No. 507

LEGISLATIVE ASSEMBLY OF THE NORTHERN TERRITORY

WRITTEN QUESTION

Mr. Higgins to the Treasurer:

Changes to NTGPASS

1. The Superannuation Legislation Amendment Bill 2018 will see Statewide Superannuation as the next default government super fund and the new NTGPASS fund. Treasurer, what was the process for selecting Statewide Super?
2. Who was consulted about these changes, and how were they consulted?
3. How were these changes advertised and communicated to members, the public service and the community more broadly?
4. What cost benefit analysis was undertaken before making this decision?
5. Are there any conflicts of interest between members of the Labor Government and Statewide Super?
6. Are there any known real or perceived conflicts of interests, based on personal relationships, between members of the Labor Government and Statewide Super?
7. Media reports claim that the move to Statewide Super will cost members at least $800 000 extra in management fees. Is this accurate and how will members be better off by paying higher fees?
8. Given that the amount being moved to Statewide Super is $580 million, what consultation was undertaken with Territorians?
9. What will the effect of moving this money have on the cash holding on the NT Budget Balance Sheet?
10. Funds under management at Statewide Super are about one tenth the size of Australian Super. How is moving to a smaller fund consistent with the risk profile usual for a default public service fund?

Answers

Question 1

There have been two separate public and competitive selection processes underway since mid-2018. Statewide Superannuation was selected in both cases.

The first process was to select the Territory Government's default superannuation fund for new employees. Under the Territory's *Superannuation Guarantee (Safety Net) Act 1993*, the Treasurer is required to appoint a default superannuation fund for new government employees who do not nominate a fund for their employer's superannuation contributions.

Since NTGPASS closed to new members in August 1999, new Territory Government employees have had their fortnightly superannuation payments paid into a fund of their choice. If they do not nominate a fund, their fortnightly payments are made to a default fund.

The default fund is selected by the Treasurer every three to five years through an open public process. Since 1999, the default fund has been the Australian Government

Employees Superannuation Trust (AGEST) [10 August 1999 to 31 December 2012] and then AustralianSuper after the two funds merged in 2013 [1 January 2013 to 9 February 2019]. As the contract period (with AustralianSuper) was expiring on 9 February 2019, a new contract was required.

The process of selecting government's default fund is not related to the Superannuation Legislation Amendment Bill 2018.

The other, separate, selection process was to select an external superannuation fund to manage and invest the superannuation savings of members of the Northern Territory Government and Public Authorities' Superannuation Scheme (NTGPASS). Amendments made by the Superannuation Legislation Amendment Bill 2018, which was passed during the February 2019 sittings of Legislative Assembly, make this transfer possible.

The NTGPASS fund is managed and invested on behalf of members by the Superannuation Trustee Board. NTGPASS members cannot elect to move their savings out of the fund without resigning or retiring. They are restricted by law to the fund and in effect this provides them with little flexibility in managing their own savings.

Selecting a superannuation fund to receive a transfer of the NTGPASS fund (i.e. members' own savings) is being done to give NTGPASS members access to the possibility of higher investment returns, together with the same range of services available for members of contemporary superannuation funds. Once the NTGPASS fund is transferred to Statewide, members will also be able to choose their own superannuation fund (i.e. to stay with Statewide or move to another fund – something they cannot do now).

The two selection processes were run at the same time in order to try and get the best outcome for new Territory government employees and for members of NTGPASS.

Request for proposals

The following steps were taken:

- An industry briefing was held in Darwin on 15 August 2018 to brief superannuation funds and trustees on what was being sought under both processes.
    - The briefing was advertised in the *NT News*, the *Australian Financial Review* and through the Australian Institute of Superannuation Trustees
    - Briefing papers were placed online which provided background information, draft selection criteria and a proposed selection process
    - A total of 13 fund representatives attended in person and 30 fund representatives dialed in
    - Funds were invited to ask questions and provide feedback on both sets of draft selection criteria and proposed selection processes by 29 August 2018.
- Feedback and suggestions were received from a number of funds. Also, feedback was gathered during NTGPASS member information sessions held during June 2018, from the 865 members and their families who attended, as well as several meetings with unions. These sessions also consulted on the issues important to members. This information was incorporated into the finalised Request for Proposal (RFP) documents, which were published online on 14 September 2018 and advertised in both the *NT News* and the *Australian Financial Review* on 14 and 15 September 2018. Electronic versions

of the RFP documents are available at https://treasury.nt.gov.au/news/2018/requests-for-proposals, and were also emailed to NTGPASS members.

- Proposals had to be lodged by 12 October 2018
- Funds could submit a proposal to be selected as the default fund for new Territory government employees, to receive the transfer of NTGPASS member savings, or both.

Assessment panel

The proposals were considered by an assessment panel, which comprised the Commissioner of Superannuation together with senior staff from the Commissioner for Public Employment, the Department of Treasury and Finance, and the Department of Corporate and Information Services with directly relevant skills and experience in tender assessment, investment products and commercial processes, and superannuation. The assessment panel was assisted by an observer from Assurance Advisory Group, who provided independent probity advice consistent with best practice procurement guidelines.

Assessment process

The assessment panel compared the responses and supporting material provided by each fund against each requirement in the relevant RFP. In performing this assessment, each proposal was considered on its own merits and was also benchmarked against the existing NTGPASS arrangements.

In terms of process, the assessment panel members completed the scoring independently with the final score being an average of the individual scores. Where there was a wide range of scores for a particular response, the panel members discussed the reasons for this. As a consequence, some questions/requirements were further clarified and some of the individual scores were amended.

The scores for each category were summed, with the appropriate category weighting applied. The total weighted scores for each proposal were then calculated. The proposals were then ranked according to the total score. The fund recommended by the assessment panel was the fund with the highest total score. This was closely aligned with the standard approach used in government procurement.

The scores, together with the reasons for them, were then used to provide recommendations to:

- the Treasurer, in respect of selecting Statewide as the default superannuation fund
- the Superannuation Trustee Board, in respect of selecting Statewide to receive a transfer of the NTGPASS member savings accounts.

Both recommendations were approved.

Question 2

On the NTGPASS reforms, the Commissioner of Superannuation consulted with:

- All unions representing Territory Government employees.
    - The Commissioner wrote to the unions in May 2018 and explained what was proposed in the reforms, as well as their implications for NTGPASS members.

    - The Commissioner also offered to meet with the unions and explain the reforms in more detail. The offer was taken up by representatives from the NT Police Association, United Voice, the Community and Public Sector Union and by the Australian Nursing and Midwifery Federation.
- NTGPASS members and their spouses.
    - The Commissioner has provided NTGPASS members with regular email updates regarding the reforms, why they are occurring and their implications.
    - A dedicated web page has been operating since June 2018.
    - The Commissioner held 35 member information sessions during June 2018 at Alice Springs, Casuarina, Darwin, Katherine, Nhulunbuy, Palmerston and Tennant Creek. The sessions were attended by 865 NTGPASS members and their families.
    - Staff from the Northern Territory Superannuation Office have been answering member inquiries and taking member feedback.

Concerns and feedback from NTGPASS members, consultations with employee unions, and technical feedback received from fund trustees, were incorporated into the finalised Request for Proposal documents.

Question 3

The changes to the management and administration of NTGPASS only affect NTGPASS members. The NTGPASS scheme itself is not changing, only the management of members' own savings within NTGPASS. Accordingly, the proposed changes were not communicated to the broader public service or the community except to the extent that they were publicly available online.

The default fund only applies to new employees commencing Territory Government employment on or after 10 February 2019, all of whom have full choice over their preferred superannuation fund at all times.

As part of the changes to the management and administration of NTGPASS, the Commissioner of Superannuation consulted as outlined in answer to Question 2.

The Commissioner will be undertaking a further 23 face to face NTGPASS member information sessions during March 2019 at Alice Springs, Casuarina, Darwin, Katherine, Nhulunbuy, Palmerston and Tennant Creek, in order to keep members up to date with the reforms and timelines, and to explain what is being offered by Statewide.

Question 4

Government made the decision to undertake management and administration reforms to NTGPASS, including the transfer of the NTGPASS fund to an external superannuation fund to manage and invest on behalf of members, after considering a range of factors.

These include:

- The ongoing decline in NTGPASS membership. When NTGPASS closed in August 1999 it had over 12 000 members. This has since reduced to less than 2 500 members.
- This decline in membership and the fact that NTGPASS cannot grow its membership, means that the Superannuation Trustee Board has had to invest member savings in

liquid assets that can be sold quickly. This means that members have been locked out of investing in a range of asset classes which require a long term investment, such as unlisted property and infrastructure. As a consequence, the investment returns of the NTGPASS fund have begun to fall below those of industry superannuation funds, disadvantaging members.

- NTGPASS members have not had access to the same range of services that are now provided by a majority of external superannuation funds. This includes access to additional insurance, a greater range of investment options, on-line account facilities, financial advice and retirement income products.
- Members have access to six investment options, but have never had any choice regarding where their NTGPASS savings were invested. Nor have they had the ability to move their savings to a different fund.
- Increased reporting requirements driven by the Australian Taxation Office mean that from 2019 contributions to the NTGPASS fund need to be reported at least 26 times each year, rather than once per year, increasing the cost and complexity for the Territory Government in administering the NTGPASS fund.
- Increasing regulation by both the Australian Prudential Regulation Authority and the Australian Securities and Investments Commission, and the reporting requirements that these bring, have also increased the cost and complexity for the Territory Government in administering the NTGPASS fund.
- The reporting and regulatory changes mean that the Territory Government faces the prospect of needing to recruit additional staff with highly specialized skills and knowledge in order to manage the NTGPASS fund for a declining number of members.
- The computer system used to administer NTGPASS, known as SuperB, will no longer be supported from 31 December 2020. Consequently, there is the need to procure a new system quickly. The management and administration reforms to NTGPASS will simplify the scope (and reduce the cost) of that new system.

In terms of the final decision to undertake the transfer, the Superannuation Trustee Board, as trustee of the NTGPASS fund, cannot be forced to approve the transfer to Statewide. Section 8W of the *Superannuation Act 1986* ensures that the members of the Superannuation Trustee Board are not subject to the direction of anyone, including the Treasurer. The Board's sole concern is the best interests of scheme members.

Amendments to section 45DE of the *Superannuation Act 1986* (made by the Superannuation Legislation Amendment Bill 2018) provide that, before the NTGPASS fund can be transferred to Statewide, the Superannuation Trustee Board will need to be satisfied that:

- the transfer is in the best interests of NTGPASS members, and
- following the transfer to Statewide, members will receive at least equivalent rights in respect of their benefits as they held within NTGPASS.

The Australian Prudential Regulation Authority, together with the *Superannuation Industry (Supervision) Act 1993* (Cth) and regulations under that Act, impose similar legal requirements on Statewide's board. Consequently, if Statewide's board are not satisfied that the transfer of the NTGPASS fund is in the best interests of Statewide's members, and that the transferring NTGPASS members will receive equivalent rights in respect of their benefits as they held within NTGPASS, then the transfer will not proceed.

Question 5

The proposals were considered by an assessment panel, which comprised the Commissioner of Superannuation together with senior staff from the Commissioner for Public Employment, the Department of Treasury and Finance, and the Department of Corporate and Information Services with directly relevant skills and experience in tender assessment, investment products and commercial processes, and superannuation. The assessment panel was assisted by an observer from Assurance Advisory Group, who provided independent probity advice consistent with best practice procurement guidelines.

The Treasurer approved the recommendation made by the assessment panel for the next default fund agreement, however was not part of the assessment process. The assessment process is outlined in answer to Question 1.

The Superannuation Trustee Board approved the recommendation made by the assessment panel for the fund to receive NTGPASS member savings, however was not part of the assessment process.

Accordingly, there are no conflicts of interest between members of the Labor Government and Statewide Super.

Question 6

Refer to question 5 above.

Question 7

NTGPASS member savings are on behalf of the Superannuation Trustee Board by JANA Investment Consultants. JANA charges investment management fees for that service, which are deducted before investment rates of return are determined.

Statewide charges its members an administration fee of $1.50 per week per account. From 30 March 2019, AustralianSuper will charge its members an administration fee of $2.25 per week per account, 50 per cent higher than the Statewide fee.

The media report compared the investment management fees charged by AustralianSuper with those charged by Statewide. As for NTGPASS, these fees are deducted before investment rates of return are applied to account balances (which are reported “net” of these and other fees). The report identified that the investment management fees charged by Statewide are higher than the corresponding AustralianSuper fees.

The media report correctly identified that Statewide has provided its members with higher investment returns than AustralianSuper in four of the last five financial years. These returns are calculated after fees have been deducted. This means that Statewide’s members have been receiving higher investment returns than AustralianSuper members despite the difference in the two funds’ investment management fees. That is, Statewide’s members have been better off than AustralianSuper’s members.

In comparing the investment performance of Statewide to NTGPASS, the Statewide growth option has provided higher investment returns than the NTGPASS growth option in each of the last five financial years. The Statewide growth option’s five year annual return to

30 June 2018 was 10.74 per cent (which is calculated after the deduction of investment management fees). In comparison, the NTGPASS growth option's five year annual return to 30 June 2018 was 8.98 per cent (again, calculated after the deduction of investment management fees).

To put that in context, if an NTGPASS member had $100 000 invested in the NTGPASS growth option at 1 July 2013, that investment would have grown to $153 690 by 30 June 2018. If the same money had been invested with Statewide's growth option, it would have grown to $166 568.

NTGPASS members will be better off with access to higher investment returns and to the contemporary services that Statewide offers its members. This includes free advice from Statewide's Territory-based financial planners.

Refer to Tabled Papers 1048 and 1049, which were tabled in the Legislative Assembly on 12 February 2019.

Question 8

The money and investments in the NTGPASS fund belong to members of NTGPASS, not government or the public at large. The fund is not included in government's assets or accounts.

Accordingly, the Commissioner of Superannuation and staff in the Northern Territory Superannuation Office have only consulted with NTGPASS members and the unions representing government employees.

Question 9

As the money and investments in the NTGPASS fund belong to members of NTGPASS, not the Northern Territory Government, transferring the assets and investments of the NTGPASS fund to Statewide will not have any impact on the cash holdings of government or on the Northern Territory Government's balance sheet.

Question 10

Funds under management is not a key determinant in selecting a default superannuation fund or in determining the risk profile of a fund.

In selecting the default fund, the Request for Proposal documents advised funds that to be considered, it was a mandatory for the fund to have member assets under management of at least $5 billion, and/or have at least 50 000 members. The requirement for member assets of at least $5 billion was introduced in the 2013 default fund selection process. Prior to then, the default fund was required to have member assets of at least $1 billion.

As at 30 June 2018, Statewide had funds under management of $8.14 billion, and over 144 000 members, so met the requirements.

In terms of fund size, it is useful to note that the Territory Government's default fund between 10 August 1999 and 31 December 2012 was AGEST. AGEST had only $1.34 billion in funds under management at 31 December 2005, when it was selected as the default fund from 9 August 2006, and still had less than $5 billion in funds under management when it merged with AustralianSuper on 1 January 2013.

AGEST was small compared to AustralianSuper, yet AGEST continued to be selected as government's default fund due to its performance history and member services.

The same is true for Statewide. The assessment panel recommended its selection after considering all of the criteria in the RFP documents, not just the value of its $8.14 billion in member funds under management.

Statewide is a long-term industry fund that has existed for over 30 years. Prior to October 2001, it was known as United Superannuation.

Statewide is subject to the same regulatory and prudential oversight (undertaken by both the Australian Prudential Regulation Authority and the Australian Securities and Investments Commission) as AustralianSuper, so in that sense is no more or less risky than AustralianSuper.