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A lot of people in the superannuation industry are very worried at the moment. This is not because they see another market crash on the horizon; things are generally back on track in that sense. They're worried because things are about to get much better for millions of ordinary working Australians at the expense of the very profitable operations which manage their super.

Back in December, the preliminary report from the Cooper Review into Australia's Super System foreshadowed a major change to the way the system treats people who do not make an active choice about their superannuation. This is a critical area of superannuation policy, because since the Choice of Fund policy was introduced in 2005 the great majority of workers have not made an active choice.

Rather than stimulating beneficial competition, Choice of Fund has been an abject failure. It has neither reduced fees nor raised investment returns for workers.

The only genuine competition that now exists is for high-value investors and for financial advisors who are incentivised to recommend particular products. Meanwhile, the average number of superannuation accounts for each Australian worker is around 3.3 and rising – a clear sign of widespread disengagement.

The Cooper Review Panel argued that the system should be reformed to operate 'from a member, rather than a product or industry sector, perspective.' It recommended that fund members should be directed to different kinds of vehicles based on the degree to which they exercise choice about how their money is to be invested. It calls this a 'choice architecture' model.

For example, those with lost super would be placed in the 'disconnected' category, which would facilitate the process of re-uniting people with their savings without unnecessary erosion of the balance. People who continued to contribute to a fund but made no other choice would be placed in the 'universal' category, meaning that their fund would be low cost, come with few 'bells and whistles', and prohibit the payment of financial advice fees.

These types of members would stand in contrast to the relatively few in the 'choice' and 'self-managed' categories, for whom virtually unlimited investment options would be available – at a cost, of course.

The for-profit superannuation industry is actively working to undermine these recommendations, which threaten the very lucrative structural arrangements which allow retail funds and financial intermediaries to profit at the expense of disengaged members.

The problem is that they are using an ambiguous clause in the Cooper Review's report to challenge *all* its recommendations about how to take care of people who don't make an active choice.

The clause in question states that a 'universal' member 'must be in a fund with a single diversified investment strategy'. The industry has chosen to interpret this to mean that, in the words of a recent joint submission, existing funds 'would have to establish separate fund structures to cater for the members categorised as either "universal" or "choice"'.

It is not at all clear that this is what the Cooper Review meant, although it may have been. In any case, there are many default funds currently in operation which are low-cost, have a diversified investment strategy and which explicitly prohibit the paying of financial advice fees without member consent. These funds would easily meet the standards embodied by the 'universal' category.

The problem for the retail super sector is that the vast majority of these funds are not their own: they are run on a non-profit basis. With a little more clarity from the Review, these low-cost funds could meet the minimum standards associated with the 'universal' category. It is only the retail funds which would need to set up new structures to cater for their default-fund members.

The for-profit sector only has itself to blame for this situation. They have spent years profiting from misguided policies which did not adequately cater for disengaged and low-value investors. That this situation could be allowed to continue indefinitely is virtually inconceivable.

To understand the stakes, consider that every year Australians pay $14.3 billion in fees on their superannuation; this is roughly equivalent to 1% of GDP.

There is a view that super 'ain't broke, so don't fix it'. Yet the superannuation system in its present form clearly does not meet the needs of a substantial proportion of members – specifically, workers who end up in high-cost funds who pay for services that they did not ask for and do not receive.

One possible solution is to set up a single fund with government backing (but administered by the private sector) which would invest funds on behalf of all members in the universal category. It could invest 'passively' – via an index rather than trying to 'pick winners' – which would dramatically lower costs.

An alternative approach that would not involve any major restructure, but would provide similar benefits to disengaged fund members, is to establish a set of minimum standards that all default funds would need to meet. These could include a cap on fees, a ban on entry or exit fees, and restrictions on fees and commissions for financial advice.

With this approach, any fund – whether retail, corporate or industry – could in theory meet these standards. The reason that many retail funds do not currently approach such benchmarks is that they do not meet the needs of ordinary workers, instead overwhelming them with investment options that they don't understand but they pay for nonetheless.

Whatever approach is taken, there are compelling reasons to press ahead with reforms which place the needs of members above those of industry when determining superannuation policy.

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