

Consumer attitudes to superannuation and super policy issues

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

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EXECUTIVE SUMMARY

- In September 2011, the Association of Superannuation Funds of Australia (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 survey results indicate that out of seven listed areas of possible financial concern, *having enough money* to retire with was the concern which the greatest number of people (26.8 per cent of respondents giving a ranking of 1 out of 7) indicated was their greatest. It was followed by *paying off debts* (25.3 per cent of respondents).
- The comparative ranking amongst the concerns listed of *having enough money to retire* with increased between 2009 and 2011.
- Levels of satisfaction with the superannuation industry as a whole are not at a particularly high level with only 27 per cent of respondents reporting that they were satisfied. This figure is down on the 34 per cent of respondents reporting they were satisfied in 2010. At least some of this dissatisfaction comes from recent low and negative investment returns.
- Continued investment return volatility and negative investment returns for many asset classes over the course of 2011 have not been particularly conducive to member satisfaction with their superannuation fund. Levels of satisfaction with the main superannuation fund of respondents are now at their lowest level in eight years.
- Multiple regression analysis of reported reasons given by the survey respondents for satisfaction with superannuation fund indicates that the level of investment returns, quality of service and level of fees and charges, generally are the major drivers of the degree of satisfaction.
- Most respondents are expecting investment returns in 2011-12 to be worse or much worse than in 2010-11. The negative returns recorded so far this financial year appear to underlie this assessment.
- Surveys conducted for ASFA have indicated high community support for an increase in the Superannuation Guarantee (SG) from nine per cent. These surveys indicate that around two-in-three of the adult population support an increase in the SG from nine to 12 per cent.
- More than half of respondents thought the phasing-in of the SG increase from nine to 12 per cent was *too slow* (57.9 per cent), compared with the very few (4.9 per cent) who thought it was *too quick*. More than one-third thought the speed of the increase was *about right* (37.2 per cent).
- Older respondents (those aged 50 years and above) were more likely to think that the phasing-in of increased SG contributions was *too slow* (62.9 per cent) compared with those under 30 (45.5 per cent).
- The strong support for the increase in the SG is likely to be linked to respondent perceptions of the amount of retirement savings needed to generate the required standard of living in retirement. The majority of respondents considered that retirement savings in excess of \$750,000 are required. Only around 10 per cent of respondents considered that retirement savings of \$300,000 or less would be sufficient.
- Nearly 40 per cent of respondents reported they had two or more super fund accounts that they were aware of with different providers, with around 10 per cent indicating that they had three or more accounts. In this context it was not surprising that more than three-quarters of respondents agreed with the concept of auto-consolidation. Support for auto-consolidation was particularly strong in the lower net financial worth households.
- Respondents were polarised in terms of their appetite for risk. Nearly two-in-five respondents preferred a more conservative investment strategy for their super (38.7 per cent). However a similar number (32.1 per cent) said they preferred a risky strategy.
- Consistent with the diversity of views in regard to investment strategies, there were mixed views about the desirability of annuity-type income streams in retirement. Two out of five respondents were not interested in the concept of annuity that was tested. Only around a quarter found the concept attractive, with about 30 per cent not having a view. With increasing age came a decrease in preference for annuities.

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 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 recent volatility in equity prices on attitudes to superannuation and the amount of contributions.

The research conducted in 2011 reported in this Paper builds on previous studies but also addresses new and topical issues. 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
- Attitudes to investment risk and return volatility
- Ranking of financial concerns, including preparedness for retirement
- Investment option and fund switching behaviour
- Engagement with super
- Attitudes to recent policy recommendations on super

This Paper focuses on the survey responses relating to policy matters and on consumer behaviours.

THE SURVEY

The research commissioned by ASFA was carried out by the firm, CoreData, over a two-week period in September/October 2011. 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. Data was collected from a representative grouping of the population aged 18 to 69 and currently in the labour force - numbering 1,003 in total. This 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 per cent at the 95 per cent confidence interval. This means, for example, that if the survey returns a result of 50 per cent, there will be a 95 per cent chance that the actual result will be between 46.9 and 53.1 per cent.

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

CONCERN ABOUT RETIREMENT INCOME ADEQUACY

Both superannuation and the prospective adequacy of retirement incomes have become topics that many Australians are interested in. This interest has been reinforced by recent government reviews and media attention on retirement income and investment return issues.

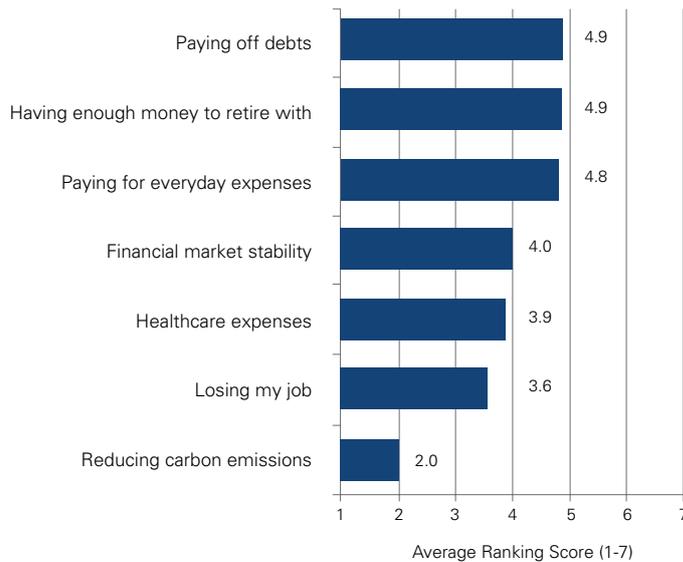
There also is widespread awareness of the impact of an ageing population structure on Australia's capacity to support future retirees.

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, mostly financial, specified concerns that might be faced by respondents. 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.

The survey results indicate that out of seven areas of possible concern, *having enough money to retire with* was the concern which the greatest number of people (26.8 per cent of respondents giving a ranking of 1 out of 7) indicated was their greatest. It was followed by *paying off debts* (25.3 per cent of respondents).

A similar ranking is obtained when all the rankings are averaged. *Having enough money to retire with* recorded a score of 4.87 out of 7 which was very similar to the score for *paying off debts* (4.88).

Chart 1: Comparative rankings of various financial and other concerns



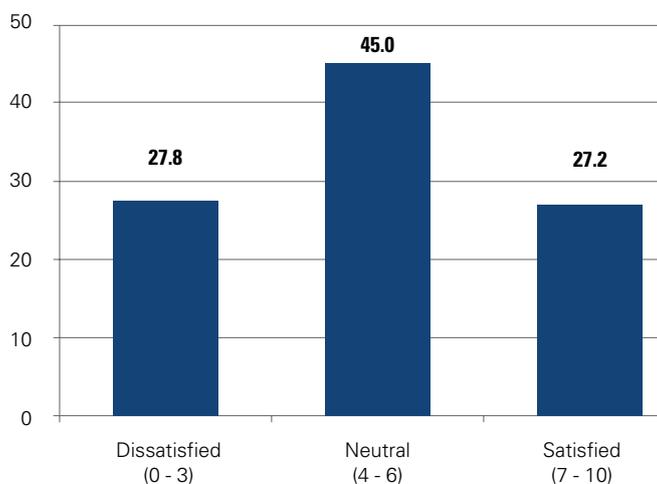
The comparative ranking amongst the concerns listed of having enough money to retire with increased between 2009 and 2011. In a similar survey conducted for ASFA in 2009, *paying for everyday expenses* was identified as the highest level of concern, followed by *having enough money to retire on*. This 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.

CONFIDENCE AND SATISFACTION WITH THE SUPERANNUATION SYSTEM

Clearly a significant number of Australians have serious concerns that they will not have sufficient retirement savings. However, a barrier to individuals taking action is concerns about the superannuation system. Important issues are the stability of tax and other arrangements and the volatility in recent years of investment returns.

As shown by Chart 2, levels of satisfaction with the superannuation industry as a whole are not at a particularly high level, with only 27 per cent of respondents reporting that they were satisfied. This figure is down on the 34 per cent of respondents reporting they were satisfied in 2010.

Chart 2: Satisfaction with the superannuation industry



At least some of this dissatisfaction comes from recent low and negative investment returns.

Associated with this, respondents also indicated that they would like more education and advice from superannuation funds and also more proactive action by funds in regard to indicating what investment choices members should make.

Another cause of dissatisfaction was the amount of changes made to the rules applying to superannuation. Box 1 sets out various respondent comments in this regard.

Box 1: Respondent comments about superannuation

- “Stop changing the rules as though it was their own private little goldmine” (*Male respondent, 58, VIC, self-managed super fund*).
- “Don’t keep changing the rules” (*Male respondent, 47, NSW, industry fund*).
- “Make the laws surrounding superannuation more stable” (*Female respondent, 27, WA, retail fund*).
- “Ensure financial stability through its policies” (*Male respondent, 52, ACT, public sector fund*).
- “Stop messing with it and adopt a longer term view” (*Male respondent, 39, QLD, corporate fund*).
- “Commit to not changing the rules/taxation again” (*Female respondent, 30, TAS, retail fund*).
- “Stop constantly changing the rules” (*Male respondent, 65, ACT, public sector fund*).
- “Stop fiddling with the rules” (*Male respondent, 50, VIC, industry fund*).
- “Stop messing about with it. Every time I turn around there’s a new restriction or limit in place.” (*Female respondent, 27, QLD, public sector fund*).
- “Stop making changes to super every year” (*Male respondent, 47, TAS, public sector fund*).
- “Stop changing rules, provide core/stable funds with very low fees and high cash element for people who do not understand super” (*Male respondent, 50, QLD, retail fund*).

SATISFACTION WITH MAIN SUPERANNUATION FUND OF THE RESPONDENT

Continued investment return volatility and negative investment returns for many asset classes over the course of 2011 have not been particularly conducive to member satisfaction with their superannuation fund. On top of this there has been considerable public comment on superannuation in the context of the reports of both the Cooper and Henry Reviews.

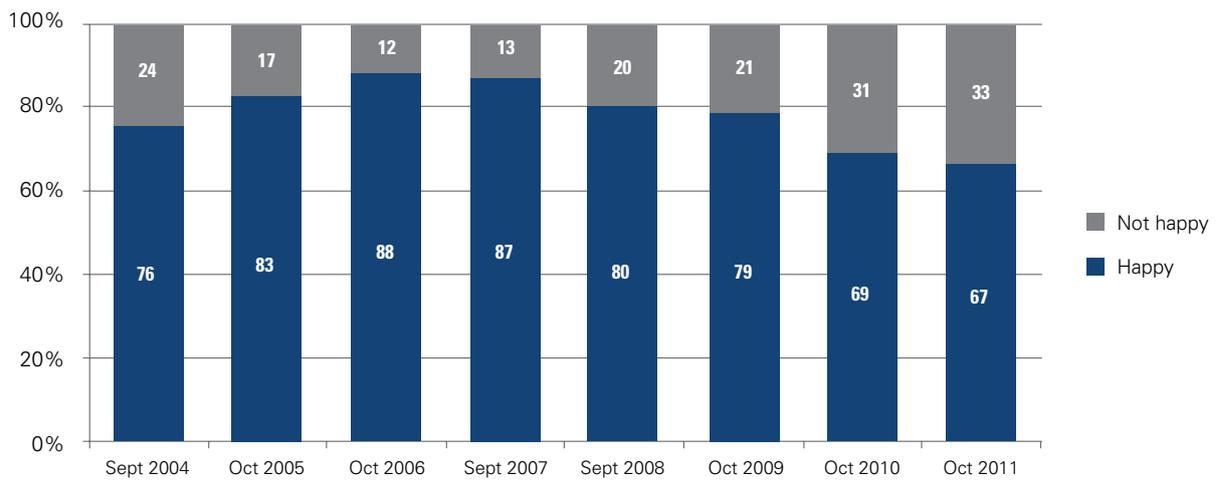
This is likely to have been responsible for levels of satisfaction with the main superannuation fund of respondents now being at their lowest level in eight years. While the majority of members are happy with their fund, a significant minority are not (Chart 3).

As indicated by Chart 4, multiple regression analysis of reported reasons given by the survey respondents for satisfaction with superannuation fund indicates that the level of investment returns, quality of service and level of fees and charges, generally are the major drivers of the degree of satisfaction. Although investment returns were positive in 2010-11, there have been negative returns so far in 2011-12 together with considerable volatility in periods as short as even one day or one week. This clearly has impacted on levels of satisfaction.

Until investment returns improve and volatility in investment returns decreases, levels of satisfaction with members’ main superannuation fund are likely to remain low by historical standards.

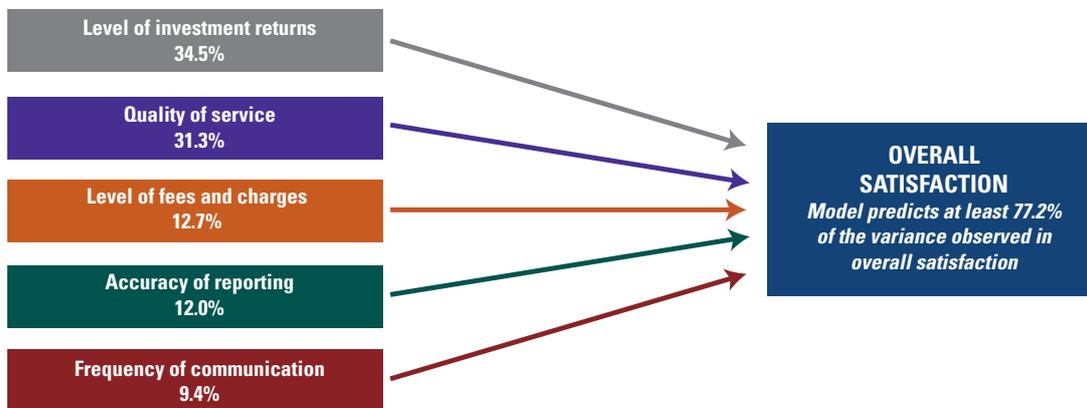
It remains to be seen whether the introduction of various changes associated with the *Stronger Super* package of decisions by the Government will lead to higher levels of satisfaction. Many of these changes will take some years to either come into effect and/or come to the attention of fund members. However, respondent attitudes to some specific Stronger Super measures are set out in a following section of this Paper.

Chart 3: Reported levels of satisfaction with main superannuation fund



Respondents who gave a rating of 0-5 are considered 'not happy' while those who gave a rating of 6-10 are considered 'happy'. Some differences in methodology applied in the earlier years covered in the Chart but the results for each year are broadly comparable.

Chart 4: Drivers of satisfaction with main superannuation fund

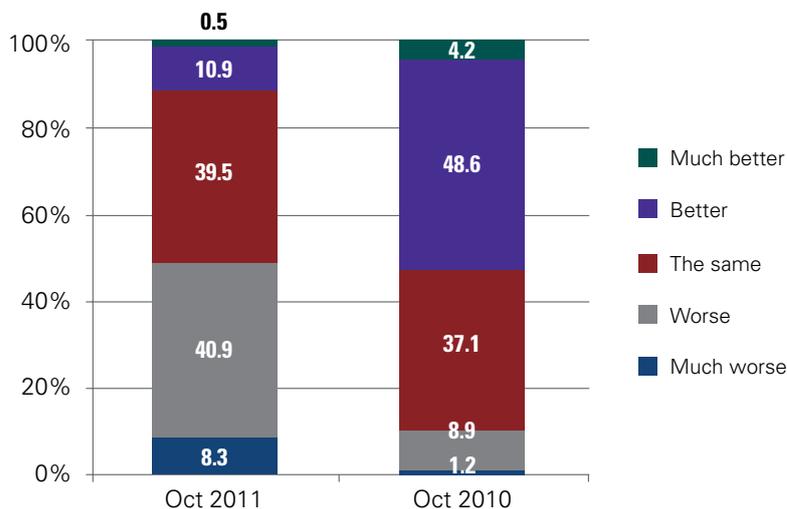


EXPECTATIONS ABOUT INVESTMENT RETURNS

While in past surveys conducted for ASFA expectations about future investment returns were strongly correlated to investment returns in the preceding financial year, the recent investment market volatility appears to have been noted by many respondents.

As shown by Chart 5, most respondents are expecting investment returns in 2011-12 to be worse or much worse than in 2010-11. The negative returns recorded so far this financial year appear to underlie this assessment.

Chart 5: Expectations on investment returns



Interestingly, despite the pessimism towards the return outlook, one-third of respondents are still expecting a positive return this financial year (31.5 per cent) while around one-fifth are expecting a negative return. The remainder are expecting a neutral return (around zero).

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

Previous surveys conducted for ASFA have indicated high community support for an increase in the Superannuation Guarantee (SG) from nine per cent. These surveys indicate that around two-in-three of the adult population support an increase in the SG from nine to 12 per cent. Most of the remaining one-third are unsure rather than opposed.

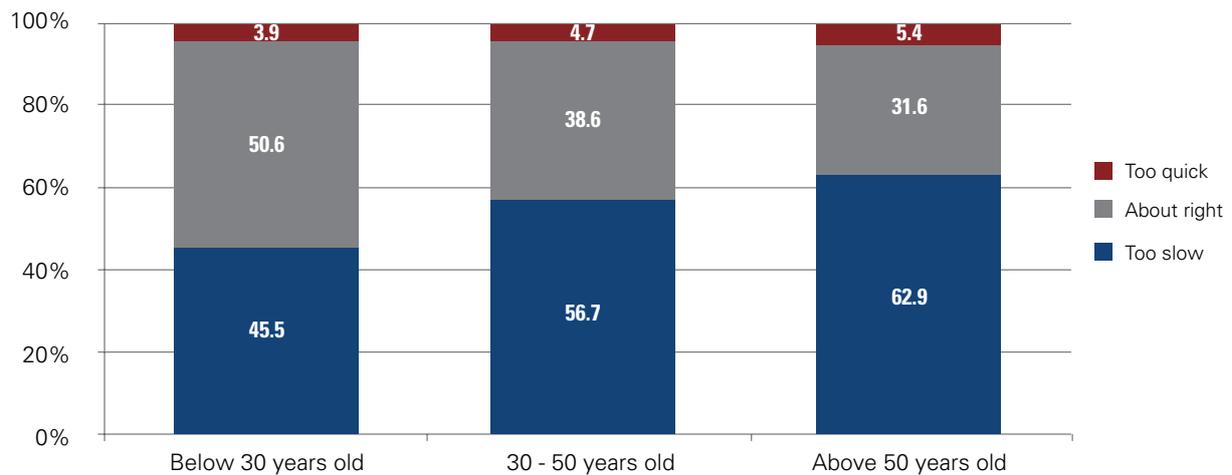
The announcement by the Government in its response to the Henry Review of its intention to gradually increase the SG from nine to 12 per cent, has provided an opportunity to test a more specific policy option with the Australian community.

In this survey, attitudes to the speed of the introduction of the increase in the SG were explored. The survey results indicate strong support for the proposed increase and for it to be introduced as soon as possible.

More than half of respondents thought the phasing-in of the SG increase from nine to 12 per cent was *too slow* (57.9 per cent), compared with the very few (4.9 per cent) who thought it was *too quick*. More than one-third thought the speed of the increase was *about right* (37.2 per cent).

Older respondents (those aged 50 years and above) were more likely to think that the phasing-in of increased SG contributions was *too slow* (62.9 per cent) compared with those under 30 (45.5 per cent). This is likely to reflect their realisation by older respondents that they will generally be in the paid labour force for only a limited number of years in the future.

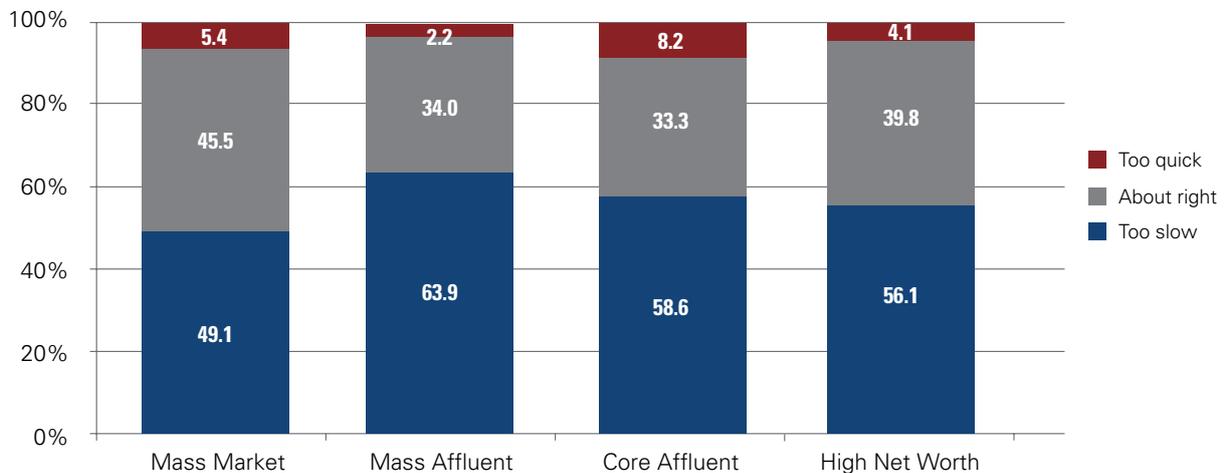
Chart 6: Attitudes to the pace of SG increase by age



Mass affluent respondents (defined as having net worth between \$50,000 and \$350,000) were the most likely to consider that the phasing-in of the increase was *too slow* (63.9 per cent) compared to 58.5 per cent of the core affluent, 56.1 per cent of the high net worth, and 49.1 per cent of the mass market (Chart 7). Definitions of each group follow the Chart.

The higher level of support by the mass affluent group for a more rapid phasing-in of the increase reflects the dependence of this group on compulsory superannuation for generating much of their retirement income. Mass market respondents would generally be younger or, for older respondents, be more likely to substantially depend on the Age Pension in retirement. High net worth individuals are likely to have savings arrangements in addition to compulsory superannuation in place.

Chart 7: Attitudes to the SG phasing by wealth level



Note:

Mass Market: Net financial worth less than \$50,000

Mass Affluent: Net financial wealth \$50,000 to \$350,000

Core Affluent: Net financial wealth \$350,000 to \$750,000

High Net Worth: More than \$750,000 in net financial wealth and/or income more than \$250,000 per annum

Consistent with the support for the increase in the SG to 12 per cent are views of the survey respondents that the increase will be affordable for both employers and employees. Respondents were slightly less likely to think the increase was affordable for employers than employees. However, only a relatively small proportion of respondents considered that the increase was not affordable for either employees or employers.

The view that the increase in the SG is affordable does not vary much by age or other demographic characteristics of respondents. However, higher income earners are more likely to consider that the increase is affordable than individuals with income below \$50,000 a year.

Chart 8: Respondent views of affordability of the gradual increase to 12% for employees

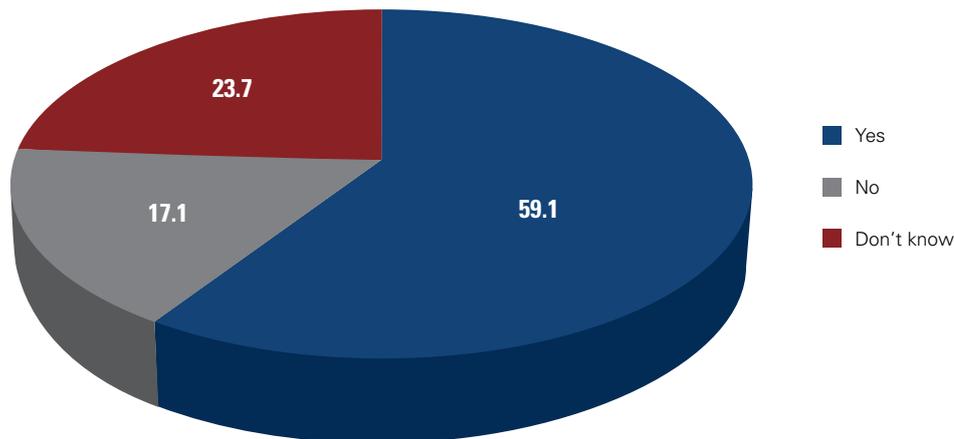
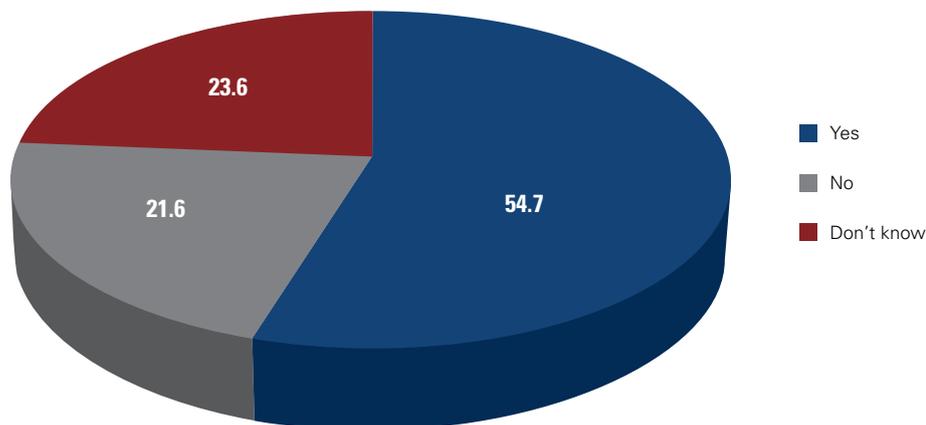


Chart 9: Respondent views of affordability of the gradual increase to 12% will be affordable for employers



EXPECTATIONS ON WHAT RETIREMENT SAVINGS ARE NEEDED

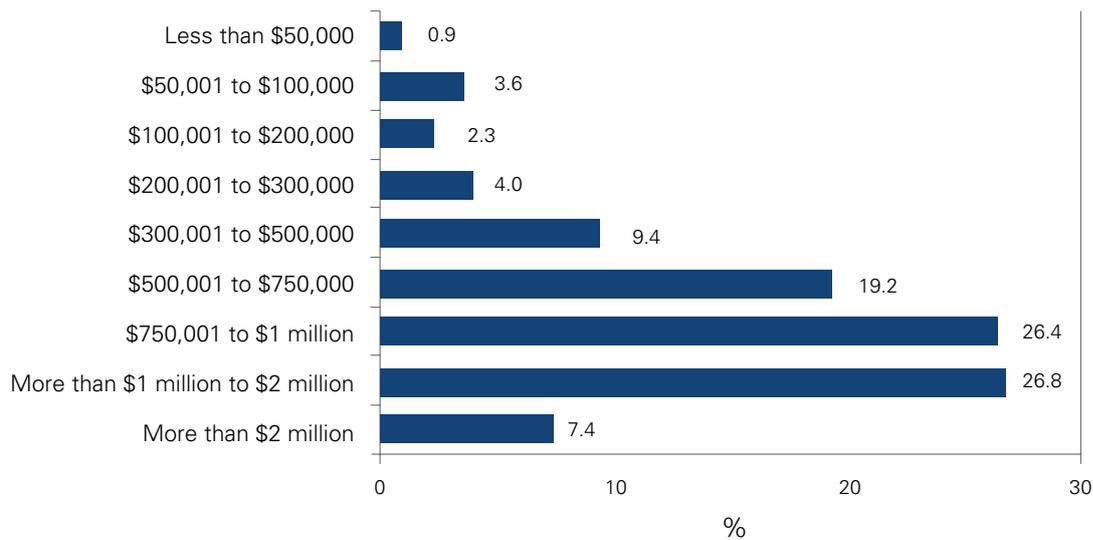
The strong support for the increase in the SG is likely to be linked to respondent perceptions of the amount of retirement savings needed to generate the required standard of living in retirement.

As indicated by Chart 10, the majority of respondents considered that retirement savings in excess of \$750,000 are required. Only around 10 per cent of respondents considered that retirement savings of \$300,000 or less would be sufficient.

Expectations about required retirement savings do increase with household income. However, even for respondents with household income of less than \$50,000 a year, nearly 45 per cent of respondents considered that retirement savings in excess of \$500,000 are needed.

While there is strong community support for an increase in the rate of compulsory superannuation, there still appears to be a disconnect between perceived needs in retirement and savings behaviours. Only a relatively small proportion of the population are likely to achieve retirement savings in excess of \$750,000 based on their current pattern of contributions.

Chart 10: Stated amount needed for the respondent's required standard of living in retirement



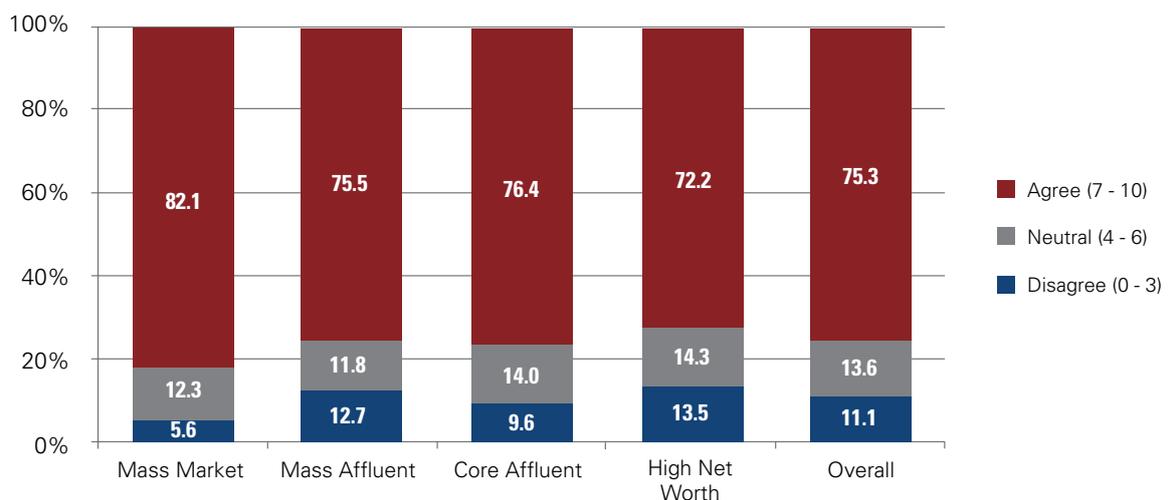
ATTITUDES TO AUTO-CONSOLIDATION

Nearly 40 per cent of respondents reported they had two or more super fund accounts that they were aware of with different providers, with around 10 per cent indicating they had three or more accounts. While some of these multiple accounts are held for valid or unavoidable reasons, in other cases they occur because the account owner has not got around to consolidating their superannuation or find the process too complex.

In this context it was not surprising that there was strong support for auto-consolidation of inactive accounts.

As indicated by Chart 11, more than three-quarters of respondents agreed with the concept of auto-consolidation. Support for auto-consolidation was particularly strong in the lower net financial worth households. However, there was still significant support amongst high net worth households.

Chart 11: Attitudes to having an inactive/dormant account to be automatically consolidated into main superannuation account



Note:

Mass Market: Net financial worth less than \$50,000

Mass Affluent: Net financial wealth \$50,000 to \$350,000

Core Affluent: Net financial wealth \$350,000 to \$750,000

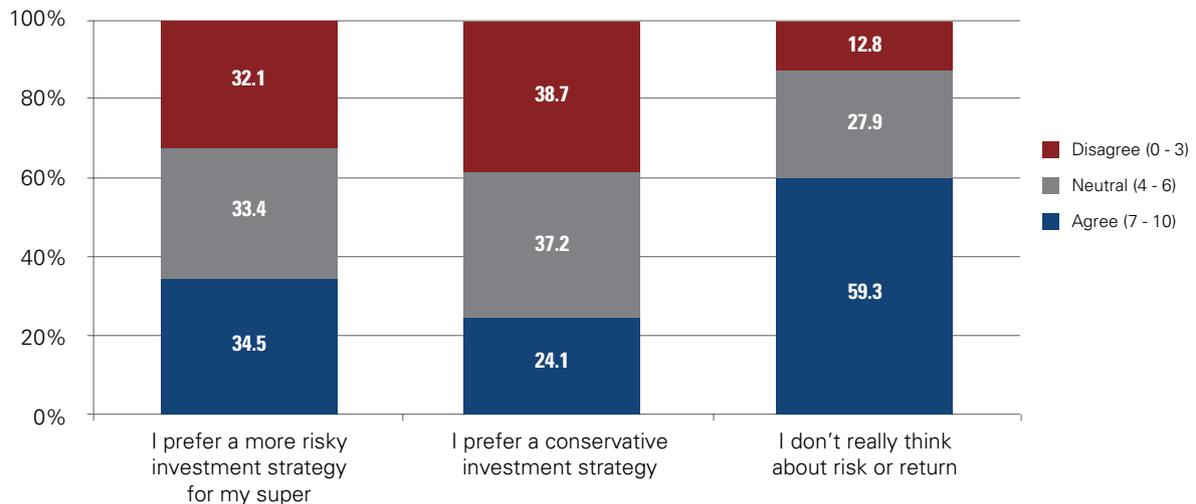
High Net Worth: More than \$750,000 in net financial wealth and/or income more than \$250,000 per annum

ATTITUDES TO INVESTMENT RISK

Respondents were polarised in terms of their appetite for risk. As indicated by Chart 12, nearly two-in-five respondents preferred a more conservative investment strategy for their super (38.7 per cent). However a similar number (32.1 per cent) said they preferred a risky strategy.

Only one-in-10 admitted they did not really think about risk and return (12.8 per cent), while the majority disagreed with this statement (59.3 per cent).

Chart 12: Responses to statements about investment risk



Consistent with the diversity of views in regard to investment strategies, there were mixed views about the desirability of annuity-type income streams in retirement.

Two out of five respondents were not interested in the concept of annuity that was tested. Only around a quarter found the concept attractive, with around 30 per cent not having a view.

As shown by Chart 13, with increasing age came a decrease in preference for annuities. Those below 30 were more likely to support annuities (38.9 per cent), compared with those aged 50 years and over (24.9 per cent). This has implications for the voluntary sales of annuities as typically these are sold to persons at the time of retirement.

With increasing wealth came a slight decrease in those who would consider an annuity. Mass market respondents were much more likely to consider an annuity (33.5 per cent) than mass affluent (26.3 per cent), core affluent (26.5 per cent) and high net worth respondents (28.9 per cent).

Chart 13 Response to the proposition "Would you prefer to receive guaranteed retirement income payments that do not vary, even though in total over the long-term they may be significantly less than what would be received from an investment linked to shares?"

