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Gerry Gallery, Natalie Gallery & Lyn McDougall

Don't Judge a Superannuation Default Investment Option by Its Name

With the massive decline in savings arising from the global financial crisis (GFC), it is timely to review superannuation fund investment and disclosure strategies in the lead-up to the crisis. Accordingly, this study examines differences among superannuation funds' default investment options in terms of naming and framing over three years from 2005 to 2007, as presented in product disclosure statements (PDSs). The findings indicate that default options are becoming more alike regardless of their name, and consequently, members may face increasing difficulties in distinguishing between balanced and growth-named default options when comparing them across superannuation funds. Comparability is also likely to be constrained by variations in the framing of default options presented in investment option menus in PDSs. These findings highlight the need for standardisation of default option definitions and disclosures to ensure descriptive accuracy, transparency and comparability.

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50-Word Summary:

Superannuation funds commonly name their default investment options as 'balanced' or 'growth', but this study finds that default options have become indistinguishable on the key characteristics of asset allocations, target and actual returns, and risk descriptions, indicating that naming the default option as 'balanced' has become less useful as a descriptor.

Considerable concern has arisen about the practices and strategies of superannuation funds following the destructive impact of the GFC on superannuation savings. Of particular concern has been the negative and wide variation in the performance of superannuation fund default investment options.¹ The Australian government responded to the systemic concerns by establishing a wide-ranging review of the governance, efficiency, structure and operation of Australia's superannuation system.² Default options were specifically targeted for review in phase two (operations and efficiency phase) of that review. In light of the criticisms of default option performance and the government's review, it is timely to consider default option practices and strategies that may have contributed to differences in the severity of performance declines following the crisis, which potentially leads to sub-optimal retirement incomes, if left unaddressed.

Although most members in accumulation superannuation funds are offered investment choice by their fund, industry research identifies that over 80% do not exercise choice and consequently, their superannuation assets are automatically invested in their fund's default option (SuperRatings 2006). Given this high proportion of members with superannuation invested in default options, the former Minister for Superannuation and Corporate Law, Senator Nick Sherry, advocates the need for default options to 'provide a minimum standard that consumers can rely on' (Sherry 2008). Default options are commonly in the form of a 'balanced' option (Parliamentary Joint Committee on Corporations and Financial Services 2007), which is defined as having about 70% invested in growth assets, such as shares and property, and the remainder invested in defensive assets, such as cash and fixed interest (*Corporations Regulations 2001*, Schedule 10, clause 101). However, default options vary among superannuation funds in such aspects as asset allocation, performance and in their names. Such variation across superannuation funds results from the decisions of trustees and their advisors on how assets are to be allocated and the name given to the default option. Ultimately, these decisions greatly influence the final retirement benefit paid to fund members.

Differences in default options across superannuation funds, combined with the large numbers of fund members in default options, potentially lead to inequities in the retirement outcomes of those members who remain in the default investment option of their respective funds (Gallery, Gallery and Brown 2004). Given the prospective financial impact on vast numbers of superannuation fund members in default options, the asset allocation decision made by fund trustees is arguably one of the most important trustee decisions (Sherry 2008; Baker, Logue and Radar 2005).

This study examines differences among default investment options. Specifically, it addresses the question: to what extent do default options vary across funds in terms of their asset allocation, name and presentation?

Superannuation Choice and Default Options

Following the introduction of mandatory superannuation in 1992, almost all working Australians now have some level of superannuation savings. Responsibility for deciding who manages those superannuation savings and how they are invested has increasingly shifted to superannuation fund members. Choice of fund legislation was introduced in 2005 requiring employers to offer new employees a choice of superannuation fund on commencement of employment. Most accumulation funds also offer their members a choice of investment options.³ Thus, most employees face two superannuation choices when commencing or changing jobs: choosing which superannuation fund to join, and then, choosing an investment within the fund. Once members have joined a fund, they generally have the ongoing option of switching to another superannuation fund and/or switching their investment option. However, the vast majority of superannuation members do not make a choice and consequently join the default fund nominated by employers, and/or the default investment option, nominated by superannuation fund trustees. Industry research shows that fund switching rates are only about 8% per year and much of this is due to employees changing jobs (Clare 2007). Similarly, 82% of superannuation fund members are in their funds' default investment option (SuperRatings 2006).

Prior research proposes a number of non-mutually exclusive reasons for the high proportion of people not exercising investment choice, including information overload and inertia in decision-making. Financial illiteracy and the complexity of the superannuation system have also been suggested as factors (Fear 2008), as well as the perception that the default option is an implicit recommendation by fund trustees (Beshears et al. 2007; Gallery et al. 2004; Choi et al. 2003).

By not exercising choice of investment, superannuation fund members are either explicitly or implicitly deferring to their fund's trustee to decide how best their superannuation savings should be invested. The onus is therefore on trustees to ensure the default investment option is appropriate for those members who do not make an active choice. Under section 52(f) of the *Superannuation Industry (Supervision) Act 2003* (SIS Act), trustees are required to formulate and give effect to an investment strategy that takes into account the circumstances of the fund, including risks and returns associated

with the investments. To assist with developing those investment strategies, fund trustees usually engage the services of an investment advisor or asset consultant in designing the investment options and their corresponding asset allocations (Drew and Stanford 2003).

It is generally assumed that a superannuation fund's default option comprises some form of 'balanced' asset allocation, with asset classes commonly grouped into the two categories of defensive and growth assets. Defensive assets usually encompass lower risk asset classes, such as cash and fixed interest, while growth assets tend to be higher risk investments, such as shares, property and alternative investments (for example, hedge funds, infrastructure and private equity). The objectives of a balanced investment option are generally considered to provide 'moderate long-term growth of capital, moderate income and moderate stability' (PJCCFS 2007, p. 231).

Although there are no regulatory requirements specifying the asset class composition of a superannuation fund's default investment option, some regulatory guidance is provided on the make-up of a balanced investment option in Schedule 10 of the *Corporations Regulations 2001*. A balanced investment option is defined as an option comprising 'as close as practicable to' 70% growth assets and 30% defensive assets (Sch. 10, clause 101). ASIC similarly indicates that the proportion of growth assets in a balanced investment option would usually range between 60 and 70%.⁴ Such regulatory guidance may be viewed by fund trustees as implicitly recommending an appropriate mix of defensive and growth assets for a default option.

Prior research suggests that when a decision is required to be made on behalf of others, decision aversion behaviour is common (Beattie et al. 1994). As trustees cannot avoid making decisions on behalf of fund members, they may utilise established rules and procedures in their decision-making (Clark 2008). Evidence of the use of such heuristics and rules in decision-making has been found when individuals make decisions in situations of uncertainty (Benartzi and Thaler 2002; Simonson and Tversky 1992). Thus, superannuation fund trustees may be inclined to utilise established default option definitions when designing such defaults for their fund.

There is very little research on the asset allocations of default options. A small study of 13 'balanced managed' default options in the UK, revealed that the average asset allocation for these balanced default options was 81% growth assets and 19% defensive assets (Byrne et al. 2007). In Australia, APRA (2007a) reports that for superannuation funds with at least \$100 million in assets, the average default option invested between 74 and 77% in growth assets in the years 2004 to 2006. Furthermore,

in 2007 the asset allocation of the default option for superannuation entities with more than four members comprised 74/26% growth/defensive assets (APRA 2007b). These findings suggest that superannuation entities tend to be slightly more aggressive in their asset allocations than the ASIC and *Corporations Regulations* definitions of 'balanced'.

While it is commonly assumed that default options are 'balanced' with asset mixes in the vicinity of 70/30 growth/defensive, evidence shows significant variations in the names and performance. Default options in UK pension plans range from balanced managed options to equity options to lifecycle options, in relation to their style of management and overall fund type (Byrne et al. 2007). In Australia, default option names vary from balanced, growth, balanced growth, core and diversified options, and the 3-year returns to 30 September 2008 of the top 50 default options ranged from 3.1% to 8.1% for those named 'balanced' options (SelectingSuper 2008).

Capital markets research shows that decision-makers have incentives to shape the opinions of parties external to corporate entities, and certain firm-specific factors such as poor performance can increase these incentives (see Healy and Palepu 2001). When faced with incentives, managers have been shown to utilise a variety of impression management strategies in their disclosures to investors and stakeholders (Beattie and Jones 1992; Neu, Warsame and Pedwell 1998; Clatworthy and Jones 2003), including using persuasive language in the presentation of information and positive, rather than negative, words and connotations in the disclosure of information (Merkl-Davies and Brennan 2007). Fund trustees have incentives to establish positive perceptions about their default option as industry analysts and the media generally use the default option to compare the performance of superannuation funds. Accordingly, trustees may utilise rhetorical and thematic manipulation in the naming of their default option to differentiate their option from others on offer within alternative superannuation funds and attempt to gain a competitive advantage.

The ordering of information to emphasise or play down certain details (Merkl-Davies and Brennan 2007) may also be used by fund trustees as an impression management strategy. Behavioural research has found that individuals' choices are influenced by how information about the options is displayed (Iyengar and Lepper 2000; Agnew and Szykman 2005; Simonson and Tversky 1992; Benartzi and Thaler 2002). Accordingly, superannuation fund trustees may have incentives to strategically place the default option in the menu of investment options to influence fund members' perceptions of this option.

Thus, we explore whether such strategies are used by superannuation fund trustees in addressing our research question with respect to the extent to which default options vary in terms of their asset allocation, name and presentation.

Sample and Data Sources

Data are drawn from the annual reports and PDSs downloaded from the websites of a sample of large superannuation funds. Starting with the funds identified in the *Super Review – 300 Top Super Funds 2003/04 Blue Book*, searches were conducted using the funds' websites, supplemented with updated information from the *The Blue Book* website.⁵ Superannuation funds' PDSs and annual reports are not available from a central archive or repository, and therefore the reports were downloaded (where publicly available) from individual superannuation funds' websites at annual intervals between March 2006 and April 2008.

For the purposes of the study it was necessary to select those funds with accumulation-style benefits offering members investment choice. The final sample of funds for each of the three years of the study period comprises 82, 85 and 100 superannuation funds for 2005, 2006 and 2007 respectively; 72 funds are common to all three years. A comparison of the total assets of the sample of funds with the comparable population of funds shows that the sample fund assets comprise 37, 35 and 44% of the population's assets for the years 2005, 2006 and 2007, respectively.⁶

The documents for each superannuation fund in the sample were reviewed to identify the default investment option, its name and other details. As a wide variety of names for the default option are evident, to facilitate statistical analysis they were grouped in accordance with commonalities in their names. 'Balanced' and 'Growth' are commonly used terms in the industry, with 'growth' investment options generally understood to have higher risk and expected returns than 'balanced' options. The default options for the study sample were classified as 'balanced' if the word 'balanced' or other similar term (for example, 'moderate') was in the name; those with 'growth' in their name (including 'balanced growth') were classified as 'growth', with the remainder classified as 'other'.

Other relevant data collected about the default options, as disclosed in the funds' PDSs, include the asset allocation of the default option, disclosures about the level of investment risk associated with the default option, target returns, the minimum investment timeframe recommended by fund trustees, and positioning of the default option relative to other options in funds' menus of investment choices.

Results

Default Option Asset Allocation

Table 1 reports the asset allocations for default options grouped by name into the three categories of ‘Balanced’, ‘Growth’ and ‘Other’, as disclosed in PDSs for each of the years 2005, 2006 and 2007, together with results of parametric and non-parametric tests of differences between the means of each asset class for the balanced and growth-named options. Although the mean and median proportions of growth-type assets (shares and property) tend to be higher for the growth-named options than the balanced-named options, and defensive-type assets (cash and fixed-interest) tend to be lower, the results of statistical tests of differences are not consistent and inconclusive.

[Insert Table 1 here]

The results show that in 2005, the balanced and growth-named default options are not distinguished statistically in relation to any of the asset classes. However, in 2006 the asset allocations of the two groups are more pronounced with growth-named options holding higher proportions of international shares and lower proportions of fixed interest than the balanced-named options. In 2007, growth-named default options have significantly higher proportions of international shares and lower proportions of cash assets, than balanced-named defaults.

To further analyse whether the balanced and growth-named options can be distinguished by higher and lower risk assets, the asset classes are combined into the common groupings of lower risk ‘defensive’ assets (cash and fixed interest) and higher risk ‘growth’ assets (Australian and international shares, property and alternative assets). Table 2 shows that growth-named options have significantly higher proportions of ‘growth’ assets and lower proportions of ‘defensive’ assets than balanced-named options, but only in 2005 and 2006. Surprisingly, these differences virtually disappear in 2007, with the median proportions for defensive and growth assets for each group within 2% of each other.

The results indicate that default options, named as balanced and growth, have become similar in their mix of growth and defensive assets. It is interesting to note that the median values of defensive and growth assets in growth-named defaults have remained relatively constant over the three-year period, whereas for balanced-named options there is a relatively large increase in median proportions of growth assets between 2006 and 2007 (72% to 78%) and a commensurate decline in defensive assets

(28% to 22%). This change is reflected in the increase in median proportions of Australian and international shares, and declines in fixed interest assets of the balanced options, shown in Table 1. It appears that during the stock market boom period, superannuation trustees of funds with balanced-named default investment options shifted their asset allocations towards shares, presumably to chase higher returns.

[Insert Table 2 here]

Default Option Risk Descriptions

How the sample of superannuation funds describe the level of investment risk associated with their default options is now examined. The descriptions range from low to high risk and to facilitate statistical analysis they are grouped into two categories: ‘low to moderate risk’, and ‘high risk’. The frequencies of descriptions in each of these two categories are presented in Table 3, which shows that default options named as balanced tend to be described as low to moderate risk, and those named as growth, tend to be described as high risk in fund disclosure documents.⁷ This is consistent with the asset allocations of growth-named options generally having higher proportions of higher risk (growth-type) assets in their asset allocations than balanced-named options. Chi-square tests of association indicate that these differences in risk descriptions are statistically significant in 2005 and 2006, but not in 2007; this reflects the higher proportions of growth assets in the sample of balanced-named options in that year, and indicates that the name ‘balanced’ became less useful as a descriptor.

[Insert Table 3 here]

Default Option Investment Performance

If growth-named default options, on average, have more risky assets than balanced-named options, it would be expected that growth options would also have higher target returns. For the sample funds that disclosed target returns, the target returns range from 2% to 5% above CPI in 2005, 1.5% to 5% above CPI in 2006 and 1% to 5% above CPI in 2007. The frequencies of target returns disclosed by funds are shown in Table 4. In 2005 and 2006 a minority of the balanced options and a majority of the growth-named options had targets above CPI plus 3%. Similar results are evident for the balanced options in 2007, but for the growth-named options there is an equal representation in the less than and more than

CPI plus 3% categories. Despite these findings, chi-square tests of association show that the two groups are statistically distinguished on target returns only in 2006.

[Insert Table 4 here]

Similar to target returns, if asset allocations differ among default investment options in terms of riskiness of assets (defensive versus growth), it would be expected that their actual investment returns would also differ. Table 5 presents the mean and median short-term (current year) and long-term (4/5-year average)⁸ returns reported in the PDSs and/or fund annual reports. Test results of differences between the means of investment returns of balanced and growth-named options, as reported in Table 5, show no statistically significant differences in either the short- or long-term returns between the two groups in any of the three years.⁹ These results are similar to those of Ellis, Tobin, and Tracey (2008), who find no differences in benchmark returns of a sample of 90 default options that are categorised ‘balanced’ and ‘growth’, based on their asset allocations, over the period from 2001 to 2006.¹⁰

[Insert Table 5 here]

Taken together, our findings show that balanced and growth-named investment options cannot be readily distinguished on either target or actual performance.

Default Option Recommended Investment Holding Period

Recommended timeframes for holding investments vary in accordance with the nature of the investments, and are generally based on the riskiness and expected returns of the investment portfolio. Investments with higher risk and expected returns are usually recommended to be held for longer time-periods than less risky assets. Accordingly, it would be expected that default options named as growth would have a longer recommended holding period than balanced options. Table 6 shows that although the recommended minimum holding period for the majority of the default options is five years, the vast majority of balanced-named defaults have a recommended minimum investment period of five years or less, whereas for the growth defaults it is five years or more. Consistent with the previous results, there

is also a noticeable trend towards longer recommended holding periods for balanced-named defaults over the study period.

[Insert Table 6 here]

Positioning of default option in the investments options menu

Prior research in the corporate context shows that managers utilise a variety of impression management strategies in their disclosures to investors and stakeholders (Beattie and Jones 1992; Neu, Warsame and Pedwell 1998; Clatworthy and Jones 2003). Visual and structural manipulation is one of the impression management strategies identified by Merkl-Davies and Brennan (2007), and includes visual emphasis or the ordering of information to emphasise or play down certain details. There is no known prior research that has examined whether superannuation fund trustees utilise framing techniques to manage perceptions of the default option. Trustees may also strategically position the default option within the investment options menu in response to concerns about information overload in the investment choice decision. Information overload arises when individuals, faced with too many alternatives, apply simple heuristics in their decision-making, such as avoiding extreme alternatives or choosing the middle option in making their choice (Iyengar and Lepper 2000; Agnew and Szykman 2005; Simonson and Tversky 1992; Benartzi and Thaler 2002). As such, the placement of the default option within other investment choices by trustees may influence fund members' perceptions of the default option, independently of the naming of the option. A logical ordering of investment options would be from low to high risk. In such ordering it would be expected that a balanced-named option would appear approximately in the middle of the array with a growth-named option appearing later in the array of options. A systematic variation from this ordering would therefore raise concerns that members' perceptions could be adversely influenced by the framing of the options.

To gauge the extent of any variation, we examine the array of investment options presented in PDSs. The results of our analysis are presented in Table 7. The first two columns show the grouping of the default option as either the first option or elsewhere in the array of PDS-presented options. It is clear that the majority of funds are not simply placing the default option as first in the array of options. The next three columns show the positioning of the default according to whether it appeared in the first third (earlier), second third (middle) and last third (later) of the array. The frequencies for these groupings show considerable variation with a clear preference towards the earlier third of the array.

The vast majority of balanced-named options appear either ‘earlier’ or in the ‘middle’, whereas the majority of growth-named options appear ‘earlier’. Differences between the two groups are statistically significant in 2005 and 2006, but not in 2007 where the proportion of balanced- and growth-named options appearing ‘earlier’ in investment menus have converged to be the same (55%). Given the findings from behavioural research, the preference for an earlier menu placement for the balanced- and in particular, the growth-named option raises serious concerns about how the placement may be impacting on member perceptions. Further research is clearly warranted in this area.

[Insert Table 7 here]

Conclusion

Our analysis of differences between balanced- and growth-named default investment options for a sample of superannuation funds over a three-year period shows that while there were some differences in 2005 and 2006, in 2007 they are virtually indistinguishable. In 2005 and 2006, consistent with their naming, growth-named default options have higher proportions of assets invested in growth-type investment classes (equities, property and alternative assets), they are described as having higher risk, and are recommended by their superannuation fund to be held for longer periods than default options that are named balanced. Despite differences in asset allocations and risk descriptions in those two years, the growth and balanced default options surprisingly cannot be distinguished on target returns or actual short- and long-term performance. The distinction between the two types of default options became even more blurred in 2007, with balanced-named options holding higher proportions of growth assets than in the prior two years.

Our evidence that default options were becoming similar in the pre-GFC period, despite being framed as being different in terms of their name and other aspects, suggests that members could have been misled in selecting (or remaining in) a default investment option. The finding that differently named default options (balanced and growth) do not differ in performance in relation to their name is also likely to create difficulties for fund members to understand why they are not obtaining higher returns from the growth-named default option in their fund, as opposed to balanced-named default options in other superannuation funds. Similarly, members in balanced-named options are likely to be unaware that between 2005 and 2007 the riskiness of their superannuation investment had increased to become more like growth-named options, but are still named ‘balanced’. This lack of awareness may have

subsequently contributed to the extent of fund members' surprise at the magnitude of their superannuation investment losses in the recent financial crisis.

The implications arising from this study highlight the need for regulators to consider how comparability of default options across superannuation funds could be improved. There is clearly a need for standardisation of naming and framing of default options in disclosure documents to ensure greater descriptive accuracy and transparency. Standardised definitions and descriptions of default options in relation to asset allocation, risk level, target returns, recommended investment timeframe, and placement in investment menus would facilitate comparability.

Finally, the findings of this study are subject to certain caveats. Our first caveat relates to our short study period that ends in 2007. Whether the absence of differences in the asset allocations and framing of the two categories of defaults continues in the years following the GFC is an open question and an avenue for further research. Our second caveat relates to limitations on availability of superannuation fund annual reports and product disclosure documents from public sources, and disclosures (or absence thereof) in these documents. The lack of regulatory requirements for superannuation funds to disclose certain information in their annual reports and PDSs led to missing data or inconsistencies in the data, especially in relation to the framing of the default option. While the yearly samples of funds represent between 30 and 40% of the total assets held by the relevant population of superannuation funds, industry and public sector funds are overrepresented in the sample, and corporate and retail funds are underrepresented. The sample bias arises because industry and public sector funds are more likely to allow public access to fund documents on their websites.¹¹ Such bias is largely unavoidable, given that there is no central repository of superannuation fund documents that fund members, researchers and other interested parties can access to make comparisons between superannuation funds. The resulting absence of full disclosure by superannuation funds is a further transparency issue that warrants consideration by policymakers and regulators.

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Table 1 Proportions of default option assets allocated to investment classes with test results for differences between the means of the balanced and growth-named options

Name type	Funds		Australian shares		International shares		Total property		Total fixed interest		Cash		Alternative	
	N	%	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median
2005														
Balanced	49	60%	0.3230	0.3400	0.2321	0.2400	0.0949	0.1000	0.2175	0.2000	0.0540	0.0430	0.0784	0.0872
Growth	20	24%	0.3368	0.3495	0.2606	0.2500	0.1031	0.1000	0.1620	0.1675	0.0473	0.0500	0.0903	0.0665
Other	13	16%	0.3052	0.3020	0.2250	0.2410	0.0916	0.0968	0.1719	0.1500	0.1079	0.1350	0.0983	0.1050
Total	82													
Tests of differences between balanced and growth			<i>t-stat</i>	<i>z-stat</i>	<i>t-stat</i>	<i>z-stat</i>	<i>t-stat</i>	<i>z-stat</i>	<i>t-stat</i>	<i>z-stat</i>	<i>t-stat</i>	<i>z-stat</i>	<i>t-stat</i>	<i>z-stat</i>
			-1.107	-0.894	-1.787	-1.403	-0.909	-0.531	2.292*	1.932	0.587	0.285	-0.491	-0.208
2006														
Balanced	46	54%	0.3165	0.3195	0.2302	0.2245	0.0926	0.1000	0.2161	0.2195	0.0544	0.0485	0.0903	0.0650
Growth	24	28%	0.3284	0.3300	0.2783	0.2600	0.0976	0.1000	0.1586	0.1650	0.0351	0.0315	0.1021	0.0694
Other	15	18%	0.3337	0.3300	0.2576	0.2600	0.0963	0.1000	0.1439	0.1400	0.0631	0.0500	0.1056	0.1230
Total	85													
Tests of differences between balanced and growth			<i>t-stat</i>	<i>z-stat</i>	<i>t-stat</i>	<i>z-stat</i>	<i>t-stat</i>	<i>z-stat</i>	<i>t-stat</i>	<i>z-stat</i>	<i>t-stat</i>	<i>z-stat</i>	<i>t-stat</i>	<i>z-stat</i>
			-0.998	-1.096	-3.124**	-2.639**	-0.526	-0.642	2.492*	2.098*	1.802	1.785	-0.426	-0.206
2007														
Balanced	51	51%	0.3177	0.3241	0.2350	0.2480	0.1000	0.1000	0.1901	0.1600	0.0532	0.0500	0.1040	0.0900
Growth	31	31%	0.3269	0.3300	0.2792	0.2600	0.0940	0.1000	0.1676	0.1800	0.0334	0.0200	0.0988	0.0750
Other	18	18%	0.3289	0.3250	0.2515	0.2510	0.0982	0.1000	0.1323	0.1435	0.0538	0.0460	0.1353	0.1300
Total	100													
Tests of differences between balanced and growth			<i>t-stat</i>	<i>z-stat</i>	<i>t-stat</i>	<i>z-stat</i>	<i>t-stat</i>	<i>z-stat</i>	<i>t-stat</i>	<i>z-stat</i>	<i>t-stat</i>	<i>z-stat</i>	<i>t-stat</i>	<i>z-stat</i>
			-0.863	-0.943	-3.605**	-3.591**	0.649	0.456	0.944	0.741	2.135*	2.201*	0.254	0.192

*, ** significant at 0.05 and 0.01 levels (two-tailed)

Table 2 Proportions of default option assets categorised as defensive or growth with tests of differences between the means of the balanced and growth-named options

Name type	N	Defensive		Growth	
		Mean	Median	Mean	Median
2005					
Balanced	49	0.2715	0.2610	0.7285	0.7390
Growth	20	0.2093	0.2150	0.7908	0.7850
Other	13	0.2798	0.2350	0.7202	0.7650
		<i>t-stat</i>	<i>z-stat</i>	<i>t-stat</i>	<i>z-stat</i>
		2.306*	2.468*	-2.320*	-2.626**
2006					
Balanced	46	0.2705	0.2800	0.7296	0.7200
Growth	24	0.1937	0.2000	0.8063	0.8000
Other	15	0.2070	0.1930	0.7931	0.8070
		<i>t-stat</i>	<i>z-stat</i>	<i>t-stat</i>	<i>z-stat</i>
		3.289**	2.896**	-3.288**	-2.920**
2007					
Balanced	51	0.2433	0.2200	0.7566	0.7800
Growth	31	0.2011	0.2000	0.7989	0.8000
Other	18	0.1862	0.1915	0.8138	0.8085
		<i>t-stat</i>	<i>z-stat</i>	<i>t-stat</i>	<i>z-stat</i>
		1.717	1.640	-1.719	-1.697

*, ** significant at 0.05, and 0.01 levels (two-tailed)

Table 3 Frequencies of default options described as ‘low to moderate risk’ or ‘high risk’

Name type	2005			2006			2007		
	Low to moderate risk	High risk	Total	Low to moderate risk	High risk	Total	Low to moderate risk	High risk	Total
Balanced	20	8	28	24	5	29	19	13	32
Growth	3	8	11	4	11	15	8	15	23
Other	6	5	11	4	5	9	7	6	13
Total	29	21	50	32	21	53	34	34	68
Pearson chi square	6.364*			13.442**			3.238		

*, ** significant at 0.05, and 0.01 levels

Table 4 Frequencies of default options disclosing target returns

Target returns above CPI	2005			2006			2007		
	3% or less	More than 3%	Total	3% or less	More than 3%	Total	3% or less	More than 3%	Total
Name type									
Balanced	23	17	40	22	12	34	23	17	40
Growth	9	7	16	6	11	17	12	12	24
Other	6	1	7	7	5	12	6	6	12
Total	38	25	63	35	28	63	41	35	76
Pearson chi square		0.007			3.960*			0.340	

* significant at 0.05 level

Table 5 Short- and long-term investment returns and differences between the means of the balanced and growth-named options

Name type	Short-term investment returns			Long-term investment returns		
	Number	Mean	Median	Number	Mean	Median
2005	Current year			Four-year average		
Balanced	49	0.1290	0.1313	43	0.0438	0.0438
Growth	19	0.1272	0.1272	17	0.0406	0.0365
Other	13	0.1264	0.1310	13	0.0409	0.0356
		<i>t-stat</i>	<i>z-stat</i>		<i>t-stat</i>	<i>z-stat</i>
		0.391	0.519		0.738	0.96
2006	Current year			Five-year average		
Balanced	45	0.1386	0.1430	38	0.0604	0.0599
Growth	24	0.1451	0.1455	20	0.0573	0.0533
Other	15	0.1487	0.1455	13	0.0603	0.0606
		<i>t-stat</i>	<i>z-stat</i>		<i>t-stat</i>	<i>z-stat</i>
		-1.186	-0.989		0.882	1.112
2007	Current year			Five-year average		
Balanced	51	0.1460	0.1520	39	0.0769	0.0772
Growth	28	0.1563	0.1583	22	0.0758	0.0744
Other	18	0.1643	0.1660	17	0.0799	0.0782
		<i>t-stat</i>	<i>z-stat</i>		<i>t-stat</i>	<i>z-stat</i>
		-1.770	-1.455		0.335	0.300

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Table 6 Recommended minimum holding period for default options

Name type	2005			2006			2007		
	Less than 5 years	5 years	More than 5 years	Less than 5 years	5 years	More than 5 years	Less than 5 years	5 years	More than 5 years
Balanced	9	9	4	10	15	3	8	16	3
Growth	0	7	3	0	12	2	2	11	7
Other	1	7	0	3	8	0	2	10	0
Total	10	23	7	13	35	5	12	37	10

Table 7 Positioning of the default option relative to the other investment options and chi-square tests of differences between balanced and growth-named options

2005	First	Elsewhere	Earlier	Middle	Later
<i>Name type</i>					
Balanced	5	44	24	19	6
Growth	3	17	12	2	6
Other	7	6	9	1	3
Total	15	67	45	22	15
Pearson chi square	0.319		6.769*		
2006	First	Elsewhere	Earlier	Middle	Later
<i>Name type</i>					
Balanced	3	43	20	24	2
Growth	3	21	14	5	5
Other	8	7	10	3	2
Total	14	71	44	32	9
Pearson chi square	0.719		8.742*		
2007	First	Elsewhere	Earlier	Middle	Later
<i>Name type</i>					
Balanced	7	44	28	17	6
Growth	5	26	17	7	7
Other	7	11	12	2	4
Total	19	81	57	26	17
Pearson chi square	0.089		2.184		

* significant at 0.05 level

Notes

¹ Rich (2009), citing industry analysis notes that default investment options in 2008 returned an average of –21% with a range of 4.1% to –32.1% between the best and worst performing funds. In contrast, the range over the 2004 to 2007 period was only 12% to 17%.

² On 29 May 2009 the Australian government announced the *Review of the Governance, Efficiency, Structure and Operation of Australia's Superannuation System*, headed by Jeremy Cooper.

³ Investment choice is not regulated, but has instead emerged in an attempt by fund trustees to give fund members greater control over their retirement savings by allowing them to choose appropriate member-specific investment options (see Gallery et al. 2004). In June 2008, 62.4 percent of funds offered investment choice to their members (APRA 2009), with this percentage varying among the different types of funds. The number of investment options also differs among different types of funds with retail funds averaging 114 options, while industry, public sector and corporate funds average between seven (7) and nine (9) options (APRA 2009).

⁴ See 'Superannuation: Choosing your investment strategy' at <http://www.fido.gov.au/fido/fido.nsf/byheadline/Superannuation%3A+Making+an+investment+choice?openDocument>. Accessed 15 May 2008.

⁵ See <http://www.superreview.com.au/category.aspx?catname=Superannuation-Funds&category=2484>. Accessed 15 May 2008.

⁶ Most superannuation funds disclose the amount of their total assets only once each year in their annual reports to members, in accordance with statutory requirements under *Corporations Regulations 2001*, reg. 7.9.37(1). Therefore, the comparison of total assets for sample funds is drawn from their most recent annual report (that is, 2005, 2006 and 2007) and is compared with APRA statistics for the population of superannuation funds as at June of each of those three years.

⁷ The sample size is reduced because not all funds disclose a description of the investment risk associated with the default option.

⁸ In cases where funds did not disclose long-term returns, a simple average was calculated based on annual returns; robustness checks found no statically significant differences between calculated returns and disclosed five-year compounded returns for the funds that disclosed that information. Calculated four-year returns are shown for 2005 due to limitations of historical returns data availability prior to 2005 for the sample funds. Similar results are obtained when we use four-year returns for each year.

⁹ Ideally, comparisons of returns should include some measure of risk, such as volatility of returns. However, returns volatility data are not disclosed in PDSs and insufficient data points are available to calculate a volatility measure.

¹⁰ Ellis et al. (2008, p. 16) do however find that balanced and growth options can be distinguished using a Sharpe ratio, indicating 'on average, balanced investment options provided better risk-return combinations'. It should be noted that in their study, default investment options are categorised based on *actual* asset allocations, whereas our categories are based on whether the option is *named* 'balanced' or 'growth'.

¹¹ Dunstan (2008) notes similar concerns about differences in the usefulness of superannuation funds' websites.