SENATE FINANCE AND PUBLIC ADMINISTRATION COMMITTEE INQUIRY INTO PUBLIC SECTOR SUPERANNUATION BILLS

AGEST SUBMISSION

The Australian Government Employees Superannuation Trust ("AGEST") makes the following submission to the Committee's Inquiry into the following Bills:

- Governance of Australian Government Superannuation Schemes Bill 2010
- Comsuper Bill 2010
- Superannuation Legislation (Consequential Amendments and Transitional Provisions) Bill 2010

WHAT IS AGEST?

AGEST is a superannuation fund established by the Commonwealth and the ACTU nearly 20 years ago. It was established to cater for:

- non-ongoing public sector employees (eg casual and temporary employees) who were unable to join the defined benefit schemes available to other public sector employees; and
- voluntary superannuation contributions, salary sacrifice and rollovers from current and former CSS and PSS members.

AGEST now has around 150,000 members and $3.5 billion in assets.

Unlike other Commonwealth schemes, AGEST was not established under statute. It was established by trust deed and has 7 directors on the board of the trustee (AGEST Super Pty Ltd) - 3 are nominated by the Minister for Finance, 3 by the ACTU and the Independent Chair is jointly nominated by the Minister for Finance and the ACTU.

Unlike other Commonwealth schemes, its member records are administered by an administrator selected by the Trustee, not Comsuper.

THE INQUIRY

We note that the Inquiry's terms of reference specifically refer to whether military superannuation schemes warrant a separate board. Whilst not directly relevant to those terms of reference, we would like the Committee to note the following:

- the Superannuation Legislation (Consequential Amendments and Transitional Provisions) Bill 2010 includes provisions that are likely to impact upon AGEST;
- AGEST's trustee's board (the "Board") believes that a separate non-statutory fund is warranted for fully funded, accumulation benefit members.

These two matters are expanded upon below.

IMPACT OF BILLS UPON AGEST

Paragraph 215 of the Explanatory Memorandum to the Superannuation Legislation (Consequential Amendments and Transitional Provisions) Bill 2010, states:

Currently PSS and CSS members who wish to have voluntary employer contributions (for example, salary sacrifice contributions) paid in respect of them are unable to have these contributions made to the PSS, the CSS or the PSSAP. Also, former PSS and CSS members who receive lump sum benefits from either the PSS or the CSS respectively are unable to move those funds to the PSSAP. This is because these persons are not eligible to become a member of the PSSAP under section 13 of the 2005 Act. A consequence of this restriction is that these persons would be unable to consolidate their superannuation savings under the management of one trustee being CSC, if they chose to do so.

AGEST is currently the major recipient of salary sacrifice contributions from CSS and PSS members, and rollovers from retired CSS and PSS members. As the Bill makes provision for CSS and PSS members to become members of the PSSAP for the purpose of salary sacrifice contributions and rolling over their CSS / PSS retirement monies, this could result in a significant reduction in assets and cash flow to AGEST. This removes a major source of membership for AGEST and has implications for AGEST's investment strategy, particularly in regard to its liquidity arrangements.

We submit that it is unnecessary, and detrimental to AGEST, to open up PSSAP to CSS and PSS members for these purposes, particularly when another Commonwealth sponsored fund (AGEST) currently caters for these contributions and rollovers.

Further, as elaborated below, we also believe that public sector employees would be best served by a fund outside the statutory framework that is able to provide the flexibility available to members of equivalent State funds, such as VicSuper and First State Super.

SEPARATE FUND FOR ACCUMULATION BENEFIT MEMBERS

Whilst we have no comment on whether there is justification for the retention of a separate board for the military superannuation schemes, we do believe that the move to fully funded accumulation benefits for new public sector (civilian) employees is best governed into the future by a non-statutory fund with its own board, leaving the new statutory board (Commonwealth Superannuation Corporation) to deal only with the unfunded defined benefit schemes.

The Board believes that its governance structure, essentially in line with the industry fund model, has demonstrated its ability to deliver an accumulation fund for public sector and other employees of over 9,000 employers, with an outstanding record of low costs, high levels of service and strong long term investment performance. The issues relating to accumulation funds are very different from those of closed but unfunded defined benefit schemes for which the Commonwealth holds ultimate responsibility.

In light of this, the Board believes that the existing public sector accumulation funds (AGEST and PSSAP) should be consolidated outside the statutory framework through the establishment of a new public sector industry fund on similar lines to AGEST. This fund would be the default fund for all public sector employees in accumulation funds and would also manage the voluntary contributions and account based pensions of those current and former CSS and PSS members who choose it.

This model was adopted in NSW and Victoria where, when public sector defined benefit funds were closed, new employees became members of separate accumulation funds managed by their own trustee companies with their own boards.

There are a number of reasons why the Board recommends splitting the defined benefit and accumulation funds in this way.

First, the industry fund model has a proven record of providing flexible, innovative, low cost, high performing superannuation services to members which we believe should be available to all public sector employees. For example, AGEST currently has a Management Expense Ratio (MER) of 0.73% (which includes both investment and administration costs), significantly lower than most industry and public sector funds.

Second, a non-statutory fund would be more likely to be able to continue to provide services to public sector employees as they move in and out of Commonwealth employment. This gives former public sector employees the same flexibility with their superannuation that the rest of the community experiences, as AGEST is not restricted in its operation by the Commonwealth's legislative power.

Third, a new accumulation fund outside the statutory framework would be able to accept employers' contributions at whatever level was legislatively required or agreed between the relevant parties. Currently, casuals employed by the Commonwealth are not eligible to join PSSAP unless their employer agrees to contribute 15.4% for them, while some agencies limit their employees' ability to choose their superannuation fund by refusing to contribute 15.4% to any fund other than PSSAP. Casual employees of the ABS and AEC who work on the Census and Federal Elections respectively are only entitled to 9% superannuation and can only join AGEST, not PSSAP. A single flexible accumulation fund would overcome these difficulties and would, in addition, allow for continued participation by the NT and ACT governments, which contribute 9% on behalf of employees, as well as by future private sector employers of former Commonwealth employees.

In summary, the Board supports giving all Commonwealth accumulation fund members the opportunity to join an efficient and high performing fund with the ability to meet all their superannuation needs throughout their employment and retirement, irrespective of changes of employer or other circumstances.