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Mr Jim Pearce
Chair (By email: ipnrc@parliament.qld.gov.au)
Infrastructure, Planning and Natural Resources Committee
Parliament House
George Street
BRISBANE QLD 4000

15 July 2016

Dear Mr Pearce

Revenue and Other Legislation Amendment Bill 2016

We refer to the above Bill submitted to the Committee for its review. On behalf of the Queensland Local Government Superannuation Board (the Board) which acts as trustee for the Local Government Superannuation Scheme, now known as LGIAsuper, we wish to submit the following for the Committee's consideration.

LGIAsuper

The Scheme was established in 1965 to provide superannuation benefits to workers in Queensland local government, excluding Brisbane City Council (BCC). In 2011 it merged with City Super, the superannuation fund for BCC employees. LGIAsuper now covers all employees of local government in Queensland.

Local government employees do not have choice of fund. The superannuation contributions payable under the Local Government Act to LGIAsuper are exempted from choice under the Superannuation Guarantee legislation.

The Board is constituted under the Local Government Act 2009 (Qld) to act as trustee for LGIAsuper, a public sector superannuation fund. LGIAsuper provides coverage for all employees and former employees in Queensland local government and their spouses and currently comprises 85,000 members and approx. $9.6b in FUM.

The Board currently comprises 3 member-elected representative directors, 3 employer representative directors and 3 independent directors. The Chair of the Fund, Bronwyn Morris, is an independent director.

The Queensland Local Government Superannuation Board
ABN 94 085 088 484 AFS Licence No. 230511
Local Government Superannuation Scheme ABN 23 053 121 564

Amendments within the Bill

Parts 2 and 5 of the Revenue and Other Legislation Amendment Bill 2016 (the Bill) cover amendments to the Local Government Act 2009 and the City of Brisbane Act 2010 pertaining to LGIAsuper. The Board considers the amendments are required for the following reasons.

1. Choice of Fund for Queensland Local Government Employees

While mandating compulsory membership of LGIAsuper for Queensland local government employees has enabled the Fund to achieve scale advantages which have been passed on to members through low fees and costs and strong, risk-adjusted investment performance, the Board has recognised the inevitability of choice being applied to LGIAsuper's membership.

LGIAsuper's membership already have the ability to transfer part or all of their accumulated balance to another fund while still working in Queensland local government under the Federal Government's portability rules. The amendments within the Bill will enable them to choose which fund their employer and member contributions will be paid to as well.

2. LGIAsuper operates in a competitive environment

The Bill will enable LGIAsuper to open its membership to the general public. To date the Local Government Act has limited the Fund's membership to employees in Queensland local government and their spouses.

As indicated previously, LGIAsuper members have had the ability to transfer out part or all of their accumulated balance to another fund under the portability rules. The Fund experienced leakage of members to other funds of approx $224m during 2015-16.

With the introduction of choice of fund to Queensland local government employees the potential leakage of members will increase. To offset the leakage the Board requires the power to allow persons from outside local government to join the Fund so that it can maintain its scale advantages and continue to deliver strong, risk-adjusted investment performance with low fees which will result in higher retirement savings for members.

The Board will target family and friends of existing members and regional communities in Queensland in a cost effective manner to broaden its membership.

3. Defined Benefit Members remain with LGIAsuper

Defined benefit members' retirement benefits are determined based on their period of service in Queensland local government and their final average salary. If they leave the Fund early they receive a discounted benefit.

Defined benefits are funded from a central pool of funds which is sourced from member and employer contributions together with investment returns.

Defined benefit members are required to remain with LGIAsuper in order to protect the individual member's benefits and ensure the financial solvency of the defined benefits fund. It should be noted that the defined benefits funds managed by LGIAsuper are well in surplus with financial solvency in excess of 110% of members' vested benefits.

It should be noted that Federal Government legislation exempts members of defined benefits funds from choice of fund.

4. LGIAsuper named as the default fund

LGIAsuper is named within the amendments in the Bill as the default fund for Queensland local government employees. This will ensure that any local government employee who does not wish to exercise choice may remain within the fund that has managed their retirement savings to date.

Appointing another fund as the default fund for local government employees may cause stress and anxiety on the employees in switching into an unknown fund. Also, it could result in loss of scale within LGIAsuper which has provided cost-effective benefits and strong, risk-adjusted investment performance to local government employees for over 50 years.

5. Maintain level of contributions payable on behalf of members

The Local Government Act has provided for the level of contributions payable by local government employers and employees since inception. These provisions have been maintained within the amended Local Government Act to ensure they are unaffected by the introduction of choice of fund.

The requirement for local governments to maintain adequate levels of funding for the defined benefits funds has also been maintained within the Local Government Act to ensure the ongoing financial solvency of the defined benefits funds.

6. Change of Name to LGIAsuper

Earlier in 2016 the Board decided to re-name the Fund to LGIAsuper to differentiate it from the NSW local government fund and the electronics retailer, LG. Amendments within the Bill change the name of the Fund to LGIAsuper and change the name of the Board to LGIAsuper Trustee.

Conclusion

The amendments within the Revenue and Other Legislation Amendment Bill 2016 are fully supported by the Board of LGIAsuper. The Board has been seeking the amendments for a number of years and has gained support for the changes from LGIAsuper's key stakeholders – the unions representing the employees in local government and the LGAQ which represents the local governments.

The Board seeks the Committee's support in recommending the Bill is passed by the Queensland Parliament.

Yours sincerely

David Todd
Chief Executive Officer

Ian Harcla
Deputy CEO