RW NEWSLETTER

Joint Superannuation Accounts

Australian families usually pool their finances and have joint bank accounts for running the household. When we retire, most of us will receive a full or part Age Pension and the benefit will be based on our marital status. Yet, when Australian families save for their retirement, they are required to have separate superannuation accounts. Why can't the seven million families of working age pool their superannuation into a joint account? There would be benefits for families, funds and government revenue alike.

Families in Australia

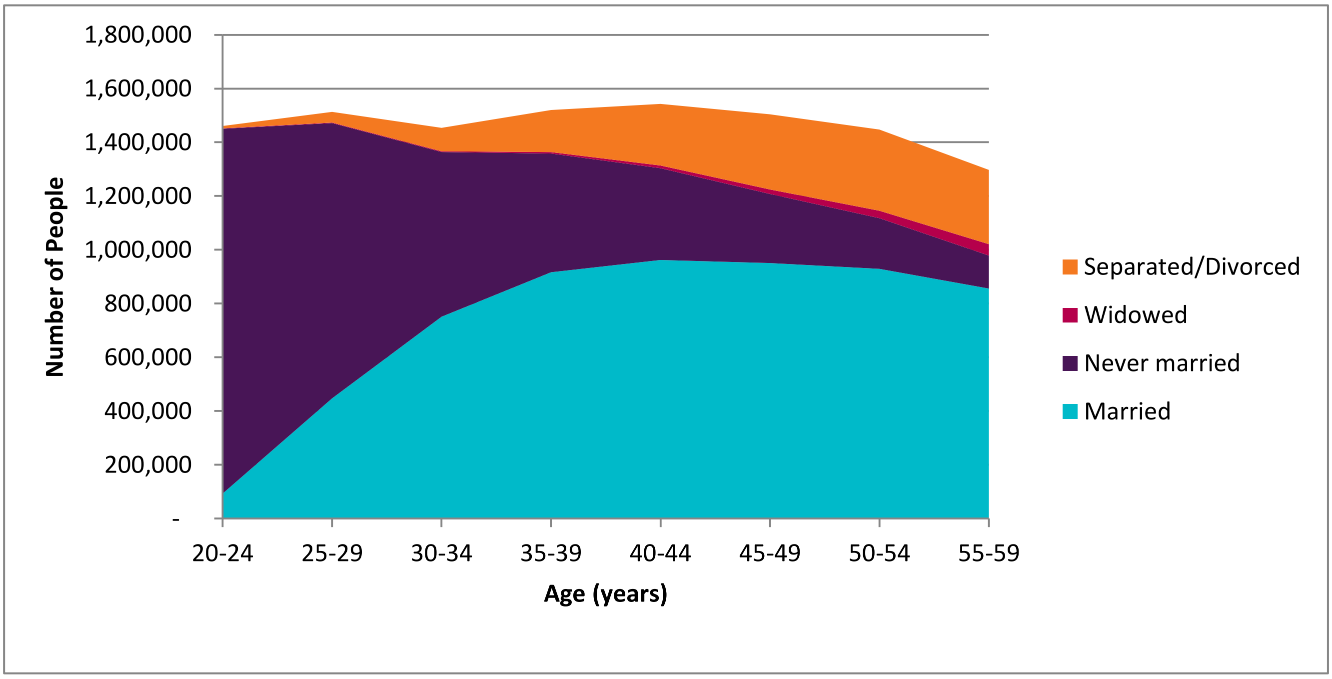
About two-thirds of Australians are in a marital relationship at the time of retirement. Their level of comfort in retirement will depend on the amount of superannuation each has accumulated together with any assets they hold outside superannuation. For example, if they own their own home, they will be in a stronger position than people who rent.

Yet, most superannuation funds assume that people will be single whenever they project retirement benefits or incomes. Of course, they have no choice as, apart from knowledge of their superannuation transactions, they do not know anything about the member's personal circumstances. Nonetheless, it does not reflect well on the industry that the majority of projections are inaccurate because of this.

The number of people married varies by age. More than half of our youth are married by age 30 and this rises to two-thirds by retirement.

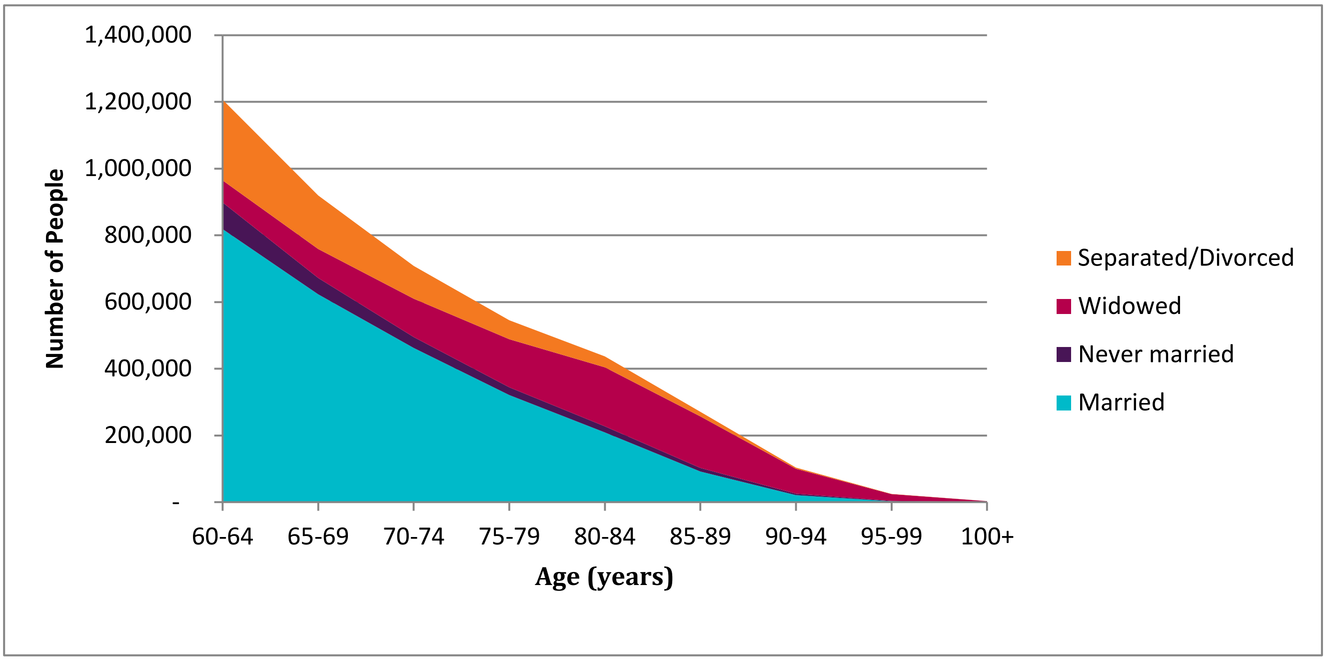
For those of working age, the percentage varies as follows:

Graph 1. Marital status of working age Australians



Graph 1 showed that the majority of people are married at retirement. The status changes throughout retirement, but most marriages ending at advanced ages are by death rather than divorce.

Graph 2. Marital status of Australians - age 60 and above



Pooled family finances

Most married couples pool the family finances and hold their savings in a joint bank account. This recognises that marriage is based on trust and sharing. In fact, research shows the more that couples share their money, the happier the marriage. However, even when sharing, savings might be held in the name of the partner earning less so they can reduce taxes on any interest earned.

Pooling means that both partners are aware of the family finances and they can work together to budget efficiently. While one partner usually does all the accounts, both are aware of the family's financial position at all times.

When a couple retires (and they often do so at the same time), each partner will receive separate superannuation pensions. If one benefit is low (say, under $100,000), they might cash it in and leave it in their joint bank account. While they cannot combine their superannuation pensions, they can direct all the monthly payments into a joint bank account. If eligible, they will each receive 50% of the married couples' rate of Age Pension- in full or in part if reduced by the means test. This social security benefit can also be paid into a joint bank account.

Pooled superannuation accounts

While they are working, each partner will have a superannuation account. In fact, many will have multiple accounts. The industry has been working hard to reduce the number of accounts which peaked at 33 million a few years ago and now stands at about 32 million. These accounts are owned by about 15 million Australians.

Under SuperStream, we will see a further reduction in accounts and this consolidation will be beneficial for members. Once members have a single account, they are better placed to focus on important matters such as the right investment and insurance strategies – and how much they should be contributing to generate a comfortable retirement lifestyle. It is a small additional step to consider joint superannuation accounts for couples.

One segment of the superannuation industry already has a proxy for joint superannuation and that is the Self-Managed Superannuation Segment. The majority of SMSFs are set up for married couples and most co-mingle the assets of the fund, so the benefit is effectively a joint superannuation account with each partner's share identified.

Some members already allocate some of their contributions to a spouse. However, the take-up is very small (less than 1 in 1,500 members use this facility). The contribution-splitting facility has little practical advantage for most members.

Improved Engagement

Superannuation funds know that the majority of members are unengaged and know very little about their superannuation. Yet, there are clear advantages in getting members to take an active interest in their super. They know that engaged members are more likely to consolidate all their superannuation into one fund, or pay voluntary contributions, take out extra life insurance and many will exercise choice to select their own investment strategy. Engaged members are also more likely to plan for their retirement.

All superannuation funds are working to increase levels of engagement and to retain members who might otherwise set up an SMSF. This is not easy as there is widespread community apathy and confusion. Further, it is expensive to provide advice to members so there is a limit on the capacity of a fund to deliver it.

As a rule, older members are more engaged because they are closer to retirement and generally have higher account balances. However, they are also the key targets for the SMSF segment.

Even those members who claim to be aware of their situation may not know very much. In a recent online survey conducted by Rice Warner for a client, more than 1,500 members responded. 53% did not know their investment option, and 60% either were unsure whether they had always invested in the same option. Even though all the funds involved in the survey had comprehensive engagement processes, only 26% of respondents were aware of campaigns designed to encourage them to save more for retirement being run by their fund. Not surprisingly, most did not know what their retirement income needs would be.

On the other hand, 90% of these respondents check their superannuation balance at least once a year, with 41% checking 2 to 5 times a year. Despite this, 34% of respondents do not know their account balance! These contradictions are not unusual in superannuation. The system is complex and most lay people find it hard to follow.

Clearly, improving member engagement is a key challenge for funds.

In contrast, SMSF members are clearly very engaged as they have made an active decision to become a trustee. Surveys we have conducted show much higher levels of awareness amongst SMSF members.

If funds were able to provide a joint superannuation account for couples, we suspect engagement would become easier. Funds would only need to engage one partner and they would bring the other along. When members become engaged, it is a moment of enlightenment and they start planning properly. In particular, women are generally more interested in the family finances and it will be a small step to add superannuation to this.

If funds were able to provide a joint superannuation account for couples, we suspect engagement would become easier.

Women also have lower retirement balances. Combining accounts would enable a couple to focus on the required amount to fund their joint retirement rather than being concerned at the balance of each partner separately.

Of course, funds would need to encourage members to bring their partner into the fund so they can look at their combined situation more easily.

We note that the joint accounts should be extended to same sex couples as well as those in long-term de facto arrangements.

Benefits of joint super accounts

If couples were allowed to pool their superannuation together, there would be a number of benefits. In particular, it would be much easier to engage members. Other benefits include:

- We could reduce the number of superannuation accounts by several million. If half of all couples exercised the option, there would be a reduction of 10% of all accounts.
- Fund retirement projections would be more accurate and members would get a better picture of how they are tracking for retirement. For example, the use of the Age Pension in benefit projections or online calculators would be based on the correct current marital status.
- It would help to reduce the female retirement savings shortfall as couples would plan their retirement finances together.
- Superannuation funds could market to members to bring their spouse into the fund. This would increase the number of active members, which is the goal of all funds.
- We could remove the facility allowing members to split their contributions and allocate some to a spouse. This is an administrative burden and adds little value to the system.
- The simplified structure for couples, combined with Member Direct investments, would provide many of the benefits of an SMSF. This might appeal to those members who want the flexibility but not the responsibility of running an SMSF.
- An SMSF would have a simpler process too. Where both partners of a couple are the only members, the accounts would be much simplified as they wouldn't need separate annual statements.

Barriers to joint accounts

So, why has this not been done before?

There were once many barriers to having joint superannuation accounts. The three key ones were:

Taxation of retirement benefits - When benefits were taxed, it was necessary to calculate the tax for an individual across all their accounts and over time (as many did not take all their benefit at once).

Even today, lump sums are taxed if withdrawn prior to age 60 or if the amount is above the tax-free threshold. However, it would not be difficult to give couples a different tax free threshold to individuals (say, 50% above the single tax free lump sum threshold).

Retirement Benefit Limits – when we had RBLs, it was necessary to maintain each individual's benefits separately to ensure they did not pass the threshold.

As there are no longer any caps on accumulated benefits, it is not necessary to separate the benefits between married partners for tax purposes.

Work test – superannuation has always been linked to work. Even today, the biggest cash flow item comes from SG contributions which are based on salaries. However, the work test was removed in 2007 as part of then Treasurer Peter Costello's initiatives to simplify the superannuation system. Consequently, there is no barrier to sharing an account if one partner works and the other does not.

There are now no practical barriers to setting up joint accounts should they be allowed under superannuation law.

How would it work?

First, the joint account would be optional not compulsory. Members would be encouraged to make use of it for convenience and to have a single set of fees.

There would be some administrative changes required for this facility. The fund would have to hold some information for each member – namely each tax file number, date of birth, date joined fund and the amount of concessional and non-concessional contributions paid for each member. The gender field would need to be expanded to reflect the two partners.

This means that funds would need to be able to receive contributions from more than one employer (which most administration structures can already do) and to hold insurance benefits on two lives.

Once a joint account was allowed, there would need to be rules around it. The investment strategy would continue with each partner sharing the account equally.

Concessional Contributions are capped so we would still need to allocate these notionally to each partner separately. Similarly, non-concessional contributions are capped and would need to be allocated to each partner. This allocation is also necessary to test eligibility for the government co-contribution. Once allocated for tax reasons, they would still be accumulated in the single joint account.

The accounts would need to show the insurance benefits for both partners. This is feasible as funds already hold different types of insurance cover against a member.

The annual statements would show contributions and insurance for each partner as separate transactions but the investment income would be pooled.

While the administration might appear to be complex, most of the additional fields can be easily incorporated. There would be a one-off cost of developing systems but the reduction in accounts should be more efficient in the long run.

The major complexity would come from a member transferring some of their accumulation benefit into a Transition to Retirement (TtR) pension. This would necessitate a separation of the accounts. Perhaps it would be simpler to remove these pensions altogether as they are an expensive way of adding to national savings.

Finally, defined benefit funds are complex enough already without suggesting they should allow joint accounts for couples!

Pensions

There is no particular reason why an account-based pension could not be jointly owned. The minimum withdrawal factor need not change for couples.

It would be desirable to allow pensions to be merged for administrative convenience and to cope with the situation where partners do not retire simultaneously.

Divorce

Marital status is static for many but the ABS estimates that about 46% of all marriages in 1999 will eventually end in divorce. If a relationship breaks down, the account could simply be separated into two equal amounts or it could be allocated differently if required as part of the overall property settlement.

Consequently, a joint account does not complicate the financial position at marital breakdown but the members would simply revert to having single accounts.

Competition between funds

If 3 to 7 million accounts were to move as couples consolidated their superannuation, this would create a significant growth in rollovers between funds. Clearly, all funds would want to have the facility for joint accounts or they will be at risk of losing members. All will have campaigns to attract the spouse of members (and to minimise losses from members joining their spouse elsewhere).

The size of the movements could impact market share as those with strong marketing campaigns are likely to benefit at the expense of funds with modest budgets. It is conceivable that the banks would benefit from attracting members to their online superannuation offers. However, they are already campaigning for bank customers to join their fund so it is unclear whether there would be much additional impact.

The combination of a joint account and Member-direct assets would enable funds to claim they already have a low cost SMSF product structure – without burdening the members with the governance issues of running a small fund.

Fiscal Outcome

The higher levels of engagement should encourage more people to save for retirement. If this leads to greater self-sufficiency in retirement, it will benefit the government through lower Age Pension costs.

The reduction in the number of accounts should (in time) lead to lower administration fees and this will leave more in the members' accounts to accumulate to retirement.

References

http://www.slate.com/blogs/xx_factor/2013/09/20/marriage_and_money_couples_who_pool_their_income_may_end_up_happier.html

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