

BETTER REGULATION AND GOVERNANCE, ENHANCED TRANSPARENCY AND IMPROVED COMPETITION IN SUPERANNUATION

Submission in response to the Discussion Paper

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Dear Manager,

Please find attached a submission in response to the Better Regulation and Governance, Enhanced Transparency, and Improved Competition in Superannuation discussion paper.

The submission draws on research underway at the Productivity Growth program at the Grattan Institute. The final Grattan report may update the analysis and recommendations made in this submission.

The submission focuses on Part 3 (Enhanced Transparency) and Part 4 (Enhancing Competition in the Default Superannuation Market) of the Discussion Paper.

I would be happy to discuss any of the analysis and issues raised in this submission.

(signed)

Jim Minifie

Executive Summary

Australia's superannuation system is high cost given its scale.

Most jurisdictions that run defined contribution ('DC') systems have structured the default market to drive price-based competition. Many allocate funds to risk-return classes based on asset allocation. Some jurisdictions run a wholesale, price-based competition to select a single default fund or a shortlist of funds that are then used as defaults.

Information on fees and asset allocation is of paramount importance in assessing superannuation products because they are the major drivers of net returns. Few funds outperform for long, controlling for fees and asset allocation.

In seeking to enhance transparency and improve competition, regulators should give close attention to fees and asset allocation. A range of options can be considered to drive fees lower without compromising asset allocation or choice.

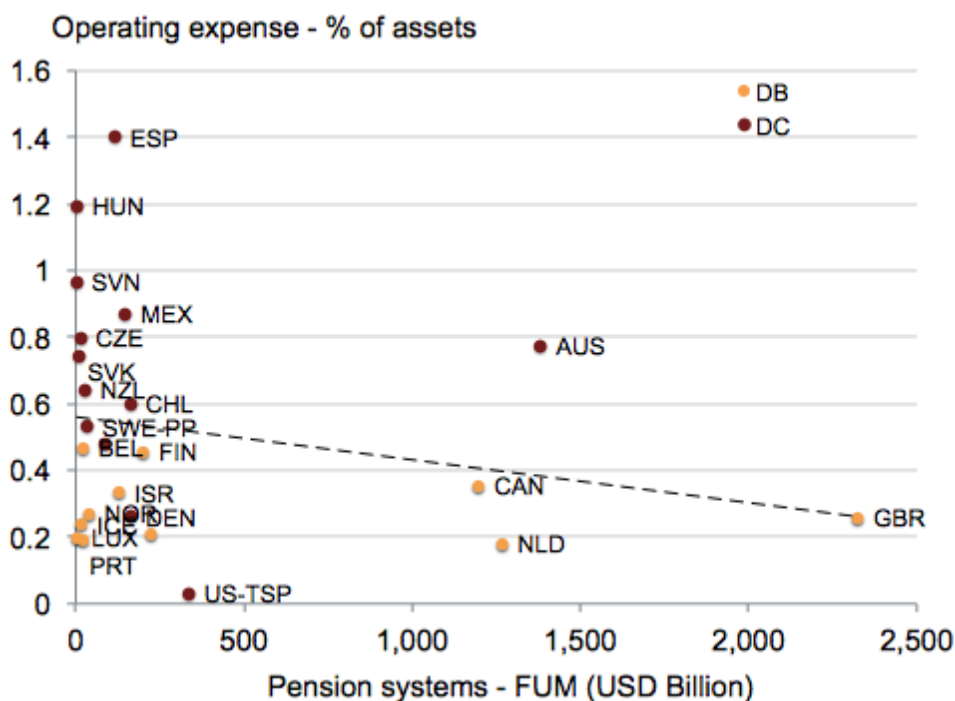
1. All MySuper and choice products should be allocated to a risk-return class based exclusively on asset allocation.
2. The choice and MySuper dashboards should display the risk-return class suggested in 1 above, and give strong emphasis to fees and asset allocation.
3. MySuper products in each risk-return category should be prequalified via tender or auction.
4. The ATO should host a superannuation choice platform that taxpayers would visit at the time of submitting their tax returns. The platform would permit taxpayers to compare their current product with alternatives and select alternatives.

1. Cost, comparability and default competition in Australia and peers

Australia's superannuation system is costly given its size. Figure 1 shows that:

- Larger systems are typically able to achieve lower costs.
- 'Defined Contribution' (DC) systems typically report higher costs than 'Defined Benefit' (DB) systems.
- There are striking differences in costs across DC systems of similar scale. Some DC systems that are a tenth the size of Australia's have costs little more than half of Australia's.

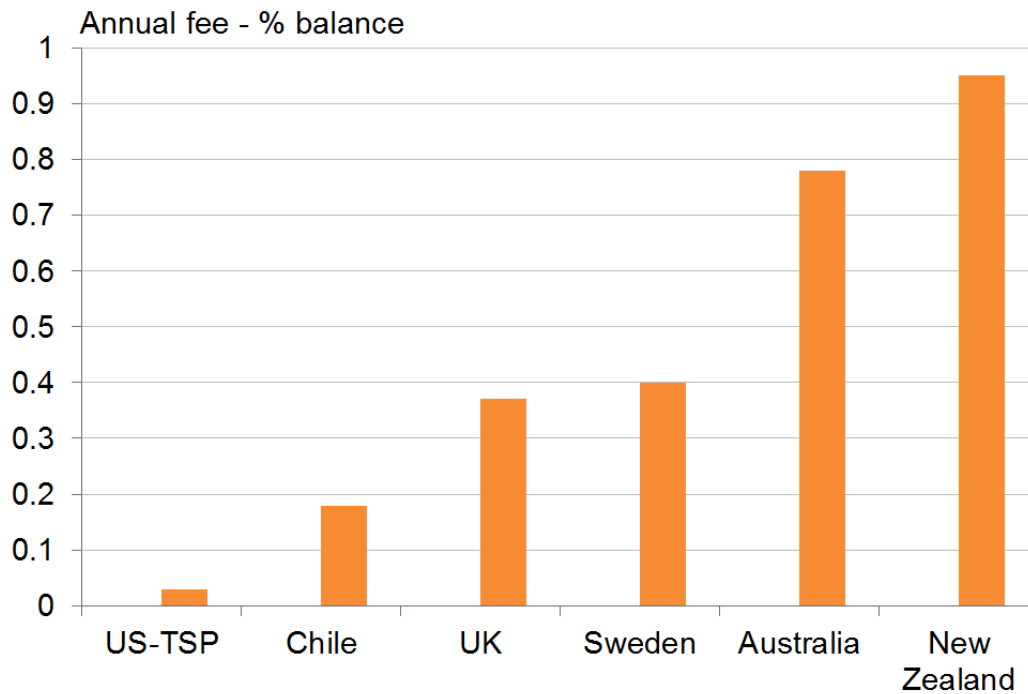
Figure 1: Costs vs FUM for major funded retirement systems.



Note: *US-TSP (Thrift Savings Plan) is the DC fund for US public servants.
 Source: Country sources for US Thrift Savings Plan (US-TSP), Swedish Private Pension (SWE-PP), Denmark. OECD for others. Year: 2012 or latest.

Fees on default products in Australia far exceed those in some comparable jurisdictions, as shown in Figure 2.

Figure 2: Fees on default products in a sample of comparable jurisdictions¹.



Note: As of Dec 2013/Jan 2014. Assumptions were made to convert % contribution fees to annual funds under management fees. Australia: WAC of industry, corporate and public sector funds. NZ: WAC of five default funds. Source: Thrift Savings Plan, Superintendencia de Pensiones, UK NEST, Swedish Pensions Authority. APRA, NZ FMA.

The low-fee jurisdictions do not use the current Australian approach to competition for defaults. They are more directive about the asset allocation of default retirement products, and also take a more active role in driving price competition than do Australian authorities. Many of them:

1. Run the default fund themselves;
2. Let, for competitive tender, the provision of the default fund;
3. Set guidelines for asset allocation in default products;
4. Define risk-return categories based exclusively on asset allocation;
5. Administer choice (eg by centralising customer accounts through the tax office).

¹ See Appendix 1 for detail on selection of countries

Table 1 shows that regulators often structure competition using one or more of these approaches. For example, The Chilean default is awarded in a biennial tender to the lowest bidder. The remaining low-fee defaults (US TSP, UK & Sweden) are all government-run. New Zealand use a tender which places some weight on fees in selecting default funds. Typically these systems achieve lower costs that achieved in Australia.

Table 1: Approaches to shaping competition in selected DC systems.

Country	US TSP*	Chile	UK	Sweden PP	Aus	NZ Kiwisaver
Government runs the default fund	✓		✓	✓		
Government tenders for provision of default to one or more private funds		✓				✓
Government sets guidelines for asset allocation in default products	✓	✓	✓	✓		✓
Use categorical risk-return measure for retail investors to compare products	✓	✓				✓
Administer retail choice (e.g. via tax office or choice platform)	✓			✓		
Government agency collects contributions	✓			✓		✓
Weighted fees (% FUM)	0.03%	0.6%	n/a	0.53%	0.87%	1.2%

Source: Grattan analysis of APRA data, NZ FMA, Superintendencia de Pensione, UK NEST, Swedish Pensions Authority, Thrift Savings Plan (TSP). See Appendix 1 for discussion on why these systems were chosen. *The TSP is a large fund for US federal employees..

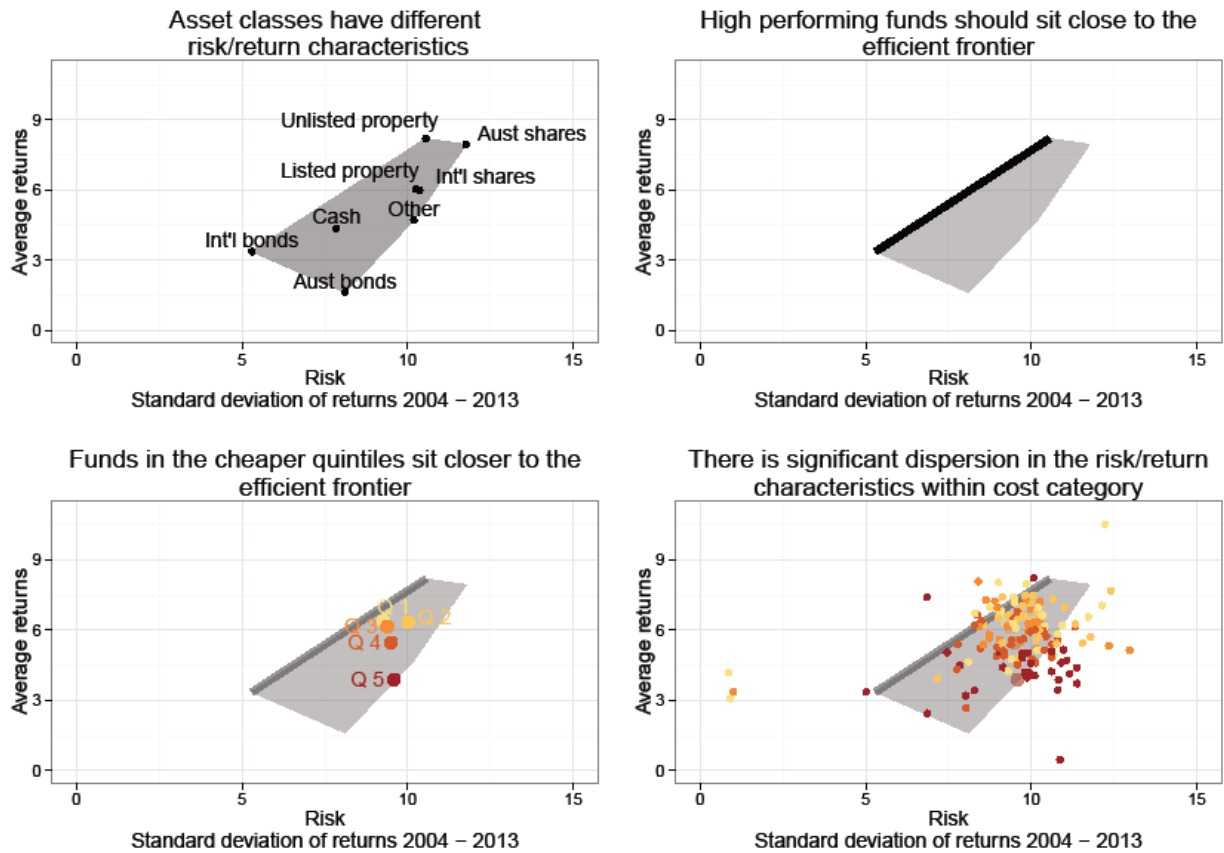
2. Risk, return, asset allocation and fees in the Australian Superannuation system

Fees and asset allocation are critical to the assessment of superannuation funds. This section shows that:

- On average, high-fee funds earn lower net returns than others, without reducing risk;
- Many funds achieve lower returns or higher risk than they would have achieved by a diversified holding of asset classes;
- There is some persistence in the outperformance of individual funds;
- Almost all of the outperformance is due to measurable asset allocation and to fees.

Figure 3 plots 10-year performance on returns (net of all fees) and volatility.

Figure 3: Risk, return, asset allocation and fees in Australian superannuation funds.



Source: preliminary Grattan analysis of APRA data on superannuation funds, 2004-2013. Q1 is the lowest-cost quintile of funds; Q5 the highest-cost.

The top panels show the performance achieved by the full range of asset classes in which Australian superannuation funds are invested (top left). They show that some asset classes delivered high returns and high risk (eg Australian shares); others delivered low returns and low risk (eg International bonds). Combinations of the best asset classes define an (ex-post)

risk-return frontier (top right panel). Other asset classes delivered lower returns or higher volatility than a combination of the best asset classes would have delivered.

The lower panels show the performance of superannuation funds. An important finding (lower left panel) is that high cost funds, on average, have almost identical volatility to lower-cost funds, but earn significantly lower returns. The lower right panel shows that high fees are the major driver of low net returns at the fund level over the period: few funds in the highest-fee decile achieved performance that was close to or above the efficient frontier.

It can also be seen (on the lower right panel) that many funds generate lower returns, or higher risk, than could be expected from a diversified holding of even the less attractive asset classes. They achieve this by poor selection within asset classes or by high fees.

It is sometimes noted that some superannuation funds consistently outperform their peers.² Grattan's analysis of historical super fund performance shows that persistent outperformance is minimal once asset allocation and costs are taken into account. Indeed, adjusting for asset allocation and costs, the average high-performing fund can be expected to yield slightly below-average returns in future years.

Analysis of APRA's fund-level superannuation dataset using a panel data instrumental variables model shows that:

- Returns net of fees exhibit serial correlation. A fund that outperformed by 1 per cent last year outperforms by an average of 0.3 per cent this year.
- Asset allocation accounts for most of the serial correlation in returns. A fund that outperformed its peers holding similar amounts of each asset class by 1 per cent last year outperforms by 0.1 per cent this year.
- Funds with low fees consistently outperform others with the same asset allocation. Funds that charge 1 percentage point more in fees only generate 0.6 percentage point higher gross performance, so net returns are reduced by 0.4 per cent.³
- At the average rate of decay of outperformance, the average outperforming fund will drop to within 1 basis point of average returns within 2.2 years, after controlling for observable asset allocation and fees.

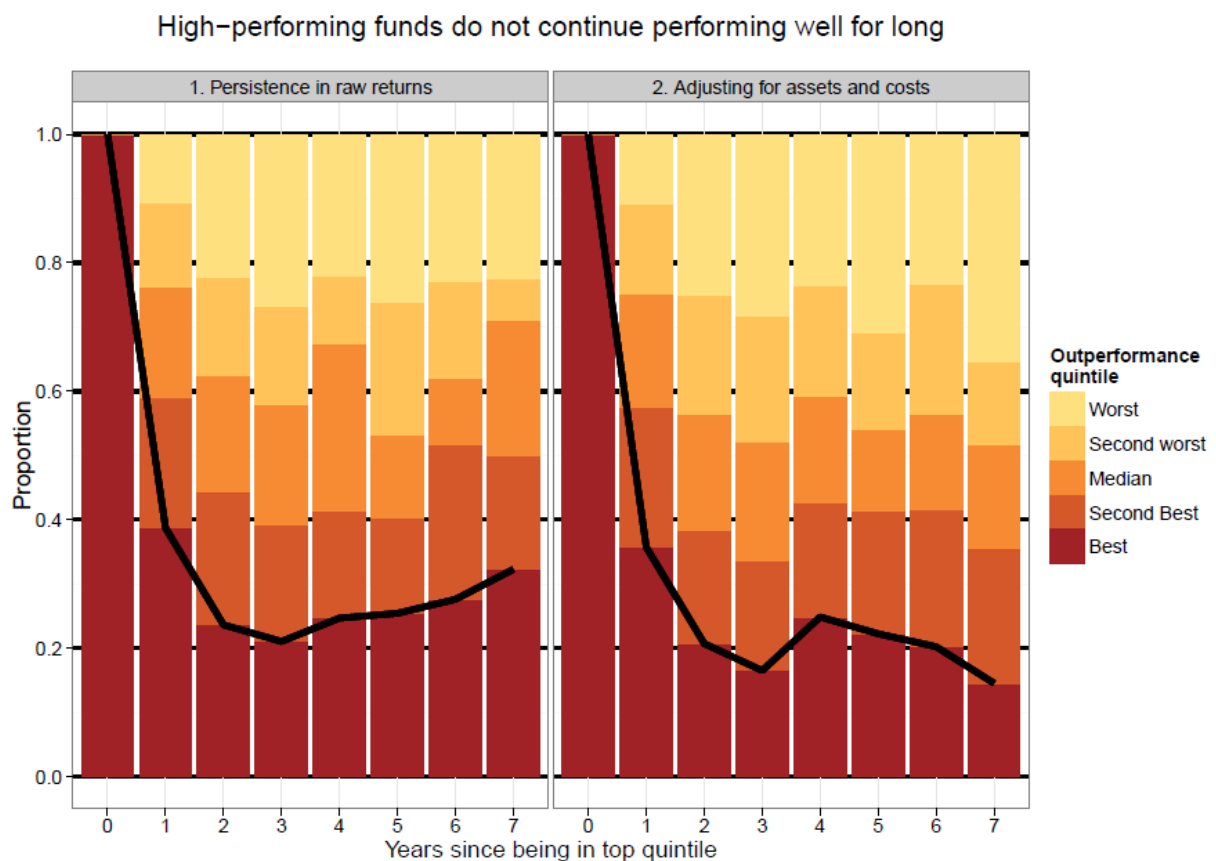
² Deloitte Access Economics (2012) 'Persistence in superannuation fund returns', commissioned work.

³ Costs in a given year may be strongly related to returns due to fund behaviour. During good years, there may be less pressure to rein in costs. To minimise this bias, we instrument fund costs with the portions of costs a fund is most likely to want to minimise -- lagged administration costs, audit costs, and actuarial costs. All statistical analysis and data is available on request.

Figure 4 below shows that outperformance is fleeting. The chart tracks the performance of funds that are in the top quintile of returns in one year across the subsequent years.

- The left panel tracks actual returns after costs. It can be seen that a fund that is among the top quintile in a given year has about a 40 per cent chance of being in the top quintile the following year and a 60 per cent chance of being in the top two quintiles. In the second and subsequent years, returns are only slightly more likely than chance to belong to the top two quintiles.
- The right panel of Figure 4 shows that the funds that are in the top quintile of performers in a given year, are more likely to be underperformers in following years, adjusting for the persistence of asset allocation and fees.

Figure 4: Persistence in super fund outperformance



Source: Grattan analysis of APRA (2014) *Superannuation Fund-level Profiles and Financial Performance*

Note: Year 0 is the first year in the sample that a fund is in the top quintile in terms of net returns. In subsequent periods, it could be in any quintile of returns. If returns are persistent, funds that outperform in period 0 should also outperform in subsequent periods, and the proportion of formerly-high performing funds in the two best quintiles should be greater than the proportion predicted by chance (0.4). More than one year out, this is not the case.

3. Options to enhance comparability and improve competition

The findings in Section 2 show the prime importance of fees and asset allocation in determining past volatility and returns of individual superannuation funds. They also show that the return history of an individual fund (after controlling for fees and asset allocation) is not informative about its future returns.

These observations are highly relevant to the selection of superannuation funds. They demonstrate that:

- Asset allocation (and diversification within assets) can be used to group funds by expected returns and volatility;
- Returns net of fees are a better yardstick than gross returns;
- Returns net of fees, in a risk-return class, are an even better yardstick.

None of these observations should be surprising or controversial. They amount to proposing that account holders, or those responsible for selecting defaults, should select funds that charge low fees and provide diversified exposure to asset classes that are appropriate given risk tolerance.

This section puts forward a set of related options that may be attractive in *enhancing* transparency and *improving* competition across both the default and choice sectors of the superannuation market. They are intended to intensify pressure on fees, clarify the risk-return tradeoff, and sharpen incentives for fund managers to compete on net returns and volatility.

The proposals, in summary, are:

1. All MySuper and choice products should be allocated to a risk-return class based exclusively on asset allocation.
2. The choice and default dashboards should display the risk-return class suggested in 1 above, and give strong emphasis to fees and asset allocation.
3. MySuper products in each risk-return category should be prequalified via tender or auction.
4. The ATO should host a superannuation choice platform that taxpayers would visit at the time of submitting their tax returns. The platform would permit taxpayers to compare their current product with alternatives and select alternatives.

Proposals 1 and 2 relate to both the 'enhanced transparency for choice products' and 'improved competition in the market for defaults' parts of the discussion paper. Proposal 3 is more focused on competition in the market for defaults and Proposal 4 is more focused on transparency. One further option, not detailed here, is the government default that tenders out wholesale funds for management. As noted above, that model is used in some other systems and can save on administration costs and drive savings through wholesale competition. It could also be considered as a way to improve competition in the market for defaults.

We now briefly detail each proposal.

Proposal 1: All MySuper and choice products should be allocated to a risk-return class based exclusively on asset allocation.

A government body should classify each superannuation product into one of a small number of risk-return classes: international experience suggests five may suffice. As shown in Table 1 above, many jurisdictions that operate tax-advantaged, DC systems mandate that funds be allocated into risk-return classes. In Chile and New Zealand, as well as in the US Thrift Savings Plan, and in other countries, each product option is categorised into a risk-return class based on its asset allocation.⁴ Sweden displays the historical volatility of individual products.

Risk measures based on asset allocation are objectively verifiable by third parties. For most assets there are long time series for the asset class and for a range of funds with exposure to it. The return and volatility of diversified funds with exposure to asset classes can provide a stronger basis for forming expectations about future returns and volatility of an individual fund than does its own past performance. They are likely to be more informative than the 'target return' measure that is currently part of the MySuper dashboard.

Consideration would need to be given to what risk-return classes should be eligible for default status. That work should pave the way towards default 'lifecycle' products. They would increase the weight given to safe assets in the portfolio as people approached the drawdown phase. Some products that have asset exposures or management styles without long track records may remain unclassified, and would not be candidates for use as default products.

Once categorised, superannuation products can compete based on fees within their risk-return classes. Proposal 3 below suggests one way in which price-based competition could be enhanced, and Proposal 4 suggests another way.

⁴ See the Appendix for brief discussions of each system.

Proposal 2: The choice and MySuper dashboards should display the risk-return class suggested in 1 above, and give strong emphasis to fees and asset allocation.

The choice dashboard should give prominence to the main drivers of risk and return: asset allocation and fees. Some of the metrics that must now be on a MySuper dashboard do not feature on our proposed dashboard: the ‘level of investment risk’ measure; the ‘return target’; and the comparison between historical returns and ‘return target’. These metrics are difficult or impossible to verify based on objective measures. They are also likely to be less informative about risks and returns across products than a category based on the historical experience of a broad range of funds with comparable asset allocations and diversification within asset classes.

Table 2 below shows the metrics MySuper product dashboards must contain (*) under current law and the metrics that we propose for the dashboard (**). As discussed in proposal 1, the main advantage of using objective asset class measures is that products offered by different providers can then be grouped for the purposes of prequalification as a default, or for retail comparison. Most comparable DC systems use asset allocation to calculate risk-return classes.

Table 2: Dashboard metrics: current MySuper and Proposed (MySuper and choice)

	Metric	Current MySuper Dashboard (*)	Proposed Dashboard (**)	Possible Hybrid Dashboard (***)
Risk/return	Historical net returns (e.g. 1-year, 5-year)	✓	✓	✓
	Historical return of <i>similar</i> * funds		✓	✓
	Asset allocation		✓	✓
	Measure of risk based on historical volatility of <i>similar</i> * funds		✓	✓
	Risk-return category- objectively determined by asset allocation		✓	✓
	'Return 'target' measures	✓		✓
	Comparison between historical returns and 'return target'	✓		✓
Fees	'Level of risk' measure (SRM)	✓		✓
	Hypothetical fees in \$ per year for representative member (50k balance)	✓	✓	✓
	All fees, in whatever format they are charged (% , \$, performance, buys/sell, exit fees).		✓	✓
	Fees relative to benchmark (e.g. lowest fees of funds in risk-return class)		✓	✓

Source for MySuper Dashboard: ASIC⁵. ‘Similar’ funds are those with similar asset allocations and levels of diversification within asset classes.

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<http://www.asic.gov.au/asic/asic.nsf/byheadline/MySuper+product+dashboard+example?openDocument>

Proposal 3: MySuper products in each risk-return category should be prequalified via tender or auction.

MySuper products in each risk-return category should be prequalified via tender or auction. The process manager (whether it be Fair Work Australia, or some other body) would put all APRA-approved candidates to tender or auction for each risk-return class. A subset of funds that tender the lowest fees each asset class would then be available for selection as defaults, while others would be excluded from consideration until the next auction, and would have to compete in the market as choice products.

This proposal would provide a way to exert price pressure through the MySuper qualification process, while avoiding the risk that selection panels would exercise discretion without much accountability.

Tender processes are used to set defaults in Chile (in allocating the right to be the default fund for a prescribed time period) and New Zealand (in allocating the right to be one of five default providers until the following review). More broadly, tenders are a common mechanism for the allocation of funds to wholesale asset managers. For example, the US TSP allocates tranches of funds to wholesale managers for each of its risk-return classes via tender.

The proposed approach can be compatible with employer choice. It would introduce a first aggressive round of price competition. The approach may be particularly useful in the case of smaller employers that are not well placed to assess the different attributes of a long list of prospective default funds on behalf of their employees.

Such an auction process could be adjusted to permit a high degree of employer choice (by letting all but a few candidate funds go on to be offerable as defaults) or to be a very high hurdle (by qualifying one or just a few funds to be offerable as defaults). If employer choice were judged to be prone to excessive marketing and sales activity by funds, a higher hurdle would be appropriate.

Consideration should be given to insurance in MySuper products. It may be appropriate to unbundle or standardise insurance, or to limit the scope of auctions in some cases.

Proposal 4: The ATO should host a superannuation choice platform that taxpayers would visit at the time of submitting their tax returns. The platform would permit taxpayers to compare their current product with alternatives and select alternatives.

The proposal would link and extend existing ATO services (e-Tax, SuperSeeker and the Small Business Clearing House), and add a step to the tax return process. Taxpayers would be provided with an opportunity to review their superannuation product, compare it to competitors, and, if desired, switch providers.

This choice platform should follow these principles:

1. It should confront all taxpayers each year as a routine part of the tax return process;
2. It should provide the information found on the product dashboard of the account holder's current fund and that of other leading funds;
3. It should contain information to educate users of the importance of the different aspects of products (fees, risk, asset allocation, historical returns etc.);
4. It may include all MySuper and choice products, or just those that satisfy requirements for a shortened list;
5. It should enable account holders to switch funds.

The choice platform would help to reach customer groups that currently are not actively assessing their superannuation options, including those on defaults and others. In particular, the platform may help to engage customers who remain on high-fee products.

Appendix: vignettes on country systems.

In selecting which foreign pension systems to focus on, we selected countries that, like Australia, have mandatory or opt-out defined contribution systems. The potential set of comparison countries included the following. “[M]andatory DC pension second pillars are present in a large number of economies, with coverage easily exceeding 100 million participants. In Latin America, economies include, but are not limited to, Chile, Colombia, Mexico, and Peru. In Europe, economies include Bulgaria, Denmark, Hungary, Poland, Sweden, Switzerland, and the United Kingdom. In Asia and Oceania, economies include Australia; Hong Kong, China; and New Zealand.”⁶

We focused on the UK and New Zealand as these countries have many institutional similarities to Australia. We used Chile as a representative of the Latin American countries given Chile was the first mandatory DC system, and the other Latin American systems are modelled closely on the Chilean system. In Europe, we chose to look at Sweden given the very low costs in their system. Hungary and Poland are less relevant given they have wound-back their private DC systems significantly. We also chose to focus on the US Thrift Savings Plan even though it is not compulsory, due to the low costs it delivers.

Sweden: Government administration protects choice and yields low fees

The Swedish private pension system uses centralised administration to reduce administration fees for investors. Account holder funds are aggregated by a government clearing house and allocated ‘wholesale’ to private fund managers.

Swedes make mandatory contributions worth 2.5% of wages to a ‘premium pension’. These funds are paid by employers along with payroll tax and collected through a government operated clearing-house. This administration hub, the Swedish Pensions Authority, (SPA) is the sole provider of individual account administration. The centralisation of administration leads to large economies of scale, the current administrative charge for Swedes is 0.14% (with a cap at the equivalent of AUD \$19).

Swedes can choose to invest their premium pension in a number of funds, a task which is made easy by the single investment-choice platform provided on the SPA website. Rather than have direct relationships with their chosen fund/s, the SPA aggregates member transactions and negotiates wholesale-esque fees for the members.

If Swedes abstain from choosing, their funds are placed in a government-run life-cycle fund. This fund is very cheap, with annual charges ranging from 0.19-0.26% of funds under management (plus the admin fee mentioned above). The existence of a cheap, government-run default along with a central clearing house sets a high bar for private pension providers.

⁶ Impavido, G., Lasagabaster, E. and Garcia-Huitron, M. (2010) New Policies for Mandatory Defined Contribution Pensions, The World Bank

Chile: Responded to excess marketing, now tenders out the right to be the default

The Chilean Government has responded to high costs in their pension system. Chile now uses a tender system that has brought down fees dramatically since 2008. On 27 Jan 2014 a pension provider won the right to enrol new entrants from August on the back of a very competitive bid.⁷ The charge of 0.47% on contributions is the equivalent of a 0.2% annual charge on funds under management according to our modelling.

Chile adopted a mandatory, defined-contribution system in 1980, the first country to do so. Chileans pay 10% of their wage into funds managed by one of a six private asset managers, called AFPs⁸. Each AFP offers four or five different investment options which vary in riskiness and are subject to asset allocation/risk measures imposed by the government.

AFPs are free to set their own fees and charges. Historically, fees have been high due to excessive marketing. “Between 1982 and 1998, average marketing costs for AFPs ranged between 21 and 52 per cent of total expenses.”⁹

In 2008, government reforms standardised account fees to a single metric (% of salary), and created a bidding process whereby the right to enrol all entrants to the pension system for two years was tendered out and awarded to the AFP offering the lowest fees. The tender process run in January 2012 saw the winning fund, Modelo, claim the right to enrol new entrants in the system until August 2014 by offering to charge 0.77% of a participant’s salary in fees. The tender process run on 27 Jan 2014 saw an AFP, Movidal, win the right to enrol new entrants for two years from August 2014. Movidal’s winning bid was 0.47%¹⁰. Default funds can lose their position as the default fund if another fund offers a lower fee for at least two consecutive months¹¹

An example of Chilean product asset allocation rules (2010)

The table below shows maximum investment limits per asset class for each of the five risk-return categories in the Chilean system. The Chilean system also has minimum investment limits, offshore investment limits and other limits for its differing risk-return categories (see footnote for further details)¹².

⁷ <http://www.safp.cl/portal/prensa/579/w3-article-10430.html>.

⁸ There are minimum requirements to operate an AFP imposed by the government. For details refer to http://www.safp.cl/portal/informes/581/articles-8557_recurso_1.pdf

⁹ PC report

¹⁰ <http://www.safp.cl/portal/prensa/579/w3-article-10430.html>

¹¹ Productivity Commission (2012) *Default Superannuation Funds in Modern Awards*, Productivity Commission Inquiry Report.

¹² http://serviciodeestudios.bbva.com/KETD/fbin/mult/WP_1028_tcm348-274420.pdf?ts=2112014

Maximum investment limit by type of fund

Type of security	Fund Type A	Fund Type B	Fund Type C	Fund Type D	Fund Type E
	Riskiest	Risky	Intermediate	Conservative	Most Conservative
Government securities	40%	40%	50%	70%	80%
Term deposits, bonds and other securities representing issues by financial institutions	40%	40%	50%	70%	80%
Securities guaranteed by financial institutions.	40%	40%	50%	70%	80%
Letters of credit issued by financial institutions	40%	40%	50%	60%	70%
Public and private corporate bonds	30%	30%	40%	50%	60%
Public and private corporate convertible bonds	30%	30%	10%	5%	-
Shares in publicly traded corporations and publicly traded real-estate corporations	60%	50%	30%	15%	-
Shares in publicly traded corporations, units in investment funds and units in mutual funds that do not require approval from the Risk Classification Commission	3%	3%	1%	1%	-
Units in domestic investment funds and mutual funds.	40%	30%	20%	10%	-
Commercial paper issued by companies with a maturity of no more than one year, non-renewable	10%	10%	10%	20%	30%
Investment in foreign currency without foreign exchange hedging	40%	25%	20%	15%	10%

Source: Pension Superintendency

US TSP: Govt-run front end brings access to wholesale mkt and fees 1/20th of average in Australia

Employees of the US federal government, including uniformed forces, are eligible to enrol in the Thrift Savings Plan (TSP). This is a defined-contribution retirement savings plan that allows limited choice, with only 10 products offered, but in return secures incredibly low costs for members. The TSP aggregates savings, similar to the Swedish model. Funds are managed by wholesale private-sector fund managers, who are selected through a tender process. There is a focus on passive index funds that track the returns of assets with different risk profiles. This results in an incredibly low all-in cost ratio of 2.7 basis points.

While these costs are extremely low and should reset expectations, in part they reflect inherent scale economies that are difficult to replicate fully in more decentralised systems. The US federal government, as the sole employer engaging with the TSP, has large economies of scale, reducing administrative overhead.

However, the additional costs of serving multiple employers does not have to be anywhere near as high as the costs in the current Australian system. For example, the Swedish Pensions Authority provides full access to hundreds of funds for administration costs of around 14 basis points.

US TSP: Fund asset allocation matrix¹³

	G Fund	F Fund*	C Fund*	S Fund*	I Fund*	L Funds**
Description of Investments	Government securities (specially issued to the TSP)	Government, corporate, and mortgage-backed bonds	Stocks of large and medium-sized U.S. companies	Stocks of small to medium-sized U.S. companies (not included in the C Fund)	International stocks of 22 developed countries	Invested in the G, F, C, S, and I Funds
Objective of Fund	Interest income without risk of loss of principal	To match the performance of the Barclays Capital U.S. Aggregate Bond Index	To match the performance of the Standard & Poor's 500 (S&P 500) Index	To match the performance of the Dow Jones U.S. Completion TSM Index	To match the performance of the Morgan Stanley Capital International EAFE (Europe, Australasia, Far East) Index	To provide professionally diversified portfolios based on various time horizons, using the G, F, C, S, and I Funds
Risk	Inflation risk	Market risk, Credit risk, Prepayment risk, Inflation risk	Market risk, Inflation risk	Market risk, Inflation risk	Market risk, Currency risk, Inflation risk	Exposed to all of the types of risk to which the individual TSP funds are exposed - but total risk is reduced through diversification among the five individual funds
Volatility	Low	Low to moderate	Moderate	Moderate to high — historically more volatile than C Fund	Moderate to high — historically more volatile than C Fund	Asset allocation shifts as time horizon approaches to reduce volatility
Types of Earnings***	Interest	Change in market prices Interest	Change in market prices Dividends	Change in market prices Dividends	Change in market prices Change in relative value of currency Dividends	Composite of earnings in the underlying funds
2012 Administrative Expenses****	0.027%	0.027%	0.027%	0.027%	0.027%	0.027%
Inception Date	04/01/87	01/29/88	01/29/88	05/01/01	05/01/01	08/01/05

¹³ <https://www.tsp.gov/investmentfunds/fundsoverview/comparisonMatrix.shtml>

NZ KiwiSaver: Tenders out default provision

In 2007, New Zealand added an 'opt-out' DC pension strategy on top of existing, optional employer-run schemes. It is mandatory for employers to automatically enrol eligible employees in a suitable pension fund. The minimum contribution is 6% of wages¹⁴. Employees are advised of the employer-chosen pension scheme and are allocated to that scheme unless they choose otherwise. If both employer and employee fail to choose a fund, the employee is allocated to one of five government-chosen default funds.

Default funds are chosen through a tender which places emphasis on a range of fund characteristics, including costs.

New Zealand product asset allocation (2014)

The following categorisation is not prescribed by law but is implemented by the government comparison site. Default products must hold between 12-25% of their portfolio in growth assets¹⁵

Fund type	Asset allocation ¹⁶
Defensive	0 - 9.9% in growth assets
Conservative	10 - 34.9% in growth assets
Balance	35 - 62.9% in growth assets
Growth	63 - 89.9% in growth assets
Aggressive	90 - 100% in growth assets

¹⁴ <http://www.ird.govt.nz/changes/employers/>

¹⁵

<http://www.med.govt.nz/business/business-law/current-business-law-work/changes-to-kiwisaver/default-provider-arrangements/Cabinet-paper.pdf>

¹⁶ The term 'growth assets' is used in KiwiSaver to denote most assets except cash and fixed income products.