Speech By

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MEMBER FOR COOMERA

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MOTION: STATE ACTUARY, REPORT; ORDER FOR PRODUCTION OF DOCUMENTS

Mr CRANDON (Coomera—LNP) (5.45 pm): I rise to support the motion moved by the shadow Treasurer. At the outset, I ask: what is the Treasurer hiding? The State Actuary would have absolutely no concern with his latest triennial report nor his interim reports being released right now. In doing so, the Treasurer would demonstrate to the people of Queensland that what he is proposing—a raid on government employees' retirement pensions—is okay. That is, of course, unless the Treasurer's decision will not pass scrutiny by experts in these matters.

Let us have a look at what the Treasurer is proposing or, more to the point, how he is coming up with his so-called surplus. The Treasurer is using the funding basis to establish his surplus. In this case he is using a seven per cent return. That means he is assuming he will receive a seven per cent return over future years.

Let us look at returns over the last five years. What is a good proxy? I know, why not use the QSuper accumulation fund. Over the last five years the cash rate was 2.54 per cent; diversified bonds, 5.76 per cent; Australian shares, 6.58 per cent; and international shares, 9.89 per cent. Let us mix them together. The moderate investment option was 6.08 per cent. The balanced investment option was 8.84 per cent. Those are the figures over the last five years. What was it over the last year? It was 2.35 per cent for the balanced fund and 2.23 per cent for the moderate investment option.

As far as returns are concerned, the Treasurer is assuming a rate of return well above cash and fixed interest and well above Australian shares over the past five years—somewhere between the actual returns of the QSuper moderate and balanced funds. The problem is that no self-respecting fund manager would dare make such assumptions for future returns on that basis. Past returns are no indication of future returns.

What do the regulators say? I refer members to the websites of the Queensland Competition Authority and the Australian Prudential Regulation Authority. Unfortunately, I do not have the time to tell members about them now. It is worth having a read there. There are some practice guides and papers that are very revealing.

Let us look at a more prudent option for establishing a surplus. It is called the accounting basis. It is the basis that prudent fund managers would use. By the way, who else uses that basis? Surprise, surprise, the Queensland State Actuary. In his letter to the Treasurer on 16 May 2015 he drew a comparison between the funding basis and the accounting basis. He said—

The 'accounting' basis is that used in financial statements and effectively assumes risk-free discount rates (currently around 3%). The 'funding' basis assumes that the return expectations on the assets are met—

that is that seven per cent figure we talked about before—

resulting in higher discount rates and therefore lower liabilities.

The distinction is important, as the liabilities are materially different on two bases. Based on the projections used in the February 2015 Budget Update, the accounting basis was expected to show a surplus of approximately $1.2 billion at 30 June 2015, whilst the funding basis indicated a surplus of approximately $10.5 billion.

That is a huge difference in those two returns. The difference in the results are 1.2 versus 10.5. A prudent fund manager would in no way go towards a seven per cent return for assumptions.

At the end of the day, it is no wonder the Treasurer has earned the nickname ‘Captain Risky’. Let us have a look at his track record. The workers compensation scheme changes are an example. He put that fund’s reserve at risk because, once again, a high rate of return has been used in the assumption. We will be getting an update very soon on that reserve position. My guess, based on the recent market returns, is that it ain’t going to be pretty, Treasurer.

Then we had last year’s budget ‘brilliance’—he is going on a funding holiday! What was the bottom line? Hitting the long service leave reserves and the QSuper defined benefit fund reserves by not making contributions. Well, things are not getting any better out there in the market, are they? More and more risk has to be taken. He has to sell assets of the fund, probably at a discount, to fund his next raid. One thing is for sure, there is not anything like $11 billion worth of cash in that fund. If there is, it has only been earning around a 2½ per cent return, nothing like seven per cent.

He is walking around saying it will not happen. I have worked in the financial services industry for many, many years. I was there for the 1987 stock market crash and in the early 1990s for the triple whammy when all funds went negative. Then there was the Asian crisis in the late 1990s and the global financial crisis. By the way, I am told the defined benefit fund went into deficit during that one. Treasurer, why don’t you just put the papers on the table? Why don’t you just release the report and show everybody what you are all about, ‘Captain Risky’?