



**HESTA is run to benefit members - not to profit from them**



**HESTA is the only fund dedicated to health and community services**

HESTA 2017 Submission- Superannuation: Alternative Default Models, March 2017

# Superannuation: Alternative Default Models

## Response to Draft Report March 2017

HESTA welcomes the opportunity to submit a response to the Draft Report issued by the Productivity Commission March 2017 (the Report).

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## About HESTA

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HESTA is an industry superannuation fund, established in 1987 to provide retirement benefits for workers in the Health and Community Services Sector, and we operate only to benefit members. We have over 820,000 members and manage over \$37 billion of members' assets.

The typical HESTA member is aged 43, is female and has a balance of approx. \$18,000 in superannuation.

Because of our traditional industry base our members are:

1. More likely to live for five years longer than an average Australian male
2. More likely to suffer the inconsistencies and discrimination of the gender pay gap
3. More likely to take time out of the workforce on periods of unpaid leave
4. More likely to be at risk of poverty in retirement.

Our mission is to make a real difference in the retirement outcome of every member. The settings of the system impact our members, both in the way they enter and interact with superannuation.

We have made comments on various areas of the Report that we believe are most relevant to the retirement outcomes of our members either directly or through changes to the integrity of the system.

We have focused mostly on the role of choice and competition in the superannuation sector and have made some brief comments on the alternative models proposed in the Report.

We welcome the opportunity to discuss the submission further, should you have any queries please contact Mary Delahunty, General Manager Business Development and Policy

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## Comments on the Report

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HESTA welcomes reform to the superannuation system that truly promotes a member's best interest and community wellbeing. To that end we have championed many reforms that would make meaningful difference to the majority of our members –

- Superannuation on paid parental leave entitlements
- Removal of the \$450 threshold
- Payment for carers

Disappointingly, the focus of the policy makers continues to be on the well performing safety net providers and not on structural change to promote fairness that would make the most difference to the majority of our members.

We have sought to enshrine gender fairness into the Objective of Superannuation and we note that the Commission quotes the proposed objective in the Report as though it is final. This objective has not been legislated and we again call for greater acknowledgement of the gender inequities in the current system and any objectives to seek to address this.

Commenting on some of the broad issues in the Report we again contend that it is an egregious waste of energy for the sector to participate in this exercise of assessing alternative distribution models without any assessment of the current legislated process.

It is noted that the Commission has taken a broad interpretation of what constitutes a formal competitive process for the default market (pg7) but surprisingly, this broad definition doesn't include the current untested system. The current process, that has been enshrined in law but not yet enacted, was designed through long consultation and at considerable expense to the taxpayer. This system deserves a chance, at the very least it deserves to be considered in the analyses of the Report. Given it has not yet been enacted, the current process could be reasonably considered as an 'alternative model' and the consideration of this would have made the exercise a lot more useful to all participants.

### Choice and competition in superannuation

We note that there are welcome language changes between this Report and the earlier Draft which soften the Productivity Commission's (the Commission) approach to the belief that a safety net in the form of well-regulated default funds should not be a part of a mature superannuation system. <sup>1</sup> It remains HESTA's strong belief that a system which compels consumers to enter a market, benefits from an engaged consumer base but relies on safety net provisions in the absence of that. These type of consumer protections are a mark of a sophisticated retirement system, not an immature one.

Policy intervention is required, and welcome, in the area of member engagement. Given such obvious benefits can arise from an informed consumer base – as noted by the Commission (Pg4) in this Report and in setting the baseline – there seems to be very little attention from policy makers to increase this. Indeed, many of the proposed considerations in the Report could be seen to entrench apathy, such as the concept of having one default fund for life.

We agree with the finding that where third-party involvement is present there needs to be an overarching requirement that member's best interest be considered. We see this as a regulatory

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<sup>1</sup> Default Superannuation Funds in Modern Awards, Productivity Commission Inquiry Report, No.60, 5 October 2012, p.57

gap which was addressed in the Commission's review of the 2012 review, and can be strengthened by the exclusion of certain businesses from the process. HESTA believes that in a mature retirement system, businesses should not be able to profit from unengaged consumers and inert money, therefore profit seeking funds should be excluded from the safety net considerations.

There is a confusing contradiction in the Report between encouraging less funds through merger activity and encouraging more entrants to the fund market through lower barriers to entry. It is not clear how the stated aim of more competition would be realised by both of these actions happening at once. It reads that the Commission is encouraging of less profit for member funds and more profit seeking funds which would surely not meet the measure of encouraging reform that both promote member's best interest and community wellbeing.

HESTA has worked with the regulators to promote greater understanding of fee structures for meaningful reform to transparency measures. This work remains incomplete, it is an incredibly complex area and the Commission would serve the system well to conduct a separate review on the intricacies of recent attempts to homogenise fee disclosure.

### Alternative models

We endorse the model assessment criteria and note that the current legislated process through the Fair Work Commission meets all these criteria.

We do not support the assisted employee choice model, it has much of the structure of the FWC process but we do not support the need for a fund of last resort.

We are alarmed by the inclusion of a fee based auction, this model does not have our support. Any model that concentrates solely on fees, especially when fee disclosure is unnecessarily complex, would not deliver for members or the community. We do not support the fee based auction model.

A multi-criteria tender model is correctly identified by the Commission as being very complex. It should be noted that funds commonly participate in tenders for the provision of safety net services at an employer level but there is no consistency to the processes. This does however exemplify that there is existing competition at the employer level.

We strongly oppose assisted employer choice, as a model it is missing a crucial element – the requirement to act in a member's best interest.

We discuss these models further in our submission.

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## Draft finding 1.1 Extending choice

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Complementary policy action (including to extend genuine member choice to all employees) will be needed to deliver the full potential of member-driven competition under the alternative models developed in this Inquiry and also under current default arrangements.

HESTA endorses the view that complimentary policy action should accompany any reform which extends genuine choice to all Australian workers.

We don't believe that a lack of choice for some is the sole determinant, or even a major factor, in the problem of the proliferation of multiple accounts but it does inhibit portability.

Complementary policy action should also focus on the consumers and the future consumers to increase their knowledge and understanding of the market they are compelled to enter. Consumers in this context are not confined to members but also extends to employers as they are an integral part of the decision making chain. Currently superannuation funds, peak bodies and member associated entities carry this education burden for the country. HESTA has a national education team delivering fund agnostic superannuation information in workplaces all over the country. We see this as an important part of our social contract with the health and community services sector and our obligation to a well performing system but it adds significant cost to the operation of our fund. A better informed consumer base should be an area of urgent focus for the Government, it is a greater more systemic problem than the proliferation of multiple accounts. Not only would a more engaged consumer base increase demand side competition it would decrease the ability of providers to act in a predatory manner.

The mix of true choice, engaged consumers and a strong safety net is a sensible path forward for a sophisticated retirement system.

**HESTA endorses genuine member choice, a strong safety net and recommends a focus on increased education of the current and future consumer base.**

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## Draft finding 1.2 Ensuring member's best interest

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Where there is third-party involvement in the selection of a default product, there needs to be effective regulation or arrangements in place to ensure these third parties act in the best interests of members.

HESTA endorses this finding, in principle it is consistent with the views of the Productivity Commission in 2012<sup>2</sup>. The resulting action however differs greatly which is surprising given the non-partisan nature of the Commission.

The concept of member's best interests is of paramount importance and needs to be examined from two angles. Firstly, the regulatory environment in which agents are making decisions and secondly the construct of a body that would have oversight of any filter applied.

### The inadequate regulatory environment

We agree the statement in the Report that:

*In the presence of a default system where other agents are making decisions on behalf of member, it is imperative that those agents face clear objectives, and in the context of the*

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<sup>2</sup> Default Superannuation Funds in Modern Awards, Productivity Commission Inquiry Report, No.60, 5 October 2012, p.145

*Australian system, are subject to explicit and enforceable obligations to act in members' best interests. Pg43*

Employers are a part of the decision-making chain in the selection of a safety net fund provider for their employees who fail to make a choice. As noted in our previous submission and echoed in the Report, they do not face any obligations to make these decisions in the employee's best interest. This gap in regulations has led to documented unconscionable sales tactics by profit seeking bank owned superannuation funds. This was well researched by the Australian Taxation Office (ATO) in 2010 and further researched and examined in a report by Industry Super Australia (ISA) in February 2015. The ISA findings supported the view of all major inquiries into superannuation – The Cooper review, the 2012 Productivity Commission exercise and the Financial System Inquiry (FSI) – that the superannuation system needed to retain strong levels of consumer protection.

Profit seeking bank funds offering bundled products to employers in exchange for default fund status is a clear threat to the concept of member's best interest.

It was in the consideration of these behavioral concerns that the need arose for a quality filter in addition to MySuper requirements in the Commission's work in 2012 and in the FSI. The FSI endorsed the Commission's finding that the MySuper regime did not provide adequate protection for those who do not select their own super fund and that an additional quality filter was required to safeguard the "best interests of members".<sup>3</sup>

Despite the practice of offering inducements being illegal, the sector is aware of the existence of it. In 2010 the ATO released survey results suggesting that around 13% of employers admitted to receiving a direct or indirect benefit from a superannuation provider.<sup>4</sup>

In 2014, ISA commissioned more research into the practice of offering inducements for small – medium sized enterprises. Alarminglly the practice is still common. Of the 550 businesses surveyed, a third admit to having switched funds promoted by their bank. Over a quarter of employers report having been recommended a default by their bank. Employers reported that some of the most common bundled offers made by the banks are "those which provide a direct benefit to the business rather than the employees (like discounts on banking and insurance products)". ISA concluded that the inducement practice is very effective.<sup>5</sup>

This concept of 'third line forcing' is very hard to police. HESTA believes that the existence of a quality filter is imperative to at least provide some barrier to the practice.

To echo our previous submission and many others, this is where examination of the current legislated process would be of benefit to the Commission and the sector more broadly.

The process designed in 2013 sought to deal with these threats to member's best interest by strengthening the safety net environment. This is an appropriate response and we note that the Commission mostly replicates this in the alternates considered in the Report but with differences in responsibility.

The current process was endorsed in many submissions the Commission has received on earlier drafts, the main framework being that a list of sorts is established for employers to choose from. That this list is constructed through the use of a filter which considers, above all, member's best interests.

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<sup>3</sup> Financial System Inquiry, *Final Report*, 2014 p 106

<sup>4</sup> Colmar Brunton Social research prepared for the ATO. *Investigating Superannuation: Quantitative Investigation with Employers*, 20 January 2010, p 55

<sup>5</sup> Industry Super Australia. *Bank cross-selling to employers: A threat to Australia's super safety net*, February 2015 pg3

We strongly believe that this is the purview of the Fair Work Commission (FWC). Superannuation is deferred wages, it is an industrial matter and in this country industrial matters are best contemplated by the FWC as an independent umpire. The FWC Act 2009 (Division 2 Section 3) sets the objective of providing a balanced framework for cooperative and productive workplace relations that promotes national economic prosperity and social inclusion for all Australians. This clearly provides an analogous framework for setting the interaction of third party involvement in selection of safety net providers.

We echo our support for the assessment criteria outlined in the Report and note it reflects the previous work of the Commission. It is relevant to discuss this criteria as a part of the draft finding on member's best interest because so much of the basis of the assessment rests on this overarching theme and that of community wide wellbeing. The criteria of model assessment is met by the current legislated process as outlined –

1. **Member benefits.**

The FWC process creates incentives for funds to design and deliver products that maximize long-term net returns and allocate members to products that meet their needs. This is evidenced by the strong performance of the current default providers relative to the choice and SMSF sector.

2. **Competition.**

To the extent that it drives member's best interests the FWC process has competition factored in. Funds compete to be included on a list available to employers, this drives innovation and cost effective decisions.

3. **Integrity.**

The oversight of the Fair Work Commission as the independent umpire ensures integrity in the selection, filtering and allocation of funds.

4. **Stability.**

Stability is delivered to the sector by policy participants acting with integrity and allowing a process that was designed at considerable expense to the tax-payer to be enacted. In this case, stability is best delivered through the commencement of the legislated FWC process. As noted, the de-selection of some funds through a quality filter as assessed by an expert panel and the FWC may add to instability but should not mean that a model isn't pursued as this may result in better member outcomes.

5. **System-wide costs.**

The FWC model would have negligible system-wide costs as most sector participants have already participated in good faith in the design of this model and arranged business practices to meet it.

Ongoing costs of the FWC model would be well directed because the process ensures competition is focused on member's best interest, therefore innovation and efficiency measures would be similarly focused.

In supporting the criteria HESTA reiterates that we do not support any trade-offs which detract from the most important assessment – that of member's best interest.

It is impossible to contemplate this important overarching criteria ever being met by profit-seeking funds in a mature system. HESTA recommends that the Commission should strongly consider the appropriateness of these businesses being allowed to compete for the provision of a safety net fund at all and we believe the filter should reflect this. Member's best interest cannot truly be met by entities such as banks who seek to use inert money from unengaged consumers to build profits through their vertically integrated businesses.

**Member's best interest is the most important criteria to be considered when assessing the role of safety net fund providers. Profit seeking funds have continually acted contrary to this objective.**



**A list of providers should be available to employers, the list should be managed by the FWC and compiled through the use of a filter.**

**Unengaged members and inert money should be protected at all times therefore profit seeking funds should be excluded from the safety net consideration.**

#### The formulation of a panel

We believe the discussion of the appropriate construct of the filter administrators is relevant to this finding as well as draft finding 3.5.

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### Draft finding 3.5 The selecting body

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The selection of eligible default products should be administered by a government body, and be subject to strong governance rules. The decision-making body must:

- Have a strong focus on fund member interests
- Have sufficient expertise to evaluate products
- Be independent and free of real or perceived conflicts of interest
- Have processes that are transparent and afford procedural fairness
- Be accountable for its decisions

HESTA endorses the comment in the Report –

*The body responsible for selecting eligible default products must have an explicit focus on member interests and be accountable for its decisions. The body must be free of conflicts of interest, display high integrity and have sufficient financial expertise to evaluate products. (pg61)*

Again, given this is a key finding it is a great discredit to this process that the Commission further goes on to say that

*This stage of the inquiry is not assessing the current arrangements and will not draw conclusions on the merits of retaining responsibility for selecting default products within the Fair Work Commission. (pg83)*

We agree with the characteristics of a suitable organisation outlined by the Commission on pg83 of the Report and we believe these characteristics are enshrined in the objective of the FWC, and the framework to government for the composition of an expert panel.

We further agree that it is not the role of regulators to also make decisions on safety net providers.

We also agree with the Commission that a significant risk in constituting a body is if the process for selecting members becomes politicised. HESTA firmly believes that superannuation should always have a closer relationship with the industrial system than the political one as it is deferred wages set aside for later life, intrinsically and rightfully linked to the rights and conditions of the workplace.

It is implausible for the Commission to note this risk and also hold the position that there is a strong case for the construct of this body to be administered by the Government. This is an incredibly retrograde and contrary suggestion and we strongly contest it.

**The Commission's assessment of what is required in a selecting body is correct. The greatest risk outlined is also correct – that of politicisation. Therefore the proper place for the formulation of the selecting body is the Fair Work Commission.**



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## Draft recommendation 3.1 Assign a default product only once

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To avoid perpetuating the legacy problems of the current system, any future alternative system for allocating members to default products should be premised on employees being assigned a default product only once, when they join the workforce.

HESTA doesn't agree that the appropriate time to be assigned a safety net product is on joining the workforce. Due to our system's history we have important links to our original industries. These links are more than just historical connections, they shape our product design in investments and insurance.

We note that insurance is outside the scope of the analysis of the Report. Again, this is unhelpful given that safety net providers with a MySuper license are required to provide certain levels of default insurance coverage.

HESTA members and indeed the health and community services workforce are more likely to be women. They are therefore more likely to be paid less than their male counterparts, more likely to take career breaks, more likely to live longer and therefore more likely to be dependent on the Age Pension in retirement. Our product design takes this into consideration through our investment structures and ancillary mandated offerings.

We believe it is appropriate to be allocated a safety net fund if workers do not make a choice on job change because that fund is more likely to replicate their needs as employees in particular sectors. We do support a form of automatic consolidation at this point to deal with any unintended multiple accounts. This is in addition to the ongoing technological advancements the sector has made, such as Superstream which is already reducing the multiple accounts and for which the cost has been largely borne by the funds.

Further, we believe the allocation of one default fund upon entering the job market is lazy policy which entrenches the apathy we should be trying to dislodge. Every job change should present a new opportunity to engage a worker with their deferred wages.

**Job change is the appropriate time for safety net funds to be provided. Automatic consolidation at this point should be mandated.**

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## Draft finding 3.4 Timing of reviews

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The desirable frequency for the selection process is between four and eight years, with the greater frequency best used in the early period.

HESTA endorsed the four yearly timetable set in the currently legislated process. It is an appropriate timeframe for the quality of safety net providers to be reassessed. We note that had the current process been enacted after the lengthy consultation period, the next review of safety net funds would be 2018. Much time has been lost in which we could have been making judgements on real initiatives and not theoretical ones.

**Four years is the appropriate timeframe for reassessment, as enshrined in the current process.**

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## Draft finding 5.1 Assisted employee choice

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Relative to the baseline, the assisted employee choice model would:

- Significantly reduce the complexity employees face in choosing a product and lead to more employees choosing high performing products that meet their need, thereby increasing member benefits
- Focus competition on product aspects of value to members, put downward pressure on fees (through greater product comparability) and likely curtail wasteful product proliferation
- Better align fund's interest with those of members
- Support a stable superannuation system
- Have lower search costs for many employees and very low costs for employers, but with government and funds incurring additional costs associated with regulatory structures

This proposed model is similar to the current system but envisages a short list which would create a great deal of instability in the system. It also suggests that this model aligns more closely the needs of members and the funds but it doesn't leave room for corporate funds that may have been designed specifically for a cohort of members – this seems to be a contrary view.

We completely endorse the view that an independent body should be involved in the compilation of the list, and that this body should be "an impartial arbiter" (pg126) and note again that this is the role of the Fair Work Commission and there is no need for another body to be established.

We do not support a last resort fund, we would prefer to see efforts on policy intervention that ensures we do not need a last resort fund.

We support some elements of this model –

- The development of a short list
- The application of a filter beyond MySuper
- The independent body with oversight

**Overall, HESTA does not support this model.**

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## Draft finding 6.1 Fee based auction

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Relative to the baseline, the fee based auction model would:

- Promote member benefits by exerting downward pressure on fees
- Focus competition on, and elevate transparency of, member fees
- Likely assist integrity due to its simplicity and accountability mechanisms
- Be unlikely to compromise long-term stability because the model as designed would not lead to excessive concentration of funds or volatile movement of members and assets.
- Have slightly lower system-wide costs, mainly due to lower search costs for members.

We contest every element of this finding and note there is a significant difference between fees and value. HESTA measures member benefits on a net return model – which has a value overlay to it and is certainly a more nuanced and appropriate measure. This model would no doubt deliver low fees at a point in time but at what cost? Member's best interests are not served by funds engaging in a race to the bottom on fees. This model does not meet any of the assessment criteria apart from cost.

Most particularly though it does not meet the overarching objective of member's best interest and community wellbeing. It is well understood that funds like HESTA utilise scale and collective

arrangements to give members with long time horizons access to unlisted and actively managed investments which come at some price but achieve superior performance over time.

The primary issue between listed and unlisted investments is that funds are required to look further through unlisted assets portfolios and report fees and costs which do not have to be reported in listed investments (but which would still be incurred by listed companies), thereby increasing the reported cost of unlisted investments relative to listed investments. In a fee based auction model, or any model that focus primarily on fees, this could lead to a preference of listed over unlisted investments. In portfolios where management of costs is a critical factor – unlisted investments are an essential part of a diversified institutional portfolio for a number of reasons. Any rotation out of these assets in favour of listed purely on cost grounds is likely to reduce returns to members and increase volatility/variability of return by having a higher proportion of listed assets in portfolios.

Some examples:

- Advisory fees. If an unlisted company owned by a Private Equity fund uses a financial advisor to advise on an acquisition of another company, that cost has to be reported, even though it is incurred by the company and not the fund or investors. If a public company does the same thing, no additional cost is required to be reported.
- Issuing new equity. If an unlisted company owned by a Private Equity fund undertakes an IPO, the costs incurred in undertaking the IPO (underwriters, advisors etc) are included in the costs that need to be reported on the unlisted investment. If a listed company undertakes a share placement and uses underwriters and advisors, these costs do not need to be reported.
- Property management costs. In an unlisted property fund, the fees charged by the manager and also by agents managing specific properties have to be included in the costs to be disclosed. In a listed property fund, which can invest in exactly the same assets, these costs do not need to be disclosed.

Setting in place a model with such a strong focus on fees when the disclosure of those fees is not well managed through regulation will encourage competing funds to seek seemingly low cost listed investments which will cost the taxpayers more in social security in the long run. Thereby not meeting the member's best interest test and not meeting the community wellbeing test either.

The Commission is correct to examine the possibility that this model may lead to an upsell strategy with funds using a loss leading product to win an auction for new entrants and then switching them to a higher, more profitable product through sales tactics. This is a very real possibility and deserves further examination even in the MySuper environment.

Setting aside the very real strategic problems with this model, the operational issues surrounding it are also significant. The Commission finds that with this model "*integrity* would be assisted due to the auction's simplicity and accountability mechanisms" (pg139). Comparisons of fees is not an easy exercise, in a sophisticated system such as ours, due to issues with interpretation of what constitutes different fees, fee classification and disclosure. The newly updated RG97 attempts to address this, however the previously stated issues still remain, making fee comparisons difficult and potentially misleading. . Benchmarking experts are available, with HESTA engaging CEM benchmarking to understand our relative value to members and build on our continuous improvement culture.

However, the Commission should be aware that benchmarking organisations such as CEM Benchmarking do not review or include direct (or indirect) member fees. CEM Benchmarking benchmark and compare fund operating costs – and total operating costs per member – and operating efficiencies of the fund. While operating costs are related to member fees (member fees provide the revenue to meet operating costs) the fee auction is based on direct (and indirect) member fees, including investment management fees. CEM Total Operating Costs exclude investment operations and investment management costs and are not directly comparable (for

Administration Costs) between in-house and outsourced funds (as stated by CEM themselves). **HESTA does not support this model.**

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## Draft finding 7.1 Multi-criteria tender model

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Relative to the baseline, the multi-criteria tender model would:

- Promote member benefits by focusing competition on member satisfaction and long-term net returns
- Focus competition on aspects of performance that matter to members, and more generally through the winning bid providing a market-wide performance benchmark
- Create risks for integrity due to its vulnerability to subjective judgements, yet on the other hand promote integrity through stronger accountability mechanism
- Not create any material risks to stability, since it is unlikely to lead to excessive concentration or volatile movement of members and assets
- Have slightly lower system-wide costs, mainly due to lower search costs for members

Whilst there are elements of this model which HESTA supports, they are also the elements of this model which are found in the current legislated process.

HESTA regularly participates in tenders for the provision of a safety net fund through employers. As we noted in our earlier submission, there is a lack of consistency in employer tenders and no transparency but the existence of tenders shows a live competition within the default provision that the Commission seems dismissive of.

The Commission rightly notes the complexity of the model and the need for trade-offs between qualitative considerations.

For reasons outlined earlier there are a number of pitfalls to this model which make it unsuitable for serious consideration.

**HESTA does not support this model.**

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## Draft finding 8.1 Assisted employer choice

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Relative to the baseline, the assisted employer choice (with employee protections) – employing both a light filter for mandatory standards and a heavy filter for a preferred default list - would:

- Enhance member benefits by increasing the likelihood of members being placed in higher quality products, and reducing the likelihood of members being placed in a poor product
- Promote healthy competition by presenting product providers with incentives to perform strongly against the preferred list selection criteria or compete for corporate tenders and facilitating greater comparability but there would still be some scope for unhealthy and wasteful marketing to employers
- Increase the potential for agency problems given the involvement of employers, although the risk to the integrity of the system would lie primarily in the appointment process for the preferred default list selection panel
- Create few stability concerns
- Reduce search costs for employees, while increasing search costs for employers and regulatory costs for funds and government.

HESTA strongly opposes this model as it is missing the most important element – the requirement to pursue member’s best interest. It echoes some of the historical strengths of the sector, like a link to the industry. But it is retrograde in many other ways.

This model, like others contemplated, does not provide safeguards for inducement selling techniques. It is surprising that the Commission believes this meets any of the criteria for assessment.

This model does not seek to increase members' understanding of their retirement system and in this way it entrenches apathy and low engagement.

**HESTA does not support this model**

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## Conclusion

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We have a sophisticated retirement system that leads the world in many areas. It is strengthened by the compulsory elements but these provide challenges for funds and policy makers. Policy intervention is required to increase consumer understanding and engagement.

HESTA has participated with purpose in all reform consultations through our peak bodies or directly. In 2012 and beyond, we and many sector participants worked with the Productivity Commission to make improvements to the way new entrants were allocated with safety net funds, if they failed to make a choice. The current situation where the legislated process has not been enacted is a failure of government. Moreover, the lack of analysis of this process, developed at considerable expense to the taxpayer, is an egregious waste of resources.

Further improvements can be made to the safety net superannuation space. We agree with the Commission that members' best interest is the paramount criteria to be met. Further, we believe this cannot possibly be met by funds who seek to profit from unengaged members and inert money. We recommend that improvements to the allocation system consider excluding profit seeking funds.

We welcome the opportunity to discuss this further.