More choice isn’t always a good thing

By Eva Scheerlinck (https://investmentmagazine.com.au/author/eva-scheerlinck/) | 19/07/2017

Banks and other retail providers of superannuation products are exploiting the phenomenon of ‘choice overload’ to the detriment of consumers.

Behavioral psychologists have long known that too much product choice can cause buyer paralysis.

Back in 2005, a now famous study found that shoppers were 10 times more likely to purchase a jar of jam when the number of varieties available was reduced from 24 to 6. The study’s authors concluded that the more options people have, the more time and effort they need to invest in making a choice – and that most people are not prepared to do this work.

This phenomenon – known as choice overload – has been observed across a host of product categories, from ice cream, to speed dating, to financial services. Choice overload is more severe when the products are complex.

In this context, it’s interesting to reflect on consumer behavior in our highly complex superannuation system. Estimates from the Australian Prudential Regulation Authority show tha there are more than 20,000 investment options across the Choice sector. By comparison, there are roughly 130 licensed funds in the MySuper sector.

The Choice sector is dominated by offerings from the banks. An estimated six out of every seve members of retail funds have their super invested in a Choice product. This amounts to $900 billion in funds under management, almost one-third of the entire super savings pool.

Many of these members had their fund recommended to them by either a financial planner or staff member of the bank or other retail provider that manufactures it.

When it comes to the Choice sector, there is less regulatory oversight, less disclosure, and less publicly available performance data. In terms of transparency, it’s like pea soup.

Poor disclosure across the Choice sector makes it virtually impossible for the average consume to compare products. Even experienced finance journalists struggle. Reporters ring us up at the Australian Institute of Superannuation Trustees complaining they don’t know where to start, which often means the stories that should be written about rip-offs and dismal performance don’ get written because they are simply too hard to research.

Where ratings agencies have managed to compare at least some Choice products on a like-for-like basis, the results are damning for retail funds. A 2017 SuperRatings report that examined th fees, investment returns and assets of more than 600 investment options across both MySuper and Choice found that, on average, retail funds under-performed across the board. Within the Choice sector, profit-to-member funds out-performed retail funds over one, three, seven and 10 years in nine out of 11 different investment options.

Same product, higher fees

Perhaps the most blatant examples of Choice retail products failing members are instances whe the fees for balanced investment options in the Choice sector are significantly higher than fees for a similar product (those with almost identical asset allocations) in the MySuper sector.

Overall, members of retail funds in the Choice arena have paid more for less. If this is competition at work, it's not working for Choice members.

When it comes to consumers having to make decisions in this complex, competitive market, it is concerning that poor disclosure in the Choice sector puts millions of working Australians at risk c sub-optimal retirement outcomes.

The poor performance of the Choice sector also has relevance in the current default fund selection debate. Default members do not exist in isolation. As long as fund members can switcl out of one fund into another, the Choice sector and the default sector remain inextricably intertwined.

In a compulsory super system, it is not appropriate simply to dismiss poor disclosure in Choice as a "buyer beware" issue.

No matter what super fund members invest in, be it in the Choice or default sector, they need to be confident that they are buying into a quality product that can be easily compared and that the trustees of the fund are keeping their best interests front and centre. Super should never be money for jam.

> *Eva Scheerlinck is the chief executive of the Australian Institute of Superannuation Trustees. This column first appeared in the July 2017 print edition of* Investment Magazine*. To subscribe and have the magazine delivered CLICK HERE (http://store.conexusfinancial.com/p/7991547/investment-magazine.html). To sign-up for our free regular email newsletters CLICK HERE (http://investmentmagazine.com.au/im-subscribe/).*