the appropriate members are considered for matching.

Are eligible matched members automatically transferred to my fund?

So long as the eligibility criteria are met, AUSfund does not require the member's consent to transfer their AUSfund account to their active account but we recognise that some members, particularly those with larger balances, are more inclined to have a say in what happens with their money.

Matched AUSfund members with account balances less than \$6,000, equivalent to the ATO small balance threshold, are automatically transferred to the fund in which their matched active account has been found, and the member is advised of this (if AUSfund has a valid address).

We write to matched AUSfund members with account balances of \$6,000+ prior to transferring their accounts. A small number of AUSfund members may instruct us to exclude them from future Cross Fund Matching exercises.

What happens when there is an eligible match in more than one fund?

Where multiple matching accounts are identified, a Member Engagement Index (MEI) will be applied to ascertain the most appropriate receiving account. The MEI measures a member's level of engagement with their superannuation account based on their account details & activity in last 12 months and assigns a score of 0-100. More recent events are assigned a higher weighting in calculation of score.

In edge cases, the choice of receiving fund will be determined through a combination of factors including match confidence level, MEI score, size of balance and days since last engagement.

What factors make up the Member Engagement Index?

As the MEI is designed to analyse engagement, the contributing factors may include:

- the number of contributing employers and the timing, number and frequency of employer contributions
- any non-employer contributions, e.g. spouse, personal, rollovers or ATO transfers
- a level of insurance other than the default
- take-up of other fund services, e.g. seminar attendance, financial planning, TTR/pension
- prior or current claims activity on the account
- account management activity, e.g. updating details, investment switching, nominating beneficiaries
- member contact with the fund, e.g. member online, phone, mail, email, meeting

What about matched members who are ineligible for auto-transfers?

If we find a matching account that does not meet the activity requirement, we cannot automatically transfer the member's account without their consent. However, if we hold a valid address, we will write to the member to request an instruction and seek their consent to transfer their balance.

AUSfund may also work with funds to implement a Successor Fund Transfer arrangement for matched accounts where a transfer to a participating fund is demonstrably in the members' best interest. This will be assessed on a case-by-case basis depending on the results of the matching process.