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ACTU Superannuation Trustees Forum 2013
Address by ACTU Secretary Dave Oliver to ACTU Superannuation Trustees Forum
Sydney, 9 December 2013

Welcome to this year's ACTU Superannuation Trustees Forum.

This is the first time we have organised the forum in partnership with Unions News South Wales and I want to thank Mark Lennon and his team for their efforts in making this event happen today.

I also want to thank all the people who have agreed to speak with us today, to share their expertise and understanding of this vital sector of society.

We organise this event each year because it is important that union trustees on Industry Super boards regularly meet to reconfirm and update the purpose that our movement founded industry super, and the direction we should be taking collectively, across each of the funds on which we represent our members.

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Let me first deal with the new political context in which we find ourselves now operating.

I don't think it is an exaggeration to say that we face a Coalition government in Canberra more determined than any previous Coalition government to weaken the influence of unions in superannuation.

Our first session today will discuss what the new government holds in store for the super industry. But I want to highlight some key issues.

Only a few months after the election, the Abbott government is already taking action which will be disastrous for millions of fund members if is allowed to go unchecked.

As we know, the government is determined to repeal the Low Income Super Contribution. This would result in the poorest third of working Australians losing up to $27,000 from their super by the time they retire.

The pause in increasing the SG rate will cost up to $80 billion in lost savings and potential returns.

And there will be $5 billion less to invest in infrastructure.

These measures will impact hardest on those least able to save for their retirement: the 3.5 million who earn below $37,000. Women who work part-time will be significant among that group. In fact, 80 per cent of all part-time women workers will lose out.

In the meantime, Abbott and Hockey have said they will not proceed with plans developed by the previous government to tax the relatively small number of wealthy retirees with more than $2 million in savings.

The government has said it will consider reintroducing the Contribution for low-income workers when the budget is in ‘strong surplus’. But wealthy retirees will not have to wait until such a surplus to avoid being taxed.

It is difficult to imagine a more striking illustration of the real nature of this government.

I won’t go into the details today, but working people are also facing attacks on their ability to organise in their workplaces, which will reduce our ability to protect a great deal of conditions and standards, and in particular, our support for industry super.

Clearly all of this adds up to an agenda which the Coalition government have developed to ensure their millionaire mates have a greater slice of the pie, at the expense of those on the lowest incomes, and with the least ability to defend themselves.

A strategy by the union movement, collectively, is clearly needed, and we will do well to be reminded of the vision and purpose on which we first founded the industry super model.

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When industry and not-for-profit super funds were being established in the 1980s, unions took the view that equal representation at board level – equal numbers of employer and employee representatives – would ensure that the full spectrum of workers’ interests were taken into account, and that the financial sector which had opposed superannuation as a cost on business would not be able to use super as simply another pool of capital from which to turn a short-term profit, blind to long-term priorities.

Like the idea of a decent retirement itself, the model of representation was an idea built on common interest, not self-interest. Working people and employers representing the interests of their constituent groups, while taking advice from investment and financial professionals, would be able to come to decisions that had the best outcomes for those groups. And so it has proved to be the case.

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After two decades of operation, Industry super with its representative board structure has not only grown but outperformed the retail funds.

Over all time periods, industry funds have outperformed the retail funds – by up to 2 per cent. This outperformance may seem small – but it means some members retiring with an extra $40,000 or more in their pockets.

Also, Industry funds have and continue to focus on nation-building infrastructure projects, and the long-term interests of working people in this country.

We are not, and should never be short-term hit-and-run investors looking for a quick buck. Our fund members’ interests are inextricable from long-term investments in our nation’s future. Building, modernising and renewing infrastructure for now - and future generations, is part of our mission.

This is partly why unions became involved in super 30 years ago – and our funds are delivering – for the nation and for our funds’ members.

These priorities, which aim to distribute the benefits of our investments across society, are in conflict with the interests of the top-end of town, the major banks and private equity firms, whose stock-in-trade is to extract short-term profits at the expense of working people, their wages, conditions, their ability to invest extra money into their retirement and often their jobs.

So it is no surprise that the Coalition have looked at the success of Industry Super in generating wealth for working people at the expense of higher profits for the corporate sector, and begun devising ways to ensure there are less people with workers' interests on their minds sitting on Industry Super boards, and more people with backgrounds in banking, finance and private equity.

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Let's be clear – the changes the Coalition have proposed are driven by the interest of their friends at the top-end of town, not facts, and not the interests of working people.

Take the question of independent directors. There are already independent directors on some of our fund boards. They play a valuable role. But increasing independent directors by reducing the role of representative directors – a model enshrined in legislation over 20 years ago – is not a good idea.

The above-average return to members proves that to be the case.

And so does the role we play in building our nation.

When this question of forcing funds to have more independent directors on boards was raised by the Cooper Review, we asked: 'What actual problem is this proposal intended to fix?' Supporters of more independent directors had no reply.

What facts about our funds mean that more independent directors are essential? Again: silence.

The government is consulting on the question of independent directors. In opposition they said they want to mandate a third of boards to be independent. The consultation paper suggests that a majority might be an option.

Mandating any number of independent directors is not needed. Our funds are well run, well regulated and perform better than most. The facts are clear.

And the current consultation raises the question of what 'independence' should mean.

The majority mindset in financial services is that members of banks and super funds are primarily sources of profit. They can be sold products they don't need, don't understand and can't afford. We saw where that mindset got us in 2008 when years of high-risk lending and high-risk financial engineering led to the biggest financial collapse for 70 years.

I would argue that union-nominated directors are independent of this mindset. And this kind of 'independence' is extremely valuable. It means we don't design products and services to exploit members' lack of knowledge about finance. We don't allocate contracts to suppliers because they happen to be part of the same corporate group. We don't try to lock members into paying for advice they never use.

The representative directors – especially the union-nominated directors – who sit on our boards are independent of all this.

If members of the Coalition were interested in facts rather than simply an excuse to get rid of workers' representatives, they would ask themselves this: does the number of independent directors actually deliver what many assume?

Do they improve performance or governance?

Do they make corporate failure less likely?

Academic research into the behaviour and contribution of independent directors has not generated clear evidence that they do. In Australia, the US and elsewhere, there is no correlation between number of independent directors and levels of corporate performance. There is no evidence that they are more effective than other directors.

In fact, the research suggests that some independent directors are less effective. When the going gets tough they can be among the first to resign, not wanting to spend the extra time needed to manage a crisis, not wanting the reputational risk associated with corporate failure. Unlike directors who represent workers or employers, independent directors do not have that kind of skin in the game.

But this is of little interest to the Coalition. They want unions marginalised in super – and mandating independent directors offers them a way of doing that.

Another example of the Coalition opting for ideology rather than facts is the role of our industrial relations system in deciding where default contributions should be allocated.

We know the facts. The large majority of workers, and many employers regard super as too complicated and too time consuming. They value super – but most don't choose which fund to contribute to.

Our industrial relations system plays a vital role in protecting the interests of these workers. And so it should. Superannuation is deferred wages. It is a benefit of employment that unions across Australia bargain to improve. It exists as a universal right for all workers only because unions fought long and hard for it during the 1970s and 1980s.

Awards and enterprise agreements mean that many workers are by default members of not-for-profit funds that put their interests first.

The primary concern of policymakers should be: how can we ensure that workers who do not take an active role in choosing their retirement fund still benefit from strong returns on their contributions? Our current industrial relations system allows exactly that.

The Coalition argues that this needs to change. The interaction between super and IR, they say, inhibits competition and choice.

The Coalition argues that employers should be able to choose any MySuper product they wish for default purposes. But we know from recent research that many employers, especially small and medium sized employers, don't want that choice. Indeed, over 80 per cent have said they are very happy with the default arrangements provided by the awards system.

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Given this chasm between Coalition ideology on the one hand, and the real world of super on the other, we have to ask whose interests are really being served by the government?

Having a majority of independent directors on boards raises the risk that our funds become just another part of the for-profit system.

Separating defaults from our industrial relations system means making it easier for the retail funds to exploit member disengagement.

The main beneficiaries of these changes of course will be the big banks and retail funds: those who help fund the Coalition and who are in fact driving their broader financial reform agenda.

This should come as no surprise to those who have followed events over the past three months.

The government recently sought views on draft terms of reference for its Financial System Inquiry.

The draft terms appeared quite harmless. Some media commentators expressed surprise that they did not suggest a more radical reform agenda.

But we know what the banks want. They want easier access to workers' savings and they regard industry super as an obstacle to getting them. They will argue that if banks had more access to super they could fund more companies, help create more jobs, and reduce the cost of mortgage lending.

Using the language of efficiency and cost, over the next year the banks will be pushing hard to get the inquiry to focus on super. They will argue that the current model for super is a problem and the inquiry is an opportunity to fix it.

Australian Unions will engage with the Financial System Inquiry. We will make the case that the reality of our financial system is very different to the vision offered by the banks.

The notion that the banks are all about funding businesses and creating jobs is a story they like to tell. That is only a small part of what they are really interested in.

The reality is that over time, less and less of the resources that banks control are used to fund real economic growth. More and more is used to trade and speculate in secondary markets, and to charge excessive fees for opaque products and services that many customers do not need or understand.

Some valuable thinking has been done in this area by Industry Super Australia.

In their recent publication, they found that in 1990, for every $1 of resources allocated to the financial sector there was $3.50 of capital formation. Today that has dropped to $1.50 for every dollar. Less and less of the resources the system receives is resulting in new factories, new offices, and new jobs. That is not a sign of a healthy and efficient financial system.

An efficient and stable financial system is focused on supporting real long-term economic development. It is also one that is diverse, Surely one of the lessons of the GFC is that institutions that are too big to fail are simply too big to exist. Blurring the lines between banking and super will combine and intensify risks, making our system more complex, less transparent and less diverse.

The primary focus of the forthcoming inquiry must be how we can strengthen the link between finance and the real economy. How we can cultivate diversity to ensure stability and resilience in a global financial system that is still recovering from the GFC.

Channelling more funds and resources into a small number of already very powerful banks is not the way forward.

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I have paid very careful attention to what Tony Abbott has said and who he has spent his time with since the election. His refusal in the past two weeks to intervene and play a serious role in the turmoil at both Qantas and Holden seems to show how uninterested he is in jobs or long-term industries. His recent, but by no means first appearance at a major business event two weeks ago has confirmed whose interests and agenda he is interested in.

While he has so far refused to meet with unions, or continue the policy of the previous government to work in a tripartite way with business, unions and government, he told the Business Council of Australia this:

"I am confident that the BCA will continue to tell the government what it should do."

"Even more importantly, I hope that the BCA will campaign against everyone who is trying to stop the government from putting that good advice into practice.

"Australia will be quite different in a few years' time because a Coalition rather than a Labor government has been calling the shots, and calling them with a preference for freedom," he said.

We can only assume that he means freedom for business, and because he has excluded unions from his major advisory council, it will come at the cost of workers' rights.

When he says he wants Australia to be 'quite different' and he begins reviewing the world's most successful superannuation scheme, we can only assume that he wants changes that again will come at the expense of working people.

The most obvious agenda item for us, as union trustees on Super boards, is to continue to increase the level of contribution that workers make to their retirement, so they can have a better retirement. The Coalition's 'pausing' of the increase from 9 to 12 is a major concern and all the more so if the 'pause' turns out to be a delay before the Coalition scraps it all together.

Coalition champions like Judith Sloan have recently argued that a 12% rate of super contribution would create a scenario where, I quote, "many people will retire on more than their pre-retirement earnings". Utter nonsense. Even John Brogden from the Financial Services Council has acknowledged that there will be a $1 trillion shortfall in retirement savings.

But Judith Sloan doesn't see this as a problem, because, and I'm quoting again, "many low-paid women are secondary breadwinners looking after children." Really quite ridiculous.

The extreme nature of Tony Abbott's views on Super are long held beliefs. In 1995 he stood in parliament and said "Compulsory superannuation is one of the biggest con jobs ever foisted by government on the Australian people."

So we are clearly in a fight where we need to defend what we have built, and defend the right of unions and union trustees to represent our members when it comes to which funds they invest with, and the boards that control those funds.

In conclusion, can I simply sum up what I've said today:

The Industry Super model has delivered. Truly independent directors have a role to play, but not at the expense of representative directors, who have been a fundamental part of the democratic, accountable and above all successful Industry Super model.

Unions founded Industry Super because we had a vision to improve the lives of working people. The Coalition's proposed changes would weaken that model. The changes are being done to benefit big business and the wealthy, who are allies of the Coalition. The changes will put more power in the hands of self-interested people who, frankly, don't have such good track record. And the changes will come at the expense of working people.

Unions don't accept this. We will oppose it. We will be running a public campaign about it. If the government thinks that unions will stand by and watch them dismantle the superannuation system that has been the envy of the world for the past three decades, they are mistaken.

We will be fighting to protect what we have built because we are fighting for the vision of using super to deliver the best returns to fund a decent retirement, to support jobs, and to contribute to the community and the country for the long-term.

Thank you.

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