INVESTIGATE INDUSTRY SUPER

Industry superannuation has incompetence, corruption and rent-seeking at the core of its DNA.

To understand industry super funds, one first needs to understand where compulsory super came from. The Keating Labor government was far-sighted enough to see the coming demographic deficit that an ageing population brings and the pressure it was going to put on the aged pension system. The government's solution was to force people to start saving for their retirement by locking funds away in superannuation accounts that are preserved until retirement.

As anyone who has employed young people knows, few under the age of 40 give very much thought to their super, how it is invested or where it is invested. Forcing employees in 1992 to suddenly give up 3 percent (9.5 percent today) of their pay to be locked away would have been very electorally unpopular and would have horrified the trade unions.

So to keep everyone happy (or at least silent), a grand bargain was enacted. No one would have their pay docked, but instead super was added on top of existing pay packets. Unions would temper their wage demands for a few years as the system was introduced (and then as the rate increased from 3 percent), and in return the money would automatically be allocated to prescribed industry super funds. For example, as a teenage meat worker I had no option but to watch my money flow into the Australian Meat Industry Super Trust (AMIST).

The unions were given half the seats on the boards of these funds, and to keep employers quiet about the need for new red tape, their industry associations were given the other half of the board seats. I have no doubt that Keating also saw employer association involvement as necessary to prevent unions from going berserk with the money in these funds, but he would never have said so publicly.

The crucial point is that industry funds were only ever created as a sop to the unions. If unions could really invest funds better than professional money managers, we'd all be getting our banking done by them. This is why they spend so much money and effort on advertising in an attempt to legitimise their existence. But the reality that few want to face is that industry funds are rarely as clean and benevolent as they present themselves to be. I should know—I was for several years the secretary of an employer association that nominated persons to industry fund boards and I was an industry fund member for over a decade.

Take for example the Energy Industry Super Scheme (EISS), which was established for state power industry workers in NSW. As the employers were state entities, at a time when Labor was in state government, how independent do you expect the board really was? When I saw EISS's accounts in 2007, I noted their funds were being managed by Chifley Financial Services, a wholly owned entity of the NSW Labor Council.

While EISS is a more extreme example, more subtle are the generous director stipends, sponsorships, and jobs-for–the-colleagues that are often less obvious in the accounts.

It took the Howard government (against bitter Labor and Green opposition) in 2005 to allow for choice of fund. This move ironically helped the industry funds sector, as the new competition forced small industry funds to merge or

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be swamped by rollovers as the larger funds used their scale to generate better returns. By 2012, 4,700 funds had become 352. This consolidation process did much to highlight the way industry funds were being quietly abused by both unions and employer associations.

By way of example: I was involved in the merger of Connect and Cbus Super in 2010. The Connect fund was a tenth the size of Cbus and was losing more and more market traction with each passing day. The merger meant that some directors in my industry association might not be transferred to the merged Cbus board — and thus would lose their directors' fees. So we had directors who opposed the merger.

But don't think for a minute that this stuff is all in the past. It isn't. Sponsorships for mates abounds in almost every industry fund to varying degrees.

Some industry funds are notorious for making some very risky bets, and others are known for some incredibly costly stuff ups.

In November 2013 there was a short-lived media storm when it was announced that Australian Super, Cbus, and United Super, Australia's three largest industry funds, had joined forces to plough $3 million into *The New Daily*, an online media start-up operated by left-wing Crikey owner Eric Beecher. The funds initially attempted to promote this as an investment opportunity. Once the folly of that was exposed, their defense became that online newspapers were better for their marketing than direct mail or email.

Last time I looked at *The New Daily*'s website, I couldn't see a single story about superannuation, nor could I see a single advertisement. I would venture that it looks like a poor investment for the industry super funds — although certainly would have been welcomed by Beecher's media business.

This form of arrangement is why Labor and the unions were so intently set on reintroducing default super funds into Modern Awards after 2009. The vast majority of young entrants to the workforce never give a thought to their superannuation. A large portion of the time they never even realise that they have many accounts in their name in different funds and take no steps to consolidate or investigate their investment options. This is, of course, the dividend of compulsion, and the industry funds know this and are desperate to keep their mitts on this dumb money.

Don't fall for the spin that your funds are safer in industry funds, either. They are just as at risk as any other investment. Some industry funds are notorious for making some very risky bets, and others are known for some incredibly costly stuff ups. Cbus Super has turned itself into a commercial property developer in recent years. That's hardly low risk. MTAA Super managed to lose $1.89 billion in 2009 mostly due to its exposure to derivatives contracts. The Motor Trades Association (who also comprised half of the board) were being paid $6 million in 2009 and $8.5 million in 2010 to provide secretariat and ''related support services" to the MTAA Super — although that arrangement was terminated before 2011.

Members invested in the fund's Balanced option lost 25 percent of their savings in 2009, the Growth and Target Return options each wiped 24 percent, and even the Conservative option lost members 19 percent,.

If events like these can occur when Australia hasn't seen a recession since 1990, imagine what will likely happen when things turn sour: when property prices are falling, banks failing, foreign bonds defaulting, and stock markets tumbling. Do we really believe that all the funds will stay solvent? And what if they don't: should the Commonwealth have to bail them out?

There are so many and varied self-managed and retail funds that if any fail, that will just be that. Investors will have done their dough. But if Australian Super or Cbus failed, hundreds of thousands of Australians would suddenly wake up without their retirement savings. Does anyone really believe that the government (regardless of its hue) will be able to resist the temptation of at least a partial bailout?

And that is the real core issue about why industry super is so insidious—it's the moral hazard. If an industry fund fails and the state simply bails it out, then the fund never served any purpose other than as a great big slush fund for unions.

This moral hazard also has a role in distorting the funds market. There must be many Australians who similarly stay in industry funds solely because they also believe the government is the ultimate guarantor of their savings.

The new assistant treasurer, Josh Frydenberg MP, has been making noises about an investigation into industry super. This should be welcomed as there is much to reform, but we are up against strong vested interests and retail super (the main alternative for unsophisticated investors) has few friends outside the tarnished financial services sector.

Employees at entry level don't care about their super, as it's too far away on their event horizon; employers don't care where the money goes, so long as it doesn't add to their paperwork load; and unions and employer groups don't want to lose their playthings. There's few to make noise about this cosy arrangement today, just as it has been since it all began in 1992.

The danger inherent in our system of compulsory superannuation is an issue that is very unlikely to become a "barbecue stopper" until the industry funds start to fail—as they surely one day will.

To fix things, the government must resile from the presumption that industry funds are the default option. Choice of super is not a matter that needs to be in industrial awards, so it should be taken out of the text. Retail funds must also be allowed to advertise. Why is there a ban on them when industry super is allowed to flood our airwaves and bus shelters with propaganda? It's a bizarre rule.

Industry funds themselves will only be able to start to reform when their members are given a direct say in who the directors are. Open them up to democratic elections (run by the AEC so the unions can't rort the process). Unions now represent barely 10 percent of working Australians outside of the public service. They have no right to be anointed to decide what happens to the savings of most Australians.

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