Committee Secretary
Economics and Governance Committee
Parliament House
BRISBANE QLD 4000

15 September 2021

Submission to Economics and Governance Committee

Superannuation (State Public Sector) (Scheme Administration) Amendment Bill 2021

1.0 Introduction

QSuper and Sunsuper welcome this opportunity to make a submission to the Economics and Governance Committee of the Queensland Parliament regarding the *Superannuation (State Public Sector) (Scheme Administration) Amendment Bill 2021* (the Bill). Both funds welcome the Bill as it will facilitate the merger of QSuper and Sunsuper to create the second largest superannuation entity in Australia, headquartered in Queensland.

The merger between our funds will pave the way for the creation of an unquestionably strong superannuation fund with the scale to deliver outstanding services, greater efficiencies, and lower costs for members.

Through this process we have confirmed that our funds are unified on:

- Always acting in members' best interests
- Simple, transparent fees
- Award-winning performance, products and service
- Proven investment philosophies

- Maximising the retirement outcomes of our members.

The combination of QSuper's public sector heritage in Queensland and Sunsuper's national employer base will create a diversified and resilient organisation investing on behalf of two million members. Combining our two strong, successful funds will create an organisation of world-class capability, headquartered in Queensland, that will be open to all Australians.

1.1 Superannuation Industry Landscape

Superannuation has proven an effective mechanism for Australians to save for their retirement for almost 30 years. This has created a $3 trillion industry underpinning a globally recognised retirement income system.

The superannuation industry, driven by Federal Government policy and regulator action, is consolidating. In a speech in May 2021, Helen Rowell, Australian Prudential Regulatory Authority (APRA) Member, observed:

'APRA has been pushing hard for several years for more fund mergers. This isn't simply about weeding out persistent underperformers, or making the sector easier to navigate for members – although both are important. It's also about scale. All things being equal, the evidence suggests that larger funds are better placed to deliver stronger investment performance and lower fees.' [1]

By 2025, the top 15 funds are expected to hold ~70% market share, up from ~63% currently. This consolidation trend is likely to accelerate due to pressure from both competitive and regulatory forces.

There have been approximately 70 APRA-regulated funds that have finalised mergers over the previous eight years. Others have announced intentions to merge. Some examples of significant recent announced and/or finalised fund mergers include:

- First State Super, VicSuper and WA Super– merged to form Aware Super;
- Tasplan and MTAA – merged to form Spirit Super;
- LGIA Super and Energy Super;
- Cbus and Media Super.

In order to fundamentally improve member retirement outcomes, beyond just realising incremental improvements, superannuation funds in the future will be required to:

- Improve the Core offer and provide the best retirement saving vehicle in the market that delivers superior net investment returns;
- Shift focus from the process (saving) to the outcome (retirement) by delivering appropriately engineered products and services that provide significant value

[1] Source: APRA Deputy Chair Helen Rowell - Speech to AIST Conference of Major Superannuation Funds, 19 May 2021.

by greatly improving members' financial wellbeing throughout their life journey; and
- Invest deeper and reach broader to understand their membership base to foster meaningful engagement via education, guidance, and advice. This approach enables better decision-making and establishes value-adding, long-term engagement with members.

This vision would require superannuation funds to have the scale to keep fees and costs at competitive levels and funding the necessary investment to drive a stronger, combined growth trajectory into the future.

It is against this backdrop that the boards of QSuper and Sunsuper have determined that a merger of their two funds will provide a base to further leverage benefits of scale for the best interests of members.

1.2 Background

QSuper started in 1913 as Queensland's Public Sector Superannuation Fund. In 2017 QSuper became a public offer fund, allowing all Australians to join. Sunsuper was established in 1987 in Queensland as a fund open to all Australians. Both QSuper and Sunsuper are award-winning funds in their own right and are both proudly profit-for-members funds.

In March 2020, QSuper and Sunsuper signed a Memorandum of Understanding (MoU) to enter into a period of exclusive due diligence to explore a merger. The MoU was reached following a period of high-level discussions and an assessment of both businesses which found there are sufficient potential benefits to members to proceed to due diligence for a merger.

In March 2021, after an extensive due diligence period, the funds signed a Heads of Agreement to proceed with what will be the most significant merger in Australia's superannuation history.

Both trustee boards are required under law to determine if a merger is in the best financial interests of their members. The trustees will only proceed with a final decision to merge if satisfied that a merger is in the best financial interests of members.

A QSuper and Sunsuper merger will create a $200 billion plus profit-for-members fund that services two million members. The key attributes of the merged fund are set out in following table.

MERGED FUND ATTRIBUTES			
As at 30 June 2021	**QSuper**	**Sunsuper**	**Merged Fund**
Total Members	620,587	1,383,228	2 million+ members
Funds Under Administration	$134bn ^	$90bn	$224bn
Average Account balance	$215.9k	$65.3k	$111.9k
Geographic Distribution (Members based in QLD)	91%	64%	73%

^Includes the defined benefit assets held in the Queensland Government employer fund.

2.0 Benefits to members

The due diligence process undertaken by the funds has confirmed that significant benefits are expected for members as result of the merger.

The merger is intended to advance the financial interests of the memberships of each fund. We intend to deliver fee reductions which we will be able to detail to members once the approvals and authorisations necessary for the merger are finalised. A merger of this scale will create efficiencies as well as new product and service opportunities which will be in the best financial interests of our members.

The merged fund's scale will drive operating cost benefits and material efficiencies. The fact that operating costs for the fund can be spread over a significantly larger membership base means lower cost per member.

The Productivity Commission has found that within superannuation 'evidence of economies of scale is compelling — larger fund size is strongly associated with lower average costs in the Australian superannuation system.'[2]

It is expected that the merger will facilitate superior investment outcomes. This is because the scale of the merged fund opens access to expanded investment opportunities and partnerships which, coupled with trading and cost efficiencies, assist in enhancing returns. Findings from the Productivity Commission state that:

'scale benefits also manifest through increasing returns to scale. Net returns are positively related to size for not-for-profit funds….Larger funds do appear, however, to make better investment decisions within asset classes.'[3]

The merger will support enhanced member services and products because of the merged fund's greater ability to build new and innovative services and products that will flow through to better member retirement outcomes.

After the merger the fund will have a more balanced membership demographic. This diversity directly contributes to greater, long-term sustainability for the merged Fund.

[2] Source: Productivity Commission Inquiry Report 'Superannuation: Assessing Efficiency and Competitiveness', Finding 7.4, 21 December 2018
[3] ibid

The merged fund will have a strengthened national footprint. It will be headquartered in Queensland and have a strong presence in all States and across more regions, beyond what would be the case as separate funds.

It is likely that the merged fund will be the second largest superannuation fund in the country, and it is anticipated that the merged fund will be able to leverage industry-leading organisational capability. This will naturally create an even greater value proposition for members and employers which will encourage the very best people to seek to join the fund and for our existing staff to remain.

3.0 Legislation

The *Superannuation (State Public Sector) (Scheme Administration) Amendment Bill 2021* (the Bill) is a necessary step to facilitate the merger. The Bill will:

- retire the board of QSuper and provide for the superannuation scheme to be administered by a corporate trustee;
- provide for the scheme's trust deed (the *Superannuation (State Public Sector) Deed 1990*), which sets out the scheme's rules, to be moved out of legislation (through its conversion to a non-statutory instrument, in keeping with the new status of the trustee as a proprietary company);
- ensure the merged superannuation entity continues to be based in Queensland;
- maintain public sector employees' defined benefit protections within legislation; and
- retain a statutory framework for state public sector employees' superannuation contribution arrangements.

QSuper and Sunsuper were consulted during the development of the Bill to ensure that it makes all necessary amendments to Queensland legislation in order to facilitate the merger. Both funds are supportive of the Bill being passed in its current form.

3.1 Structure and Fund Governance

For the merger to occur the Sunsuper fund will transfer into the QSuper fund by way of a Successor Fund Transfer (SFT). An SFT is the mechanism by which most superannuation fund mergers are undertaken in Australia. Broadly, it is intended that the merged fund will have two divisions – a Government Division and a Public Offer Division.

The current Sunsuper Corporate Trustee will be renamed and reconstituted and appointed as the trustee for the merged fund. The QSuper Board will be retired. The composition and method of nomination and appointment of the board will be enshrined in a new constitution for the merged fund.

It is proposed that the merged fund Board of Trustees will comprise 13 members:

- Four employer representative directors;
- Six employee representatives directors; and

- Three independent directors.

The Chair of the Board will be selected from amongst the board members.

The initial Chair and board members for the merged fund, drawn from the existing boards of both organisations, were announced in March 2021.

The final structure and governance of the fund is dependent on the passage of the Bill and is subject to regulatory approvals from the federal regulator APRA.

3.2 Defined Benefit

There will be no change to the benefit design for existing defined benefit members or the manner in which the defined benefit assets are invested by the merged fund Trustee as a result of the proposed merger.

We recognise the strong commitment made by the Queensland Government to the QSuper defined benefit scheme and its commitment that the State's guarantee will continue to be enshrined in legislation.

3.3 Employment

The merged fund will be headquartered in Queensland and more than 90% of the merged fund's 2000+ staff will be based in Queensland.

As part of the Heads of Agreement, the funds made employment security commitments to the existing workforces. All staff, below senior management, at both organisations have been given commitments around employment security for at least two years.

3.4 Insurance

The current insurance offerings and insurers will be maintained at the merger, and the intention is for existing members to retain their current insurance arrangements at merger date. This includes QInsure remaining the insurer for the members of the Government Division. QInsure is experienced at providing cover to QSuper members in higher risk employment categories such as police and emergency services, correctional officers, and nurses. In line with commitment to members' best interest, future insurance offerings may need to change, for example market pricing, with the rationale for any future change clearly communicated to members and all stakeholders.

4.0 Conclusion

We are confident that the merger of QSuper and Sunsuper is in the best financial interests of our members. The merged fund will be one of Australia's most significant financial institutions, headquartered in Queensland and with national ambitions for growth. The merged fund will be an enduring force for good, partnering

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with members in both public and private sectors to achieve their best possible financial wellbeing outcomes in their retirement.

The merger remains subject to a range of conditions including a final decision by each board to merge, as well as legislative and regulatory approvals, and will only take place if it is in our members' best financial interests.

The *Superannuation (State Public Sector) (Scheme Administration) Amendment Bill 2021* is a critical and necessary step in the facilitation of the merger. Both QSuper and Sunsuper strongly support the passage of the Bill.

Should you require further information with respect to this submission please do not hesitate to contact Mr Mark Bellaver, Senior Manager - External Relations on [redacted].

Yours sincerely

Don Luke
Chair – QSuper Board

Andrew Fraser
Chair – Sunsuper Board

Committee Secretary
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23 September 2021

Supplementary Submission to Economics and Governance Committee

Superannuation (State Public Sector) (Scheme Administration) Amendment Bill 2021

QSuper and Sunsuper welcome the opportunity to make a supplementary submission to the Economics and Governance Committee of the Queensland Parliament regarding the *Superannuation (State Public Sector) (Scheme Administration) Amendment Bill 2021* (the Bill). We note the broad support for the Bill in the submissions that have been made to the committee. The purpose of this supplementary submission is to provide further information around the insurance arrangements of the merged fund.

Insurance arrangements

Both QSuper and Sunsuper are unified in always acting in members' best interests. Both QSuper and Sunsuper are committed to providing default insurance benefits that provide members with financial support if they find themselves unable to work due to serious injury or illness, while at the same time keeping premiums affordable and preventing the erosion of retirement savings.

As advised in our submission of 15 September 2021, the current insurance offerings and insurers will be maintained at the merger, and the intention is for existing members to retain their current insurance arrangements at merger date.

The committee may be aware of amendments made to legislation by the Federal Government as part of their *Putting Members' Interests First* package of reforms. These changes require that transferring members (in this instance, Sunsuper members only) who have a balance of less than $6,000 at the merger date who have not opted into insurance cover, must have their default insurance cover cancelled. Sunsuper will be writing to these members to advise that the cover will be cancelled, to give these members the opportunity to opt-in and therefore retain their cover.

We confirm that all other members will retain their current insurance arrangements at merger date, ensuring that these members will not be worse off as a result of the merger. In particular, all QSuper members will retain their current insurance including the current lump sum TPD product and QInsure will remain the insurer for the members of the Government Division. QInsure is experienced at providing cover to QSuper members in higher risk employment categories such as police and emergency services, correctional officers, and nurses.

Ongoing insurance arrangements

Both QSuper and Sunsuper are committed to continuing to provide benefits to members that are in members' best interests, that sustainably support positive retirement outcomes. As part of this, future insurance offerings may need to change, however any changes would only be undertaken with the appropriate consultation with stakeholders. In the case of Government Division members, this includes the Queensland Government as a major employer and relevant unions.

Total and Permanent Disability Assist for Sunsuper Members

We note that Sunsuper's Total and Permanent Disability Product – TPD Assist – has been discussed by some submissions made to the committee.

Sunsuper's Total and Permanent Disability award winning default insurance product, TPD Assist, was introduced from 1 July 2016 after 18 months of research and input from members, and in consultation with APRA.

TPD Assist includes two key elements:

- Early Intervention, which allows members to access the benefits of proactive occupational rehabilitation without lodging a claim; and
- TPD Assist, which provides up to six (6) individual lump sum payments over a five (5) year period, in conjunction with proactive occupational rehabilitation and return to wellness programs. If a member returns to wellness and work prior to using their full insurance benefit, any unused insurance is then retained.

The product aims to balance the need to assist members financially and emotionally when they need it most, as well as ensuring insurance premiums are sustainable and not eroding members retirements benefits. The product is the default insurance for Sunsuper members and members have the option to change to a lump sum style TPD benefit product.

Should you require further information with respect to this submission please do not hesitate to contact Mr Mark Bellaver, Senior Manager - External Relations on [redacted].

Yours sincerely

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