

STATE SUPERANNUATION AMENDMENT BILL 2011

Introduction and First Reading

Bill introduced, on motion by **Mr C.C. Porter (Treasurer)**, and read a first time.

Explanatory memorandum presented by the Treasurer.

Second Reading

MR C.C. PORTER (Bateman — Treasurer) [12.26 pm]: I move —

That the bill be now read a second time.

The purpose of this bill is to amend the State Superannuation Act 2000 to provide for choice of superannuation fund for Western Australian public sector employees. The bill will also support the reform of current public sector superannuation arrangements in Western Australia, which includes the recommendations of the independent report “Putting Members First”, conducted for the government by Mr Rod Whithear. Choice of superannuation fund is now an established practice in Australia following commonwealth legislation that was introduced in July 2005. Commonwealth and local government employees have had the ability to choose a superannuation fund into which their employer contributions are paid since July 2006. Government employees in most states and territories also have superannuation choice. Western Australia pioneered choice of superannuation fund in Australia when it introduced choice for employees working under state industrial awards in 1997. For a range of reasons, that initiative has not yet been implemented for state public sector employees. Given that Western Australia has effectively gone from being first to one of the last in the provision of choice of fund for employees, it is now time to get on with it and ensure that state government employees are treated in the same way as any other Australian worker.

The provisions of this bill will allow choice of superannuation fund for Western Australian public sector employees whose compulsory employer superannuation guarantee contributions are made to an accumulation superannuation scheme. This represents the vast majority of state government employees. Choice is an important reform as it gives employees more control and responsibility over their superannuation and, ultimately, their retirement benefits. The lack of choice of fund in the Western Australian public sector is a significant issue for employees and employers. In addition to limiting the superannuation options to current employees, the lack of choice also impacts on new employees who are used to accessing choice everywhere else. The introduction of choice of superannuation fund will assist the state as an employer to attract and retain staff.

The most recent attempt to introduce this important reform commenced in 2005. However, it stalled due to complications with the proposed restructure, including mutualisation of the Government Employees Superannuation Board, GESB, and the consequent risks to both GESB members and the state. The then Treasurer, the honourable member for Belmont, deferred mutualisation in June 2008 when it became clear that there were a number of unresolved issues and concerns regarding mutualisation. The State Superannuation Act 2000, as amended in 2007, only allows for choice of fund after GESB is mutualised. The deferral of mutualisation meant that choice of fund also had to be deferred. In July 2009, the government appointed Mr Rod Whithear to independently review the state superannuation reforms and recommend any necessary changes in the interests of both GESB members and the state. The subsequent Whithear report validated the concerns that had brought the previous reforms to a standstill in 2008.

The Whithear report found that the issues around the mutualisation of GESB have distracted government from the core policy focus of introducing choice. The Whithear report recommended that choice of superannuation fund for Western Australian public sector employees be introduced at the earliest opportunity and without the potentially costly and risky requirement to mutualise GESB. Therefore, this bill allows for the introduction of choice of superannuation fund on this basis by reversing earlier amendments to the act that provided for mutualisation, and then made mutualisation a prerequisite of choice. The choice model recommended in the Whithear report and adopted by the government will enable employees to pay their superannuation guarantee contributions to GESB or another fund of their choosing. This differs to the two-way choice model that underpinned the previous approach to reform. Two-way choice would have permitted employees who do not work in the Western Australian public sector to opt to pay their superannuation guarantee contributions to GESB. Although it is possible that two-way choice could proceed without mutualisation, this approach would result in a government agency providing superannuation services to private sector employers and employees, competing directly with a well-established superannuation market. The Whithear report found that this is not a core function of government and that such an outcome would be unlikely to provide additional benefits to state government employees. Although it is important for public sector employees to have choice, this does not require GESB to also accept superannuation guarantee contributions from private sector employers.

More problematic is that 76 per cent of GESB's accumulation scheme members belong to the West State Super scheme. The West State Super scheme can never be subject to two-way choice because as a constitutionally protected untaxed scheme, it is unable to accept superannuation guarantee and employer contributions from private sector employers. It is only the much smaller GESB super scheme that may be able to receive contributions from a private sector employer. This is not a rational approach to superannuation reforms when small superannuation funds are consolidating across the industry.

The state's unfunded defined benefit superannuation liability, which stood at \$6 billion at 30 June 2010, is the single largest liability on the general government balance sheet. The significant cost of mutualisation would have added to the state's financial liabilities. State government departments and other agencies would have been required to pay an increase in employer contribution rates over a 30-year time frame in order to fund the cost of capital gifted to the mutual group of companies under the proposed mutualisation model. At the same time, the Solicitor General and the commonwealth Treasury separately advised that the West State Super scheme would lose its constitutional protection and untaxed status if transferred to the mutual. Loss of untaxed status would have resulted in a loss of financial benefits to West State members, with estimates as high as \$700 million. This cost, if incurred, would ultimately have been borne by the state. These issues and their associated costs were not known at the time the previous government approved the mutualisation model in 2006. Nor were they known to the Parliament when the amendment act was passed in 2007. On this basis, the government had little option but to reverse the proposed mutualisation plan.

The Whithear report recommendations support government policy to reform the state's current superannuation arrangements and increase the efficiency of public sector administration and delivery. The bill will amend the State Superannuation Act 2000 to provide for the implementation of these recommendations, which will allow GESB to refocus on the core business of managing state superannuation schemes and overseeing the delivery of superannuation services to state government employees and employers.

Importantly, the Whithear recommendations, a comprehensive interrelated set of reforms, will benefit GESB members well beyond just the introduction of choice of fund. Both the Whithear report and the commonwealth's Cooper review have noted that members with small accounts will be able to realise substantial fee savings through consolidation of these accounts. This consolidation process will impact on the economies of scale of many funds, including GESB, challenging their ability to provide a cost-effective service to members.

To address the potential loss of scale arising from consolidation and choice of fund, Mr Whithear has recommended that GESB examine the procurement of scheme administration services externally from a commercial provider. This is the approach taken by most superannuation funds in Australia and will increasingly be a feature of the superannuation industry when the commonwealth's reforms, including the consolidation of small superannuation accounts, emerging from the Cooper review, are implemented. This provides for a cost-effective administration service to both members and the state. Commercial providers that specialise in the provision of administration services to superannuation funds achieve economies of scale from administering hundreds of thousands to millions of member accounts. Importantly, outsourcing administration to a commercial provider will result in the state being placed in a more appropriate role as procurer of superannuation services rather than as a direct market participant. GESB will remain a statutory authority, with a leaner structure, better suited to act in members' best interests and to manage the state's superannuation liabilities. Where a commercial provider is selected to provide administration services to GESB, the bill makes provision for transition arrangements for affected GESB employees. Where such an outcome may arise, the bill provides for a right of return to public sector employment for permanent public service officers, in lieu of an alternative transition payment, within a specified transition period. In its leaner form, GESB will oversee and manage the provision of superannuation services to state government employees and employers. Staff not retained with GESB or employed by the commercial administrator, will be eligible to receive a severance payment, or where they are permanent public service officers, be offered redeployment within the state government. Importantly, these arrangements are similar to those previously supporting the mutualisation reforms.

The bill recognises that in the longer term, the state would be a procurer, rather than provider, of superannuation services that are efficiently obtainable elsewhere from the private sector. This may also include exploring the market for an alternative default fund for new public sector employees at some time in the future. Contestability for a default fund can deliver benefits to both public sector employers and employees.

The bill also supports amendments to the existing Treasurer's guidelines to provide clarity on government policy and a more robust framework for GESB's reserving, procurement, fund administration and investment powers.

In conclusion, this bill will deliver choice of superannuation fund to public sector employees and refocus GESB on the core business of managing state superannuation schemes and overseeing the delivery of superannuation services to public sector employees and employers. It supports the prudent management of risks for the state at a

lower cost than the previous mutualisation reforms. It also supports the delivery of valuable efficiencies for members of public sector superannuation schemes in Western Australia, putting members' interests first.

It is now time to get on with offering choice of fund and ensuring state government employees are treated in the same way as other Australian workers.

I commend this bill to the house.

Debate adjourned, on motion by **Ms R. Saffioti**.