

# **Briefing Note for Infrastructure, Planning and Natural Resources Committee**

## **Inquiry into the Revenue and Other Legislation Amendment Bill 2016**

### **Queensland Treasury**

Briefing on submission received from Energy Super and the Electrical Trades Union

#### **Opening statement**

The Queensland Government is the employer of Queensland's core State public sector employees. The core public sector is diverse. Employees are employed in Government departments and related core agencies and include white collar public servants, politicians, emergency service workers, nurses, teachers, doctors, and others professions.

The Queensland Government, as the single employer of this diverse workforce, has decided provide member choice in relation to the superannuation fund that employees contribute to and to retain QSuper as the single superannuation fund to which employees' contributions will be paid if they don't actively choose another fund.

The decision to maintain QSuper as the single default fund at this point for core State public sector employees facilitates:

- the protection of employees' superannuation in a Commonwealth regulated, industry respected superannuation fund that consistently provides industry leading investment returns;
- minimal disruption to employees, payroll systems and human resource areas;
- consolidated superannuation for employees who move between departments and agencies (through career development and/or government structural changes); and
- affordable insurance, particularly for employees employed in 'high risk' occupations – e.g. the police force.

## Responses to specific issues

Issue	Submission extract	Departmental response
QSuper maintained as the default fund for core State public sector employees	<p><b>Energy Super:</b>  <i>The Bill provides for both funds to be the default for State and Local Government employees – an opportunity that no other fund has. By allowing these funds to go public offer they can access employer defaults currently being offered by other funds without the opportunity for these funds to compete for default status of employers in QSuper and LGIA Super.</i></p> <p><b>Electrical Trades Union:</b>  <i>The inherent unfairness in the Bill is that QSuper and LGIA Super will have the capacity to fully expand their coverage into the private sector while maintaining the benefit of exclusive default status in the State Public Sector and Local Government, while other superannuation funds will not have the same opportunity to become a default fund for those employees in the State Public Sector and Local Government who may not be engaged with their superannuation.</i></p>	<p>An employer, usually in consultation with unions as part of its workplace industrial negotiations, decides the default superannuation fund for its employees. The Queensland Government is the employer of core State public sector employees which is a large and diverse sector of workers characterised by a mobile workforce working in multiple industries, multiple awards, many unions etc. As such, the decision has been made to retain QSuper as the single default superannuation fund at this stage. Unions representing core public sector employees support QSuper being the default fund for these employees (as confirmed in submissions made to the Committee from the Queensland Nurses' Union, the Queensland Teachers' Union and Together Union). The Queensland Government can, at any time in the future, review the decision, and if desired, choose another superannuation fund to be the default fund for employees.</p> <p>In summary, employers generally set the default superannuation fund for their employees in consultation with the relevant unions. The relationships between employers, unions and superannuation funds are mutually beneficial and should operate in the best interests of employees/members and have often been established over long timeframes. Consequently, it is uncommon for an employer to change their default as a result of one superannuation fund competing against another superannuation fund.</p>

<p>Commencement of the Bill's 'open fund' and 'choice of fund' provisions</p>	<p><b>Energy Super:</b>  <i>This is exacerbated by the decision of the Government to not allow choice to public sector employees immediately. Other retail and industry funds will not be able to compete for choice members but QSuper and LGIA Super have unfettered access to the superannuation moneys of members in other funds during this time.</i></p> <p><b>Electrical Trades Union:</b>  <i>Furthermore, while the Bill suggests that all amendments relating to choice and public offer will occur on a day to be fixed by proclamation. The Government has expressed an intention that choice of fund will not be available to State Public Sector and Local Government employees before 30 June 2017, while the timing of public offer remains unclear.</i></p>	<p>The Queensland Government will commence the Bill's 'open fund' provisions and 'choice of fund' provisions simultaneously and has not suggested otherwise. The Queensland Government recognises that it would not be appropriate to delay the commencement of the 'choice of fund' provisions, which is why simultaneous commencement is planned.</p>
<p>Superannuation fund fees</p>	<p><b>Energy Super:</b>  <i>Despite these scale advantages, QSuper's product fees are comparable to smaller funds, with some being lower. While fees alone are not the only indicator of fund quality, significant scale, coupled with a monopoly position (for example by being the only fund that can be named as the default fund for the public sector), inhibits competition and ultimately results in worse outcomes for members.</i></p>	<p>The Queensland Government is not constrained from reviewing, in the future, its decision to make QSuper the single default fund for core State public sector employees. Consequently, QSuper does not have a monopoly position on default superannuation for the core public sector. However, decisions around the default fund would consider the interests of employees and efficiencies for departments and related agencies and cost impacts on Queensland's taxpayers.</p> <p>There is little consistency about how fees are reported in the industry and care needs to be taken in blanket comparisons. For example, QSuper is very transparent on how it discloses fees and therefore the fees may appear higher than some other funds. This inconsistency is yet to be resolved by the industry regulators, however, many consider the better measure to be overall value, which combines fees, returns, products and services.</p>

<p>Queensland Government reputation</p>	<p><b>Energy Super:</b>  <i>With LGIA Super and QSuper opening to the public and with full Government ownership, it may provide the perception that the Government is offering a Government guaranteed product and could lead to reputational risk.</i></p> <p><b>Electrical Trades Union:</b>  <i>... the fact that QSuper and LGIA Super are both fully Government owned and known to be funded by Government, it lends itself to the public having a misconception that in some way returns are guaranteed by Government, which is not the case, but if returns do not match member expectation, the Government risks further damage to its reputation on that basis.</i></p>	<p>QSuper is not owned by the Queensland Government. QSuper is a trust, controlled by a board of trustees, and consequently its members own QSuper. QSuper is regulated by the Australian Government, which requires that it operate independently of the Queensland Government. QSuper has the same board structure as industry funds (the number of trustees representing contributing employers is equal to the number of trustees representing members, and there is also an independent chairperson).</p> <p>Members are aware of the independent status of QSuper. This was clearly demonstrated during the negative investment returns of the global financial crisis (GFC). There is no indication that members expected assistance from the Queensland Government for the GFC's impact on their superannuation. Queensland Treasury does not perceive any risk to the Queensland Government caused by the superannuation policy changes in the Bill.</p>
<p>QSuper funding</p>	<p><b>Energy Super:</b>  <i>... it is well known that it is funded by the Government ...</i>  <i>... reconfirmed by the recent announcement to recoup some surplus.</i></p> <p><b>Electrical Trades Union:</b>  <i>... QSuper and LGIA Super are both fully Government owned and known to be funded by Government, ...</i></p>	<p>As stated above, QSuper is not owned by the Queensland Government. QSuper is funded in a similar manner to many industry funds via a fee paid from member accounts.</p> <p>Energy Super states that the Queensland Government's decision to recoup some of the defined benefit funding surplus illustrates the Government's ownership of QSuper.</p> <p>These issues are totally separate. The fund which finances the employer share of defined benefit entitlements is held in a voluntary reserve by Government and not in QSuper. The Government's decision to recoup part of this reserve's surplus is not connected in any way to the superannuation proposals contained in the Bill.</p>

<p>Preventing QSuper from competing with other superannuation funds for new employer default business</p>	<p><b>Energy Super:</b>  <i>We respectfully recommend:</i></p> <ul style="list-style-type: none"> <li>• <i>open the default employer arrangements to genuine competition or, failing that, prevent both QSuper and LGIA Super from competing for new employer default business (similar to the arrangements in Western Australia); ...</i></li> </ul> <p><b>Electrical Trades Union:</b>  <i>The ETU recommends that:</i></p> <ul style="list-style-type: none"> <li>• <i>either open default fund arrangements for the State Public Sector and Local Government to choice, to encourage genuine competition or prohibit QSuper and LGIAsuper from pursuing default fund status outside of the State Public Sector and Local Government; ...</i></li> </ul>	<p>Both Energy Super and the Electrical Trades Union recommend that QSuper be prevented from competing for new employer default business if other funds are prevented from competing for core public sector employer default business. As stated above, the Bill does not prevent other funds from competing for core public sector employer default business. Rather, it reflects the Queensland Government's decision, as employer of Queensland's core State public sector employees, to have QSuper as the default fund for employees. Employers choose the default superannuation fund for their employees and any limits to this are limits on employers. Allowing core State public sector employees to choose a fund other than QSuper will increase competition and to restrict QSuper, which is to be an open fund, could be seen as anti-competitive. Further, Western Australia's default fund for public sector employees is an exempt public sector superannuation scheme and therefore cannot open its membership to the general public and is not regulated by the Australian Government. Consequently, a comparison between the proposed changes for Queensland and the current situation in Western Australia cannot be made.</p>
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Consultation	<p><b>Energy Super:</b>  <i>... we were disappointed not to have been consulted beforehand.</i></p>	<p>Referring a Bill to a Parliamentary Committee before it is formally debated in Parliament forms part of the Queensland Government's overall consultation on policy initiatives. The Committee's consideration of the Revenue and Other Legislation Amendment Bill 2016 includes public hearings and the opportunity for stakeholders to state their views via written submission. As part of the processes for the development of this legislation, the Queensland Competition Authority was involved with an assessment of the policy intent and whether public consultation was needed. The Authority advised that the proposed amendments did not require further analysis or assessment under the Treasurer's guidelines.</p>
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<p>Separating QSuper's accumulation scheme from its defined benefit scheme</p>	<p><b>Energy Super:</b>  <i>A number of States have grappled with this in the past and have made a number of adjustments prior to going to public offer status such as separating the Defined Benefit assets and retaining ownership of this division then privatising the accumulation fund while still maintaining default status for the public sector.</i></p>	<p>In 1997 the Queensland Government combined a number of separate public sector defined benefit schemes and a public sector accumulation scheme into one fund – QSuper. In 2009 the Queensland Government confirmed the decision to have public sector superannuation in one fund when QSuper became regulated by the Australian Government (both the defined benefit scheme and the accumulation scheme are federally regulated). One superannuation fund for all employees is in their best interests as often defined benefit members also have money in an accumulation account. Also, the administrative efficiency of retaining a single fund for superannuation is cost effective for payrolls, pay offices and members.</p> <p>The situation in Queensland is different to other jurisdictions. For example, in NSW and Victoria separate accumulation schemes were established for public sector employees some years before choice of superannuation fund or public offer was considered.</p> <p>Consequently, not only is the suggestion to separate the accumulation scheme from the defined benefit scheme outside the policy intent of the Bill, it would not be possible.</p>
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