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31 July 2012

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Superannuation Scheme
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Re: Draft Report – Default Superannuation Funds in Modern Awards

The Board of LGsuper notes the comments in the Productivity Commission's draft report dated June 2012. The Board wishes to submit the following comments on the draft report.

LGsuper

The Queensland Local Government Superannuation Board acts as the trustee for the Local Government Superannuation Scheme (LGsuper) under the Local Government Act 2009 (Qld). LGsuper provides superannuation benefits for current and former workers in Queensland local government. It currently has approx. 92,000 members and \$6.4b in FUM.

LGsuper is listed as one of the default funds under the modern award for local government. Currently, however, Queensland local government workers are covered by Queensland industrial instruments.

Productivity Commission Report

The Board notes the Commission's draft recommendations and findings in its report. It concurs with the Commission that default funds in modern awards should meet the criteria used by APRA in authorising MySuper products. The Board also agrees with the factors listed on pages 17 and 18 of the Report which could be taken into account in the selection and ongoing assessment of default funds. It also supports the Commission's position that the primary objective should be that the selection is focused on the best interests of the workers covered under the awards.

The Board however has concerns as to the following:

1. That the success of the existing system has been dismissed too easily. As the Commission notes, the existing system has generally led to the listing of funds that have delivered above average returns for members.
2. That the industrial parties, employer and worker representatives, are closest to the workers and thus most closely tied to ensuring members best interests are met. An expert panel would not be closer aligned to workers' interests and due to potential conflicts of interests as indicated below, cannot be guaranteed to achieve this most important objective.
3. The potential bureaucratisation of the process requiring significant further resources to produce a list of possible default funds which the employers will still have to reduce down to an acceptable number of options for insertion into the modern award. Employers and superannuation funds are already burdened by enough regulatory costs. They do not need an added layer for little perceived benefit over what is now being achieved.

4. The potential conflicts of interest inherent in persons expected to be appointed to the expert panel. To make decisions on the appropriateness of investment objectives and risk profiles, fees charged, fund governance structures, insurance offerings, advice quality, etc will require experienced industry practitioners who will bring with them their own preferences and ideologies. Introducing regulators such as APRA will not necessarily provide the right skills and experience to make these decisions and could allow them to further their own regulatory agendas which have not been reflected in Government policy.
5. The Commission considered the current system lacked contestability. The existing superannuation fund environment already has adequate competition built into it through the choice provisions under the Superannuation Guarantee legislation and the portability provisions in the Superannuation Industry (Supervision) legislation. The current rationalisation of the industry will also raise the levels of competition through funds with greater scale being able to commit to more marketing and education campaigns to enhance members' awareness. There is not sufficient justification here to dismiss the existing system.

The Board of LGsuper favours a system whereby:

- (a) Default funds in modern awards must provide a MySuper product authorised by APRA.
- (b) Default funds must be selected by the existing industrial parties who shall make the selections in the best interests of the workers they represent.
- (c) The industrial parties in selecting default funds to be used in modern awards should give consideration to the criteria listed in the Commission's report. They can request submissions from prospective superannuation funds which should contain commentary on each of the criteria.
- (d) The role for any expert panel would be to provide greater clarity/definition around the selection criteria to aid the industrial parties in selecting the default funds. This role could be fulfilled by industry associations such as the Association of Superannuation Funds of Australia (ASFA) which would provide relevant resources on a more objective, independent and cost-effective basis.
- (e) This process would minimise the layering of costs and avoid a bureaucratisation of the selection process.

The Board submits the above comments for the consideration of the Commission.

Yours sincerely

David Todd
Chief Executive Officer

Ian Harcla
Scheme Secretary