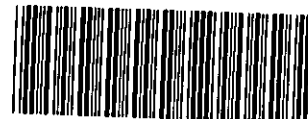


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SUPERANNUATION: PAST, PRESENT AND FUTURE

An Interview with Greg Combet, Secretary of the ACTU

This is an edited transcript of an interview with Greg Combet, conducted on 5th April 2004 with the JAPE editors.

Could you take us through the history of universal superannuation and the role of unions in that process?

The key thing to remember about the history of universal superannuation is that it is an industrial achievement of the labour movement, specifically the unions. In the 1960s and 1970s, superannuation schemes were the province of the top end of town. The executive class had pretty good superannuation schemes and other workers didn't. Those workers that did have occupational superannuation were in the public sector and in a few blue-collar sectors. For instance, in areas like coal mining, the shipping industry, and my old union the Waterside Workers Federation.

My predecessor Bill Kelty, when he became ACTU Secretary in 1983, had a view, together with the newly elected Hawke Government, that universal superannuation was something that needed to be achieved for workers in Australia.

The campaign to achieve this was built throughout the eighties. It began before the productivity bargaining of the Accord period, in specific industry-based campaigns for occupational superannuation. Those campaigns provided the foothold for later achieving the 3% superannuation Award from the Industrial Relations Commission. So these industrial campaigns allowed us to flow super into awards and get 3% for everyone.

In the building and construction industries, manufacturing industries, areas where levels of unionisation were high, the unions campaigned for employer superannuation contributions. Around 1985 / 86 a decision was made in the ACTU, and the unions in these industries, to create superannuation trust funds for this super money to be paid into. This was the early formation of what we now call the industry funds. We invited

the peak employer groups in these particular industries to be partners (shareholders) in the endeavour. In construction, the Master Builder's Association was invited to help elect trustees, and they were a shareholder in the C-BUS fund with the union. In the manufacturing industry we set up Superannuation Trust Australia. The MTIA (Metal Trades Industry Association) became a shareholder with the ACTU and the unions. That structure survives today in the industry funds, where there are joint employer and union trustees.

Your emphasis on both employer and union representation on the industry funds is interesting. Was this structure linked to any industrial democracy programs that might have been around at the time? For instance, how did the push for superannuation fit in with the ACTU/TDC document 'Australia Reconstructed'?

That was 1987, after the period I'm discussing. It was part of the debate around the place at the time, but I wouldn't say it was directly related to the campaign to establish these funds. These funds came out of a more specific industrial demand, that the union campaign achieve the 3% employer contributions to superannuation.

In the unions that you identify as critical to the industrial campaign for superannuation, was there a perception that the universal public pension system was an inadequate standard of living?

The union movement has always been a supporter of the public pension; we viewed superannuation as something in addition to the public pension. The public pension is a guaranteed income in retirement, a public right. It may be under pressure but we have always seen it as a right. Superannuation is important in that it provides additional income in retirement, meaning a decent standard of living.

The other important thing in the campaign for super is the nature of the super funds that were established. Super funds before the campaign were generally defined benefit schemes. For instance, my old union, the Waterside Workers Federation, has had a defined benefit scheme since 1967.

The transition from defined benefit to defined contribution (or accumulation funds) was controversial. In the ACTU at the time there

was a pretty vigorous debate. Having an accumulation (defined contribution) account in a member's name means that benefits accumulate from year to year. A critical objective of the ACTU was that all returns on super go back to the members, i.e. all the earnings to the members less the administration costs. One of the big industrial issues with the defined benefit funds was that when a surplus had been built up, over and above what the actuary said was necessary to fund the benefits, then there was no responsibility to return it to workers. Often it went to employers in the form of a 'contributions holiday'. We had a series of industrial disputes over this issue.

The other side of that though is that defined benefit funds assume the risk of insufficient returns, while defined contribution (accumulation) accounts transfer this risk onto the employee.

That's right and that was the very nature of the debate. In the debate about these pros and cons, things came down on the side of accumulation funds. These funds have performed very well. In fact, it was not until the last couple of years, with the negative returns in the equities market, that this became an issue again.

This aspect where the employee picks up the risk with defined contribution accounts, doesn't that undermine a notion of collectivity that should be important to the labour movement? Passing all the risk onto individual employees could be problematic, couldn't it?

No, we had confidence that smart asset allocation in interest securities and equities would be able to return consistently decent outcomes for the membership with acceptable risk. And that has been the experience. The earnings rates have been really good. Even the downturn in the equities market of a couple of years ago has done little to lower longer-term earnings rates. What we are seeing over time is very significant investment, very low fees, and on average over the last ten years, reasonable returns. But it was also about collectivising, having a collective system of retirement savings that was secure and which was collected in large funds.

When Paul Keating formalised superannuation, in the form of the Superannuation Guarantee Contribution in 1992, what was the ACTU's involvement or reaction to that policy decision?

The ACTU played the crucial role in supporting the Keating Government's Super Guarantee Legislation. We had been working towards it for some time. Once we had established the industry funds, and locked in the 3% over the next couple of years, Keating had become very interested in the whole thing. The large factor was the development of national savings, given the current account deficit. Keating in partnership with (Bill) Kelty grasped the significance of this, and was persuaded that we needed a universal system with Commonwealth support. The truth is the super system has been fundamentally conceived by the ACTU, and stepped out of a process that goes back to the union campaigns in the early eighties.

You are saying then that super is a campaign achievement by unions for workers. Were there any debates at the time, in the union movement, about whether those superannuation wins came at a cost? For instance, did super increases based on productivity gains offset or slow potential wage increases?

It was inevitable that with central wage fixing, wage outcomes would be to some extent discounted for the cost of bringing in 3% super. So that was an issue keenly discussed. We accepted that to get super up wage outcomes would be affected. We broke through in getting super and there are no apologies about it.

Who pays for superannuation? Economists often consider superannuation as either tax for retirement or privatised super (depending on their political persuasion). Based on your support of super how do you treat this criticism?

Workers would not have had reasonable income in retirement if they only had the public pension. I have no time whatsoever for that argument. We have created billions of dollars for workers for their retirement that they would not otherwise have had - that should be evidence enough.

Can we move onto the question of whether the current superannuation contribution scheme is adequate enough to fund retirement? Why has the ACTU called for an increase in the contribution rate to 15%?

It has been our policy goal to get to 15% contributions over time, that's a standard ACTU objective. It is grounded in the reality that the current level of 9% will not be enough for a decent retirement income. In 1995 we negotiated a package with the Keating Government for employee and Government co-contributions. That is compulsory employer contributions of 9% with an additional 3% from government and 3% employee contribution. They were the L-A-W tax cuts. The Keating Government's defeat before implementation of that package saw this stalled. The Howard Government never carried out the Keating schedule. We have maintained our policy position, saying we need an adequate combination of superannuation with the public pension, to deliver sufficient retirement income. Now that we are at 9%, there needs to be a debate about how we get to 15%.

Where do you see the increase in the rate coming from? The same as the previous Keating proposal?

Not necessarily but ultimately it requires public policy. It also depends on whether we are dealing with a Howard or Latham Government. If the Howard Government is re-elected then we have no alternative but to campaign for higher super contributions industrially. To work towards that goal, last year's ACTU congress voted to get an extra 1% contribution from employers. So as negotiations come up for enterprise agreements in key industries we will start campaigning to lift the employer contributions from 9% to 10%. Ultimately though, reaching the 15% contribution goal is going to come from a package of things; like tax concessions on superannuation for instance, and also employee contributions.

You are referring to increasing superannuation contribution levels by lowering the current taxation on superannuation?

Yes, superannuation contributions are taxed at 15%; knocking off the contributions tax would add an effective extra 1% contribution to superannuation. However, this would not be my preferred approach - it would assist higher income earners disproportionately.

That would be an increase to the government contribution, wouldn't it?

Yes, but what we are keen to do is discuss with government the package of arrangements that can achieve an effective increase in contribution to 15%. We are prepared to formulate additional employer and employee contributions; we are prepared to negotiate tax arrangements, including examining how they could be more progressive. For low-income earners we might also need to expand matched savings arrangements, which were brought in by the Howard Government.

So how can they afford to make additional contributions?

It's very difficult, and people will need help from Government. You need targeted assistance. That is why the taxation of super is important here. The way super is taxed is not progressive. It can be made a lot more progressive to assist lower income people in their contributions. So how we get to 15% is open. The ACTU thinks there needs to be Federal Government support to increase contributions. Then we can negotiate the package of how we get to 15%.

You have talked about strengthening compulsory superannuation. What is the future of the universal pension in that context?

The pension is very important. With changes to the pension the key thing to ensure is that it is indexed so that it provides a decent underpinning for total retirement income.

Turning now to the Coalition Government's current solution to the adequacy question. What do you think of their proposal to extend the working life beyond 65 years of age?

Some flexibility on retirement age is good, provided people can retire at their choice. But if they are really signalling that the inadequacy of retirement provision means people working until they die, then we reject that. We don't want a society where people have to work until they die.

What do you think about the Coalition's Choice of Fund Legislation?

We are opposed to it. What they are trying to achieve here is handing super over to banks, life institutions, and profit-based master trusts. When you look at their choice legislation, what it does is hand the decisions over fund choice to employers and financial planners. Super is complex; people don't have a range of information available. Faced with

this difficulty the choice legislation will operate in the workplace to mean the employer chooses the default fund. That default fund will be a Master Trust, probably operated by the bank, which the employer does their commercial banking with. There will be cross selling to the employer that will mean the workers will be fleeced into profit based funds with outrageous fees. The choice legislation is just designed to give an even greater part of super to the banks and master trusts.

The Industry Funds where there are joint union and employer trustees are 'not for profit'. All the earnings less the fees (administrative costs and investment costs), therefore go to members. Master Trusts, on the other hand, get profits out super by taking out commissions and hidden fees. In the last five years industry funds average earnings to fees ratio has been superior to Master Trusts. The ratio of earnings to fees in industry funds is 8.2:1 while the ratio of Master Trusts is 0.9:1. And the Howard Government wants to stick everyone in Master Trusts through the choice legislation!

Returning to your point earlier about super being complex and hard to compare, does the ACTU see a role for itself as an information provider on industry funds should choice legislation clear the Senate?

Workplace education is necessary to make sure people understand where their money is going. Union organisers with appropriate education are only able under the Financial Services Act to give general advice to workers. We'll also have to provide access for members to people with proper financial planning skills to come and give advice in a workplace context. We need to make sure that workers can make informed decisions. But the most important thing with fund choice is to make sure that all fees are transparent and comparable.

Can we now turn your attention to fees and charges more generally, which must also be a problem for industry funds that rely on asset consultants and external funds managers? The RBA and ACCC have both brought down reports that, even in central banker speak, are quite critical of current fee levels. Do you see it as a problem? What do you think needs to be done?

Fees and commissions are a huge problem. Transparency of fees and charges is the starting point. There must be a clear, unequivocal and

honest statement provided about fees that are charged so there can be a proper comparative basis. It is possible for a financial services provider to articulate in plain language what the fees are that are taken out of the super account. It needs to be done in a way so that people know how to exercise judgement.

Can we turn to the investment of superannuation? The image I have of the ACTU's involvement in super and industry funds is one of active promotion, which makes use of the private sector funds, particularly their risk management approach on investment allocation. That is a bit of a change from 1987 and Australia Reconstructed. In that proposal the ACTU wanted to partially invest super through a national development fund. I want to get you to reflect on what has changed within the ACTU on this.

Union representation on industry funds gives them responsibilities as trustees. I'm a trustee, and we have a sole responsibility to the members of the fund to maximise benefits for them. That means you have to make investment decisions, on the basis of your best judgement and information available, to maximise returns to the members over time. This is your sole purpose as a trustee and we have been meticulous in making sure we meet that goal. It means that a lot of these rhetorical flourishes about national development funds have to be tested as investments, in terms of returns and risk in comparison with other forms of investment. That's a discipline that we must be very conscious of.

Within the context of this investment discipline we have done a lot of things to pursue broader investment goals to create infrastructure, jobs, and other constructive things that deliver benefits for people. Industry funds are particularly important here, unlike Master Trusts, they have a more diverse asset allocation. Industry funds invest in Australian equities, international equities, property portfolios, and infrastructure investment (airports roads, electricity utilities). There is money invested in capital guaranteed products and money in private and direct equity, i.e. in early start-up companies.

What we have occasionally done, to meet these objectives you are alluding to, is create a collective vehicle in which the industry funds invest. By pooling that money from a variety of industry funds we can

invest and spread risk in things like infrastructure projects. For example, we have created something called the Development Australia Fund. Some of the big industry funds are the shareholders in that company. Development Australia finds the investments and other projects around industry. We have people who tender for investments, find them, and evaluate them similar to a venture capital set-up. It produces very good returns and that is something quite unique.

We have also set up the Industry Super Property Trust. It has got two billion dollars in it and is a large investor in property and property development around Australia. Those have been very good investments with some of the strongest returns from that area. So, we have been more creative about it than simply following the ASX 100 index as the Master Trusts do. More recently we have gone into what we call social infrastructure investment as a lot of the State Governments are looking for funding.

Is this the public-private partnerships (PPP) schemes?

Yes, we are looking at investing in PPPs, although as unions we have got significant concerns about the structure and impact of PPPs. However, with governments not wanting to borrow money there is a deficit of infrastructure investment. We are looking at a couple of PPPs to see how they go and to determine whether a better structure of risk and cost to Government can be achieved. For example, we are now building nine schools in NSW, a water treatment facility; we are also involved in the redevelopment of a major railway station.

One final issue we should cover is corporate governance. With corporate governance and the accurate reporting of companies' financial statements becoming a concern recently, does the ACTU, via its involvement with industry funds, propose to exercise an influence on voting in companies' AGMs?

We have been active in this area over the last couple of years. There is a culture in Australia that the institutional investors across the board don't vote their shares. If they do anything they just give the proxies to the chairman of the company. However, over the last two years we have got more active through the industry funds. The industry funds have established an advisory body on Corporate Governance, which is charged

with the responsibility for providing the funds with advice on issues about executive salaries, independent directors, and quality corporate governance. As a consequence of that advice, the STA fund, for example, has been voting shares in a range of companies. The important thing to remember is this can only happen if there is agreement between the union and employer trustees on the industry fund. So it is not a question of the union just running around, these are joint decisions.

So this is not the model of the US where union pension funds have used share ownership as a tool in industrial campaigns?

They have done that but it is a different regulatory environment. There you have to vote your shares. That has meant there is more of an imperative over there for the pension funds to have a look at what is going on. The AFL-CIO (the ACTU's equivalent over there) has established The Working Capital Centre, and it is an adviser on corporate America and the issues pension funds should take up. We have had a good look at it, and we are happy with the structure we have already set up.