
— Updated

Labor eyes \$1trn SMSF sector to save compensation scheme

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Self-managed superannuation funds would pay a special levy to compensate victims of financial misconduct as part of the major changes to the two-year-old scheme that the Albanese government will consider.

Assistant Treasurer Daniel Mulino has also proposed reducing how much victims can claim from the program known as the Compensation Scheme of Last Resort, preventing the payment of theoretical lost returns, and is considering slowing down the speed at which consumers can switch retirement savings.



Financial Services Minister Daniel Mulino says he is considering consumer protection reforms to prevent financial collapses and ease the burden of the Compensation Scheme of Last Resort. **Alex Ellinghausen**

The compensation fund has been under considerable pressure after a run of failed investments, and is expected to face a surge of claims from people who invested in the collapsed Shield and First Guardian schemes [<https://www.afr.com/companies/financial-services/shield-collapse-is-super-s-1-2b-wake-up-call-20251008-p5n0w2>].

The two schemes, which regulators are investigating for potential misuse of funds, collapsed last year after soliciting \$1 billion from 12,000 people.

The changes to the compensation scheme were flagged in a meeting between Mulino and the industry on Wednesday. That meeting, according to three people present who requested anonymity given the discussions were confidential, heard that the Compensation Scheme of Last Resort faced a shortfall of between \$130 million and \$200 million in 2027.

That compares to a shortfall of \$47.3 million this financial year.

Mulino, responding to questions in the meeting from Association of Super Funds of Australia chief executive Mary Delahunty, said he would consider extending a special levy placed on advisers, insurers, banks and major retirement funds to the self-managed superannuation sector from 2027.

According to the Australian Taxation Office, about 1.2 million people have self-managed superannuation, with total assets of more than \$1 trillion.

“I’m going to look at other possible sources of funding,” Mulino later told reporters. “That would include the parent companies of financial advisers as a possible option. It would include high-risk [managed investment schemes], and some of the stakeholders may put to me the idea of SMSFs contributing. I fully expect ... that will be one of the issues that we’ll consider.”

Mulino earlier on Wednesday announced that large retirement funds would have to pay [<https://www.afr.com/link/follow-20180101-p5nm4o>] a special levy to bridge this year’s shortfall for the first time.

While the initial contribution is \$6.1 million, the involvement of the funds has been vehemently opposed by industry lobby groups who say it will create “moral hazards” and mean low-income workers subsidise losses.

People at the meeting said that representatives from the Association of Super Funds and Super Members Council raised strong objections.

Delahunty said the meeting was, overall, constructive. “I just don’t want the decision this year to set a precedent for future years.”

Super Members Council chief executive Misha Schubert said that it “defies logic the government would be asking low-income Australians to pick up the tab, while high net wealth SMSF holders don’t have to lift a finger”.

“We maintain a clear ... view that it is not the right direction and to push a skyrocketing bill onto low-income Australians and use their super and pay for misconduct in completely unrelated parts of the system.”

Financial Advice Association chief executive Sarah Abood was another who objected to the special levy, which will see her sector pay another \$10.4 million on top of the \$20 million it has already contributed to the scheme.

“Based on our numbers, it looks like an individual adviser will be paying \$2000 a year in [compensation scheme] fees. We know we will lose more advisers at the end of the year, and that will only increase the cost per adviser. The industry just cannot afford it,” she said.

Mulino said that the government was working to spread the additional costs as thinly as possible across the entire financial services industry, flagging that there were other ways of making the scheme more sustainable.

“In that broader area of superannuation switching, I think that we need to step back and look and consider whether we need to put some sand in the wheels,” he said. “We need to look at options like whether or not, in some circumstances, people need to be able to take their time and not be rushed.”

Currently, people can start the process of switching funds instantly, and a fund must process their request within three business days.

Mulino also said he was considering whether lead generators should be licensed, given the sector’s involvement in the Shield and First Guardian matters, and would look at reporting requirements for managed investment schemes.

Regulators are investigating whether Shield and First Guardian misused investor money or broke any laws after issuing stop orders over both funds early last year. While promising diversified returns better than industry superannuation funds, the Australian Securities and Investments Commission is investigating whether the two schemes actually held risky, illiquid assets.

Investors were contacted by lead generators, who used high-pressure sales tactics to convince them to switch out of their existing super products for a new one that could invest in Shield and First Guardian.

Among the other changes flagged by Mulino was the alteration of the “but for” clause. The clause allows people making claims to the compensation scheme to argue that they missed out on theoretical investment returns they would have made if not the victim of the poor financial advice.

“I indicated at the round table that I will include consideration of the ‘but for’ test in the discussion paper in February,” he told reporters. “We will be looking at if that is appropriate for a scheme of last resort ... in the current environment, I think it’s worth looking at whether that’s appropriate.”



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