# Australian union bosses seek to protect superannuation posts

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**17 July 2010**

Last week, Prime Minister Julia Gillard's government released the report of a year-long review of Australia's massive superannuation industry. One recommendation of the Cooper review, which had been commissioned by the previous Rudd government, provoked a revealing response. The report suggested the appointment of independent trustees to the boards of industry superannuation funds.

Union bosses who sit on the boards immediately united with their business co-directors to denounce the proposal. Australian Council of Trade Unions (ACTU) secretary Jeff Lawrence, a trustee of the $33 billion AustralianSuper fund, told the *Australian Financial Review*: "We don't believe there is any case to change the existing representation system." Employer peak body spokesperson, Australian Industry Group chief executive Heather Ridout, who sits on the same board, agreed, saying: "Trustee arrangements have given great stability to the funds."

A little-known feature of the superannuation system is mandatory equal representation of employers and unions as directors of the industry funds. This was a central feature of the scheme introduced when the Keating Labor government legislated for compulsory superannuation in 1993.

Under the legislation, super funds control the retirement savings of millions of workers, who are forced to contribute, whether they like it or not. But none of these trustees is elected by members; instead, they are simply appointed, undemocratically, by the unions and employer organisations.

The Keating government handed union leaders posts controlling multi-billion investment funds as a pay-off for their collaboration, through a series of Accords with the Hawke and Keating Labor governments, in suppressing industrial action, breaking up rank-and-file committees, driving down real wages and eliminating basic working conditions.

Both Labor and the unions declared universal superannuation to be among their "proudest achievements", claiming it delivered to workers a "greater sense of security". In reality, the super system seeks to force workers to pay for their own retirement, and thus slash the government's aged pension bill, while creating a giant slush fund for investors and the share market.

In its last budget, the Rudd government further boosted the industry by increasing compulsory employer contributions from 9 to 12 percent of wages by 2019. Although these sums are paid by employers, they are effectively extracted from workers via pay cuts, as trade-offs in enterprise agreements. The government has advised employers to take the higher impost into account when negotiating future wage deals.

At the same time, the superannuation industry has given union bureaucrats an immense stake in the fortunes of Australian capitalism. They sit on boards that are expected to control a sizeable share of the $6.5 trillion in superannuation assets that the Cooper review predicts will be invested by 2035.

Distributive and Allied Employees Association national secretary Joe de Bruyn—whose union covers retail workers, among the worst-paid in Australia—described the Cooper report's trustee recommendation as "just plain stupid". He declared: "For 20 years there has been extraordinary harmony on these boards." Employers' representative, Australian Chamber of Commerce and Industry chief executive Peter Anderson, said employer and union representation had worked well and should not be changed.

Health Services Union national secretary Kathy Jackson rejected the notion that union and employer representatives might have conflicts of interest. "You don't go in there with your union hat on," she said. "Employers and union directors have a real interest in ensuring that our members … get the best outcome."

Behind this employer-union solidarity stands a web of interlocking directorships, fund managements and consultancies that have helped transform the unions into partners in the world's fourth-largest pool of managed money. Since the Keating government launched the compulsory system in 1993, total superannuation assets have already mushroomed from $183 billion to $1.2 trillion.

The super funds have become financial behemoths, underwriting the share market and financing corporate projects worth tens of billions of dollars. They are also part of the increasing dependence of Australian capitalism on financial operations and speculation. In 1996, they accounted for 47 percent of GDP. Today, they represent 90 percent, and by 2035 they are expected to grow to 130 percent. The union-employer industry funds have grown to $220 billion and spawned an array of related investment companies, and even their own bank, the $1.4 billion Members Equity (ME) Bank.

Under the 1993 legislation, members have no say in who sits on the boards or where their funds are invested. The funds are not obliged to disclose how much the trustees and senior executives are paid, provide detailed investment outcomes, or give members full sets of audited accounts.

The Cooper report notes: "The employer and employee representatives on many trustee boards are not, in fact, elected by employers or members, but rather are nominated by third party organisations, such as employer associations and trade unions." Trustees are appointed for two-year terms, but can be renominated indefinitely—effectively giving them access to lifetime sinecures.

It is almost impossible to extract basic information from behind this cosy veil of secrecy. But the government's financial regulator, the Australian Prudential Regulation Authority, estimates that union-appointed representatives are paid between $10,000 and $50,000 per year.

Besides Jeff Lawrence, the ACTU-appointed nominees on the AustralianSuper fund board of trustees are former ACTU senior industrial officer Cath Bowtell (now a Labor election candidate) and Elana Rubin, a former superannuation fund executive. Another union appointee is Australian Workers Union (AWU) national secretary Paul Howes, one of the key players in the coup that ousted former Prime Minister Kevin Rudd. The other union reps, each nominated by their own union, are Australian Manufacturing Workers Union national secretary Dave Oliver and Liquor, Hospitality and Miscellaneous Workers Union national president Brian Daley. They sit alongside former Reserve Bank governor Bernie Fraser and six senior representatives of business—all nominees of the Australian Industry Group, led by Heather Ridout.

These trustees are part of a complex network of associated entities. One study has calculated that, as at February 2010, 12 people controlled $188 billion of industry super funds. For instance, former Textile, Clothing and Footwear Union national secretary Anna Booth is a director of Industry Funds Management (IFM), a wholesale funds manager with a portfolio worth $19.5 billion, ME Bank and Industry Super Holdings ($37.7 billion). Ex-ACTU assistant secretary Gary Weaven is chair of IFM, and a director of ME Bank and Industry Super Holdings (total $58.5 billion).

Anne de Salis, a former senior adviser to Prime Minister Keating, is a director of NSW State Super ($38 billion), Industry Super Holdings ($37.7 billion), ME Bank ($1.3 billion) and Funds SA ($14 billion), which total $91 billion. Ex-Reserve Bank governor Fraser is chairman of ME Bank and Industry Super Holdings ($37.7 billion) and a director of Australian Super ($29 billion) and the construction industry's Cbus fund ($13 billion).

One aim of the Cooper review is to head off mounting complaints about the exorbitant management fees charged by the funds, and their heavy losses during the global financial crisis. Because their compulsory contributions are placed at the mercy of the financial markets, super fund members saw their individual accounts fall by thousands of dollars in 2008-09, when the median value of funds fell 24 percent.

Without mentioning these losses, or the continuing turmoil on world money markets, the report states that better governance is needed to restore members' "confidence" in the system. Prepared by a panel of investment bankers, super fund executives and business and Treasury representatives, and chaired by a former corporate lawyer—the report makes no criticism of union representation per se. For years, the unions have been accepted in corporate circles as reliable partners. But the report cautions that the union-employer duopoly dents the appearance of "democracy" and could create "perceptions" of conflicts of interest.

While the report echoes the official line that Australia has a "world class retirement savings system," it admits that "member interests are not always paramount". It lists a litany of problems, including excessive fees, lack of transferability and comparability, and the lack of warnings given to members about market volatility.

The report also dispels the myth, based on "classical economic theory," of a competitive market that drives down costs and gives members choice. Since "choice of super" legislation was introduced in 2005, the rates of switching between funds have actually fallen from around 5 percent to 2 percent by the end of 2009. Most members remain, by default, in funds chosen by their employer or industrial award. Obstacles to switching include complexity, lack of information and onerous paperwork.

The overall thrust of the Cooper review is to streamline and rationalise the industry, which will inevitably produce an even greater concentration of control. The report envisages the merger of the current 447 funds into 74. Its principal recommendations are MySuper, a generic financial product designed to cater for the 80 percent of members whose retirement savings are invested in the default option of their current funds, and SuperStream, a package of electronic data processing measures. The report estimates that these two schemes would save funds about $2.7 billion a year. It claims that fees would eventually drop by 40 percent, lifting an average member's superannuation payout by $40,000, but there is no guarantee that the funds will pass on these savings to members.

With the performance of their superannuation funds intimately related to the profitability of the country's largest corporations, a significant layer of senior union bureaucrats has become an integral part of the wealthy elite, at the direct expense of the wages and conditions of their members.