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Senate Select Committee on Superannuation
Parliament House
CANBERRA ACT 2600

Dear Committee Members,

Draft amendment to the Superannuation Industry (Supervision) Regulations giving effect to the Government's portability policy

We refer to the draft regulations giving effect to the Government's portability legislation.

The Queensland Local Government Superannuation Board is the trustee of the (Qld) Local Government Superannuation Scheme (LG Super (Qld)), which is classified as a funded public sector defined benefit scheme and is a regulated fund under the *Superannuation Industry (Supervision) Act 1993*. LG Super has around 30,000 active members for whom portability is restricted to cessation of Local Government employment and 25,000 inactive members who have unrestricted portability arrangements already.

We have grave concerns with the impact of the proposed amendments to the Superannuation Industry (Supervision) Regulations on active members of LG Super. We have addressed these concerns in a submission to the Department of Treasury through Nigel Murray (Manager, Superannuation, Retirement and Personal Income Division) dated 12 June 2003 and would like to bring some key points to your attention regarding the particular effect of this proposed legislation on LG Super.

This proposed regulation is an adjunct to the proposed Choice of Fund legislation. Choice of Funds caters for future contributions and imposes obligations on employers, whereas this portability regulation caters for existing funds and imposes obligations on members. They do however work together to increase options for members.

Choice of Fund legislation has been mooted for some time. Under the proposed legislation employers to both the Defined Benefit Fund and Accumulation Benefit Fund of LG Super will most likely be exempt due to the contributions to LG Super being made under prescribed State legislation. To have an exemption on the Choice of Fund side, but not on the portability side, will make the operation of our scheme unworkable, even if the Choice of Funds legislation is enacted, as members will, notwithstanding such legislation, be compelled under the prescribed State legislation to have their future contributions paid into LG Super.

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The proposed portability regulation also stands to threaten a valued structural feature of LG Super. Active LG Super Accumulation Benefit members currently enjoy product features including a smoothed investment option. This smoothed option allows active members to invest in a higher growth investment strategy without having to suffer the same level of short-term volatility as other members who invest in non-smoothed options. For those who remain in the fund until retirement, this arrangement has the potential to deliver an additional 1% p.a. of earnings to accrued benefits.

If accrued entitlements could be transferred out in an unrestricted way as suggested in this proposed regulation change, the existing smoothing policy could not continue as it would expose the fund to an unacceptable level of risk. Of course the discontinuation of this option would affect all active Accumulation Benefit Fund members, not just those who might take advantage of unrestricted portability.

It is important that the Government appreciates that the Board would be extremely reluctant to discontinue this arrangement, which research shows is highly valued by LG Super members, and which has the capacity to substantially enhance final retirement benefits. So, if the proposed portability regulations receive Royal Assent without change, the Board would need to explain to its 30,000 active members how this regulation has caused the discontinuation of these arrangements, ultimately leading to a potential for a reduction in entitlement as members are forced to accept lower return investment options in order to bring their exposure to risk to a level they find acceptable.

LG Super provides a sound vehicle for the provision of retirement income for Local Government employees in Queensland, as a low cost provider, as supported by the National Competition Policy review conducted on the fund. We feel this legislation is against National Competition Policy review recommendations, and is not only against the best interest of Local Government employees in Queensland, but also contrary to the Government's Retirement Income Policy.

We understand this legislation is due to receive Royal Assent shortly, and request an amendment be included to exempt funds that, in our situation, would be exempt from Choice of Fund legislation on the basis that contributions were made to the fund under prescribed legislation.

We would be happy to make representation on this issue at any time to discuss any further details.

Yours sincerely



Peter J Smith
Executive Officer