



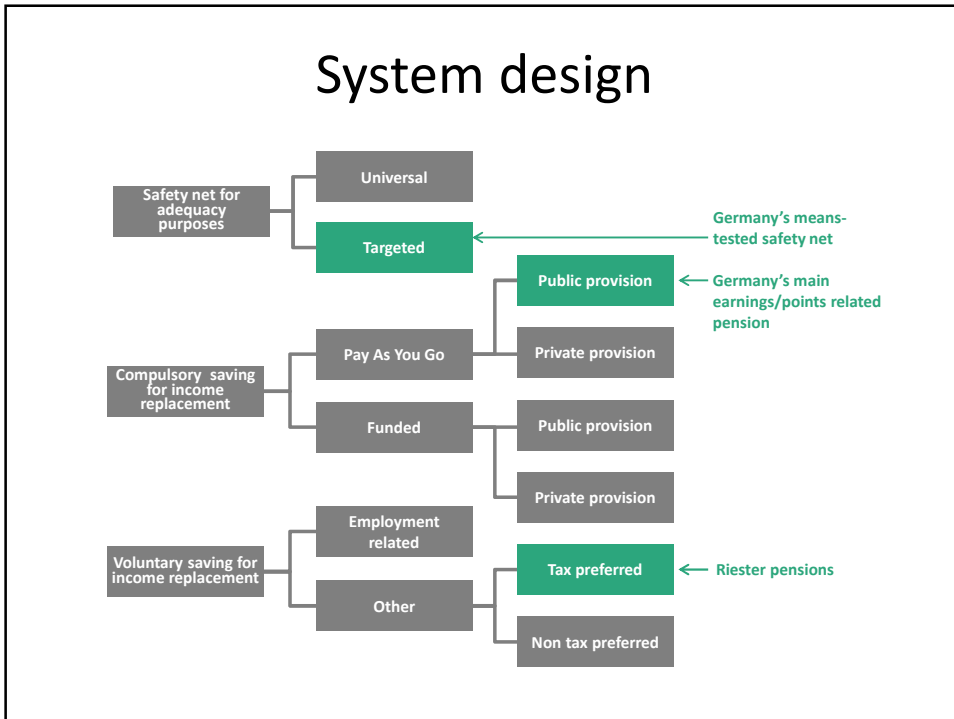
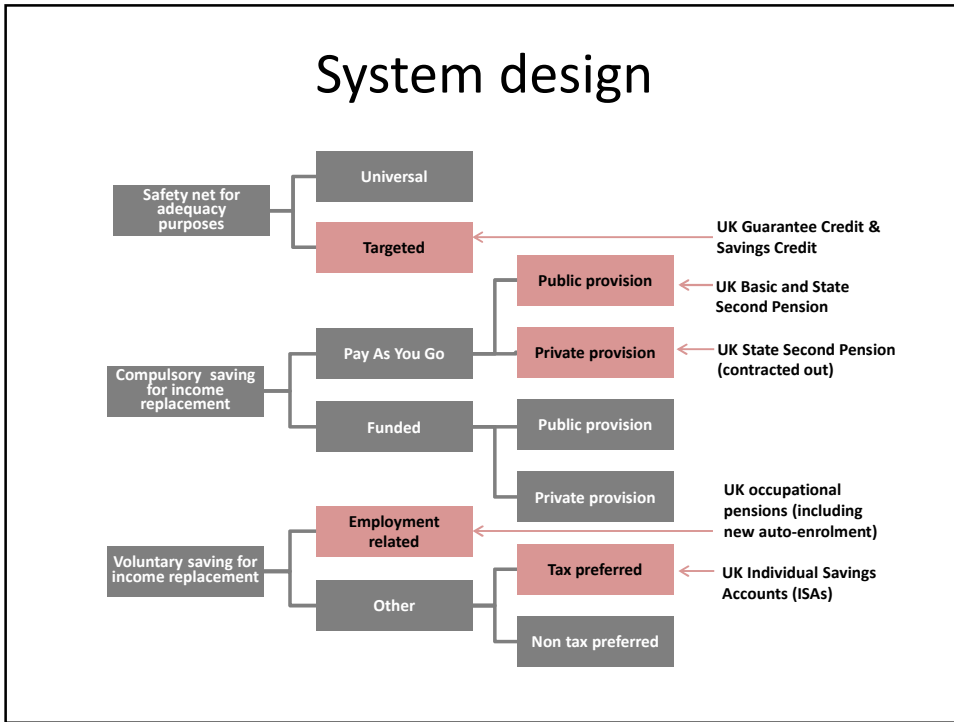
## Private pensions in Australia

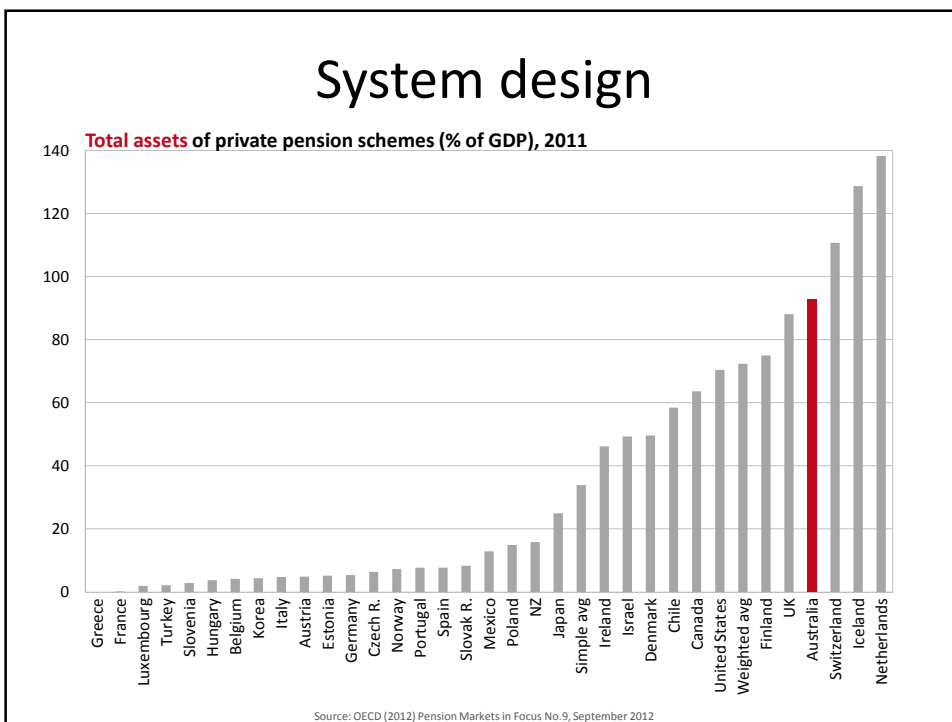
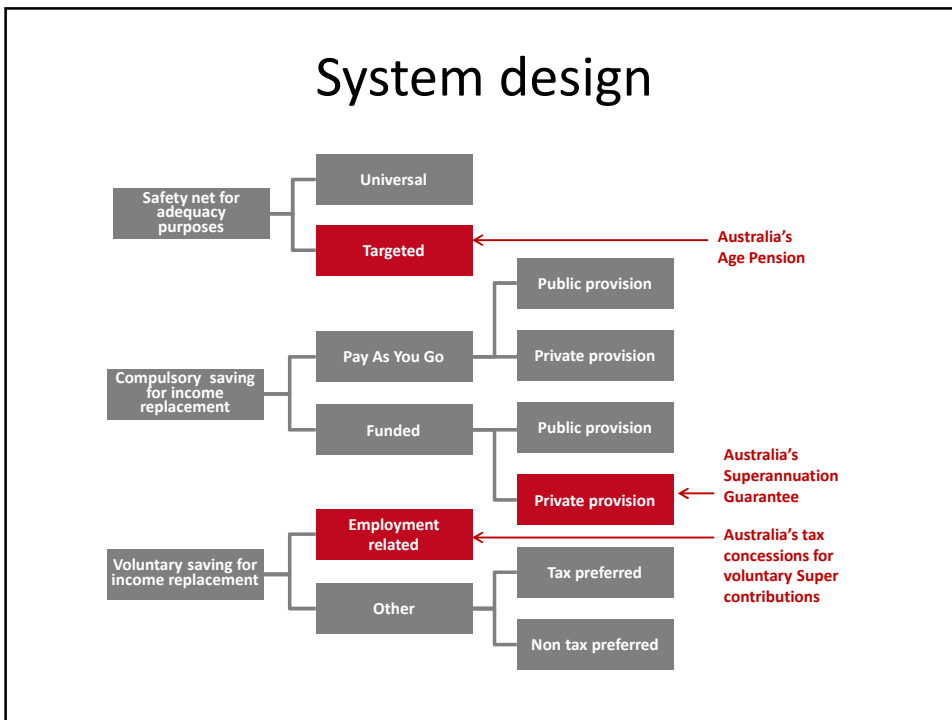
### 1. System design

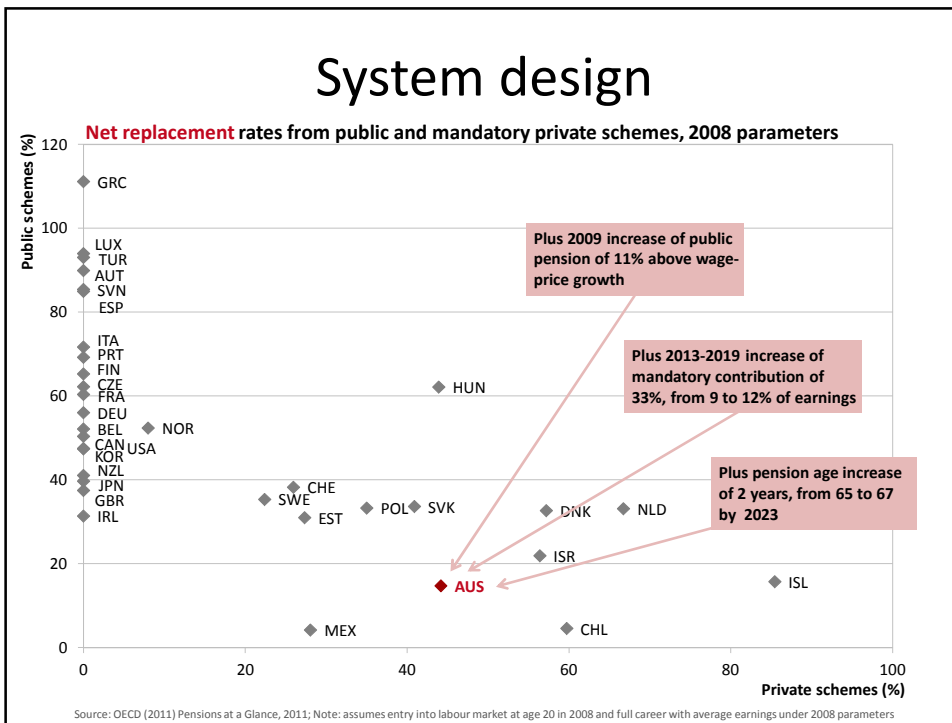
### 2. Issues

- Choice and defaults
- Decumulation structures
- Administration costs
- Risk-sharing
- Adequacy
- Sustainability

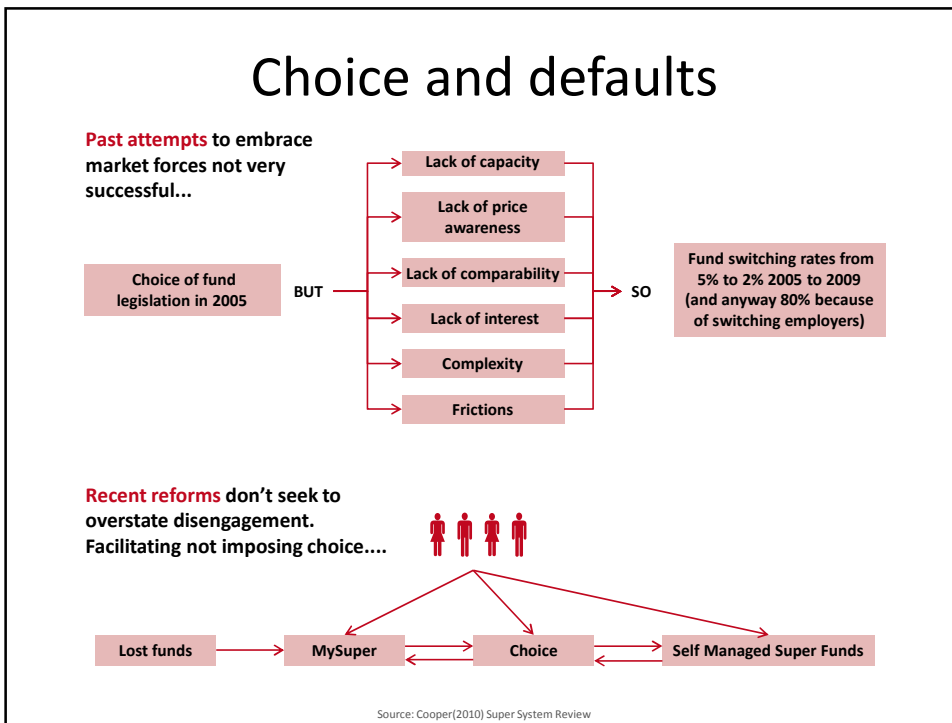
### 3. Conclusion







- ### Issues
- Choice and defaults
  - Decumulation structures
  - Administration costs
  - Risk-sharing
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  - Sustainability



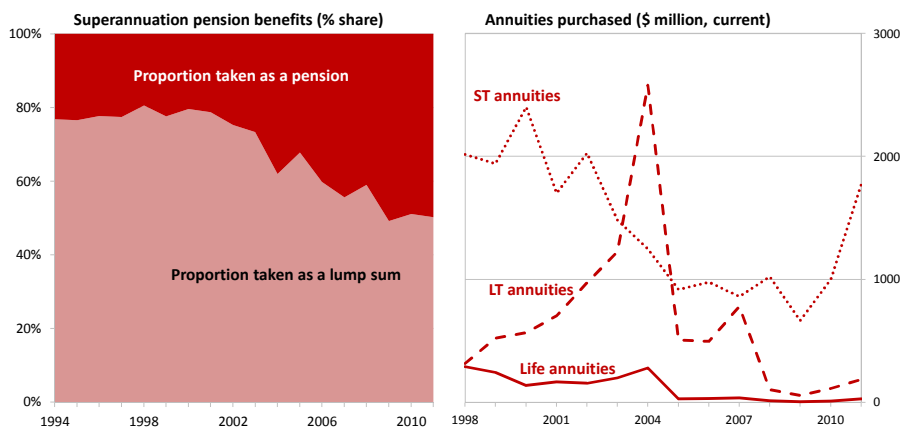
## Choice and defaults

**But for choices that remain: important what to present and how to present it**

Example choice experiment	100% safe	50:50	100% risky
1a There is a 9 in 10 chance of a return between x and y	27	51	22
1b There is a 1 in 10 chance of a return outside x and y	31	48	21
2a There is a 1 in 20 chance of a return above y	16*	54	30
2b There is a 1 in 20 chance of a return below x	50*	35	15*
3a On average, positive returns occur z years in every 20	28	34*	38
3b On average, negative returns occur 20-z years in every 20	22	44	33
4a On average, returns above bank account occur w years in every 20	21	52	27
4b On average, returns below bank account occur 20-w years in every 20	33	41	26

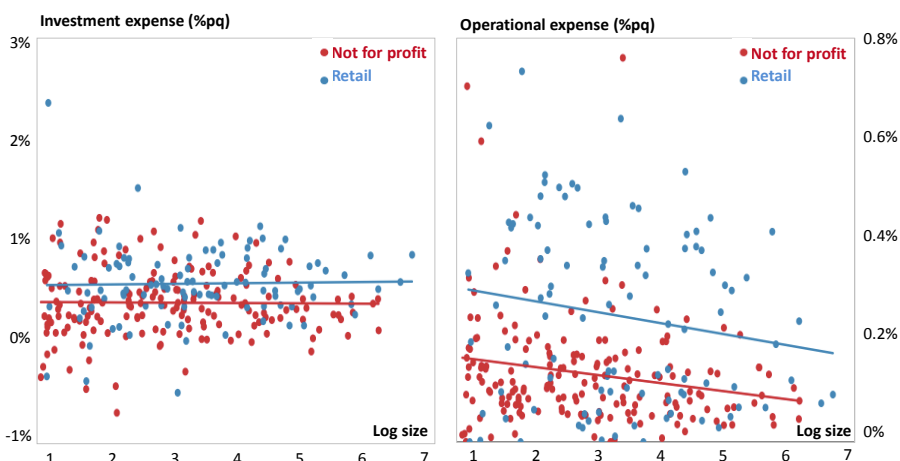
Source: Bateman et al 2010

## Decumulation structures



Source: APRA (2005, 2012); Plan for life (2012)

## Administration costs



Source: Cummings (2012) 'Effect of fund size on the performance of Australian superannuation funds'; Note: 280 funds over the period from September 2004 to June 2010

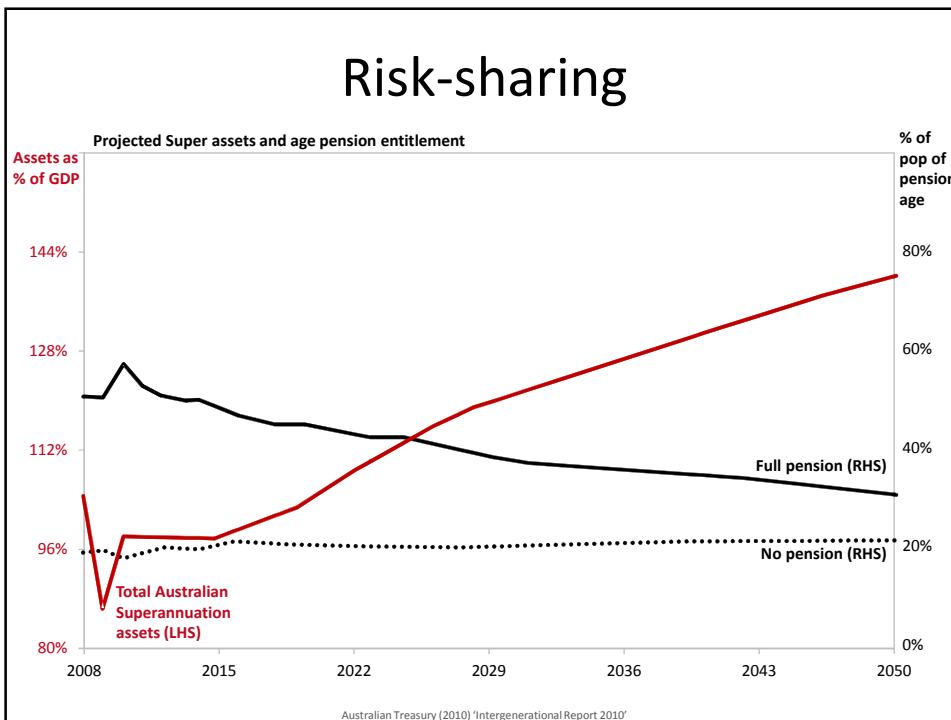
# Administration costs

Estimated total annual percentage costs for MySuper products of varying sizes (investment costs, plus operating costs and intra-fund advice)

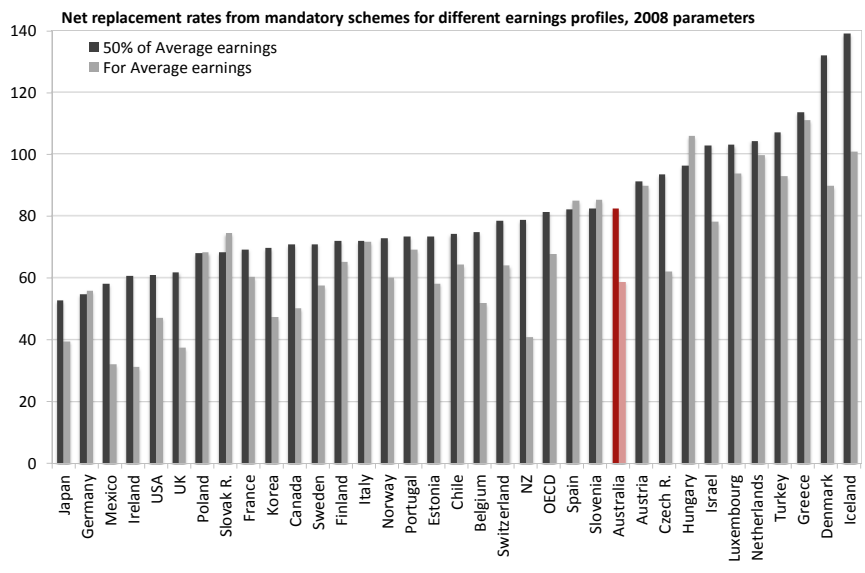
MySuper fund size/investment strategy	\$2b	\$5b	\$10b	\$20b
Passive balanced	0.60%	0.46%	0.38%	0.32%
Passive conservative	0.58%	0.45%	0.37%	0.32%
Active balanced	0.94%	0.83%	0.70%	0.60%
Active conservative	0.80%	0.70%	0.59%	0.49%
Active balanced (with alternatives)	1.04%	0.89%	0.77%	0.66%
Active conservative (with alternatives)	0.89%	0.76%	0.64%	0.54%

Source: Cooper(2010) Super System Review

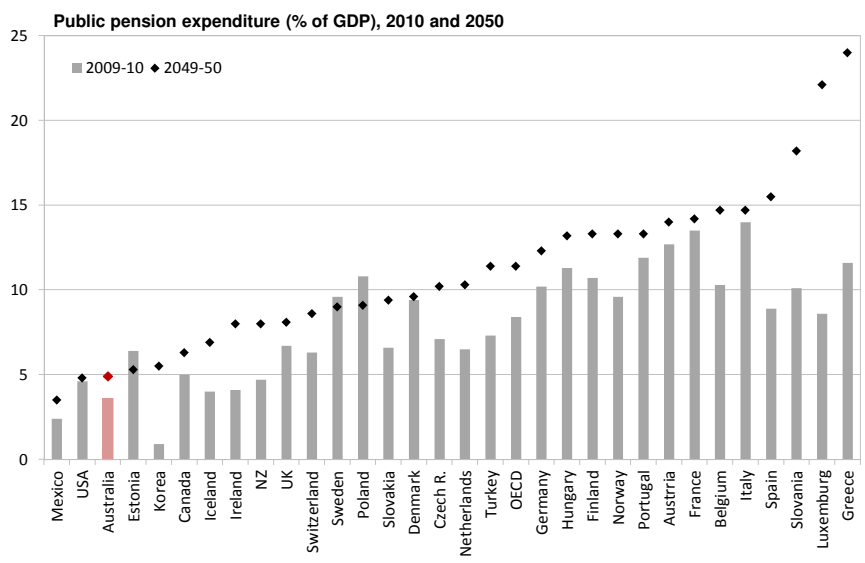
# Risk-sharing



# Adequacy



# Sustainability





## Conclusion

1. System design different to most others
2. Issues
  - New choice architecture for accumulation
  - Still limited decumulation choice or defaults
  - Recent reforms to keep costs low
  - Risk-sharing though age pension & housing
  - Adequacy where it matters
  - Sustainability: third lowest pension expenditure now and in 2050 (but endless battles about tax expenditure)



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