



SYNOPSIS

MEMBER'S DEFAULT UTILITY FUNCTION FOR DEFAULT FUND DESIGN

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Key words: utility function, default super fund design, retirement outcomes, retirement income, longevity risk, investment risk, CIPR

Purpose of your paper: To detail the development of the Member's Default Utility Function for Default Fund Design version 1 (MDUF v1) and provide examples of how it can assist super funds and policymakers.

Synopsis:

The "retirement challenge" represents the need for industry and policymakers to focus on the efficient delivery of retirement income streams. This compares with the historic focus on accumulation balances. Amongst many challenges we need to address longevity risk, acknowledge that a more certain outcome is valuable and that any residual account value at death has (at least) some value. The Government recently announced its support for the development of comprehensive income products for retirement (CIPR) and the industry will likely be shaped towards this direction.

This creates significant challenge for industry and policymakers. For instance how do we compare the range of possible outcomes from two competing fund designs? One way to do this is to shift our focus from pure financial outcomes to the level of satisfaction associated with the range of possible outcomes measured by a representative utility function. To assist industry and policymakers, a working group has spent over a year developing the Member's Default Utility Function for Default Fund version 1 (MDUF v1). This paper details the design considerations investigated by the working group and the final MDUF v1. We illustrate with examples how the utility function can be used to address fund design and policy issues.