

Consumer protection paramount in default fund selection

The **Australian Institute of Superannuation Trustees (AIST)** has reiterated the need for the highest level of consumer protection around default super fund selection in its [second submission](#) to the Productivity Commission.

AIST's submission notes that low levels of financial literacy and complex decision making mean that only the most appropriate high performing funds should be eligible for default status.

"In a compulsory super system, consumers must be confident - and most importantly be able to trust - that there is a default fund selection system in place with enhanced consumer protection and standards," **AIST CEO Tom Garcia said**. "Any decrease in consumer protection around default selection could come at a high cost both to individual members and the Australian taxpayer."

AIST's submission notes that those funds currently named as default funds within modern awards have, on average, outperformed over the short, medium and long-term.

AIST questions the need to change the existing merit-based default selection process administered through the Fair Work Commission, adding that any change comes with considerable risk.

"Changes to the existing default system are potentially an enormous undoing of our retirement incomes system, with ramifications for millions of Australians," Mr Garcia said. "There is no evidence to support the need to abandon the existing process and, moreover, no evidence that any alternative default models would produce better outcomes than we have now."

Other key points in AIST's submission include:

- Efficiency and how it can benefit fund members should be the driving force behind the Commission's deliberations. Competition is a means but not an end in itself.
- The existing default system should be the baseline for comparison of alternative models, not the scenario of "no defaults" as suggested by the Productivity Commission.
- Competitive tendering arrangements will encourage short-term investment decisions. The Chilean model of short-term tendering for default fund services has not delivered superior member returns and is unlikely to do so in the future.
- Widespread differences in fees and returns among MySuper products support the need for a merit-based quality filter in the default selection process.
- Real-life benefits - not theoretical considerations - should drive decision making. These include net returns, insurance, fees and costs, stability, transparency, accountability and administrative efficiency.

- There are significant benefits surrounding the provision of insurance within superannuation, including through default funds.
- The default selection process must protect consumers against banking institutions potentially using their relationship with employers and new job starters to influence decision making.

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AIST is the peak industry body for the \$700 billion not-for-profit super sector which includes industry, corporate and public sector funds.