

HESTA consultation submission

Enhancing member protections in the
superannuation system

May 2026



About HESTA

HESTA is a specialist industry super fund serving over 1.05 million members and managing more than \$100 billion in retirement savings. Our membership is around 80% women, with a majority working in health and community services - nurses, aged care workers, midwives, social workers and others whose working lives are characterised by dedication to others, often at significant personal cost.

The typical HESTA member is female, 42 years old, earning \$63,000 a year. She faces a gender pay gap of around 21 per cent¹, is more likely to work part-time or casually, and is more likely to take time out of the workforce to care for children, elderly parents or loved ones. Her super balance is lower than the Australian average, and more than half of members expect to rely on the Age Pension in retirement.

Overarching Principles

HESTA's response to this consultation is guided by the following which are all based on the Organisation for Economic Co-Operation and Development's (OECD) principles of financial consumer protection²:

- Reforms should be aimed at delivering quality financial products that are member-focused and grounded in members' best interests, with changes directly related to managing risk identified through recent consumer losses (including the Shield and First Guardian collapses).
- Any reform should foster responsible business conduct of financial service providers and intermediaries so that they act in the best interest of members and foster a culture of compliance. Financial consumer protections should also cover all types of financial products and services. To this aim, all parts of the product design and distribution chain should be brought under Design and Distribution Obligations (DDO) to ensure consistent and member-focused governance standards.
- Reform should ensure accountability attaches to all entities that materially benefit from, or facilitate, consumer harm.
- Reforms should be targeted and proportionate, focused on the parts of the system 'at fault' and at highest risk, and avoid unintended consequences for well-governed funds and their members.
- Any reforms must be balanced against the need for funds to increase support and advice for members nearing or in retirement and must not hinder funds' ability to meet their obligations under the Retirement Income Covenant.

¹ WGEA Gender Equality Scorecard 2024-25

² OECD/ G20 High Level Principles of Financial Consumer Protection 2022 access at <https://www.oecd.org/content/dam/oecd/en/topics/policy-sub-issues/financial-consumer-protection/G20-OECD-FCP-Principles.pdf>

- Disclosure and transparency are essential components of member protection– and members should be provided with key information about any conflicts of interest.
- Government should progress Delivering Better Financial Outcomes (DBFO) reforms in parallel, including enabling funds to send targeted superannuation prompts ('nudges') to members, to strengthen the protective relationship between members and their APRA-regulated fund.

The most effective consumer protection is a system that works for members before harm reaches them. This means not only closing the regulatory gaps that harmful lead generation exploits, but actively enabling APRA-regulated funds to engage their members proactively through targeted prompts and default retirement transitions, so that members are informed, engaged, and less susceptible to those who would exploit their disengagement.

Financial harm rarely stems from a single interaction - it is the product of systems and incentives that create conditions in which vulnerable consumers can be identified, targeted and exploited at scale. This is why HESTA is calling for systemic solutions: reforms that change the conditions, not just the conduct and that actively build the trusted relationships and informed engagement that protect members before harm reaches them.

Our recommendations

Platform RSEs and Platform Trustees

HESTA supports the creation of a legal definition of 'Platform RSE' and 'Platform Trustee' to establish a consistent and clear regulatory framework. This definition should be developed in close consultation with the superannuation sector to ensure it is appropriately targeted at the structures most closely associated with the harms identified in the Shield and First Guardian collapses, without inadvertently capturing well-governed funds offering member-directed investment options as part of a comprehensive retirement offering.

HESTA supports a consistent and member-focused approach to governance standards across the superannuation sector. We support measures that require Platform Trustees to maintain appropriate governance standards and sufficient operational risk reserves to protect members in the event of loss.

HESTA supports prohibiting conflicted remuneration models involving lead generators and platforms. Payments that reward lead generators for directing members to particular advisers or funds, or that link platform revenue to product listing and member flows, create incentives that are fundamentally incompatible with acting in members' best financial interests. These arrangements should not be permitted in the superannuation system.

Waiting Periods for Inter-Fund Switches

HESTA supports the principle of targeted friction being introduced into the switching process to protect members from high-pressure sales tactics, improve disclosure and

promote informed decision-making. However, it is critical that this friction is targeted to avoid creating unnecessary barriers to members moving within the APRA-regulated sector.

Should a waiting period be put in place, HESTA supports Option 3.2 (waiting period applies to certain categories of inter-fund switches, with further consultation required on Option 3.2a and Option 3.2b as part of defining key terms) and does not support Option 3.1 (applying the waiting period to all switches). A blanket waiting period on all inter-fund switches would introduce friction where it is not warranted, create compliance cost across the sector, and potentially disadvantage members who need to move promptly into better-performing APRA-regulated funds.

HESTA supports the accompanying disclosure and notification requirements, including prescribed warnings developed in consultation with the superannuation sector. Warning content should be targeted to the type of switch occurring, using plain language, and should clearly explain protections members lose, additional trustee obligations, insurance implications, and indicative fee impacts.

HESTA strongly supports the development by Government of clear, consistent and accessible education materials for members considering a switch to an SMSF, to ensure they fully understand their trustee duties and the implications of the switch, including insurance impacts, governance responsibilities, and investment risks, including Government communicating a recommended minimum balance for SMSFs. Any materials that superannuation funds are required to communicate to members should be developed in direct consultation with the sector.

Limiting Advice Fee Deductions

HESTA supports maintaining the ability to deduct advice fees relating to superannuation, including where this involves a switching recommendation. Removing this ability entirely risks creating inequitable outcomes - members with limited cash savings may be effectively prevented from accessing personalised financial advice if they must pay all fees out of pocket.

Should a cap on advice fees be considered, HESTA supports a cap being developed that is clear, consistent and transparent that provides a simple baseline member protection to limit excessive fee deductions. Any cap level should be developed through consultation with the superannuation sector, informed by evidence of what constitutes reasonable advice remuneration.

Platform Trustee Compensation Obligations

HESTA supports the development of clearer compensation pathways for members affected by platform failures. Any new mechanism should not place a disproportionate financial burden on well-governed, profit-to-member funds and their members through industry-wide levies. HESTA also supports considering whether the Australian Financial Complaints Authority (AFCA) should be given powers to join complaints spanning superannuation and

other jurisdictions such as financial advice, to provide a more holistic pathway for members whose losses involve multiple entities.

Interaction with DBFO Reforms

HESTA strongly urges Government to progress the DBFO reform package as quickly as possible, in parallel with these lead generation reforms. These two reform streams are complementary: curbing harmful lead generation reduces the risk of members being directed to inappropriate products, while DBFO reforms ensure members can access quality, affordable advice from their trusted fund.

Stronger consumer protections must be matched by systemic reforms that actively support members to stay in, and get the most from, the APRA-regulated system. Progressing DBFO reforms, including legislating targeted superannuation prompts and default retirement transitions, is essential to enabling funds to meet their Retirement Income Covenant obligations in practice and to reduce the risk that disengaged members are persuaded to move their retirement savings into products with far weaker protections.

In particular, HESTA calls on Government to prioritise:

- Legislating targeted superannuation prompts ('nudges') that enable APRA-regulated funds to proactively direct disengaged members to specific fund retirement products that meet their needs. This reform, implemented in the UK, has not been adequately addressed in the current draft DBFO legislation. It represents one of the most powerful consumer protection mechanisms available - members engaged with their trusted fund are far less susceptible to harmful lead generation.
- Enabling funds to default eligible members into retirement income streams (with opt-out), supporting better retirement outcomes for the large proportion of members who do not voluntarily transition at Preservation Age. HESTA research demonstrates that all retiring Australians would benefit from transitioning into a retirement product when they are eligible - regardless of their income, relationship status or homeownership status.³
- Reducing regulatory barriers that currently prevent funds from proactively supporting members through the retirement transition.

HESTA's modelling⁴ shows that only 45 per cent of eligible Australians voluntarily transition to a tax-free retirement account when eligible, with inaction most prevalent among women and low-to-middle income earners. By 2030, it is anticipated nearly 3 million Australians will collectively miss out on \$5.44 billion in retirement savings each year as a result.

³ HESTA, Make the move: guiding members to tax-free retirement 2026 access at <https://www.hesta.com.au/campaigns/make-the-move-guiding-members-to-tax-free-retirement>

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Trusted fund engagement, enabled by DBFO reforms, is the most effective long-term protection against harmful lead generation.

HESTA welcomes the opportunity to engage further with Treasury on the design of these reforms and looks forward to their swift progression alongside the DBFO package.



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