

Survey highlights importance of default design

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Member inertia highlights importance of Super Fund Default Design: AIST

New research showing that the vast majority of super fund members stayed put during the worst of the global financial crisis raises questions about the role of member investment choice and puts the emphasis firmly back on the design of default funds, **the Australian Institute of Superannuation Trustees said today.**

The study of 3.4 million fund members released at AIST's **Australian Superannuation Investment Conference** reveals that less than 6.5 per cent of super fund members changed their investment strategy during a three year period to June 2009 with most members surveyed remaining in their fund's default option.

The survey – commissioned by **The Australian Institute of Superannuation Trustees** and conducted by **Associate Professor Paul Gerrans of Edith Cowan University** - involved six of the country's largest super funds managing a total of \$74 billion in assets.

AIST CEO Fiona Reynolds said the results highlighted the need for funds to have a well-designed default option – typically the fund's 'balanced' investment option - given that this is the place that most super fund members call 'home'.

"These results would seem to confirm once again that no matter what is happening in investment markets around the world – and this includes the worst financial downturn that our generation has experienced - most super fund members are likely to stay put," said Ms Reynolds.

"Whether through apathy, lack of knowledge or reasoned choice, most super fund members appear likely to stick with the default super fund setting which means it is absolutely critical that this setting is structured to deliver the best retirement outcome possible," she said, adding that AIST hoped that the Cooper Review would give special emphasis to this issue, given the compulsory nature of our superannuation system.

Ms Reynolds noted that more than 80 per cent of super fund members were in a default fund. In the case of many not for profit funds, this figure was as high as 95 per cent. "The default fund is of vital importance because it deals with the greatest number of people and it deals with the people who appear unlikely to make active choices."

Ms Reynolds said the survey results also raised questions about the role of investment choice in superannuation, given that very few members actively structured their superannuation to their needs and those that do may not always make the right decision.

"We need to ask whether it's really necessary to have so much investor choice and who is actually paying for that choice," said Ms Reynolds. "There is a lot of evidence to suggest that individuals do not always act rationally when making financial decisions."

Most of switching occurred during Oct 2008 (when the Australian share market experienced its largest declines) and March 2009 (when the market was at its low-point). Most of the transfers

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were from medium- or high-growth portfolios to defensive cash-type investments and **most switchers were older males with higher-than-average superannuation balances.**

Given the strong rebound on world share markets since April 2009, a large number of those who switched to a cash-style investment option would be financially worse off to this point. In the case of one large industry fund, those that switched to cash in March 2009 were 6 per cent worse off at August 2009.

AIST is the peak industry body for the \$450 billion not-for-profit super sector which includes industry, corporate and public sector funds covering the super interests of nearly 2/3 of the Australian workforce.

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Key survey findings:

- Switchers tend to be older males with high balances who make larger contributions;
- Member age is a more important switching trigger than member balance but those with higher balances more likely to switch;
- Older members more likely to react to falling markets; younger members respond to rising markets – through 2007, a largely positive period market return period, the youngest age group did the most switching;
- Vast majority of super fund members stay put in their default fund – typically the balanced investment option. Over the 36 month period examined, less than 6.5 per cent of members made an investment change.
- In the case of one large industry fund, those that switched to cash in March 2009 were 6% worse off at August 2009;
- Little use of member investment choice: Few members take advantage of investment option choice to structure their super to their needs, age and risk profile;

SAMPLE DETAILS: 6 funds involved – 5 industry funds, one public sector fund.

Period examined July 2006 to June 2009.

Average number of investment options among funds surveyed – 12 (Average number of investment options in retail funds – 112)

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