



Network for Studies on Pensions, Aging and Retirement

**Flicking the Switch: How Fee and Return Disclosures Drive Retirement Plan Choice**  
Thorp et al.

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# Summary (I)

- Before 2014, less than 1/3 of retirement plan members opt out of default plans which were in most cases suboptimal in terms of net returns.
- In response, since 2014, regulation has stipulated
  1. Default plans should be a registered “MySuper” retirement savings product.
  2. Format of product disclosure, called Dashboard
- Does information on fees or returns trigger a timely switch out of an underperforming retirement plan?
- Australian workers asked to review short product disclosures (“dashboard”) and then choose between two plans over 20 rounds. In each round: a change in in fees or returns (decreasing or increasing)
- 7 treatments conducted between July 2014 and October 2-15(see Table 1).
- Comments on format dashboard: Figure presented in figure 1 very unclear

Table 1: Description of each treatment

Treatment Number (n)	Date	Dashboard Type	Changing Information	Returns Volatility	Returns Display Format
1 (286*)	Jul 2014	Prescribed ('Full')	Fees	High	Graph
2 (274)	Sep 2014	Prescribed ('Full')	Returns	High	Graph
3 (252)	Feb 2015	Prescribed ('Full')	Returns	High	Table
4 (247)	Jun 2015	Prescribed ('Full')	Returns	Low	Graph/Table
5 (251)	Aug 2015	Simplified	Fees	High	N/A
6 (250)	Oct 2015	Simplified	Returns	High	N/A
7 (258)	Oct 2015	Simplified	Returns	Low	N/A

Figure 1: Screenshot from Treatment 2

<p><b>Trial 1 of 20</b>  <b>XYZ MySuper fund</b>                  Use this dashboard to compare this XYZ MySuper with other MySuper products.</p>	<p><b>HIJ MySuper fund</b>                  Use this dashboard to compare this HIJ MySuper with other MySuper products.</p>
<p><b>Return:</b>                  10 year average return of 8.7%</p>	<p><b>Return:</b>                  10 year average return of 8.2%</p>
<p><b>Return target:</b>                  Return target for the next ten years of 3% per year above inflation after fees and taxes. Future returns cannot be guaranteed. This is a prediction.</p>	<p><b>Return target:</b>                  Return target for the next ten years of 3% per year above inflation after fees and taxes. Future returns cannot be guaranteed. This is a prediction.</p>
<p><b>Comparison between return target and return</b></p>	<p><b>Comparison between return target and return</b></p>
<p>Past: 1 year return    Past: 10 year average return    Target: average return target  <i>Past performance is not necessarily an indication of future returns.</i></p>	
<p><b>Level of investment risk:</b>  <b>Medium to High</b>                  Negative returns expected in every 3-4 out of 20 years.  <i>The higher the expected return target, the more often you would expect a year of negative returns.</i></p>	<p><b>Level of investment risk:</b>  <b>Medium to High</b>                  Negative returns expected in every 3-4 out of 20 years.  <i>The higher the expected return target, the more often you would expect a year of negative returns.</i></p>
<p><b>Statement of fees and other costs:</b>                  \$530 per year  <i>Fees and other costs for a member with a \$50,000 balance.</i></p>	<p><b>Statement of fees and other costs:</b>                  \$526 per year  <i>Fees and other costs for a member with a \$50,000 balance.</i></p>
<p>If you want to review terms on this page, please click <a href="#">here</a>. By doing so, a separate new window will open to show definitions of these terms again. Please remember to return to this window to continue survey after you have finished reviewing definitions, by clicking this survey tab at the top of your browser.</p>	
<p>Which of the two MySuper funds do you prefer?</p>	
<p><input type="radio"/> XYZ MySuper fund</p>	<p><input type="radio"/> HIJ MySuper fund</p>
<p>&lt;&lt;</p>	<p>&gt;&gt;</p>



Figure 3: Screenshot from Treatment 6, simplified dashboard

**Trial 1 of 20**

<b>XYZ MySuper fund</b> Use this dashboard to compare this XYZ MySuper with other MySuper products		<b>ABC MySuper fund</b> Use this dashboard to compare this ABC MySuper with other MySuper products	
<b>1 year return (after fees and costs)</b> Past performance is not necessarily an indication of future returns	20.7%	<b>1 year return (after fees and costs)</b> Past performance is not necessarily an indication of future returns	20.3%
<b>10 year average return (after fees and costs)</b>	8.7%	<b>10 year average return (after fees and costs)</b>	8.2%
<b>Current fees and costs as a percentage of a \$50,000 balance</b>	1.1%	<b>Current fees and costs as a percentage of a \$50,000 balance</b>	1.1%
<b>Level of Investment Risk</b>	There is a 1 in four chance of a negative return each year	<b>Level of Investment Risk</b>	There is a 1 in four chance of a negative return each year

Which of the two MySuper funds do you prefer?

XYZ MySuper fund
  ABC MySuper fund

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# Comments on the prescribed dashboard

- Figure presented figure 1 very unclear (unclear legend)
- From footnote 4 I infer that The regulator developed a clearer figure (see next page)

## Return

Ten year average annual return of 5.90% as at 30 June 2016.

## Return target

For the timeframe 2016–2025, is to outperform (after fees and taxes) an average annual return above CPI of 3.85% over the medium to long term. Future returns are not guaranteed, so this is only a prediction.

## Level of investment risk

High (Standard Risk Measure Band 6). Expectation of a negative return approximately five out of every 20 years.

The risk level of an investment option can change based on the investment timeframe. See Explanation of terms on the next page for more information on investment risk.

## Statement of fees and other costs

\$398 per year.



Investment returns are not guaranteed. Past performance is not a reliable indicator of future returns.

# Summary and comments (II)

- 7 samples drawn from a representative online panel (600k)
- After the experimental task, respondents asked questions related to (those questions not presented in the paper):
  1. Comprehension of the information presented in the dashboard
  2. Financial literacy and numeracy (quiz-type questions, no summary statistics provided)
  3. Pension system knowledge(no summary statistics provided)
  4. Demographics
- Unit non-response?? (% that clicked on email? % that agreed to participate)
- Description of the choice task not detailed enough.
  1. Which returns and fees are presented in the 20 rounds.
  2. Big differences between default plan (xyz) and alternative plan?
  3. Does a change in the fee also result in a change in net return reported in the 'Dashboard'?

# Comments on Table 3

- Provide also summary statistics on
  - % which makes the 'right choice' in the first round
  - % that does not switch
  - % that switch more than once
- Logit regression
  1. Finlit, numeracy, comprehension jointly significant??
  2. Framing effects huge in T2-T4. Why?
  3. Superannuation literacy never significant?
  4. Financial literacy also not significant. What does this imply. Financial education (e.g.) pension seminars) not useful??

Table 3. Rates of single interior switching: counts and logit estimation

<b>Panel A: Single switching</b>	T1 Fee	T2 Return (Graph)	T3 Return (Table)	T4 Return (Low Vol)	T5 Fee	T6 Return	T7 Return (Low Vol)
<b>Single switchers (%)</b>	76.2	21.2	35.3	39.7	70.9	70.8	64.0
<b>Panel B: Marginal effects from logit estimations</b> (Dependent variable: single interior switch =1, and 0 otherwise)							
Decreasing condition	0.023	<b>-0.274</b>	<b>-0.244</b>	<b>-0.334</b>	-0.021	0.041	-0.099
Female	<b>0.147</b>	-0.003	0.078	-0.072	0.067	0.062	<b>0.115</b>
Age 40-59 yrs	0.018	0.066	-0.051	0.024	0.068	-0.014	<b>0.133</b>
Age 60+ yrs	0.097	<b>0.231</b>	-0.082	0.072	<b>0.223</b>	0.135	0.124
High school graduate	0.097	0.078	0.073	-0.009	-0.014	-0.042	0.070
College diploma/degree	<b>-0.102</b>	-0.002	-0.094	-0.018	0.004	-0.015	-0.077
Employed	-0.048	-0.033	<b>0.204</b>	0.089	0.026	-0.094	-0.115
Retired	0.055	<b>-0.189</b>	<b>0.509</b>	0.083	-0.244	-0.168	-0.019
Married/de facto	-0.019	0.024	-0.047	<b>0.151</b>	-0.038	-0.110	-0.005
Financial decision maker	-0.022	0.049	-0.005	0.033	0.029	-0.055	-0.082
No dependents	-0.027	-0.021	-0.025	0.101	-0.022	-0.011	<b>0.138</b>
Weekly inc. (\$1-\$399)	-0.005	0.171	0.176	-0.169	0.057	-0.103	<b>-0.414</b>
Weekly inc. (\$400-\$999)	-0.045	0.089	0.084	-0.118	-0.044	-0.102	-0.111
Weekly inc. (\$1000+)	0.061	0.082	0.122	-0.192	0.045	0.022	-0.139
Retirement balance (ln\$)	-0.010	-0.019	0.010	0.001	0.005	-0.007	-0.014
Comprehension	0.023	-0.002	0.024	0.085	-0.014	0.016	0.010
<b>Financial literacy</b>	<b>0.097</b>	<b>0.044</b>	<b>0.008</b>	<b>0.038</b>	<b>0.005</b>	<b>0.060</b>	<b>0.051</b>
<b>Numeracy</b>	<b>0.059</b>	<b>0.013</b>	<b>0.050</b>	<b>0.059</b>	<b>0.076</b>	<b>0.106</b>	<b>0.107</b>
<b>Superannuation literacy</b>	<b>0.004</b>	<b>0.028</b>	<b>-0.018</b>	<b>0.023</b>	<b>0.051</b>	<b>0.008</b>	<b>0.078</b>
<b>Passed attention check</b>	0.017	0.053	0.117	<b>0.267</b>	<b>0.239</b>	0.127	-0.119
Obs.	286	273	252	247	251	250	258
Pseudo R2	0.24	0.20	0.14	0.20	0.17	0.25	0.19

# Comments table 4, 5

- plan members interpret fee and return information in a way we might expect; they prefer low fee, high return funds.
- However, while large changes in fees prompt people to switch almost immediately, it takes longer and larger signals in returns to motivate a change.
  
- Explanation for framing effects??
- I had difficulties in understanding subsection 3.3.4: A Bayesian Estimate of Relative Scepticism from Delayed Switches
- Implications of your finding for the ‘optimal’ design of the ‘dashboard’??

Table 4: Numbers of participants switching at each choice set. Panel A: full dashboard

Set	Fee (Treatment 1)						Returns/Graph (Treatment 2)						Returns/Table (Treatment 3)						Returns/Low vol (Treatment 4)					
	Single		First		Final		Single		First		Final		Single		First		Final		Single		First		Final	
	I	D	I	D	I	D	I	D	I	D	I	D	I	D	I	D	I	D	I	D	I	D	I	D
2			5	6	1			8	12		2	1	1	5	7	1	1		2	5	7		1	
3			3	2				3	3					7	6	1				5	4		1	
4			1	2				2	2						2				11	2				
5			2	2				1	3					1	2	3				2	4			
6				2				3	2					1	1					2	4			
7			1	2				2	5	1				1	4									
8	2		2	1	2				1						1					3	2			
9				2					3						3						3			
10	1	7	2	7	1	10															4	1		
11	2	52	3	56	4	56			3		1										7			
12	29	17	32	21	30	18				1			2		2		2	1			2			
13	34	21	34	21	37	25			5	6		2			5	1	3			2	1	3	3	3
14	19	6	19	6	23	14				56			1	2	2	45	5	7	22	10	15	40	16	6
15	16	10	16	12	19	10	4		12		9		29	4	46	5	34	5	16	4	8	3	12	6
16		1		1	3	3	37		51		51	1	11	1	14	1	26	5	80	12	45	9	44	40
17	1		1		3	3	3	8	4	12	6	81	4	14	4	15	9	47	10	10	5	5	8	32
18					2	3	2		2	1	9	6	7		7		15	4	6	4	5	2	8	7
19					5	4	1	2	1	4	36	34	3	4	3	5	11	34	4	8	2	4	9	14
20					4						19	4	3	2	3	2	10	10		2		1	14	5
% Loss	I: -0.26**		D: -0.29*				I: -0.98		D: -1.20				I: -0.82		D: -1.30				I: -0.78		D: -0.95			

Table 5: Marginal effects of information variables on plan switches

	<i>First switch</i>						
	$\Delta 1$ yr ret	$\Delta 10$ yr ret	$\Delta$ Fee	Single	Graph	Ps. R2	Obs.
<i>Full dashboard</i>							
Treatment 1 (FEE, GRAPH)							
Increasing			-0.002*** 0.000	-0.024* 0.070		0.433	2780
Decreasing			-0.002*** 0.000	-0.156* 0.049		0.595	2940
Treatment 2 (RETURNS, GRAPH)							
Increasing	0.515 0.325	0.318 0.364	0.002 0.001	0.058 0.037		0.232	2720
Decreasing	0.269 0.245	0.727*** 0.283	-0.005*** 0.001	-0.228*** 0.034		0.267	2760
Treatment 3 (RETURNS, TABLE)							
Increasing	0.473* 0.255	0.440 0.315	-0.004* 0.001	0.055 0.044		0.287	2520
Decreasing	0.258 0.255	0.693** 0.293	-0.004*** 0.001	-0.149*** 0.046		0.261	2520
Treatment 4 (LOW VOLATILITY RETURNS, GRAPH or TABLE)							
Increasing	0.187 0.293	0.751** 0.331	-0.005*** 0.001	0.250*** 0.044	-0.148*** 0.042	0.395	2460
Decreasing	0.193 0.280	0.805** 0.318	0.003*** 0.001	-0.180*** 0.047	0.039 0.047	0.315	2480
<i>Simplified dashboard</i>							
Treatment 5 (FEE)							
Increasing		0.505*** 0.081	-0.556*** 0.063	0.073 0.059		0.395	2460
Decreasing		-0.313*** 0.079	-1.270*** 0.061	-0.101* 0.054		0.518	2620
Treatment 6 (RETURNS)							
Increasing	0.984*** 0.041	-0.020 0.046		0.032 0.062		0.414	2460
Decreasing	-0.019 0.088	1.189*** 0.100	-1.843*** 0.220	-0.215*** 0.057		0.481	2540
Treatment 7 (LOW VOLATILITY RETURNS)							
Increasing	-0.041 0.068	1.030*** 0.086	-1.399*** 0.095	0.032*** 0.055		0.413	2460
Decreasing	2.551*** 0.451	6.094*** 0.622	1.678 1.266	-0.131 0.400		0.419	2700