

Spotlight on Super Policy Issues

Results of the survey conducted for the
Association of Superannuation Funds of Australia
by Brand Management.

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EXECUTIVE SUMMARY

In October 2010, ASFA commissioned strategic market research into the views and behaviours of the adult population with superannuation. This report provides summary results and commentary on the responses in regard to a range of superannuation policy issues.

The research findings indicate having enough money to retire with was identified on average as the main financial concern of respondents (with a score of 5.1 on a concern scale running up to 7) followed closely by paying for everyday expenses (5.0) and then paying the mortgage (4.5). The comparative ranking amongst the concerns listed of having enough money to retire with increased between 2009 and 2010.

However, with 65% of respondents considering that the tax arrangements will be quite different or very different to today, there is a major behavioural finance barrier to getting the bulk of Australians more engaged with their superannuation. It is very easy for an individual to opt out from hard decisions such as saving more if there are serious concerns that there will be adverse future changes to the tax treatment of superannuation.

Despite improvement in investment returns in the last year, satisfaction with superannuation fund is down on average. Both continuing uncertainty about the stability of future tax and other arrangements for superannuation together with reporting of actual or claimed shortcomings of the superannuation system are likely to have led to these lower reported levels of satisfaction.

A greater focus in both the superannuation sector and in parliamentary and policy circles on the strengths of superannuation as a means of saving for retirement and also on stability in arrangements going forward would be likely to strengthen levels of satisfaction with superannuation.

While a significant proportion (42%) of the population consider that the current tax treatment of superannuation is unfair, this does not imply popular or political support for removing current tax concessions for superannuation. The most common view expressed by respondents was that the tax treatment of superannuation is unfair because too much rather than too little taxation is paid in regard to retirement saving through superannuation.

The current concessional contribution caps were identified as one aspect where tax treatment could be made fairer. 45% of respondents consider that the current caps are too small. Less than 7% consider that they are more than enough. While far fewer than 45% of fund members would be affected by the caps in any given year, the existence of the caps will have an impact on a much larger percentage of fund members over their entire working life. Knowing that it is possible to make catch-up contributions in the future would be an attractive proposition for many fund members even in cases where current contributions are well below the caps.

The contribution caps have already had a significant impact on contributions by fund members. As shown by Table 3, nearly 20% of respondents reported that they have changed their contributions behaviour. Around 9% of respondents are now saving more outside of super than they otherwise would have, with nearly 5% spending more rather than saving.

One proposed policy change that generally was supported by respondents is the phased increase in the Superannuation Guarantee from 9% to 12%. Very few respondents (less than 5%) considered that phasing in over a period to the year 2020 was too quick. Around 60% of the respondents indicated that the phasing in was too slow. Those aged 50 and years and over, who generally have only a limited numbers of years left in the paid labour force, in particular considered that the rate of phasing in was too slow.

There also is significant support for improving efficiency of the contributions process through the SuperStream measures. For instance, around 75% of respondents support the proposition that employers should be required to use efficient methods, such as electronic funds transfer, for making superannuation contributions. Only a very small proportion of respondents (less than 5%) oppose requirements being imposed upon employers in this regard.

However, some aspects of MySuper do not appear to have this level of support amongst respondents. Attitudes to MySuper are harder to test given that there are a range of characteristics proposed for the proposed MySuper default superannuation product. What was tested in the survey was the attitude of respondents to the proposition "If I don't actively choose my super fund, I am happy to be put into a simple fund with no investment choices but possibly slightly lower costs". Only 27% of respondents agreed with this proposition, with 37% disagreeing. Support for the proposition was greatest for those under 30

years old, who normally have lower balances. For those aged 50 years and over having investment choice available appears to be important for a significant proportion of the population.

INTRODUCTION

ASFA has commissioned strategic market research into the views and behaviours of members of the adult Australian population concerning superannuation each year for most of the last decade. This has allowed for both the tracking of views over time in regard to topics that have been repeated in each survey. The opportunity is also taken in each survey to ask questions which are relevant to contemporary policy issues or indeed to recent events, such as the impact of the Global Financial Crisis on attitudes to superannuation and on the amount of contributions.

So the research conducted in 2010, reported in this paper, builds on previous studies but it also addresses new and topical issues. The sample size is also sufficient to compare in appropriate cases the answers provided by different age and income groups.

More specifically, the latest research for ASFA was designed to answer the following questions:

- Demographic and other details of superannuation fund membership
- Contribution and investment option trends
- Predictions for investment returns
- Satisfaction with superannuation providers
- Satisfaction with the super industry
- Value received from super fund providers
- Financial concerns and superannuation
- Switching behaviour
- Engagement with super
- Attitudes to recent policy recommendations on super

This paper focuses on the survey responses relating to policy matters. A companion paper focuses on matters such as satisfaction with own superannuation fund and also on member behaviours such as exercising choice of fund or switching fund.

THE SURVEY

The research commissioned by ASFA was carried out by the firm brandmanagement over a two week period in October 2010. An online quantitative survey was used to ask around 50 questions. The survey involved a randomly selected consumer sample from the provider's proprietary panel of over 100,000 Australian consumers, with data collected from a representative grouping of the population of those aged 18-69, currently in the labour force and numbering 1,006 in total. The sample size was sufficient to allow analysis by age group, income level and gender where appropriate.

Given the size of the sample the accuracy of the results at an overall level is +/-3.1% at the 95% confidence interval. This means, for example, that if the survey returns a result of 50%, there will be a 95% chance that the actual result will be between 46.9% and 53.1%.

Further details of the sample composition and survey instrument are available on request.

CONCERN ABOUT RETIREMENT INCOME ADEQUACY

Superannuation is not normally regarded as being what could be called a "barbeque stopper" for most ordinary people. However, both superannuation and the prospective adequacy of retirement incomes have become topics that many Australians are interested in. This is particularly so following the impact of the Global Financial Crisis (GFC) on retirement savings and following the Henry and Cooper Reviews which both focussed on such issues.

There also is widespread awareness of the impact of an ageing population structure on Australia's capacity to support future retirees. In this context there have been reports such as the Inter-Generational Report published by the Commonwealth Treasury and articles in the media on the topic.

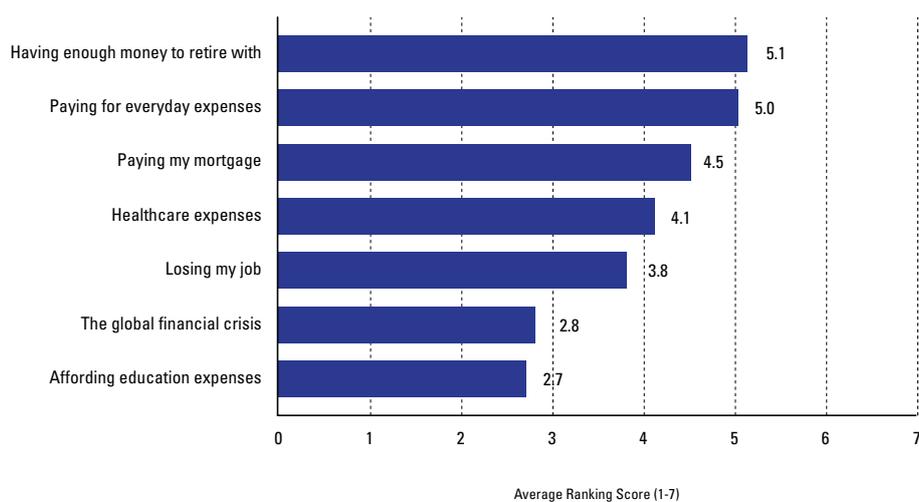
Just how much profile retirement income adequacy concerns have with the population was explored by asking how "having enough money to retire with" compared to a number of other financial concerns that might be faced by respondents. This question was asked at the start of the survey and with the order of each of the potential concerns listed on a random basis to respondents, so that any biases in responses could be avoided. Each of the concerns was ranked by each respondent on a 1 to 7 scale of importance. A value of 1 given to a matter indicated that it was not much of a concern, while a ranking of 7

indicated that it was very much a concern.

As indicated in Chart 1, having enough money to retire with was identified on average as the main financial concern of respondents (with a score of 5.1 out of 7) followed closely by paying for everyday expenses (5.0) and then paying the mortgage (4.5). Healthcare expenses (4.1) and job loss (3.8) are further down the list with the GFC (2.8) and education expenses (2.7) even less of a concern. Memories of the impact of the GFC appear to be fading and/or most Australian households went through the period of the GFC without significant ongoing consequences.

Chart 1: Comparative financial concerns of respondents

How concerned are you about each of the following issues?



The comparative ranking amongst the concerns listed of having enough money to retire with increased between 2009 and 2010. In 2009 in a similar survey conducted for ASFA paying for everyday expenses was identified as the highest level of concern, followed by having enough money to retire on. This indicates that while concern about paying for everyday expenses has reduced in response to continued strength of employment and the Australian economy more generally, there continues to be a high level of concern about whether individuals will have the retirement living standard they both need and deserve.

The survey results indicate a greater understanding by the Australian population of the gap between their current savings levels and the amount they would need to support an adequate retirement income. In 2001 more than 60% of respondents in a similar survey were confident of achieving their required income in retirement. Since then people have not lowered their expected financial requirements, if anything they have increased. What is instead has happened is that Australians have increased their doubts about the adequacy of their own retirement savings. This is relevant to strong support for increasing compulsory from 9% to 12% of earnings (see below).

Along with the concern about having enough money to retire with, there were other related concerns reported by respondents.

Two in three respondents (67.3%) indicated that they were concerned that their superannuation savings would run out before they die. However, there was not unanimity on the appropriate response to that concern. A significant proportion (39.3% of respondents) agreed with the proposition that upon retirement people should be required to purchase an income stream that lasts until death. One third of respondents did not have an opinion on this, and the remaining 28.6% disagreed.

CONCERN ABOUT STABILITY OF TAXATION ARRANGEMENTS FOR SUPER

Clearly a significant proportion of the Australian community have serious concerns that they will not have sufficient retirement savings. However, a barrier to community behavioural change which would involve additional saving for retirement is the easily evoked Australian cynicism. Many Australians, not without justification given the steady succession of changes to superannuation tax and other arrangements, are not convinced that there will be no further changes to the rules. A perception that future rule changes may be adverse is a particular barrier to individuals saving more for retirement.

The perception that the rules may change also is in part due to the generosity of some of the tax arrangements, and also

because changes have been canvassed by a number of commentators and in the Henry Review.

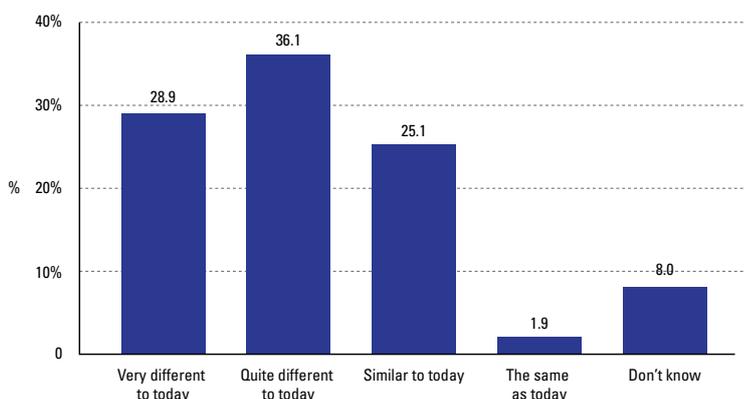
As shown by Chart 2, less than 2 per cent of respondents considered that when they retire superannuation tax arrangements will be the same as today. This is down from a figure of 4% in 2006 when a similar question was asked for ASFA. However, 25% of respondents considered that the arrangements would be similar to today. This is not much changed from perceptions in 2006.

However, with 65% of respondents considering that the tax arrangements will be quite different or very different to today there is a major behavioural finance barrier to getting the bulk of Australians more engaged with their superannuation. It is very easy for an individual to opt out from hard decisions such as saving more if there are serious concerns that there will be adverse future changes to the tax treatment of superannuation. Achieving widespread behavioural change will require at the very least confidence in policy permanence, or at the very least, confidence that adverse changes will not be made in the future.

This suggests that bipartisan support for stability in the tax treatment of superannuation, or at least not making future adverse changes, would play an important role in bolstering confidence in superannuation and in supporting increased retirement savings by individuals.

Chart 2: Perceptions of the likelihood of change to superannuation tax arrangements

Do you think that when you retire, superannuation tax arrangements will be...



SATISFACTION WITH MAIN SUPERANNUATION FUND OF THE RESPONDENT

There has been considerable publicity in recent months to criticisms of various aspects of superannuation and the superannuation industry. This has likely to have contributed to levels of satisfaction with the main superannuation fund now being at their lowest level in six years.

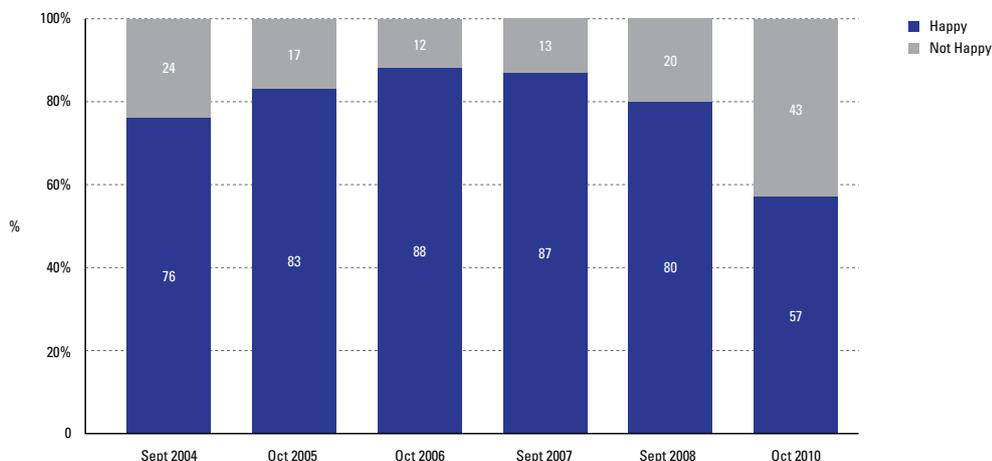
Analysis of reported reasons for satisfaction with superannuation fund indicates that the level of investment returns, level of fees and charges, and also quality of service generally are the major drivers of the degree of satisfaction. Given that investment returns in 2009-10 were up compared to the previous two years and that fees and charges were largely unchanged over the three years, it is likely that some other factor or factors contributed.

Both continuing uncertainty about the stability of future tax and other arrangements for superannuation together with reporting of actual or claimed shortcomings of the superannuation system are likely to have led to these lower reported levels of satisfaction.

A greater focus in both the superannuation sector and in parliamentary and policy circles on the strengths of superannuation as a means of saving for retirement and also on stability in arrangements going forward would be likely to strengthen levels of satisfaction with superannuation.

Chart 3: Reported levels of satisfaction with main superannuation fund

Overall, how satisfied are you with your MAIN super fund?



n=1006 (Oct 2010)

Respondents who gave a rating of 0-5 are considered 'not happy' while those who gave a rating of 6-10 are considered 'happy'. This calculation may be different to previous years.

PERCEPTIONS ABOUT HOW FAIR THE TAX TREATMENT OF SUPER IS

One argument could be that the expectation that changes to the tax treatment of superannuation will be made in the future is that the current tax treatment of superannuation is unfair and needs changing.

The survey results provide some support for such a conclusion (Table 1). A significant minority do not consider the current tax treatment for superannuation is fair. A further large percentage (35%) did not know whether it is fair or not. This may be because of the complexity of the tax treatment. Many Australians do not understand the tax treatment of superannuation and hence have difficulty in saying whether the tax treatment is fair or not.

	Percent
Yes	22.5
No	42.4
Don't know	35.1
Total	100

While a significant proportion of the population consider that the current tax treatment of superannuation is unfair, this does not imply popular or political support for removing current tax concessions for superannuation. The most common view is that the tax treatment of superannuation is unfair because too much rather than too little taxation is paid in regard to retirement saving through superannuation.

Those who find the tax treatment unfair in many cases consider that super should not be taxed at all as it is forced savings. They note that the government benefits considerably from superannuation as fewer people require the Age Pension. Others object to the multiple layers of tax (with taxation on both contributions and fund earnings and on some benefits). Box 1 provides further details

Attitudes to the tax treatment of super

"Any tax on super is totally unfair -I've already been taxed 2 or 3 times on my money, and then the government wants to tax me again -on my retirement fund which will be used to lessen the burden on the government when I retire" (Male respondent, aged 42, NSW, Corporate).

"As super is forced saving by the government to limit future pension exposure and there are tight limits to the amount that can be placed into Super, upon retirement, the amounts should be tax free." (Male respondent, aged 40, Qld, Industry).

"Contributions and earnings on super funds should not be taxed as they provide an income stream that reduces the government pension burden." (Male respondent, aged 49, Qld, Self Managed).

"It's unfair. There is no point putting money aside for retirement if it's only going to be taken away by the government, it doesn't make sense and that's why people don't invest in super until it's too late." (Female respondent, aged 37, NSW, Public Sector)
"People work 40-50 years ... that means 40-50 years of paying tax ... I don't think superannuation should be affected as people pay tax all their working life" (Female respondent, aged 41, NSW, Retail).

"Should not be taxed as it is a form of saving that reduces the governments future debt. reduces incentive for greater contributions." (Male respondent, aged 43, Qld, Self Managed)

ATTITUDES TO THE CONCESSIONAL CONTRIBUTION CAPS

One policy change that has impacted in recent times on both member confidence in superannuation and on the making of contributions of members has been the introduction of annual caps on the amount of concessional (pre-tax) contributions that can be made by or on behalf of individuals.

In essence this restricts annual contributions to less than \$25,000 a year for those aged under 50, with a higher cap of \$50,000 for those aged 50 and over (at least until the year 2012). The Government has also proposed that the higher cap be available from 1 July 2012 for those aged 50 and over who have total superannuation savings of less than \$500,000.

While the Treasury has argued that the caps impact on only a relatively small proportion of superannuation fund members, the impact on perceptions and on behaviours appears to be much more significant than that. As indicated by Table 2, 45% of respondents consider that the current caps are too small. Less than 7% consider that they are more than enough.

While far fewer than 45% of fund members would be affected by the caps in any given year, the existence of the caps will have an impact on a much larger percentage of fund members over their entire working life. Knowing that it is possible to make catch-up contributions in the future would be an attractive proposition for many fund members even in cases where current contributions are well below the caps.

Table 2: Attitude to current contribution caps

	Frequency	Valid percent
Too small	453	45.0
About right	458	48.2
More than enough	68	6.8
Total	1,006	100

The contribution caps have already had a significant impact on contributions by fund members. As shown by Table 3, nearly 20% of respondents reported that they have changed their contributions behaviour. Around 9% of respondents are now saving more outside of super than they otherwise would have, with nearly 5% spending more rather than saving.

Table 3: What impact has the maximum concessional contributions had on your finances?

	Frequency	Valid Percent
No impact	602	59.8
Saving more outside of super than otherwise would have	89	8.8
Making additional non-concessional contributions to super	53	5.3
Spending more	45	4.5
Don't know	203	20.2
Other	14	1.4
Total	1,006	100.0

The contributions caps have had a significant and adverse impact on the amount saved for retirement though superannuation.

A CHANGE TO SUPER THAT IS SUPPORTED – INCREASING THE SG TO 12%

Previous surveys conducted for ASFA have indicated high community support for an increase in the Superannuation Guarantee from 9%. The announcement by the Government in its response to the Henry Review of its intention to gradually increase the SG from 9% to 12% has provided an opportunity to test a more specific policy option with the Australian community.

As indicated by Table 2, very few respondents (less than 5%) considered that phasing in over a period to the year 2020 was too quick. Around 60% of the respondents indicated that the phasing in was too slow. Those aged 50 and years and over, who generally have only a limited numbers of years left in the paid labour force, in particular considered that the rate of phasing in was too slow.

Table 4: Responses to the question, “Do you think this phasing in of the increase to the SG to 12% is:”

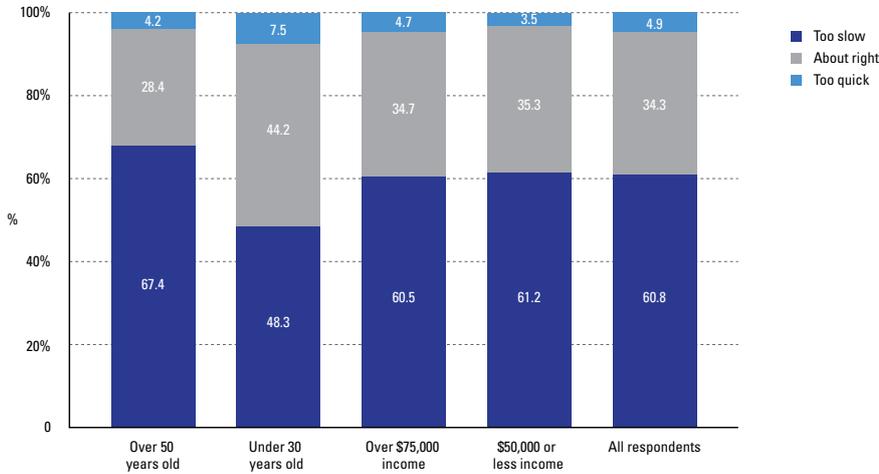
	Too slow	About right	Too quick
Over 50 years old	67.4	28.4	4.2
Under 30 years old	48.3	44.2	7.5
Over \$75,000 income	60.5	34.7	4.7
\$50,000 or less income	61.2	35.3	3.5
All respondents	60.8	34.3	4.9

As indicated in Chart 4, while it was generally considered that the increase in the SG to 12% would improve the retirement of the respondent, there was particularly high support for the measure from those aged under 30 years old and by those with an income of \$50,000 or less. For those aged 50 and over the transition period to the higher level of contributions will limit the impact of the change.

For low income earners the higher rate of contributions will substantially increase, and is perceived to substantially increase, retirement incomes above what would otherwise be achieved. However, higher income earners also generally perceive the increase to be an improvement.

Chart 4: Views on whether the increase in the SG to 12% will improve the retirement of the respondent

How much do you agree with the following statement?
The Government has announced its intention to gradually increase the amount of compulsory superannuation contributions from 9% to 12%, with the 12% not reached until 2020. Do you think this phasing in of the increase is:



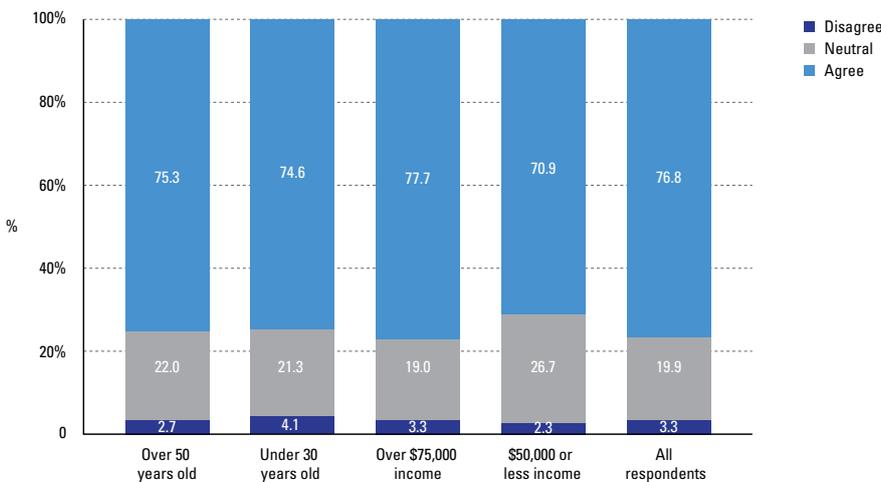
COMMUNITY VIEWS ON SUPERSTREAM AND MYSUPER

It would be unrealistic to expect that the general community has a detailed understanding of the proposals in the Cooper Review Report on Superstream proposals for increasing the efficiency with which superannuation contributions are made and processed and the MySuper proposals for what should be the default superannuation product for employees. However, it is possible to test community attitudes to some broad aspects of proposals that have achieved significant attention in the media.

It appears that there is significant support for improving efficiency of the contributions process through the SuperStream measures. For instance, as shown by Chart 5, around 75% of respondents support the proposition that employers should be required to use efficient methods, such as electronic funds transfer, for making superannuation contributions. Only a very small proportion of respondents (less than 5%) oppose requirements being imposed upon employers in this regard.

Chart 5: Should employers be required to make contributions by an efficient method?

How much do you agree with the following statement?
Employers should be required to use more efficient payment methods (e.g. electronic funds transfer) when making contributions to my superannuation fund to lower costs passed onto members



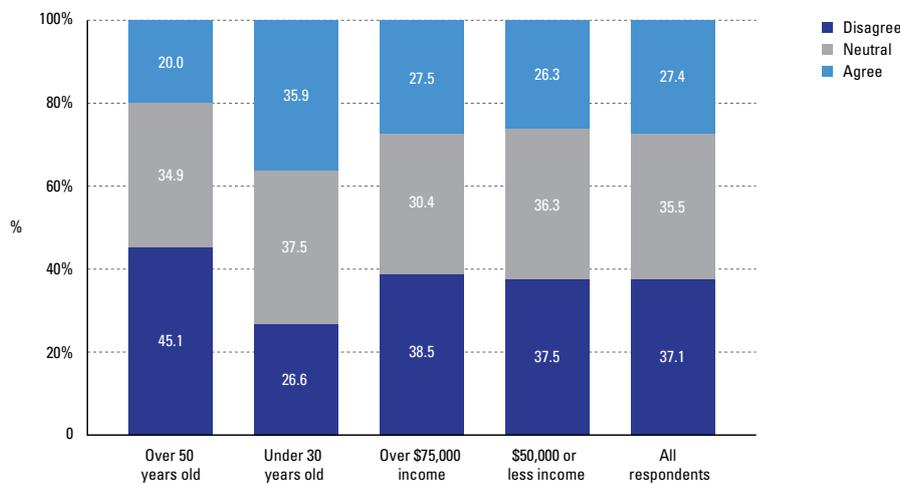
n = 969, respondents who are members of a super fund

Attitudes to MySuper are harder to test given that there are a range of characteristics proposed for the proposed MySuper default superannuation product. What was tested in the survey was the attitude of respondents to the proposition “If I don’t actively choose my super fund, I am happy to be put into a simple fund with no investment choices but possibly slightly lower costs”. This may not be a perfect characterisation of MySuper but it does explore what value fund members place on having investment choice even when they are default members.

As shown by the Chart, only 27% of respondents agreed with this proposition, with 37% disagreeing. Support for the proposition was greatest for those under 30 years old, who normally have lower balances. For those aged 50 years and over having investment choice available appears to be important for a significant proportion of the population.

Chart 6: Attitudes to default fund having no investment choice but slightly lower costs

How much do you agree with the following statement?
 If I don’t actively choose my super fund, I am happy to be put into a simple fund with no investment choices but possibly slightly lower costs



n = 969, respondents who are members of a super fund

However, it should be acknowledged that what was tested in the survey was only one aspect of the proposed MySuper product. The Cooper Report assumed that MySuper products would be able to deliver significantly lower costs to funds and hence lower fees to fund members. The analysis in the Report concerning cost reductions put considerable emphasis on cost reductions flowing from greater scale of funds rather than on cost reductions flowing from removing investment choices.