



CSIRO-Monash Superannuation Research Cluster

UPDATE OF THE CSIRO-MONASH SUPERANNUATION RESEARCH CLUSTER PROJECT: IMPACT AND OUTCOMES

November 2016 - May 2017

THE CSIRO-MONASH SUPERANNUATION RESEARCH CLUSTER IS A COLLABORATION BETWEEN CSIRO, MONASH UNIVERSITY, GRIFFITH UNIVERSITY, THE UNIVERSITY OF WESTERN AUSTRALIA, THE UNIVERSITY OF WARWICK, AND STAKEHOLDERS OF THE RETIREMENT SYSTEM, TO DEVELOP A RESEARCH AGENDA THAT ESTABLISHES AN EVIDENCE BASE TO FACILITATE BETTER DECISION MAKING WITH RESPECT TO THE SUPERANNUATION AND RETIREMENT SYSTEMS IN THE INTEREST OF BETTER OUTCOMES FOR ALL.



See all work of the Cluster at www.superresearchcluster.com

WORKING PAPERS

A Modelling Framework for Analysing the Role of Superannuation in Australia's Financial System, WP 2016-09

This paper investigates the implications of an expanded superannuation sector for the Australian financial sector. We undertake detailed modelling of capital adequacy requirements imposed upon the Australian commercial banking sector under Basel III regulations, and the behaviour of the Reserve Bank of Australia. We find that an increase in the Superannuation Guarantee rate drives important short-run structural shifts within the Australia economy: the commercial banking sector expands, while the ratio of debt-to-equity used to finance the residential housing stock rises and Australia's foreign financing requirement falls.

Approaching Retirement: The Categories, Timing, and Correlates of Advice-seeking, WP 2016-10

This paper identifies the categories, drivers and timing of advice-seeking by defined contribution (DC) plan participants as they approach retirement. Empirical analysis of a large Australian database indicates that the relative significance of three categories of advice-seeking changes with age, with administrative matters dominating investment matters and retirement planning prior to the age of 40 years. Retirement planning becomes the most important advice-seeking category from the age of 55–59 years. Other key findings include: changes in economic conditions are not a significant driver of changes in advice-seeking on retirement planning; and men, rather than women, are more likely to seek investment advice, especially as their account balance increases in value. We also examine the implications of these findings for the design of pension plans in their engagement with older participants.

Member Retirement Investment Behaviour and Performance, WP 2016-11

This paper provides a preliminary analysis of performance of employee's workplace superannuation accounts. We utilise a diverse sample of Australian workers drawn from a large national superannuation trust over a time period spanning the global financial crisis. We consider performance in terms of growth in a member's account balance and the relative role of gross contributions and investment returns in the account balance. We investigate the performance of the minority of members who change their investment strategy relative to those who remain in the sub-plan's default investment option. Within a savings scheme which is fundamentally longterm, we highlight the vagaries of short-term performance which is influenced by factors within and external to the member's control.

Retaining Australian older workers - a literature review, WP 2017-01

Against a backdrop of population ageing and with its concerns about the future funding of social welfare systems and availability of labour there is increasing public policy interest in pushing out the final age of labour market withdrawal. Australian research also indicates that there is interest among employers in how to manage their ageing workforces. While there is a substantial recent body of literature concerned with workforce ageing this has yet to be thoroughly distilled for practical purposes. This paper considers the recent literature on older workers' employment from the perspective of what can be learned that will inform the employment practices of Australian business. The report focuses on areas considered critical to the management of an ageing workforce: workplace culture; leadership; individual development; job design; health and well-being; financial and career planning. The report takes a critical stance, noting, for instance, that some of the management literature that purports to help increase employer capacity to respond well to

workforce ageing is simplistic and unsupported by a solid evidence base and therefore unlikely to be very effective. Nonetheless, useful lessons for employer practice are identified.

Retaining Australian older workers - a guide to good practice, WP 2017-02

This paper provides a practical guide to employing older workers based on the recent research literature. The ageing workforce will create major challenges for Australian employers. Forecast labour shortages will see competition for skilled labour increase greatly. Success will depend upon being able to attract and retain skilled older workers. The framework offered in this report provides practical, every day, guidance for managers in tackling workforce ageing issues. Actions business can consider identified in the guide include developing a workforce culture that does not discriminate against older workers, urging efforts from both top managers and line managers in supporting older employees, providing them with training, promoting worker health, designing jobs that fit their needs, offering sufficient recognition and rewards to workers, and assisting their financial and career planning.

When Public Private Partnerships (PPPs) Turn Sour: Australian Evidence

This study examines some of the challenges facing Public Private Partnerships (PPPs) in Australia. Specifically, we consider the characteristics of projects when the private and public sectors experience unexpected financial losses. We estimate that 35 out of 155 PPPs (ie. approximately 22.6%) report additional financial costs after the financial close date of the transaction. We find that projects that receive availability payments from government are just as likely to be problematic as projects that earn revenues from market based demand. PPPs exposed to market demand disclose significantly larger losses than PPPs that receive an availability charge revenue stream. When we examine PPPs based on their industry, we reveal that the problematic PPPs are dominated by projects in the transport sector (exposed to market demand based revenues). It is unclear whether there is commensurate excess returns to the private sector from successful PPP projects to offset the associated losses with the problematic PPPs in this study. The lack of disclosure and transparency in the financial reporting of PPPs remains a formidable barrier in answering this essential question and remains a significant obstacle to attract new equity investment in Australian PPPs in the future.

Milestone Birthday Events and Retirement Investment Behaviour, WP 2017-04

This paper investigates individuals' investment behaviour in their retirement savings surrounding milestone ages. Age is expected to play a key role in influencing investment choices, primarily through the risk of the investment strategy reflected in the asset allocation. Less clear is what particular age this occurs at or whether it is a smooth, incremental adjustment. We investigate whether milestone ages, that is those ending in "0" or "5", play a role in the propensity to make investment changes. We utilise a large Australia retirement savings fund which provides the history of investment changes of a diverse sample of workers. We do find a clear role for age in the propensity to make investment changes. Pervasive milestone effects are not observed but we do observe some ages suggestive of milestone effects which are otherwise inconsistent with the expected age relationship. We also find a difference between genders surrounding the 50th milestone age.

Later-life employment and retirement: Individual perspectives and employer mediations, WP 2017-05

Public policymakers, advocacy groups and commentators point to a gradual withdrawal from working life as having benefits for both employers and workers. This may lead to a number of later-life transitions, including reductions in working hours or changes in occupation. These raise questions about the experiences of workers when they make such transitions and how these fit in with other areas of their lives, including informal family caring, volunteering and leisure. It is important to understand these experiences in terms of their impacts on economic resilience and wellbeing.

EVENTS

STAKEHOLDER MEETING

The final stakeholder meeting was held on 5 December 2016. In it, stakeholders discussed the latest work from Cluster researchers:

- Retirement savings Trajectories 3: an analysis of the experience of fund members Part 3 performance (Dr Jimmy Feng, Monash University)
- The impact of changes in wealth on elderly health and well-being (Prof Anthony Harris, Monash University)
- Financial decision making of the elderly (Dr Sonja Kassenboehmer, Monash University)
- Cognitive decline and financial decision making (Dr Sonja Kassenboehmer, Monash University)
- Employer age management practices (Prof Philip Taylor, Federation University)
- Translating knowledge for Practice (Prof Philip Taylor, Federation University)
- Behavioural economics and digital financial services (CSIRO team)

ANNUAL CONFERENCE

The annual CSIRO-Monash Superannuation Research Conference was held on 6 December 2016, with assistance from the Australian Centre for Financial Studies, The Symposium brought together researchers, industry participants and policy makers to examine a range of complex behavioural, policy and economic issues relating to superannuation.

Key topics addressed at Conference were: the relationship between superannuation and macroeconomic growth and stability; advice, financial literacy and member experience; reforming pension fund governance; the performance of unlisted infrastructure and hedge funds; superannuation drawdown behaviour; Indigenous retirement outcomes; the implications of changes in wealth on health and well-being for ageing Australians; and employer age-management practices.

Public policy outcomes — what's missing in action?

Karen Chester, Deputy Chair, Productivity Commission

In her opening address to the Symposium, Karen Chester highlighted the critical need for the ‘three Es’ — evidence-based research, evaluation and experimentation — in producing good public policy outcomes.

Indicating that she has been aware of the value of good public policy since studying economics at university and working with senior advisers to the Hawke Government, Ms Chester stressed the

important need to return to economic reforms to address the slump in Australia's productivity growth over the past decade.

She also noted that the Productivity Commission recognises the value of the evidenced-based research in illuminating policy design, and for this reason the Commission has been a keen supporter of the Cluster's superannuation research, particularly as it has been undertaking a review of 'Superannuation Competitiveness and Efficiency'. Ms Chester said that despite the seismic demographic shifts underway, limited work has been done on the policy implications of an ageing population and she called for a holistic review of retirement incomes.

Superannuation and the economy

Dr Rob Waschik, Victoria University

Dr Waschik presented the research by Victoria University researchers (Dr Jason Nassios, Prof James Giesecke, Prof Peter Dixon and Prof Maureen Rimmer) which uses an enhanced CGE model to determine the implications of an expanded superannuation system for the Australian financial sector. He indicated that an increase in the Superannuation Guarantee rate drives important short-run structural shifts within the Australia economy: the commercial banking sector expands, while the ratio of debt-to-equity used to finance the residential housing stock rises, and Australia's foreign financing requirement falls. Dr Waschik also highlighted the implications of these structural shifts for Australia's macroeconomic stability and future economic growth. He identified multiple channels through which a rise in the SG rate impacts macroeconomic stability including a rise in the level of private-debt-to-income and a reduction in Australia's net foreign financing requirement.

Member behaviour – contributions, gender, advice

Prof Gordon Clark, University of Oxford

Prof Clark's presentation focused on the role of financial literacy and experience in determining individuals' decisions to save, seek financial advice and plan for their future. He indicated that there were three main events which trigger people's decisions to seek financial advice: encountering the preservation age (at 55 years); nearing retirement age; and reaching the age of entitlement for the age pension. An individual's health experience is another key trigger for decisions to take financial advice and seek income protection insurance, and this is more important than the level of financial literacy.

Prof Noel Whiteside, University of Warwick

Prof Whiteside noted that without reforms in governance, pension funds markets are unlikely to drive down their own costs. She said that despite UK active funds management firms achieving average profits of around 35 per cent over the 2010–15 period, fees for investors have remained unchanged. Prof Whiteside also suggested that governance reform is critical to ensure employers are providing the best pension fund systems for their employees. She highlighted the existence of buyers' side weaknesses and the difficulties that have arisen in the UK due to: the value of potential annuities falling significantly post-Brexit; and the explosion of quasi-mandatory personal pension savings schemes.

Investment – unlisted infrastructure, hedge funds

Assoc Professor Robert Bianchi, Griffith University

Assoc Prof Bianchi examined the performance of unlisted infrastructure/PPPs and the determinants of their success or failure. He noted that while some of the largest pension funds around the world are making huge allocations to unlisted infrastructure, there is little understanding of its performance and there is no accepted index of unlisted infrastructure. He indicated that of the 147 PPPs that have taken place in Australia, 22 have failed and his research has identified the key stages at which these projects failed. These are: SPV; Construction; and Operations and Maintenance. He stressed the need for public disclosure in this area as the public bears the costs of these failures, which have totalled \$11.2bn in Australia to date.

Assoc Prof Paul Lajbcygier, Monash University

Prof Lajbcygier noted active management should be evident through nonlinear exposure to the systematic risk factors that drive hedge fund returns, which then leads to enhanced performance. However, his research indicates that approximately two-thirds of hedge funds exhibit only linear factor exposures and hence are 'passive'. Interestingly, these 'passive' managers tend to outperform 'active' managers. He also indicated that hedge fund clones that can mimic hedge fund indexes offer a potential solution to investors, as they can provide alternative beta exposures without the high fees and low liquidity associated with hedge fund investing.

Member outcomes – drawdown, Indigenous

Dr Andrew Reeson, CSIRO

Dr Reeson addressed the issue of retirees' superannuation drawdown behaviour. This research by CSIRO uses Australian Taxation Office data on APRA-regulated funds and SMSF members aged in their 60s and 70s to better understand retiree behaviour, and it effectively dispels some common myths about retirees. Dr Reeson said it appears that most retirees are focused on maintaining their balances in retirement and even those with the smallest superannuation balances are drawing down close to the minimum amounts required each year.

Assoc Professor Robert Bianchi, Griffith University

Assoc Prof Bianchi outlined the findings of the first generation study undertaken by Griffith University researchers on Indigenous superannuation and retirement outcomes. This research examining the lifetime impact of earning differences on retirement outcomes reveals a striking retirement wealth gap between Indigenous and non-Indigenous Australians of around 27 per cent; and retirement outcomes for Indigenous men are similar to those of non-Indigenous women. Assoc Prof Bianchi highlighted the important need for more superannuation funds to collect data on Indigenous members in order for further research to be conducted in this area.

Retirement – labour market, health

Prof Anthony Harris, Monash University

Prof Harris examined the impact of changes in wealth on health and well-being in the retired elderly. Using HILDA data, his research found that wealth in retirement exerts a statistically significant effect on physical and mental health and wellbeing, but the effect is small. He indicated that an increase in wealth during retirement of A\$700,000 predicts a gain in overall health equivalent to the predicted difference in health status between age 70 and 71 in the ordinary linear regression model.

Prof Philip Taylor, Federation University

With the growth in the working age population slowing sharply, Prof Taylor examined the options for employers concerned about the potential shortage of skilled workers and the barriers to employment for older workers. He noted that although the Human Rights Commission argues that age discrimination is a key barrier to employment for older workers, he believes that an equally important issue for older workers is having the right skills. Prof Taylor argued that businesses should strive to become age-neutral, ensuring that older workers are not treated differently but are valued and supported and given access to learning opportunities. Opportunities for flexible working should also be provided across the working life.

Panel session: Lessons for the finance industry

Jeremy Duffield (SuperEd and Chair of the Stakeholder Group), Craig Keary (AMP Capital), and Angela MacRae (Productivity Commission)

Ms MacRae said that a key focus of the Productivity Commission was on evidence-based research with real-world applications, similar to that of the Cluster. She cited the Cluster's myth-busting research on retiree drawdown behaviour as a key example of the sort of research which is very helpful for policy makers.

Mr Keary indicated that the formation of the Cluster reflected the important need for greater collaboration between industry and academia. He said that while these relationships had come a long way over the past three years, the dialogue needs to continue and there is a huge obligation on industry participants to ensure that all retirees are beneficiaries of the superannuation system.

Mr Duffield said that collaboration between the Cluster's research partners and industry stakeholders was a key element of its overall objectives and a critical measure of its success. He indicated that superannuation is an important issue for society and ongoing research in this area is crucial. Mr Duffield noted that he used a six-point model to assess the impact of the Cluster project and, on this basis, he believed it had achieved outstanding results. The model is:

- Relevance — is it relevant to issues that matter to policy makers, business decision makers and consumers?
- Insights — is there significant new and powerful evidence?
- Communication — can participants understand and communicate the findings?
- Stakeholder response — does it get stakeholders' attention?
- Action — does it result in different decision making by business and policy makers?
- Legacy — does it create synergistic benefits that grow and self-perpetuate?

IMPACTS

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