



In reply please quote
reference number:

COMMUNITY & PUBLIC SECTOR UNION STATE PUBLIC SERVICES FEDERATION GROUP

Federal Office
1st Floor, 160 Clarence Street
Sydney NSW 2000
AUSTRALIA
Tel: (02) 9299 5655
Fax: (02) 9299 7181
Joint National Secretariat

April 5, 2012

Default Superannuation Funds in Modern Awards
Productivity Commission LB2 Collins Street East
Melbourne Vic 8003

Via email: default.super@pc.gov.au

Dear Commissioners,

Re: CPSU-SPSF Group Federal Office Submission - Default Superannuation Funds in Modern Awards

Introduction

The State Public Services Federation Group (SPSF) of the CPSU, the Community and Public Sector Union (CPSU - a Federally-registered union), consists of six State Branches representing employees of the Crown in Right of the States and other State public sector entities.

The SPSF appreciates the opportunity to make a submission to the Review. The SPSF endorses and advocates the ACTU's submission to this Inquiry.

With respect to the issue of the number of default funds in modern awards the SPSF endorses the ACTU submission but that does not prejudice our position vis á vis SPSF support for state public sector funds set up with a single legislated default fund and union/employer organisation board representation. In addition the overriding principle in fund selection for the deposit of deferred workers' wages is that of the industrial parties. So there will be industrial circumstances that lend themselves to a single default industry fund e.g. Unisuper in the tertiary education industry. Conversely there will be others where the industrial parties will see the utility of two or more default funds such as where numerous sectors are covered by the same modern award.

Context

With the ACTU providing the detailed answers to the Issue Papers questions, this submission is more concerned with the surrounding political and economic environment in which this Inquiry exists.

The very fact that the Productivity Commission is inquiring into the issues raised in the Issues Paper is a product/symptom of a very real political and economic struggle¹. Public sector and Industry superannuation funds represent the only significant pool of capital that is not directly or indirectly under the control of the large corporations that already control most other large investments in Australia. The size of this funds pool is now becoming irresistible to those who wish to mine it for maximum short term gain to their salaries and shareholder value before moving onto the next higher paying position.

The recent pronouncements by the FSC's former NSW Liberal Opposition Leader John Brogden² and Tony Abbott³ attack two different aspects of the same campaign. That is the immediate entry of retail for profit superannuation products as designated default products into modern awards and public sector/industry superannuation fund boards being opened to the same group that dominate the rest of the corporate boards in Australia.

Key concepts in the Issues Paper

As in the Issues Paper the concepts of transparency and contestability seem to be the key concepts in much business rhetoric today. It is and has been the case since their inception that industry superannuation funds vis á vis retail funds are clearly better vehicles for generating retirement funds for members. This much is transparently clear⁴.

It is incontestable that the large scale entry of retail for profit superannuation products into this sector of the economy will result in the transfer of wealth from workers generally to investors specifically and all those lined up on the way through.

The FSC's attacks/reform proposals (see below 1) are breathtaking in their both hypocrisy (no multiple directorships) and Orwellian use of key concepts like 'independent' when they mean, from the FSC membership (see below 2) and expanding their already substantial earnings. Point 3 and its non application have been until now standard business practice in the retail fund sector. Points 5 and 6 are a supposed fig leave of liberal progressive politics and would be useful for the retail funds to implement.

1. Financial Services Council's Superannuation Corporate Governance Policy

- Superannuation funds must have an independent chair.
- Majority of directors must be independent.
- Remuneration of directors and senior management must be disclosed where paid from the trust.
- Directors must not hold multiple and competing superannuation fund board positions.

¹ <http://www.superreview.com.au/news/industry-super-funds/tony-abbott-wrong-on-industry-super-funds-say--1>

² http://www.ifsa.com.au/downloads/file/MediaReleaseFile/2012_0603_FSCsuperannuationgovernancepolicy.pdf

³ <http://www.moneymanagement.com.au/news/retirement-and-superannuation/2012/aist-defends-industry-super-fund-board-structures>

⁴ <http://www.abc.net.au/unleashed/3920198.html>

- The fund must develop an environmental, social and governance risk management policy that is made available to members.
- The fund must develop and publicly disclose a proxy voting policy and publish its Australian proxy voting record.

2. Financial Services Council's Membership

Colonial First State Investments
 ANZ Wealth
 Challenger Managed Investments
 Mercer (Australia)
 Suncorp Life
 Macquarie Bank
 Russell Investment Group
 MLC
 Vanguard Investments Australia
 Sandhurst Trustees
 Australian Ethical Investment
 IOOF Holdings
 AMP Financial Services
 Zurich Australian Superannuation
 Perpetual

This group of companies will be the conduit through which workers money will be channelled away from them.

Overriding principle in the treatment of workers' deferred wages

The development of industry superannuation funds being nominated as default funds for the deposit of workers deferred wages in modern awards, is merely the latest development in a tripartite industrial history that stretches back to late 1980's and early 1990s. So that Workers and their unions, especially with the evolution of default benefit funds into inherently riskier accumulation funds, have the most material of motivations in wanting to oversee the trajectory of their money with as few leakages to external parties as possible. The arguments of the FSC and others would see the trajectory of workers deferred wages as an issue beyond their ken, hence calls for their 'independent' inclusion on superannuation boards.

FSC Campaign / Not the overriding principle

Nonetheless the retail funds have had over two decades to convince their representatives at ACCI and AIG etc to plead their case in the relevant tribunal for default status. The fact that they are campaigning to change what they presumably see as an 'opaque and uncompetitive market' demonstrates that they have largely failed in that endeavour.

This campaign is a product of the common sense understanding of workers and local employers that sending their deferred wages in cheques to shareholders, advisors etc will leave them poorer in retirement.

The opaque and obscuring rhetoric from the representatives of the FSC in the Australian Newspaper is that industry superannuation funds, indeed the whole sector is 'union controlled'⁵, to quote

*Brogden also spurred his arch-rival, the **union-controlled industry superannuation network**, to point out that he (Brogden) doth protest to the government too much. So clearly he's doing a few things right in carrying the flag for the retail super industry.*

The phrase used here 'carrying the flag' usefully obscures the earlier point about the utility or otherwise of unnecessarily sending deferred wage cheques to third parties, so much for transparency. Rather like the warping of language in the recent OHS harmonisation process, unions and employers having equal representation as legally mandated independents on industry fund boards becomes 'union control' and this phrase is ubiquitous in retail fund propaganda and the generated reports in the media.

An unnecessary reform iteration?

The recent nature of the latest round of award stripping/modernisation itself, calls into question why are these issues being raised so soon after that process?

This process saw the ACTU, its affiliates and ACCI & AIG and their affiliates work through a public process in 2009/10 that agreed to the current status quo. It is not as if it is 20 years since the issue was publicly aired and the world has changed since then.

Global best practice

Australian pension/superannuation arrangements are seen around the world as an example of best practice and they add to social cohesion. There is no doubt that the trade union movement fought and lost many battles in the war to advance their member's retirement interests when the superannuation system was designed. However the broader objective of providing for a more secure retirement than the Aged Pension for ordinary workers was achieved. So that except for those on coerced sham contractor arrangements or those earning less than \$450 per month there is some measure of additional payment in retirement.

FSC endorses non-transparency again

The other beneficial aspects of fund membership are the cheaply and easily available insurances available for public sector and industry fund members for death, trauma, total and permanent disability and income replacement. Many of these insurance products would not ordinarily be available to the 460 listed occupations in attachment 1. Attachment 1 is a recent copy of Zurich's Underwriting Guide . In this respect the following comments from the Australian and John Brogden are at best confusing;

Brogden...the bloke who was railing last week about how under-insured Australians are in terms of life cover. The difficulty he faces is that if you do to the life cover what you've just done to the superannuation accounts, the worker may well have less insurance cover than before.

⁵ <http://www.theaustralian.com.au/business/opinion/industry-still-wrestling-with-superannuation-reforms/story-e6frg9jf-1226110450478>

Perhaps if his members actually had made available these products to workers in the hundreds of excluded occupations on Zurich's list, he may have some credibility in complaining about allegedly financially careless workers. In the alternative this is non transparent rhetoric employed to obscure his members' raw lust for increased remuneration and profits for retail super funds. At least retail funds will now be forced to insure workers through the MySuper legislation.

Conclusion

Transparently and incontestibly there is no beneficial case for increased retail superannuation fund presence in Modern Awards for CPSU-SPSF members or the workforce more broadly. The only beneficiaries of such a change would be shareholders and executive staff of the retail superannuation funds. This outcome would be vigorously opposed by the broad trade union movement for reasons too obvious to restate.

Yours faithfully,

David Carey
Federal Secretary
CPSU SPSF Group