



SMITH SCHOOL OF ENTERPRISE
AND THE ENVIRONMENT



The Demand for Advice in Australian Defined Contribution Pension Plans



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Something to Ponder

“The major inefficiency in financial markets today involves the market for investment advice, and poses the question of why investors continue to pay fees for asset management services that are so high. It is hard to think of any other service that is priced at such a high proportion of value.”

Malkiel, B.G. 2013. Asset management fees and the growth of finance. Journal of Economic Perspectives 27:97-108.



Introduction

Defined contribution schemes make heavy demands on participants' decision-making skills

- Saving for the future
- Risk and uncertainty
- Adapting to a changing environment.

Participant Skill and Expertise

- Variable between participants
- Prompting (a) inertia or (b) over-confidence
- As well as the search for advice
- Typically reliant upon 'trusted' friends and relatives.



Third Party Advisory Services

- Often-times confounded by conflicts-of-interest
- Aimed at high net-worth individuals
- Often part of a set of services
- Biased in favour of 'change' rather than confirmation of commitment.



Our Project I

- Focused on advice-seeking
- Where the ‘agent’ is beneficial in intent
- With no incentive to “sell” services
- And no incentive to “change” asset allocation, etc.



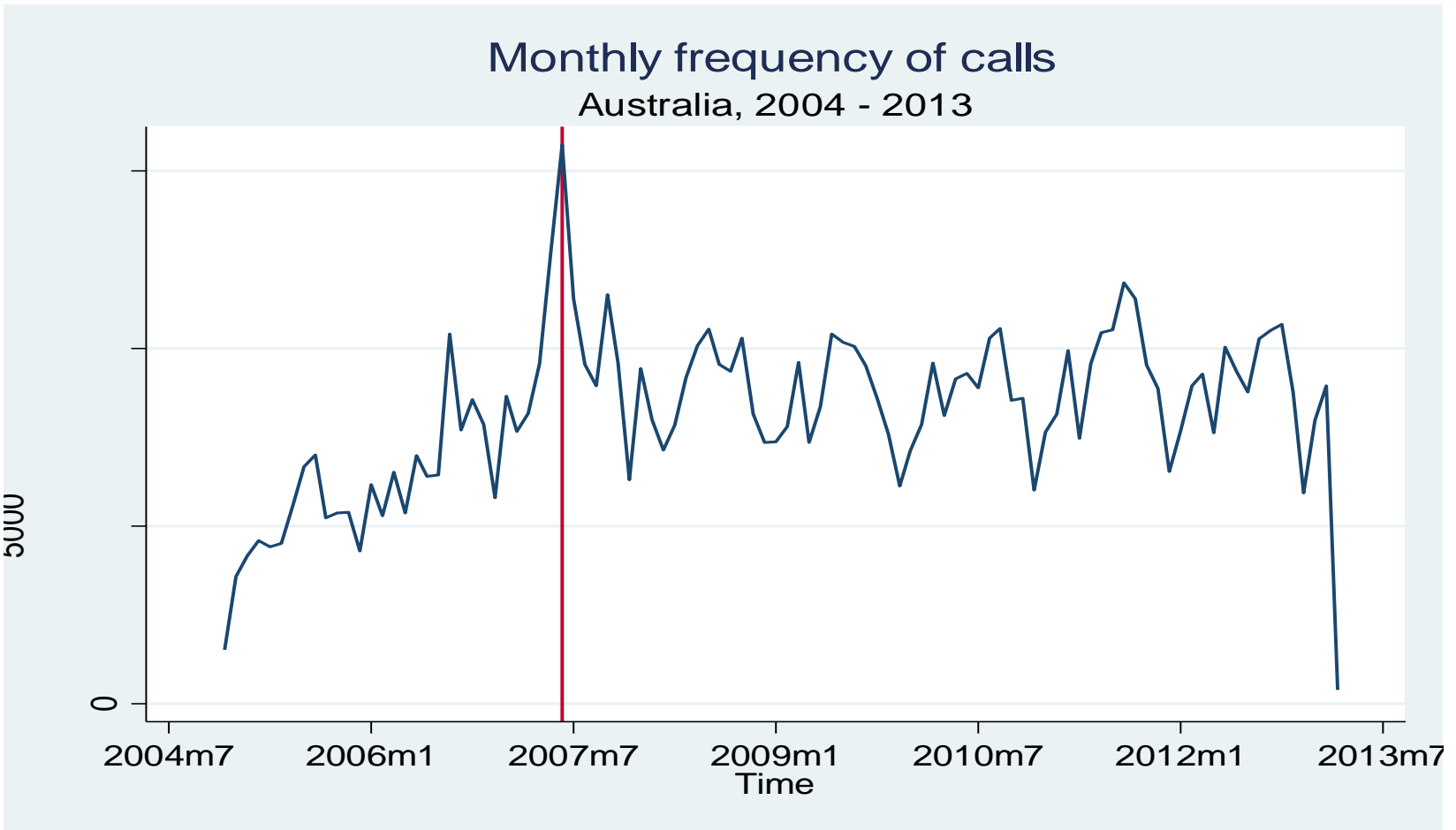
Our Project II

- Reliant upon Mercer (Aus) data-base
- More than 560,000 individuals, 2002-2013
- Including low paid through to high paid
- Responsive to participants rather than “priming” advice requests.

Who seeks Advice?

- In theory, Life-cycle (age), Salience, Account-balance effects (contentious)
- Sensitive to gender, male and female
- Spread over time, i.e. 2002-2013
- And focused upon a specific event, June 2007.

When, How, Why?



Key Findings I

- Volume dominated by day-of-the-week effect
- A significant seasonal effect (holiday period)
- With one singular event clearly evident
- No evidence of a relationship between advice-seeking and changes in macroeconomic conditions.

Key Findings II

- According to the probability of advice-seeking (2004-2013)
- Older than younger, higher than lower account balance
- Longer than shorter in the fund, (sometimes) higher than lower salary
- More likely women than men.

Key Findings III

- With the introduction of the web facility
- Bias towards younger than older, lower than higher account balance
- More often men than women
- Those that use the call and web facilities are also slightly younger than older, etc.

Key Findings IV

- Early notification of the intention of government to change tax treatment of superannuation
- Calls peaked in the three weeks prior to the implementation of the policy regime
- Older than younger, higher than lower salary, women rather than men, and higher than lower account balance
- These effects are more pronounced than the findings for the entire period.

Key Findings V

- Is there continuity over the entire period?
Largely YES and partly NO
- Were our expectations confirmed?
Largely YES and partly NO
- Does the 'medium' matter?
YES rather than NO
- Is advice-seeking predictable?
YES

Broader Considerations

- Why procrastinate given the long lead time to the change in tax policy?
- Is it simply caution, rather than risk aversion?
- Notice the importance, for women, of talking to a person rather than surfing-the-web
- Is this an issue of 'emotion' or is it an issue of 'trust'? Are these two issues the same, for some people?

Conclusions

- Over the period ~45% called at least once
- Initial surge in web registration but then a tailing-off in interest
- How can men be mobilised? Would it be effective to 'channel' them from the web to calling?
- Important to develop an experimental testing regime to better understand the initiation of interest, the responsiveness to issues, the continuity of interest regarding gender, account balance, experience, age, etc.

Selective References

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