

The Hon. Jim Pearce MP
Chairman
Infrastructure, Planning and Natural Resources Committee
Parliament House
George Street
BRISBANE QLD 4000

Via email: ipnrc@parliament.qld.gov.au

11 August 2016

Dear Chairman

Revenue and Other Legislation Amendment Bill 2016

I wish to respond to the submissions from Sunsuper and BUSSQ which were published on the Committee's website on Tuesday, 9 August 2016 in relation to the *Revenue and Other Legislation Amendment Bill 2016* (Bill).

These submissions contain factual inaccuracies and misstatements which may be a cause of concern for QSuper members and the wider public. As these are now on the public record, I believe it is necessary to formally address the issues raised.

Throughout the Committee process, QSuper has endeavoured to ensure its responses to issues raised, both at the hearing and in our submission, were at all times balanced and focused wholly on the best interests of QSuper members. As stated to the Committee, this is our focus today and remains our focus for the future.

At QSuper, we believe that the purpose of superannuation is simple – to ensure that our members can look forward to their retirement being some of their best years. This acknowledges that our members, some of whom perform some of the most difficult jobs in the community, deserve to retire with dignity after long careers.

I have addressed key issues raised in the submissions and outlined QSuper's response below.

Claim: QSuper is Government owned, controlled and subsidised.

This is incorrect.

QSuper is not owned by the Queensland Government, the Queensland Government is not a shareholder, and QSuper is not subsidised by the Queensland Government.

The Board of Trustees of the State Public Sector Superannuation Scheme (QSuper Board) which administers the QSuper Fund is a constitutional corporation established by Queensland statute.

The QSuper Board administers the QSuper Fund on a commercial basis solely from fees charged for administration, advice and investment services. Like other industry funds, QSuper is a superannuation scheme beneficially owned by its members. QSuper is a registered superannuation entity and is supervised by the Australian Prudential Regulation Authority (APRA). As an APRA regulated fund, QSuper is subject to all the same obligations as industry funds. QSuper is licenced to offer a default MySuper product.

Similarly, the QSuper Board has equal employee and employer representation, an independent Chairperson, and includes representatives of the Queensland Nurses' Union, Queensland Teachers' Union, Queensland Police Union and Together Queensland (all of whom fully support the Bill).

The QSuper Board is an independent body with strict legal and fiduciary duties. The *Superannuation Industry (Supervision) Act* (SIS Act) prohibits arrangements where the exercise of any of the trustee's powers is subject to direction by any other person.

The existing State Act concerning QSuper provides that "*for the purposes of the Corporations Act, chapter 7 and the SIS Act, the (QSuper Board) does not represent the State, and is not an agent or instrumentality of the State and does not have the immunities and privileges of the State.*"

QSuper's structure and regulatory regime is consistent with industry funds.

Claim: There is no jurisdictional precedent in any other State for what is proposed in the Bill.

The arrangements in other jurisdictions developed differently due to unique circumstances.

In saying that, when choice of fund was introduced in other jurisdictions, with the exception of the Northern Territory which did not have an Accumulation style public sector scheme, all retained their existing fund arrangements as the default.

In relation to other jurisdictions' default funds being able to attract non-Government members, when choice of fund was introduced in New South Wales and Victoria, the incumbent funds (First State Super and VicSuper, which were both established under State legislation) were retained as the default fund and competed in the open market.

Claim: QSuper's fees are artificially low and QSuper is an inefficient fund.

This is not supported by facts and the data points put forward as evidence are selective.

QSuper charges administration fees on one consistent basis to all members; Defined Benefit, Accumulation and Income account members. The QSuper Board has a fiduciary responsibility to ensure that all its members have access to the same quality products and services, and that all members and classes of members are treated fairly and equitably as required under the SIS Act. The assertion that the Defined Benefit fund is materially subsidising the Accumulation and Income account fee in the vicinity of 100% (compared to other funds), is factually incorrect as verified by independent benchmarking previously commissioned by QSuper.

Superannuation funds are annually assessed on the basis of fees, returns, products, services, advice and governance by independent ratings agencies. These ratings agencies provide the only objective assessment of an individual fund's value compared to the whole superannuation industry – industry funds, public sector funds and retail funds.

QSuper has been recognised as being a leading fund for numerous years, and received the following awards:

- SuperRatings Fund of the Year 2016
- SuperRatings MySuper of the Year 2016 (i.e. default Fund)
- SuperRatings Best New Product 2016 (for Money Map)

- Conexus Financial Large Fund of the Year 2016
- Conexus Financial Pension Fund of the Year 2016
- Chant West Best Fund: Member Services 2016
- Chant West Best Fund: Innovation 2016
- Chant West Pension Fund of the Year 2013, 2014, 2015

These provide direct data points that QSuper's fees, returns and product suite are assessed as delivering excellent value for its members over and above other funds.

In regards to fees, QSuper has been independently assessed as having one of the lowest fees in the country. Contrary to the submissions to the Committee, QSuper's leading fee position is due to sound fiscal management and by leveraging our internal infrastructure scale. This is a somewhat different approach to many funds which have material outsourcing arrangements.

QSuper is acutely aware that our members' retirement outcomes are directly impacted by the fees we charge. We believe that it is in members' best interests to leverage our scale and this has enabled QSuper to deliver more new products, services and advice for our members than many other funds. Further, we do so without charging higher or additional fees. In fact, in July 2014, QSuper began the process of reducing fees, firstly by introducing an administration fee cap and then further reducing this and direct administration fees in July 2015.

While fees are an important contributor to the value delivered to members, in isolation, it is no guarantee that members will achieve sufficient retirement outcomes.

Outcomes should be viewed holistically and other factors considered such as investment returns. It is relevant that QSuper has delivered the highest returns of all superannuation funds' Balanced/Growth options in the country (as assessed by Chant West) for the last two years, the highest returns over five years and third highest over ten years.

Claim: Queensland Industry Funds are at risk and the Bill will weaken competition.

This is not the case.

The Bill in fact increases competition as it applies to QSuper by providing for all current and future Government employees with the right to choose which superannuation fund (industry, retail, self-managed) they want their contributions paid into.

QSuper operates in a competitive environment today as all members are able to transfer the bulk of their QSuper balance to any fund of their choice. Our members are regularly targeted by other funds and institutions (as are QSuper employees). The consultation process in support of the Bill has further heightened the focus of competitors and QSuper remains focused on delivering valued products, services and advice to ensure members are fully informed when making choices.

Currently, QSuper cannot accept new non-Government members, open accounts for beneficiaries of deceased members or allow former members to re-join QSuper, and this places QSuper at a material and fundamental disadvantage today. Evidence that the competitive threat to QSuper has fundamentally increased is by the recent statement in the Courier Mail on 31 July 2016 by Melbourne industry fund HESTA, stating it will seek to target QSuper members if the Bill is passed.

The only consideration of superannuation fiduciaries should be to answer the question "is a particular course of action best for members?" QSuper believes strongly in this purpose. However, a number of the submissions to the Committee appear focused on commercial rather than member interests.

It is also relevant to note that in relation to competition within the superannuation industry, submissions arguing against the Bill's passage fail to highlight the significant competitive advantage many industry funds, such as Sunsuper, benefit from in relation to their listing in industrial awards and default status. Sunsuper for example is listed in more than 60 awards.

On the other hand, QSuper has not been privy to this channel and as set out below, barriers to QSuper achieving this are significant.

On page 87 of the Federal Government's Productivity Commission Report into the Competitiveness and Efficiency of the Superannuation System (August 2016), it states *"some employees derive their default superannuation product from a modern award. The funds that are currently listed in those awards have largely been grandfathered from earlier versions of those awards. Several reviews argued that the costs and barriers for new entrants that wish to obtain listing are sufficiently high to reduce contestability and competition in the default segment of the market, as well as adversely affect efficiency."*

It further states on page 88 in relation to the number of actual new listings over time relative to attempts as a possible relevant measure of competition that *"an important caveat is that those indicators might understate the true size of the barrier, if some funds are not even attempting to get listed, because of an inherently low chance of success."*

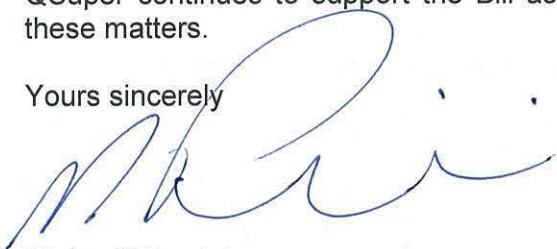
Introducing choice of fund to public sector employees and enabling QSuper to accept new members, provides all Queenslanders regardless of their employer, with the opportunity to seek out the best fund that will assist them in their retirement goals. This Bill has enhanced competition by providing all superannuation funds that are able to deliver better value and outcomes to members, with an opportunity to grow their membership.

Finally, the BUSSQ submission contends that as a result of the Bill some Queensland funds will be subject to takeover by non-Queensland based funds. It is noted that superannuation Trustees are required by law to make annual assessments of the scale and suitability of the Fund and consider whether it is in the best interests of the membership to merge or consolidate with another fund.

The statement that mergers will result as a consequence of the Bill should be considered in this context and it should be acknowledged that it is occurring in the current environment. For example, Energy Super (which made an earlier public submission to the Committee) was reported in the Australian Financial Review on 20 July 2016, as being in merger talks with Melbourne based industry fund Equisuper.

QSuper continues to support the Bill as proposed, and I thank you for the opportunity to clarify these matters.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Michael Pennisi', is written over the 'Yours sincerely' text.

Michael Pennisi
Chief Executive Officer
QSuper