

# Flicking the Switch: How Fee and Return Disclosures Drive Retirement Plan Choice

Supplemental Material E: Dashboard comprehension and financial literacy questions; Comprehension scores.

## Dashboard comprehension

*Correct answers in italics*

C1. What do you think is the most useful piece of information for comparing funds? (Choose only one) a. 10 year average return; b. Return target; c. Graph; d. Level of investment risk; e. Fees and costs

C2. Which piece(s) of information did you most often use when choosing a fund? (Choose any that apply.) a. 10 year average return; b. Return target; c. Graph; d. Level of investment risk; e. Fees and costs.

C3. (Treatments 1, 2 and graph condition in Treatment 4) On the graph, if the red line is ABOVE the blue line, this means: a. That on average, the fund has returned more than the target return over the past; b. That on average, the fund has not kept up with inflation over the past 10 years; c. That on average, the fund has returned more than other funds over the past 10 years; *d. That on average, the fund has returned less than the target return over the past 10 years.*

C3b (Treatment 3 and table condition in Treatment 4) In the table, if the 10 year average return is HIGHER THAN the target average return, this means: *a. That on average, the fund has returned more than the target return over the past;* b. That on average, the fund has not kept up with inflation over the past 10 years; c. That on average, the fund has returned more than other funds over the past 10 years; d. That on average, the fund has returned less than the target return over the past 10 years.

C4. (Treatments 1, 2 and graph condition in Treatment 4) If the fund loses money one year, for that year, the graph always shows: a. The blue line below the red line; b. The red line below the blue line; *c. The green bar below the horizontal axis;* d. The green bar lower than last year's green bar.

C4b (Treatment 3, and table condition in Treatment 4) If the fund loses money one year, for that year, the table always shows: a. The target average return below the 10 year average return; b. The 10 year average return below the target average return; *c. The 1 year return below 0%;* d. The 1 year return lower than last year's 1 year return.

C5. (Treatments 1-4) The level of investment risk for this fund is "negative returns expected every 3-4 out of 20 years". If the first 5 years in the graph (table) showed four (4) negative returns, how many negative returns would you expect to see in the NEXT 5 years of the graph? a. 0; *b. 1;* c. 2; d. Answers a, b and c are all equally likely.

C5b. (Treatments 5-7) The level of investment risk for this fund is a "1 in four chance of a negative return each year". If the first 5 years showed four (4) negative returns, how many negative returns would you expect to see in the NEXT 5 years? ? a. 0; b. 1; c. 2; d. Answers a, b and c are all equally likely.

C6. (Treatments 1-4) The level of investment risk for this fund is "negative returns expected every 3-4 out of 20 years". If the first 5 years in the graph (table) showed four (4) negative returns, how many negative returns would you expect to see in the NEXT 15 years of the graph? a. 0; b. 2; c. 3; d. Answers a, b and c are all equally likely.

C6b. (Treatments 5-7) The level of investment risk for this fund is a "1 in four chance of a negative return each year". If the first 5 years showed four (4) negative returns, how many negative returns would you expect to see in the NEXT 15 years? a. 0; b. 2; c. 3; d. Answers a, b and c are all equally likely.

C7. In the previous part of the survey when you compared the two funds, what did you notice about fees and costs? a. I didn't notice the fees and costs; b. The fees for one fund mainly went up while the other stayed about the same c. The fees for one fund mainly went down while the other stayed about the same; d. The fees for both funds stayed about the same. (Correct answer varied by Treatment and condition.)

C7b. (Treatments 2-7) In the previous part of the survey when you compared the two funds, what did you notice about returns? a. I didn't notice the returns; b. *The returns for one fund started lower but then rose higher compared with the other fund*; c. The returns for both funds were about the same.

C8. The returns information on the table (returns and target returns): a. Have fees and costs still included; b. *Have fees and costs deducted*; c. Have fees deducted but administration costs included.

Table E1: Dashboard comprehension and financial literacy

<b>Panel A: Full dashboard</b>			<b>% correct answers</b>				
	Inc.	Dec.	Table	Graph	High vol	Low vol	T1-T4
Relative fees and costs							
Fee treatment	70.7	57.6		64.3			
Return treatments	56.1	52.1	55.2	53.0	56.7	48.6	
							56.8
Relative returns							
Return treatments	49.1	48.2	53.6	43.9	45.1	56.3	48.6
Returns net of fees							
Returns relative to target			72.1	31.5			43.9
Negative returns							46.0
Standard risk measure (5 yrs)							47.5
Standard risk measure (15 yrs)							17.0
							13.2
Numeracy (3 Qs)							
							61.6
Financial literacy (3 Qs)							
							72.6
Superannuation literacy (12 Qs)							
							58.0
<b>Panel B: Simplified dashboard</b>			<b>% correct answers</b>				
	Inc.	Dec.			High vol	Low vol	T5-T7
Relative fees and costs							
Fee treatment	47.3	46.7					
Return treatments	63.8	58.8			59.3	63.2	
							56.5
Relative returns							
Return treatments	76.0	73.3			77.9	71.2	74.6
Returns net of fees							
							61.7
Simplified risk measure (5 yrs)							
							19.1
Simplified risk measure (15 yrs)							
							22.3
Numeracy (3 Qs)							
							61.2
Financial literacy (3 Qs)							
							70.3
Superannuation literacy (12 Qs)							
							56.2

Notes: This table reports percentage of participants correctly answering comprehension questions on full dashboard, numeracy, financial literacy and superannuation literacy. Questions are reproduced in Appendix E. Total number of participants in T1-4 is 1059, of which there were 286 in T1 (fee condition with graph); 274 in T2 (returns condition with graph); 252 in T3 (returns conditions with table); 247 in T4 (low volatility returns condition with table or graph). Total number of participants in T5-7 is 759, of which there were 251 in T5 (fee condition); 250 in T6 (low noise returns condition); and 258 in T7 (high noise returns condition). Participants were randomly assigned to either view increases or decreases in fees or returns over the 20 choices.

## Financial Literacy

FL 1. Suppose you had \$100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow? a. *More than \$102*; b. Exactly \$102; c. Less than \$102; d. Do not know.

FL 2. Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, how much would you be able to buy with the money in this account? a. More than today; b. Exactly the same; c. *Less than today*; d. Do not know.

FL 3. Buying shares in a single company usually provides a safer return than buying units in a managed share fund. a. True; b. *False*; c. Do not know

## Numeracy

N1 Imagine that we rolled a fair, six-sided die 1,000 times. Out of 1,000 rolls, how many times do you think the die would come up even? *500*

N2 In a lottery, the chance of winning a \$500 prize is 1%. What is your best guess of how many people would win the prize if 1,000 people each buy a single ticket in the lottery? *10*

N3 In a raffle, the chance of winning a car is 1 in 1,000. What per cent of tickets in the raffle win a car? *0.1*

## Superannuation (retirement plan) literacy

S1 Employers are required to pay superannuation contributions into the superannuation accounts of most of their employees. Is there a mandatory minimum employer contribution rate? a. Yes; b. No; c. Do not know.

S2 What % of an employee's salary is an employer currently required to contribute to superannuation?

S3 If you haven't chosen a superannuation fund your employer must pay your superannuation into a superannuation fund that offers MySuper. a. *True*; b. False; c. Do not know.

S4 Superannuation funds deduct fees from members' superannuation accounts. a. *True*; b. False; c. Do not know.

S5 Is the following statement true or false? "For most people, superannuation is taxed at a higher rate than a similar investment outside superannuation". a. True; b. *False*; c. Do not know.

S6 Can people make voluntary contributions to their superannuation accounts? a. Yes; b. No; c. Do not know.

S7 Are there any limits to the amount of these voluntary contributions? *a. Yes; b. No; c. Do not know.*

S8 If your superannuation account is invested in a "balanced" investment option, this means that it is invested exclusively in safe assets such as savings accounts, cash management accounts and term deposits. *a. True; b. False; c. Do not know.*

S9 You are allowed to borrow from your superannuation account. *a. True; b. False; c. Do not know.*

S10 If you have any superannuation, you will not qualify for the Age Pension. *a. True; b. False; c. Do not know.*

S11 Do you know the minimum age at which you can spend the money in your superannuation account? *a. Yes; b. No; c. Do not know.*

S12 The minimum age at which I can spend money in my superannuation account is: (Open question).  
*The correct answer depends on participant age and varies between 55 and 60 years.*