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ECONOMICS AND GOVERNANCE COMMITTEE

Members present:

Mr LP Power MP—Chair
Mrs MF McMahon MP
Mr DG Purdie MP
Mr RA Stevens MP
Mr A Tantari MP

Staff present:

Ms L Manderson—Committee Secretary
Ms R Mills—Assistant Committee Secretary

PUBLIC BRIEFING—SUPERANNUATION (STATE PUBLIC SECTOR) (SCHEME ADMINISTRATION) AMENDMENT BILL 2021

TRANSCRIPT OF PROCEEDINGS

MONDAY, 13 SEPTEMBER 2021

Brisbane

MONDAY, 13 SEPTEMBER 2021

The committee met at 10.30 am.

CHAIR: Good morning. I declare this public briefing open. I would like to respectfully acknowledge the traditional custodians of the land on which we meet today, recognising that they have been here for thousands of years, and pay our respects to elders past and present. We are extraordinarily fortunate to live in a country with two of the oldest continuing cultures in those of Aboriginal and Torres Strait Islander peoples, whose lands, winds and waters we all share.

My name is Linus Power. I am the member for Logan and chair of the committee. The other members of the committee here are: Ray Stevens MP, the member for Mermaid Beach and deputy chair; Melissa McMahon MP, the member for Macalister; Dan Purdie MP, the member for Ninderry; and Adrian Tantari MP, the member for Hervey Bay. Michael Crandon MP, the member for Coomera, is an apology for these proceedings.

The purpose of today's briefing is to assist the committee with its examination of the Superannuation (State Public Sector) (Scheme Administration) Amendment Bill 2021. The briefing is a proceeding of the Queensland parliament and is subject to the standing rules and orders of the parliament. It is being recorded and broadcast live on the parliament's website. I remind committee members that officers appearing today are here to provide factual or technical information. Any questions about government or opposition policy should be directed to the responsible minister or shadow minister or left to debate on the floor of the House. Before we proceed, I ask all those participating to please turn mobile phones off or switch them to silent.

ALLEN, Mr Leon, Under Treasurer, Queensland Treasury

MOLLOY, Mr Dennis, Acting Deputy Under Treasurer, Economics and Fiscal, Queensland Treasury

RYAN, Mr William, Head of Fiscal, Queensland Treasury

CHAIR: I welcome from Queensland Treasury Mr Leon Allen, Under Treasurer. Mr Allen, I congratulate you on your appointment as Under Treasurer, having acted in that capacity before this committee for some time. I also welcome Mr Dennis Molloy and Mr William Ryan. Thank you for agreeing to brief the committee. I invite you to make some opening remarks before the committee asks you questions.

Mr Allen: Thank you and good morning to all members and the chair. Thank you for the opportunity to provide a small opening address. Like the committee, we would also like to respectfully acknowledge the traditional owners and custodians of the land on which we meet today and pay our respects to elders past, present and emerging. You have completed the introductions for both myself and the team so I need not repeat that. Again, thank you for the opportunity to appear today. As I am sure the committee appreciates, this is a significant and complex bill. It facilitates a potential merger and the creation of a globally significant financial entity based in Queensland. Queensland Treasury officers are pleased to assist the committee in your assessment of the proposed legislative changes to this end.

The bill supports the proposed merger of two large Queensland based superannuation funds. The merger of QSuper and Sunsuper will create Australia's second largest superannuation fund, headquartered in Brisbane. The initial board is proposed to have seven current QSuper trustees and six current Sunsuper directors. The government is the fund's largest single employer sponsor. In recognition of this status, the government will have representatives on a panel responsible for nominating independent and employer directors. Two of the employer directors must be approved by the Treasurer before being considered for appointment by the board. In relation to defined benefits, the bill provides that investment arrangements will be aligned with government policy and that the Treasurer must consent to any changes that impact on members' benefits or contributions or the government's contributions.

QSuper and its predecessor funds have been providing retirement benefits to Queensland public sector workers for more than a century. Since 2017, QSuper has been open to all Australians. Sunsuper was established in 1987 and has quickly grown to become a leading multi-industry fund Brisbane

open to all Australians. The merged fund is estimated to support over 2,000 jobs. It is envisaged that as the fund grows there will be opportunities for new jobs in investment roles, information technology and customer engagement.

The merged fund will continue as the Queensland government's default fund, with the review period for the default arrangements extended by 10 years. This extension does not prevent a review occurring inside that period. The bill also contains provisions that allow for the creation of a regulation to specify the contribution arrangements for Queensland government employees in an accumulation account. The reason for the regulation-making power is to keep these contribution arrangements in legislation as they currently are in the QSuper trust deed, which will cease to be subordinate legislation.

QSuper is a fund with over \$126 billion in funds under administration and some 600,000 members. Sunsuper is a fund with \$90 billion in funds under administration, with 1.4 million members. This means the merged fund will have two million members. The merged fund will be globally significant and a public offer fund open to all Australians. I would like to thank the committee for the opportunity to make this opening statement.

CHAIR: I wanted to put on the record that I think all of us have a personal interest in at least one of the funds being discussed today, although our interest is very broad and in line with the interests of others.

Mr Allen: I would declare the representatives on this table as being members of the fund as well.

CHAIR: Thank you, Mr Allen. Mr Stevens, I believe you have a question?

Mr STEVENS: I have a couple of questions. There is something you may need to clarify for me. You just mentioned that there will be 13 directors of this new corporation. What other major institutions have a football team of directors?

Mr Allen: I cannot speak to knowledge of all boards and the size and shape of those boards. In this instance, I think we should acknowledge two things. There is a merger of two well-respected boards with very credentialed and high-performing trustees and/or directors and any arrangements around the combined board would be to the satisfaction of APRA. I understand that those consultations have taken place. At the end of the day, there is a level of satisfaction that APRA needs to be comfortable with in approving the size and shape of the board.

Mr STEVENS: I understand why you would do that in the initial merger of two large entities, but are there any steps further down the track to keep it a more focused group of directors in terms of numbers?

Mr Allen: There is no indication provided by the board at this stage to seek those sorts of modifications to the current arrangement. It is not anticipated in the legislation either.

Mr STEVENS: Can you elaborate on proposed new section 26 and the limitations it imposes in terms of the changes that can be made to government defined benefit category rules? I must own up that I am not a member of the defined benefit scheme. I am very disappointed. How does the proposed section or any aspects of the bill help to ensure the entitlements of defined benefit members and the state's defined liabilities are protected for the future?

Mr Allen: In relation to the merged funds and the management of the employees' defined benefit entitlements, can I clarify that that is the area of interest in your question?

Mr STEVENS: Yes.

Mr Allen: Yes, the merged fund will manage the QSuper defined benefit scheme. Nothing will change in relation to the defined member benefit entitlements. The rules for defined benefit categories in the merged trust deed will be those that are currently in the Superannuation (State Public Sector) Deed 1990. The bill provides that changes to the defined benefit scheme which impact members' benefits or the government's liabilities must be approved by the Treasurer. The trustees cannot make any changes in relation to defined benefit unless they are approved by the Treasurer.

CHAIR: Usually, Deputy Chair, this is where I ask gratuitous questions about which states have a fully funded defined benefit superannuation scheme. Seeing all Queenslanders know the answer—it is only Queensland—I will move on.

Mrs McMAHON: I note in your briefing to the committee you indicated that APRA is strongly encouraging the consolidation of the superannuation industry. I know that generally speaking we look for choice and competition amongst any service provider, particularly financial service providers. Could you comment on the benefits more broadly with the consolidation of super funds in Queensland?

Mr Allen: Yes, it is correct to say that the regulator has been encouraging mergers of this type. I am sure the committee would be aware of some, but just by way of reflection I note that there has been a period of significant consolidation which has accelerated of late. Recent examples would be Aware Super, which was created from the merger of First State Super and VicSuper in July 2020. MTAA Super and Tasplan became Spirit Super earlier this year. We have seen in Queensland that LGIA Super and Energy Super have also merged, as have Cbus super and Media Super.

In relation to the benefits that are to be derived from that, ultimately these have to be mergers in the best interests of the members. That is the obligation on the trustees and/or directors managing those. Certainly that is the focus for APRA as well. That is on the basis of demonstrating that there is benefit by way of reduced fees, be they administrative fees or investment fees, which over time will flow through to higher account balances. In this case, there is no doubt that economies of scale are a big driver behind the realisation of those benefits, where administration costs are spread over a larger number of members and therefore bring the unit price down for each individual member. There is also a larger pool of capital that can be invested. Those investment opportunities are obviously more diverse and open for a larger fund than they are for smaller funds. That allows them to invest into different asset classes and realised as a product is intended to be higher investment returns. These are financial benefits.

There are operating benefits. We mentioned IT in our opening remarks and the extent to which you can maximise the benefit of the information technology spend. That then gets spread over a larger group of members—enhanced member services and products that go with a larger fund and the bandwidth it has to develop those products and offer member services. More balanced fund demographics improves liability management so you do not have a concentration of liabilities in one area. You have more membership so you have a greater spread of demographics. That is a very significant part of liability management for funds.

The extent to which we have a fund now with a significant national footprint means there are greater opportunities for growth. With that growth comes the benefit of scale as well. Those are generally the benefit sets that sit behind the policy that goes towards some degree of consolidation in the sector. As you correctly identify, there still needs to be a competitive landscape as well to provide the benefit of choice.

Mr PURDIE: Further to what Mr Stevens was asking before about the composition of the board, we are looking at seven members of the board from QSuper and six from Sunsuper. Maybe I should already know this, but how many do each have on their board at the moment?

Mr Allen: I think we have an aggregate of 17 across both boards, of which nine are QSuper and nine are Sunsuper. Despite there still being 13 members, there is a consolidation that occurs.

Mr PURDIE: You mentioned in your opening address that the Treasurer will have some oversight or input into two appointments on the board.

Mr Allen: Yes.

Mr PURDIE: In relation to QSuper, is that similar or different to what happens now?

Mr Allen: In relation to the current arrangements, the government provides for the nomination of directors to the QSuper board and there are employee representatives put forward at the same time, so there is a shared arrangement that goes with nominations under the QSuper arrangements.

Mr PURDIE: Does this new legislation essentially validate that? It does not change it too much at all? Are there similar arrangements?

Mr Allen: In terms of the new arrangements, I think we are giving recognition to the fact that in Sunsuper there is a different process that goes with the nomination of their directors. What is being proposed is a new process to ensure that, given the government is the major employer sponsor to the fund, there is an appropriate representation of government members. I can step through some of the arrangements when it comes to that nomination process if that is of benefit to the member.

CHAIR: Briefly, Mr Allen, yes.

Mr Allen: If the chair is okay with that I am happy to provide—

CHAIR: Do you have any follow-up questions on that?

Mr PURDIE: I have no any further questions.

CHAIR: Thank you, member for Ninderry. If Mr Allen does not need to go through the exact—

Mr PURDIE: That is okay. I will go through the material we have here and have a look.

Mr TANTARI: Mr Allen, in your opening address it was notable that you mentioned the merged entity would have around two million members. How are you communicating to them to help them understand the merger and navigate any changes to the options available to them in terms of managing their account?

Mr Allen: The funds' obligation to the members is not changed by any consideration of this proposed merger. They have an obligation to keep their members informed of any developments in relation to their accounts, the performance of those accounts or the future operation of those accounts. It is with the funds that communication is being conducted. I understand that upon the announcement of legislation members were communicated with in relation to what is being proposed. We should acknowledge that this is still a proposal. The boards have not formally decided on the merger occurring. That is ultimately a decision that is facilitated by this legislation. The government is providing the basis upon which—if the trustees are of a mind and they think it is in the members' best interests and that is agreed to by the regulator—a merger takes place. Members have been kept up to date on developments and, as I understand it, since late 2019 QSuper has periodically provided members with updates on the proposed merger through various newsletters and website updates. More recently, as I noted, there has been direct email to the members given the visibility of this legislation and the prospect of a merger.

CHAIR: In that way, this is enabling legislation that allows those boards to make decisions as to trustees in the best interests of their members?

Mr Allen: That is correct, Chair.

CHAIR: This is going to create quite a large financial institution. Is there a commitment to keep the headquarters and some of the important roles in Brisbane or Queensland?

Mr Allen: Yes, there is. Both entities are very mindful of their Queensland origins and are looking to secure that as part of their considerations. The government also is obviously very minded to ensure that such a large organisation remains headquartered in Queensland. The bill provides that the registered office—the main office—and the majority of the trustees' business areas will remain in Queensland. This acknowledges it will be a nationally focused business and it will be of a global scale, but the intention is that, for the key elements of registration, the main office and the majority of business areas remain in Queensland, along with the requirement for the chief executive officer and the majority of trustee directors and key management personnel to be resident in Queensland. In relation to the new trustee arrangements, the boards of QSuper and Sunsuper have recommended the appointment of the current chief executive officer of Sunsuper as chief executive officer of the merged fund to ensure the provision of stable leadership during the transition period.

CHAIR: No doubt there are a lot of financial institutions down south that are looking at Queensland and thinking this would be a great place for their business.

Mr STEVENS: In relation to the two different risk profiles of both current superannuation funds, how are they going to work out which particular risk profile they will take on? Does the fact that QSuper has seven or six, if you like, have any bearing on the risk profile of the new entity?

Mr Allen: In relation to the risk profile and the membership, I would just focus on the government's priority around its defined benefit and those government employees under the accumulation fund as well. There is provision here that ensures there is a level of alignment between the risk appetite of the government when it comes to the investment focus philosophy, investment approach, which it wants to see for those funds and the obligations of the merged fund, and that is ensuring that investment management arrangements are consistent with government policy. There is a clear recognition of the point you make around risk appetite in that, when it comes to the management of the government's exposure here and the contributions it is making for public sector employees, there is a good alignment of investment policy under the new fund.

Mr STEVENS: Thank you. I follow that thinking completely, but I am sure the entities that are being merged have different risk profiles and also different membership opportunities for their different types of funds in terms of more risky funds or safer funds. How is it going to be determined in the new entity which of those profiles will prevail?

CHAIR: Just to clarify, is this about the financial products they offer within super?

Mr STEVENS: For members, correct, and how that is going to be determined in the new entity. Is it a unanimous decision, 'We all grow with this,' or from the board's perspective of having the numbers, that type of thing?

Mr Allen: I would reiterate the points in relation to where the government's investment—

Mr STEVENS: Yes, I heard all of those and I accept all of that.

Mr Allen: The point of a fund of this nature is that there is an opportunity through products to provide some variation for individuals who are looking to take on more or less level of risk, depending on where they sit in their investment cycle. At its core, any organisation of this nature would ensure that they are taking the appropriate level of risk to ensure they maintain capital but also provide for growth. I do not see any deviation from strategies deployed both individually and then as a merged entity that would put at risk the capital they are entrusted with and opportunities to secure growth off the base of that capital. Regardless of board arrangements, that would be the board governing an investment policy and function within the merged entity that would secure those outcomes.

CHAIR: We note that this is enabling legislation and the two boards have to make a determination about what is in the best interests of their members going forward, including those important questions the deputy chair touched on. With that, we thank you for your briefing and the briefing papers that have been provided to the committee, which we are soon to publish on the committee's webpage. Thank you for the information you have provided here today. I note there were no questions taken on notice. We thank our fantastic Hansard staff, who will be providing a transcript of these proceedings which will be available on the committee's parliamentary webpage in due course. I also thank the tens of those interested in the superannuation industry who are following us online. I declare this public briefing closed.

The committee adjourned at 10.55 am.