Media Release

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Time to rethink risk in retirement, says AustralianSuper

A far reaching review of AustralianSuper's default investment option has cast new light on appropriate age-related risk levels for retirement investors.

AustralianSuper's review compared the risks and benefits of its current default investment option, the Balanced option, to several others, including its own options and different types of default options, such as age-based and target date funds. The latter are currently the dominant default model in US pension funds.

More than 80 per cent of AustralianSuper's $30 billion under management is invested in the default investment option.

"One of the key findings of the review was that it can be detrimental for members to reduce their investment risk once they retire. In response, we have not only retained the Balanced option as AustralianSuper's default investment option for accumulation members, we have introduced an age-based default for our pension product," said AustralianSuper Chief Executive Mr Silk.

Risk of reducing risk too soon
Factoring in long term investment return trends, longevity, Australia's Age pension and members' appetites for risk, the review demonstrated that in a default investment option context, members could be significantly better off if they stay with the Balanced option until well into retirement.

This is counter to the commonly accepted view which suggests that once members reach age 55 to 60, they should consider moving into lower risk – and lower return – investment options.

The new age-based default for pension
New age-based default investment option arrangements for members of AustralianSuper's Pension product will commence on 1 July 2010. After this date members, who have not made an investment choice will transition from the Balanced option to the Conservative Balanced option when they reach age 75. This change recognises that when members are in later retirement and their balances may be quite depleted they have a shorter investment horizon in which to smooth out any short term peaks and troughs in investment returns.

Retirement income vs retirement balance
The concept of 'retirement income' as distinct from 'retirement balance' was central to the analysis. Given most members' long investment horizons, which increasingly continue beyond retirement, the review highlighted that it is important to invest with the objective of providing the highest possible retirement income for the longest possible period, rather than simply maximising the account balance at retirement.

“We realised it would be short-sighted to compare default options on the basis of account balances they would provide at retirement, because members’ savings often remain invested for many years after they retire. They have increasingly long investment horizons and they are also cushioned by the availability of Australia’s Age pension,” said Mr Silk.

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