RECOMMENDATION

It is recommended that the Board:

1. notes the correspondence from the Honourable the Treasurer and Minister for Trade (the Treasurer);

2. approves that a letter be sent to the Treasurer:
   i. advising that the Board had considered the issue of portability and that portability would be offered to Accumulation members as soon as practicable and on terms consistent with general industry practice;
   ii. seeking guidance from the Treasurer, as the employer sponsor representative, with respect to DB members and the conditions, if any, under which portability would be offered to these members; and

3. approves that the Office of the Queensland Parliamentary Counsel be requested to draft amendments to the Superannuation (State Public Sector) Deed 1990 to allow members to roll-out their funds in QSuper irrespective of employment status; and

4. Contrary to Public Interest

NOTE: The recommendation for this submission was amended by the Board at the February meeting and the above version represents the recommendation as approved by the Board.

EXECUTIVE SUMMARY

The attached letter has been received from the Honourable the Treasurer and Minister for Trade (the Treasurer).

Sch. 3(2)(1)(b)

This is consistent with informal advice previously provided to the QSuper Board which acted as a catalyst for the review undertaken of the Fund’s strategy late last year.

Additionally, the Treasurer has requested that the QSuper Board considers amendments to the QSuper Trust Deed to allow members to roll out their funds in QSuper irrespective of employment status. This is effectively seeking to incorporate rules (known as “portability”) that have applied to all superannuation funds (other than certain exempt funds such as unfunded public sector schemes) since 2005.
ISSUES

The attached letter has been received from the Treasurer. In summary, the letter:

1. Contrary to Public Interest, Sch. 3(2)(1)(b)

2. seeks the Board’s consideration of amendments to the Superannuation (State Public Sector) Deed 1990 (the Deed) to allow members to roll out their funds in QSuper irrespective of employment status (portability).

Portability

In 2005, the Federal Government announced changes to the Superannuation Industry Supervision regulations (SIS regulations) to allow members to request their superannuation fund to transfer part or all of their superannuation account to another fund whilst they continued to be employed.

Under the SIS regulations, the trustee of a super fund is not required to comply with a portability request from a member (but may choose to) where the:

- fund nominated by the member will not accept the amount;
- amount to be transferred is only part of the member's account balance and the rollover will reduce the member's account balance to less than $5,000, or
- member has previously made a transfer within the last 12 months.

A member can withdraw their entire account balance where the balance is below $5,000.
Board-in-Confidence

There were a number of funds exempted from these changes including unfunded public sector schemes (such as QSuper), defined benefit schemes and self managed funds. The exemption for unfunded public sector schemes acknowledged the potential funding implications for governments should members be permitted to transfer their balance and therefore “bring forward” the required funding for benefits prior to retirement.

As an unfunded public sector scheme, this exemption applied to all QSuper members including those with an accumulation account only. As a result, QSuper is currently not required to transfer account balances to another superannuation fund while the member remains employed with a Government employer.

In his letter, the Treasurer acknowledges the potential funding implications for the Queensland Government and supports making the required changes to the Deed.

In considering amending the Deed to adopt the above, the Board must consider whether the changes are in the best interest of members. This test considers both the individual requesting portability as well as the whole membership. The following summarises benefits to members and possible issues for the Board’s consideration:

Benefits to members:

1. Portability provides members with flexibility and control over their superannuation arrangements. There will always be a small number of members who will seek to control their superannuation. There have been some requests for this from members at senior levels within Government and QSuper employers. Allowing members to transfer part or all of their QSuper balance (whilst continuing to make contributions to QSuper) will meet this need. This also provides the opportunity for these members to benchmark QSuper’s product and services against an alternative and keeping a QSuper account open also provides the opportunity for QSuper to regain their funds.

2. Aligns QSuper’s rules, and therefore member options, to Federal legislation and the broader superannuation industry.

3. Ensures internal consistency with PMO members who are able to roll out of QSuper whilst employed and contributing to QSuper.

Issues

Contrary to Public Interest
3. There is a decision to be made by the Board as to whether a defined benefit is subject to portability. The Treasurer's letter indicates support for any funding costs. It is understood that some funds do not allow members to transfer defined benefit accounts. However, this facility already exists within QSuper as there is an accumulation conversion available to members, at any time, for the whole balance.

4. After understanding that a defined benefit to accumulation transfer is possible currently, the Board will need to determine if a part transfer is possible. For example, a member may wish to convert the majority of their defined benefit to accumulation, but retain ongoing defined benefit contributions (eg to retain insurance protection). The advice of the State Actuary is being sought on this aspect and will be addressed at the meeting.

SUMMARY

Contrary to Public Interest

Portability introduces a threat to QSuper's FUM, but given our scale (fees collected across over $60 billion), its introduction is unlikely to represent a material risk to scale. In effect, this will align QSuper to general industry practice.

On balance, in considering the test of "best interests of the members", it is recommended that the Treasurer be advised that the Board is seeking to make the necessary Deed amendments to introduce portability.

Contrary to Public Interest

RISK IMPLICATIONS

Contrary to Public Interest

Amending the Deed to allow QSuper members portability of benefits may lead to increased numbers of members leaving the Fund. This risk can be managed by targeted education campaigns and QInvest advice.

RECOMMENDED BY

<table>
<thead>
<tr>
<th>Name</th>
<th>Michael Pennisi</th>
</tr>
</thead>
<tbody>
<tr>
<td>Position</td>
<td>Chief Strategy Officer</td>
</tr>
<tr>
<td>Contact number</td>
<td>07 3239 1512</td>
</tr>
</tbody>
</table>

ATTACHMENTS

1. Correspondence from the Honourable the Treasurer and Minister for Trade
30 JAN 2013

Mr R Scheuber
Chairman
QSUPER Board of Trustees
GPO Box 200
BRISBANE QLD 4001

Dear Mr Scheuber

I also understand that under the provisions of the Superannuation (State Public Sector) Deed 1990 (QSUPER Deed), QSUPER members generally cannot roll over their monies to another superannuation fund until they cease employment. The members who have written to me believe that it would be in their best interests to have control over where their superannuation monies are invested. I am happy to support their requests even though there are potential defined benefit funding implications for Government. Consequently, I ask that the QSUPER Board consider a change to the QSUPER Deed to allow members to roll out their accrued balances irrespective of employment status. This will provide members with control over their superannuation money in the absence of choice and would, of course, be subject to any conditions prescribed under Commonwealth superannuation legislation.

I thank the QSUPER Board for giving consideration to this issue at its earliest convenience.

Yours sincerely,

Tim Nicholls
Treasurer and Minister for Trade
TRY-02724

30 JAN 2013

Mr R Scheuber
Chairman
QSuper Board of Trustees
GPO Box 200
BRISBANE QLD 4001

Dear Mr Scheuber,

I also understand that under the provisions of the Superannuation (State Public Sector) Deed 1990 (QSuper Deed), QSuper members generally cannot roll out their monies to another superannuation fund until they cease employment. The members who have written to me believe that it would be in their best interests to have control over where their superannuation monies are invested. I am happy to support their requests even though there are potential defined benefit funding implications for Government. Consequently, I ask that the QSuper Board consider a change to the QSuper Deed to allow members to roll out their accrued balances irrespective of employment status. This will provide members with control over their superannuation money in the absence of choice and would of course be subject to any conditions prescribed under Commonwealth superannuation legislation.

I thank the QSuper Board for giving consideration to this issue at its earliest convenience.

Yours sincerely,

Tim Nicholls
Treasurer and Minister for Trade
18 February 2013

The Honourable Tim Nicholls
Treasurer and Minister for Trade
GPO Box 611
BRISBANE QLD 4001

Dear Treasurer

Sch. 3(2)(1)(b) considered the issues at its 14 February 2013 meeting.

With respect to your request to amend the Deed to allow Portability for QSuper members, the Board considered the changes requested in terms of the member “best interest” test. Additionally, given their very different nature, the Board considered the practical application of Portability for Accumulation and Defined Benefit members separately.

The Board has approved incorporating the required Deed changes for Accumulation members, consistent with Federal Government superannuation legislation, noting that this will bring QSuper’s rules into line with the majority of superannuation funds.

The Board noted that currently Defined Benefit members may elect to transfer 100% of their entitlements to the Accumulation account based on a formula developed by the State Government Actuary and that this provision can be used to enable Portability for these members.

The Board is however, seeking your guidance on whether Defined Benefit members should be permitted to have portability for only part of their Defined Benefit account and if so, whether these members should be permitted to continue contributing to the Defined Benefit account. Whilst a part-transfer and continuing contributions to Defined Benefit may be desired as a further option by some members (as it provides a very significant financial benefit to those members e.g. continuation of insurance), this does affect the employer cost of the Defined Benefit scheme. Given this is essentially an employer sponsor issue, the Board would appreciate your guidance on this question.
QSuper has always worked in partnership with the Queensland Government and if the Queensland Government were to make this change, the Board wishes to assist in ensuring any transition for our members and all employers is well managed and that it works with the Government to ensure that QSuper remains a strong, viable Queensland fund into the future.

Consequently, the Board has requested that I and QSuper’s CEO, Ms Rosemary Vilgan, meet with you to discuss Choice of Fund implications as a matter of urgency. I look forward to discussing these issues with you.

Yours sincerely

Bob Scheuber
Chairman
QSuper Board of Trustees & QSuper Limited Board
MINUTES OF THE MEETING OF THE BOARD OF TRUSTEES
OF THE STATE PUBLIC SECTOR SUPERANNUATION SCHEME
(QSUPER), HELD IN THE QSUPER BOARDROOM, LEVEL 13,
70 EAGLE STREET, BRISBANE ON THURSDAY, 14 FEBRUARY 2013

TRUSTEES: 
Mr R E Scheuber (Chairman)
Mr M I Barnes
Ms D Best
Mr P Henneken
Mr W Ivessa
Mr B F King
Mrs K S Peut
Ms A M Richards
Mr S R Ryan

SECRETARY: 
Mr T Golden (Fund & Company Secretary, QSuper Limited)

APOLOGIES: 
Ms L G Hawksworth
Mr K T Jeffers

IN ATTENDANCE: 
Mrs R Vilgan (Chief Executive Officer, QSuper Limited)
Mr S Maitland (Independent Audit & Risk Committee Member)

12. CORRESPONDENCE FROM THE TREASURER REGARDING FUND MEMBERSHIP (10):
Mr Michael Pennisi (Chief Strategy Officer, QSL) joined the meeting at 12.25 p.m.
The Board considered the submission and discussed the potential impact on QSuper of the
introduction of portability. The Board considered whether the introduction of this would be in the
best interest of members, the benefits and consequences as well as the possible implications on
members’ insurance arrangements.
It was noted that general industry practice is to allow at least an annual transfer of any amount to a
complying superannuation fund or SMSF. Trustees can require that if the amount to be transferred
is only part of the member’s account balance, the rollover will not reduce the member’s account
balance to less than $5,000.
The Board noted that portability with respect to DB members may require further consultation with
the State Government as employer sponsor in order to determine the conditions, if any, as well as
outlining the possible implications from a funding perspective. It was also noted that the State
Actuary had been consulted in relation to this latter point and had expressed some concerns if
members could transfer some of their DB balance but remain contributors to DB.
The Board briefly discussed the impending changes as part of the Future of Financial Advice
(FOFA) introduction and that more aggressive marketing strategies were currently being adopted
by some financial planning firms in an effort to register new clients prior to 1 July 2013 when new
fee arrangements and disclosure rules would take effect.
The Board:
1. noted the correspondence from the Honourable the Treasurer and Minister for Trade;
2. 
3. approved that a letter be sent to the Treasurer:
   i. advising that the Board had considered the issue of portability and that portability would
      be offered to Accumulation members as soon as practicable and on terms consistent
      with general industry practice;
   ii. seeking guidance from the Treasurer, as the employer sponsor representative, with
       respect to DB members and the conditions, if any, under which portability would be
       offered to these members; and
4. 

Contrary to Public Interest
MINUTES OF THE MEETING OF THE BOARD OF TRUSTEES OF THE STATE PUBLIC SECTOR SUPERANNUATION SCHEME (QSuper), HELD IN THE QSuper BOARDROOM, LEVEL 13, 70 EAGLE STREET, BRISBANE ON TUESDAY, 26 MARCH 2013

TRUSTEES:
Mr R E Scheuber (Chairman)
Mr M I Barnes
Ms D Best
Ms L G Hawksworth
Mr P Henneken
Mr W Ivessa
Mr K T Jeffers
Mr B F King
Mrs K S Peut
Ms A M Richards
Mr S R Ryan

SECRETARY:
Mr T Golden (Fund & Company Secretary, QSuper Limited)

APOLOGIES:
Nil

IN ATTENDANCE:
Mrs R Vilgan (Chief Executive Officer, QSuper Limited)

4. MATTERS ARISING FROM THE MINUTES (3):
The Board was advised that the Chairman and Chief Executive Officer had a meeting scheduled with the Treasurer in mid-April to discuss portability and the vacant Board position.