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The Switching Decision: Are Members of Superannuation Funds Rational and Informed Investors?

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This paper explores the drivers of switching superannuation funds of those working-age Australians. It also analyses the presentation of fund information to the sample population to examine how members use information in their superannuation decisions. This may add insight to the ways fund information is made available and also to the types of members who may need more protection, support or education.

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JEL Classification: D14

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Australian Superannuation System and Members' Role

In Australia, it is the member who controls key decisions of their superannuation investment, such as the number of years in the accumulation phase, salary level (which determines the accumulation rate), risk factors and, above all, the selection of the actual superannuation fund and associated products. This selection is, in effect, the allocation of assets in the superannuation fund portfolio and the choice of investment vehicles. This control links the level of success of investing in superannuation to that of a member's financial and investing abilities. Ultimately, the understanding of this control function culminates in the all-important exercise of the choice option and switching of superannuation funds. Consequently, members are responsible for the development and success of this most important retirement system pillar. Members' responsibility for this pillar of their retirement saving starts with the initial selection and subsequent switching of their superannuation fund to which employers are to direct mandatory, and members' voluntary, contributions. This is by far the most critical control function that the system has left as a choice option for its members.

Australia's retirement income policy requires mandatory superannuation contributions to be made by employers on behalf of employees. Employees have the option to not only select a preferred provider, but also to make additional contributions to ensure a desired income at retirement. Generally, those who opt not to have a self-managed super fund (SMSF) have two options available to them, namely, industry and retail funds. The diversity of fund types, investment options and operating expenses mean that it is difficult for members to make an informed choice (Cooper 2010; Parrish & Delpachitra 2012).

Superannuation Choice Architecture

The responsibility for selecting the right superannuation investment plan is delegated to individual members and consists of choice of investment vehicle (fund) and product (allocation).The proposed member-oriented choice architecture with MySuper (Cooper, 2010) charts the increased choice with corresponding increased responsibility. This architecture assumes that members are rational and informed investors (Wallis 1997, Cooper 2010); prior research has questioned the soundness of this premise (Beal & Delpachitra 2004; Beal et al. 2005; Cooper 2010; Gallery et al. 2011; Parrish & Delpachitra 2012).

Neither the original superannuation architecture nor Cooper's proposed changes take into consideration what drives members' choice. Overlooking the nexus between these drivers and members' motivations may result in more serious consequences than disengagement.

Superannuation Fund Types

The Australian super fund types include APRA regulated and self-managed. As Cooper (2010) illustrated, the Australian superannuation industry is segmented into small funds, the 'non-profit' sectors (corporate, industry and public) and a 'for profit' retail sector. Selection of the correct superannuation fund option is a critical decision and, in fact, determines the allocation strategy of the members. A sample of investment options available at a typical superannuation fund include high growth, diversified, balanced, capital guaranteed and cash.

Rational and Informed Investors

The economic theory of inter-temporal consumption (Deaton 1992) was a key tenet of the Wallis Report (Wallis 1997; Cooper 2010). The Wallis Report formed the initial theoretical foundation of

Australian superannuation. The Cooper Review (2010) recognised this superannuation tenet as being insufficient to create the required 'degree of interest' in members (a requisite of a mandatory contribution system) when a member is not equipped or not enabled to make optimal decisions about their investment strategy. The Cooper Review found disengagement was not only the case for many members, but was also a problem for the system that needed to be addressed.

One study concluded that lack of financial knowledge and capacity continued to be the key barrier. This barrier hindered the choice architecture from achieving its objective of creating a thriving superannuation market in which funds compete to produce higher returns at a lower cost to members (Gallery & Gallery 2005). Gallery proposed the 'universal default fund' as one possible solution to overcoming this problem.

Gallery et al. (2011) offered a detailed analysis of superannuation members' literacy and financial decision-making capacity. This study led to the development of a choice-decision model. The fact that the superannuation system still suffers from a lack of decision-making in the initial or subsequent selection of superannuation funds points to a gap in addressing the drivers of the selection decision.

Gallery & Gallery (2005) and Gallery et al. (2011) did not explain, first, what level of knowledge is sufficient for members' success and, second, whether at any level of knowledge, individuals can compete in a market that is dominated by well-informed institutional investors such as JPM Chase, Goldman and others. This resulted in a research gap. It may also be argued that the miners, factory workers, farmers, teachers, retail clerks, construction workers, doctors, lawyers, teachers and others who form the majority of members, should not be expected to become rational and knowledgeable investors to be entitled to a comfortable retirement (Willmore 2000). In a market economy superannuation members may not be behaving as investors.

Other studies that either blame financial illiteracy as being a key driver of non-selection (default), or widespread financial illiteracy as a key cause of mismanagement of superannuation investment, offer similar solutions. These solutions include: first, similar frameworks for financial education of members; second, standardisation of fund information to simplify the selection decision and; third, a combination thereof (Cooper 2010; Ntalianis 2011).

Investment Knowledge and Other Theories

In Roy Morgan Research, entitled 'Australian investors: at a glance' (ASIC 2008), Australian investors described themselves, their financial knowledge and ability. The findings included:

Most do not consider themselves investors (page 13)
Most pay little (12%) attention to their investments' performance (page 17)
A small percentage (16%) relied on their own judgment for their investments (page 31).

The investors' decision-making process outlined in this paper (ASIC 2008) and a further ASIC report (ASIC 2011) contradicts findings of research into superannuation members (Cooper 2010). A key point is the gap in describing the decision-making steps the Australian investors surveyed here took, as compared to the same steps taken by superannuation members in selecting their superannuation funds.[2]

The ASIC research (ASIC 2008) results can provide valuable insight. While less than 100 per cent of Australian investors may be superannuation members, all superannuation members are to be considered and treated as Australian investors in the context of the superannuation system.

[2] Refer to the selection and switching decisions superannuation members make to invest for their retirement (see Cooper 2010, part 2, p. 282).

Research Problem

The primary research question examined in this study was '**What drives members' superannuation fund choice decisions?'** The research question was broken down into multiple questions to capture adequately the motivations and experiences of all research participants. In order to address the drivers of the fund selection decision in depth, four questions were developed.

1: What is the **current** level of understanding of members about the superannuation industry and how performance and fees affect net income upon retirement?

> The literature confirmed a widespread lack of financial knowledge, capacity and decision-making in an ever-increasingly complex investing environment (Delpachitra & Beal 2002; Gallery et al. 2010; Cooper 2010, Lusardi 2010).

2: How do members **choose** which superannuation fund to join initially?

> The superannuation system's choice architecture relies on members evaluating funds and products as rational and informed investors. However, the empirical data, as shown by the literature review, demonstrate that members are not assuming their role and function as intended by the superannuation system.

3: What factors influence members' decisions to switch funds?

> The literature review exposed a plethora of factors that are assumed, suspected or known to influence members' superannuation decision-making. However, there is little or no proof that any one of these factors drives members' fund switching decisions. What drives or inhibits switching to a fund option that best suits a member's profile needs to be researched.

4: How can the method of presenting fund information influence the choice to switch funds?

> Significant resources are dedicated to presenting superannuation funds for the (a) benefit of members, (b) education or advice of members and (c) regulatory compliance (Cooper 2010). However, the overwhelming number of members failing to switch to a more appropriate superannuation fund that suits their retirement funding goal, or lowers risks and costs, increases returns or lowers fees, needs further research. It is important to explore the role of fund information and its presentation as a driver or inhibitor of fund selection or switching.

Accordingly, a multipart survey form was developed containing a questionnaire to address particular areas of this paper. This survey comprised separate sections to study demographic data, general financial and investment knowledge, and superannuation fund selection with (a) initial superannuation fund selection drivers, and (b) subsequent superannuation fund switching choice drivers.

Research Method

This research consisted of both qualitative and quantitative studies. The qualitative part consisted of re-examination of some of the prior research for evaluation and study of the quantitative results. Because secondary source data were non-existent, the research surveyed focus groups to form the sample population. This research instrument was non-intrusive and did not require participants' private information. Selected superannuation member focus groups included: (1) immigrants and residents, (2) SME employees, (3) institutional/academics and (4) retail workers.

The targeted focus groups consisted of members from all fund sectors. However, due to time and resource limitations, this research evaluated the combined results as one sample. The survey form components are detailed in the following sections.

Demographic Survey

The demographic survey consisted of four headline and 12 multiple-choice questions. In this section, the survey questioned participants' gender, education, superannuation membership and the key question of the type: 'are you a consumer or investor'.

Participants were asked whether they considered themselves to be a consumer or investor to improve the profile of superannuation members and to explore members' motivation as a driver of superannuation fund selection. Prior research (Brown et al. 2002; Cooper 2010; Lusardi 2010; Parrish & Delpachitra 2012) attributed the failure of choice architecture to members' lack of investing knowledge, based on the premise of superannuation members being rational and informed investors. This question was used to analyse research questions.

Other questions explored respondents' age, employment status, income confidence, accumulation period, dependants, income, net worth, asset allocation, investment knowledge, superannuation objective and plans.

Financial Knowledge/Risk Tolerance Survey

Members' levels of financial knowledge were identified as key factors for their superannuation engagement and selection decisions (Brown et al. 2002; Cooper 2010; Lusardi 2010; Parish & Delpachitra 2010). This research also tested the relevance and validity of members' knowledge as a driver of superannuation fund selection decisions to test the established hypotheses and answer the research questions. The questions in this section required respondents to (a) identify their risk/reward appetite (questions 13–16), (b) demonstrate fund selection knowledge (questions 17 & 18), (c) reveal investment planning ability (question 19) and (d) demonstrate superannuation engagement (questions 20 & 21).

The analysis of risk and reward responses by age, gender, education attainment and retirement prospects explored the depth of members' knowledge required to answer the research questions.

Superannuation Fund Selection and Drivers of Choice Survey

This section of the survey asked respondents about their superannuation experience. These questions were divided into two sub-sections, (a) initial fund selection drivers and, (b) switching superannuation fund drivers.

The Sample

The sample population targeted included both part-time and full-time workers of different age, gender, education level and socioeconomic background. Four samples were selected as, (a) a group of non-Australian-born members in a wealth seminar (WS), (b) a group of small-company employees (SD), (c) university staff and faculty members (FU) and (d) retail mall employees (RM).

All responses were reviewed as a quality control measure. Those requiring minor correction were corrected and included. Unacceptable responses, which included those left blank or non-responsive, were rejected and excluded from further processing. Table 1 summarises the data.

Table 1 – The Survey Count and Percentages

Sample	Distributed	Collected	Accepted	% Resp. Rate	% Valid Rate
SD	50	22	17	44%	77%
WS	75	24	20	32%	83%
FU	250	34	33	13%	97%
RM	200	82	70	41%	85%
TOTAL	575	162	140	32.65%	85.75%

The collected responses were checked for validity and verified to the extent possible for consistency and relevancy with the target population demographics. The responses were checked visually before entry to eliminate obvious mistakes and invalid responses. Then the data were checked again during entry for exceptions, blanks, mistakes and comments.

Analysis of Superannuation Drivers Sample Results

This section consists of two parts: first, the general analyses of the respondents' demographic data and background and, second, the analysis of responses to the research questions.

Demography and background: The frequency distribution showed greater participation by females (56%) than males (44%). This participation distribution was valid and consistent with secondary data, including a NSW Department of Premier & Cabinet Retirement Survey with 58% female and 42% male respondents (Hesketh & Griffin 2010). The respondents' level of education was higher than that of the Australian general population, as would be expected given that some samples were collected on campus where many members hold advanced degrees. Approximately 60% of the respondents had tertiary qualifications and the rest had secondary qualifications.

Switched Superannuation Fund – This question resulted in the distribution of participants into the classes of affirmative (55%) and negative (44%). While gender turned out not to be a factor in the distribution of those who had switched funds (male 55%, female 56%), education was a contributing factor to switching decisions (secondary education 36%, tertiary education 69%).

Member Type (consumer or investor) – This question was posed to clarify whether superannuation members are rational and informed investors. Asking superannuation members to identify themselves as investors or consumers allowed exploration of contradictory behaviour of the rational and informed investor as compared to consumers selecting products and facing uncertainty, lacking knowledge and understanding of products. This allowed investigation of the drivers behind members' overwhelming choice of the default option, a choice that contradicts behaviour consistent with traditional and fundamental superannuation system assumptions.

One respondent selected both investor and consumer. The count was increased to account for response as both consumer and investor. The majority of participants (73%) identified themselves as consumers. This is 3.5 times higher than the number of members who identified themselves as investors (20.6%). Most of those identifying themselves as investors had a household income greater than $100,000 while the majority of those identifying themselves as consumers had a household income less than $100,000. The participants with household wealth of less than $250,000 were twice as likely to identify themselves as consumers.

Response to Understanding

> **Question 1:** What is the current level of understanding of members about the superannuation industry and how do performance and fees affect net income upon retirement?

Study of this two-pronged question required exploring both members' current knowledge and understanding of the superannuation industry, and the effects of superannuation performance and fees on members' retirement incomes. This was accomplished by analysing the data collected in this research and the qualitative analysis of related industry research and secondary data.

For the first prong of Question 1 (Q1), data including financial investment knowledge, the objective of superannuation, selection of superannuation fund, what factors contributed to the selection of fund, and investing views were analysed before addressing the second prong.

Financial Investment Knowledge – Respondents ranked their current level of knowledge ranging from very limited knowledge and dependence on advice (low = 1.00) to considerable knowledge and self-reliance (competent = 5.00).

These data show members well realise the limitations of their investment knowledge, complementing the member type response. While 14% did not give an answer, over half of respondents identified their level of investment knowledge as 'very limited' (28%) or 'basic' (27%); another 26% selected 'general'. Only a very small percentage (4%) of respondents ranked their investment knowledge as 'good' and only (0.7%) as 'considerable'.

***'Which fund best meets your need?'* –** There were five possible responses, ranged from: Defensive = 1, Moderate = 2, Growth = 3, to High Growth = 4 and Don't know = 5.

According to the responses the members identifying themselves as consumers primarily chose 'don't know' (42%)[3] then 'moderate' (33%), while the investors predominantly selected 'growth' (56%) with confidence and knowledge (4% 'don't know'). This tabulation rejects the traditional superannuation myths of member knowledge, better retirement planning and better application or utilisation of fund information (Table 2).

[3] 38% of members identifying themselves as consumers vs. 4% of members identifying themselves as investors; this is about 10 times higher because the majority of respondents identified themselves as consumers and among them such a large percentage did not know which product is best for them this may support questioning the value and validity of superannuation fund products labelling.

Table 2 – Fund selection: Cross Tabulation

Member Type		Which fund best meets your need?					Total
		Defensive	Moderate	Growth	High Growth	Don't Know	
Consumer	Count	1	33	20	9	38	101
	Expected - Count	3.2	30.8	27.6	8.7	30.8	101.0
	% within-Member Type	1.0%	32.7%	19.8%*	8.9%*	37.6%*	100.0%
Investor	Count	3	6	15	2	1	27
	Expected- Count	.8	8.2	7.4	2.3	8.2	27.0
	% within-Member Type	11.1%*	22.2%*	55.6%*	7.4%	3.7%	100.0%
Totals	Count	4	39	35	11	39	128
	Expected-Count	4.0	39.0	35.0	11.0	39.0	128.0
	% within-Member Type	3.1%	30.5%	27.3%	8.6%	30.5%	100.0%

*Denote the most prominent observations

Table 3 – 'Which Fund is the Best …' Chi-square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	25.808[a]	4	.000
Likelihood Ratio	26.368	4	.000
Linear-by-Linear Association	8.138	1	.004
N of Valid Cases	128		

This (p = 0.000) shows that the selection of best fund by member type is significant and cannot be random or accidental (Table 3).

The second prong of Q1, '… and how fees affect net income upon retirement?' was explored by analysing participants' responses to age, income and net-worth data and the superannuation fee comparator at <www.industrysuper.com/tools-forms_fee-comparator.aspx>. This comparison used demographic averages of our sample, (a) average age of 40, (b) average annual income of $100K, (c) average fund balance of $400,000 and typical industry and retail funds shown below as of 17 September 2011. Fund 1 (Australian Super – Balanced Option) is a typical fund from the industry super funds list. This fund was compared with Fund 2 (AXA Super Directions Personal), a typical retail super fund. This reported a difference of $405,203 in the retirement superannuation fund balance of an average participant. This is a significant difference, due to the fees charged by a major retail fund versus a major industry fund to an average member during the accumulation phase. This difference could provide an additional $50,000 of income per year for a period of over 10 years at retirement (assuming 5% per annum interest rate). In summary, the Q1 findings included:

- Members' knowledge of superannuation depends on their self-perception as consumer or investor. The majority of members consider themselves to be consumers. Q1 findings rejected the notion of members as investors, let alone informed investors.
- The impact of performance and fees on superannuation income is significant and can reduce income by significant amounts over many years of retirement.
- The fund selection by member type contrasted with the theories of member knowledge, lack of education, and fund information utilisation. This was a significant finding.

Question 1 analysis may have confirmed a need for members' protection as consumers.

Response to Making Choices

Question 2: How do members **make a choice** about which superannuation fund to join initially?

The responses to this question indicated that over 73% of members selected the fund based on the employers' advice, compared to 14% who selected their funds themselves. Approximately 11% of respondents selected their funds through financial planners or other agents.

This shows that participants primarily join the superannuation fund selected by their employer.

The participants' responses to: 'I selected default super' to the alternative "I selected fund that best meets my needs' were then analysed. Accordingly, over 55% of the respondents selected the default option whilst approximately 28% selected the funds based on their needs. The rest stayed either neutral or didn't answer this question. While the majority (67%) of members seeing themselves as consumers strongly agreed (49%) or agreed (19%) with this statement, the majority (60%) of those viewing themselves as investors strongly disagreed (56%) or disagreed (4%) with this statement. This is a significant finding. The P value of 0.000 showed a significant relationship between selection of the default fund and member type. The strength of this association was tested by Cramer's V. The Cramers' V of 0.412 showed moderately strong significance. See Tables 4 and 5.

The finding that members do select the 'default' fund differently as consumer or investor is important. Analysis of Q1's 'best funds' by member type also supported this Q2 finding. The confirmation that education and gender were not significant variables in the selection decisions is also important. In summary, analysis of data for Q2 found:

• The majority of superannuation members consider themselves to be consumers.

• The majority of members selected the default superannuation fund. The majority of participants (73%) who consider themselves consumers 'strongly agree' (49%) or 'agree' (19%) with having chosen the default superannuation selected by their employer. This is in contrast to a smaller population of participants (20%) who consider themselves investors who predominantly 'strongly disagree' with having 'selected default super' (56%).

• The members rely primarily on their employer for their superannuation fund choice. This may mean that My Super is really My Employer's Super.

• Given the option, those considering themselves to be a consumer would prefer a 'moderate' fund, while those considering themselves to be an investor would prefer a 'growth' fund.

Table 1~~4~~ – 'I Selected Default' Cross Tabulation

Member Type		'I selected default Super'					Total
		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	
Consumer	Count	49	19	9	10	14	101
	Expected Count	45.7	16.0	8.0	8.8	22.4	101.0
	% within Member Type	48.5%*	18.8%*	8.9%	9.9%	13.9%	100.0%
Investor	Count	8	1	1	1	14	25
	Expected Count	11.3	4.0	2.0	2.2	5.6	25.0
	% within Member Type	32.0%	4.0%	4.0%	4.0%*	56.0%*	100.0%
Totals	Count	57	20	10	11	28	126
	Expected Count	57.0	20.0	10.0	11.0	28.0	126.0
	% within Member Type	45.2%	15.9%	7.9%	8.7%	22.2%	100.0%

*Denote the most prominent observations

Table 2~~5~~ – 'I Selected Default' Chi-square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	21.399[a]	4	.000
Likelihood Ratio	19.346	4	.001
Linear-by-Linear Association	11.899	1	.001
N of Valid Cases	126		

Switching Decisions

Question 3: What factors influence members' decisions to switch funds?

This question was analysed using factors such as employment, funds performances and fee structure that influenced their decisions when switching their superannuation fund.

Changed Employment **–** This question asked the participants to clarify the primary reason for switching their superannuation. This shows that the majority of participants (73%) confirmed by selecting 'Strongly Agree' (58%) or 'Agree' (15%) that a change in employment resulted in them switching their superannuation fund. Only 18% respondents cited non-employment related reasons for switching funds. However, the responses were sharply divided by member type.

***Fund Performance* –** About half of the participants responded to ‘I switched superannuation because of my old fund’s performance’; 54% were in agreement or strong agreement with this statement, while 39% disagreed or strongly disagreed with ‘fund’s performance’ as a factor for switching decision.

***Fund Fees* –** About the same percentage of respondents answered ‘I switched super because of fees’. Of these respondents, 47.3% strongly agreed or agreed with this assertion, while almost the same number (48.6%) disagreed or strongly disagreed with fees as the reason for their superannuation fund switching.

‘Most important super selection criterion’ – This question was intended to identify the most influential factors (influencers) in participants’ superannuation fund selection decisions. Respondents that considered themselves consumers predominantly (40%) selected ‘employer’ as the key influencer of their superannuation fund switching decision. Consumer type members next selected ‘Don’t know’ (24%) and ‘Evaluation/performance reports’ (22%) to round up their top three criteria. On the other hand, the participants considering themselves to be investors primarily selected ‘Evaluation/performance reports’ (48%) as the key criterion followed by ‘Advisor’s opinion’ (28%) and lastly ‘Employer’ (24%) to make their top three choices (Table 6).

The Pearson’s Chi-square test (p = 0.000) showed a significant association between members’ type and their designation of most important fund selection criteria. The Chi-square test for most important selection criterion is shown in Table 7. Cramers’ V = 0.471 showed a moderately strong significant association. This was a significant finding.

Table 3~~6~~ – Most Important Selection Criterion’ Cross Tabulation

Member Type		Important criterion in selecting Super					Total
		Recomm-endations	Advisor's opinion	Evaluation	Employer	Don't Know	
Consumer	Count	9	4	22	40	24	99
	Expected-Count	7.2	8.8	27.1	36.7	19.2	99.0
	% within-Type	9.1%	4.0%	22.2%*	40.4%*	24.2%*	100.0%
Investor	Count	0	7	12	6	0	25
	Expected-Count	1.8	2.2	6.9	9.3	4.8	25.0
	% within-Type	.0%	28.0%	48.0%	24.0%	.0%	100.0%
Total	Count	9	11	34	46	24	124
	Expected-Count	9.0	11.0	34.0	46.0	24.0	124.0
	% within-Type	7.3%	8.9%	27.4%	37.1%	19.4%	100.0%

*Denote the most prominent observations

Table 4~~7~~ – 'Most Important Selection Criterion' Chi-square

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	27.535[a]	4	.000
Likelihood Ratio	30.459	4	.000
Linear-by-Linear Association	7.913	1	.005
N of Valid Cases	124		

In summary, some members did view the fund information, such as performance, fees, and service as important factors. Furthermore, the findings here showed that a majority of respondents viewed switching superannuation funds as a function of changing employment. Members identified as consumers chose the default superannuation fund offered by employers. Members who considered themselves investors relied on their own expertise (and to a lesser degree advisors) to select a 'growth'-labelled product.

On Presenting Fund Information

Question 4: How can the method of presenting fund information influence the choice to switch funds?

Members were surveyed to identify the fund information they considered to be important and/or critical. Analysis of the first three questions revealed the level of members' current knowledge and the drivers of initial superannuation fund selection and subsequent switching decisions. The participants' responses to the knowledge/risk tolerance sections were analysed to find out what information members relied upon when selecting or switching their superannuation funds. Then, survey responses were analysed to identify the key superannuation fund information that members rely on and how the method of presenting information can influence their switching decisions.

***'Most Important Fund Information'* –** The analysis of Q2 survey question: 'which is the most important fund factor?', showed that superannuation fund 'Returns' was identified the most critical information by members (75%).[4] 'Fees' was identified as another important superannuation fund factor, but by many fewer participants (6%). Over 14% of participants did not know which would be the most important fund factor when asked to choose amongst returns, fees, services, benefits and insurance, or just don't know.

Those considering 'Fees' to be a key factor had the further option of identifying the key superannuation fund fee from a list of the fund fees. These included: (1) Contribution Fee, (2) Transfer Fee, (3) Management Fee, (4) Other (membership, advice, etc. Specify:_____) or, (5) I don't know.

The 'Management Fee' was identified as the most 'critical' fee by 44% of the respondents (question 5 of 'Superannuation Selection' section III of survey). The 'Management Fee' was

[4] This may have been influenced by timing of the survey as the GFC impact may have focused members more on their funds performance.

identified by 43% of those considering themselves consumer and half of those identifying themselves as investors. Almost half (48%) of respondents did not know which fee is the most critical.

Given this background, and the showing of ‘Return’ and ‘Fees’ as key superannuation fund growth determinants, an informed and rational investor could easily decide that the wrong fund selection would cause the most damage. This is not what this research found. Respondents confirmed (a) by choosing the fund with the highest return but failed (b) to identify fees as the potential ‘cause of most damage to super’. Analysis of questions 17 and 18 of the survey for ‘returns’ and ‘fees’ and question 20 for ‘cause of most damage’ follows.

***‘Which super fund would you most likely choose?’* –** Participants’ responses were cross-tabulated by member type. The participants had the option to select one of the five presented funds with different expected returns. The expected answer was ‘Fund E’, which provided the highest return. The return could have been calculated easily by multiplying the winning chance by an amount minus the losing chance by the amount. For example Fund A would produce: 90% × 5% – 10% × 0% = 4.5% (or, Probable return – Probable loss = Return) (Figure 1).

The effective returns for funds listed would be 4.5%, 5.3%, 6.1%, 6.9% and 7.5%. Clearly Fund E provides the best 5-year return. However, investors may trade safety (lower risk) for lower returns. These questions were used to gauge risk tolerance. See the choices for the question 17 in of the risk/reward survey (Figure 1).

Super Fund’s Performance (Five Year Average)

	Anticipated Return 90% Chance	Possible Loss 10% Chance
Super Fund A	5%	0%
Super Fund B	6%	-1%
Super Fund C	7%	-2%
Super Fund D	8%	-3%
Super Fund E	9%	-6%

Figure 1 – ‘Super Funds A through E’ choices and returns

Top choices of consumer-types were Fund A (34%), Fund C (33%) and Fund B (17%), while the top choices of investor-types were Fund D (36%), Fund B (28%) and Fund A (16%). That is, while investors accepted higher risks for superior returns, consumers preferred the safety of low risks for lower returns. The highest-return fund was shunned by consumers (2%), while a higher percentage of investors did accept the highest risk for highest rewards by selecting Fund E (8%). Because this is a typical risk-appetite question, it was interesting that, even for retirement (definite higher upside over the long term), very few participants chose the best returns. This is more consistent with a short-term consumers’ view of utility maximisation than rational investors’ long-term growth investing.

‘Fund A’ was the most favoured choice of all participants (30%). Of those considering themselves investors 16%, and of those considering themselves consumers 34% (better than 2:1) chose this answer. It appears that the key fund information presented as an indicator of performance is virtually useless in assisting most members make their investment choice.

'Which Super fund would you invest in?' – The survey provided the following fund portfolios to choose from as a simple 50:50 chance of gain or loss for typical risk tolerance testing (Figure 2).

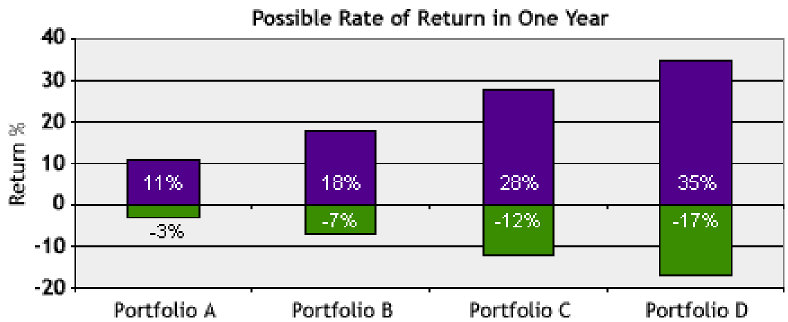

Figure 2 – 'Super you would invest in' response options

Obviously the best performance is offered by Fund D, the fund subject to highest risk. The participants' responses were cross-tabulated by member type and results follow.

Once again, Fund A was the most frequently selected choice (34%) followed by Funds C (32%), B (25%) and D (9%). A greater number of participants that considered themselves consumers (40%) made this poorest-performing selection than did those considering themselves investors Gallery et al. 2010; (33%). Further, consumers more often (11%) selected the best performing Fund D with highest risks than investors (4%). Member type was not a significant variable, as shown by Pearson's Chi-square test (p = 0.386). It showed that typical risk/return information supplied by funds is not beneficial and does not help selection decisions. This analysis could benefit from a larger sample and further research. Next, research explored members' understanding of sources of possible loss and damage to their superannuation investing efforts.

'What will cause the most damage to your super?' – This question in the survey offered answers: (a) government (changing laws, regulations, interest rates and taxes), (b) financial institutions (changing the fees, rules and outcome), (c) economic and market downturns (fluctuations, recessions, inflation, etc.), (d) industry sector rotations (technology, mining, financials, etc.) and (e) I don't know.

In light of selecting the most important fund factors, such as return and fees, it would be rational to assume that the controller of those factors, namely financial institutions, could cause the most damage to investors' plans and portfolio.

Participants selected option (c) as the main cause of most damage to their superannuation funds (37%). The next two selections consisted of 'government' as second choice (27%) and 'I don't know' (25%). A very small group of participants (8%) actually named 'financial institutions' as the cause of most damage to their superannuation fund.

There was a significant relationship between the views of what causes the most damage to super and the members' view of their role with superannuation. While consumer-types were almost equally divided amongst 'government' (29%), 'economy' (29%) and 'don't know' (30%), the majority of investor-types reported that 'the economy' is the cause of most damage (69%), followed by 'government' (23%) and 'don't know' (8%). It must be noted that investor-type members did not see 'financial institutions' and 'sector downturns' as sources of damage to their superannuation. This view, in the light of the recent Global Financial Crisis (GFC) caused by banking sectors is notable. The Pearson's Chi-square test (p = 0.002) shows this variable's significance.

In summary, in the preceding analysis, the responses were more than surprising. They revealed a fundamental disconnect between the current method of presenting a fund's critical factors and those factors related to fund selection by members. This disconnect cannot be attributed to lack of education, knowledge, capacity or experience of members. And, it may be argued that it is not the method of presenting, but the fund data and information itself that does not influence or help members make a decision to switch funds. This appears to be the result of a mismatch between product information and labelling versus consumers' expectations. This analysis has showed that superannuation members know the problems and recognise the symptoms but may not be able to identify the cause of the problem or the cure.

Conclusions and Implications

The member classification question (consumer or investor) was offered for the first time as a key demographic question for members to clarify their role in superannuation fund selection. This alternative characterisation may have a serious impact on the superannuation system. This finding proved critical in members' decision-making for selection and switching of superannuation funds based on current methods of funds' information presentation. The research data highlighted that:

- Almost four in five participants consider themselves to be *consumers* when making superannuation fund selection decisions. Only one in five view themselves as *investors* and this group consists of more educated, male, older, full-time-employed members.
- Selection of superannuation fund is mainly driven by members viewing themselves as consumers, relying on their employers' choice and not acting as rational and informed investors.
  - The majority of consumer-type members selected the default fund; this was not the case for the majority of investor-type members.
  - The majority of members realised the complexity of the financial system and considered their own financial knowledge basic and very limited.
  - Choice of superannuation fund can have a significant impact on retirement income as a result of fees and charges.
- Selecting a superannuation fund is driven by profession, job and career adoption and change, rather than by choice as rational and informed investors.
  - There is a significant relationship between the selection of the default superannuation fund and members' view of themselves as consumers or investors.
  - Members consider return to be the most important fund information, followed by fees. Management fees are considered the most critical fee.
- Switching superannuation funds is most commonly triggered by a change of employer rather than the choice of a rational and informed investor.
  - There is a significant relationship between the most important criterion in selecting a superannuation fund and members' view of themselves as consumers or investors.
  - While return is considered the most important fund factor, members cannot translate available information to a driver of selection.
  - Current methods of fund information presentation and advice influence only a small percentage of members, in particular those considering themselves to be investors, and in their switching decisions.
- The current method of presenting fund information is not helpful to members as consumers, and has limited influence on those considering themselves as investors.

The Cooper Review recognised the importance of changing product labelling to address members' needs. Cooper (2010) did not realise mislabelling members as 'rational and informed investors' rather than 'consumers' may be the bigger problem, allowing wrong product packaging by industry. The Cooper Review, Final Report noted:

> Section 1.8 Helping members compare
>
> In order to make meaningful choices (or to understand their personal situation) members need to be able to make 'like with like' comparison between competing superannuation products. Standard product 'dashboards' and standardised investment performance reporting would lift the fog that has clouded this area so far.

This goal may not be achieved by the MySuper plan. As this research has shown, the current method used by funds to present information is not helpful to the majority of members who consider themselves as consumers. Thus, mislabelling the 'employers selected' fund as 'employee selected' or 'MySuper' may perpetuate the labelling problems and add to the confusion.

This paper has found grounds, for the first time, to point to parties other than members for the gaps and shortcomings in superannuation selection decisions. This differs from other studies that have attributed superannuation disengagement or defaulting to: (1) members' financial illiteracy (Cooper 2010; Gallery et al. 2010; Lusardi 2010; Ntalianis 2011; Parrish & Delpachitra 2012); (2) members' lack of investing knowledge or mental capability (Mullainathan & Thaler 2000; ASIC 2008, 2010; AXA 2008); (3) discrepancy between members' rationality and their choices in superannuation fund selection and retirement planning (Clark-Murphy et al. 2002; Hilgert et al. 2003; Maki 2004; Clark 2006) and; (4) members' not using financial education, reports and information (Kerry et al. 2007; OECD 2008; Ntalianis 2011). The significant findings listed below.

Superannuation fund selection:

- Which fund best meets your need? P = 0.000, Cramer's V = 0.449
- Which is the most important Super criterion? P = 0.000, Cramer's V = 0.471
- What will cause most damage to your Super? P = 0.002, Cramer's V = 0.368
- I selected default Super. P = 0.000, Cramer's V = 0.412

The analyses showed that a small group of members who view themselves as investors make superannuation fund selection decisions very differently from the majority who view themselves as consumers. Consumers' decisions are not driven by funds' investment characteristics. Industry and government have not considered the real needs of superannuation members as consumers who do not act as rational and informed investors. The findings could be interpreted as follows:

- Australian superannuation members have conflicting identities when making superannuation selection and switching decisions, one as consumer the other as investor. Consumer best describes members and investor is what the industry assumes members to be.
- The superannuation industry's method of information presentation caters to the investor.
- Presentation of fund information catering to rational and informed investors does not help members and may explain the disengagement, defaulting and improper fund selection.
- Improper fund selection or defaulting can seriously affect retirement income.

The disengagement from fund selection prevents efficient market operation and hinders optimum service to members who are consumers of the superannuation products and services.

In consumer markets, when a product or service causes damage or fails to deliver as promised, it is not only the efficient market that drives the supplier out of business, but also the government that regulates and corrects. Consumer protection and care not only helps the members, but also the superannuation industry to thrive and contribute to Australia's realisation of superannuation promises. These conclusions could contribute to improving superannuation policy in Australia and help members achieve their retirement savings goals.

The superannuation industry was born from the marriage of aged pension and investment funds. Consequently, it has inherited the features of both in providing complex financial products for informed investors and the bureaucracy of large complex organisations. The resulting products may not be what members (consumers) expect, need or relate to. Following are some implications.

- It may be vital to package and present fund information for consumers, rather than investors, to stimulate member engagement.
- Fund products may need to comply with consumer product packaging, labelling and quality standards.
- Members may be entitled to the same protections as consumers.

Mislabelling superannuation members as investors strips members' of the legal protection they are entitled to as consumers, and prevents free market operation. Clarifying consumer confusion could allow efficient market operation. This could help encourage and improve members' engagement with superannuation, and consumers' selections could drive high-cost, inefficient and non-competitive providers out of business.

Methods of superannuation fund information presentation, adapted to meet the needs of consumers, may mean simplifying product packaging, labelling and marketing to relate product information better to particular consumers' retirement needs and objectives. This may be the catalyst needed to facilitate members' engagement and become the driver for superannuation fund selection and switching.

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