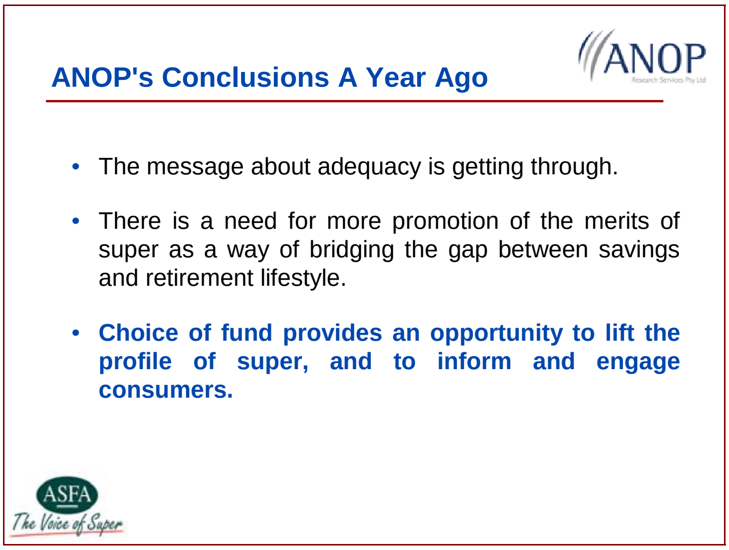
Lessons from the Latest Super Industry Research

Attitudes to Super and Choice in Late 2005

ASFA Conference 2005: Delivering Common Wealth
Melbourne November 10 2005

Rod Cameron
Margaret Gibbs
ANOP Research Services Pty Ltd

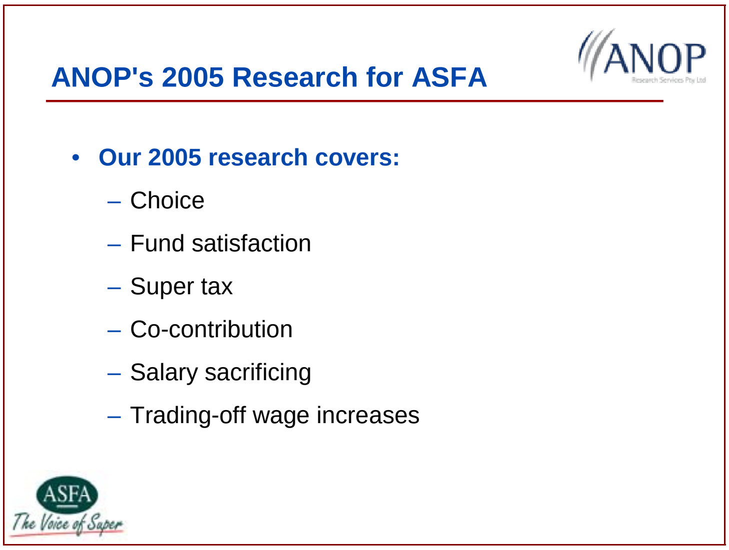
ANOP has been conducting strategic market research for ASFA for some years, and much of this research has been presented at various national conferences. Last year in Adelaide, we made three central conclusions.



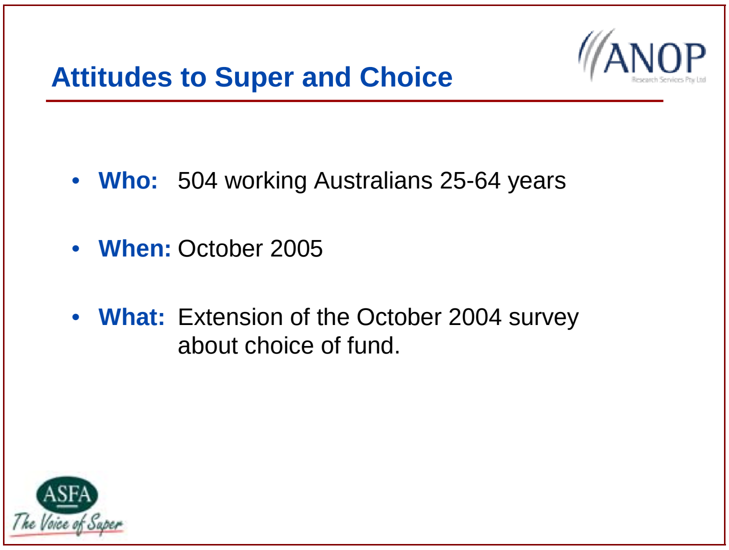
Firstly, we said that the message about adequacy is getting through. Most recognised that 9% compulsory super is not enough, and about half the workforce knew that their own retirement savings would be unlikely to achieve their desired standard of living in retirement. The anticipated retirement age is becoming later, and more hope to continue in part-time work in retirement. We suggested that these were important findings for a government facing skills shortages in an ageing population base.

Secondly, we reported in an important finding for the industry, that as this community delusion about the adequacy of retirement savings was less pronounced, there was more appreciation of the gap faced by many between their savings and desired lifestyle in retirement. The message to the industry was that there was a need for a greater promotion of the merits of super as a way of bridging the gap.

The third major conclusion involved the then to be introduced choice of fund which presented a real opportunity to lift the profile of super. With more competition and increased marketing activity, we suggested a possible outcome would be a better informed and more engaged consumer base.

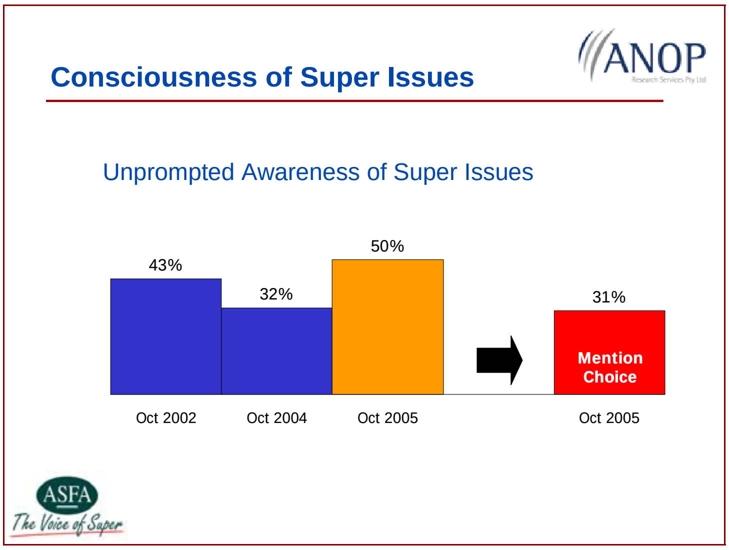


What has happened in the last 12 months?... has this desired outcome eventuated? Today we will release the latest findings examining the impact choice has had so far and how super funds are travelling. We will also discuss the implications of various policy measures designed to encourage additional super savings. We will look particularly at super tax, the government's super co-contribution, salary sacrificing and the potential of a new policy option of trading-off wage increases.



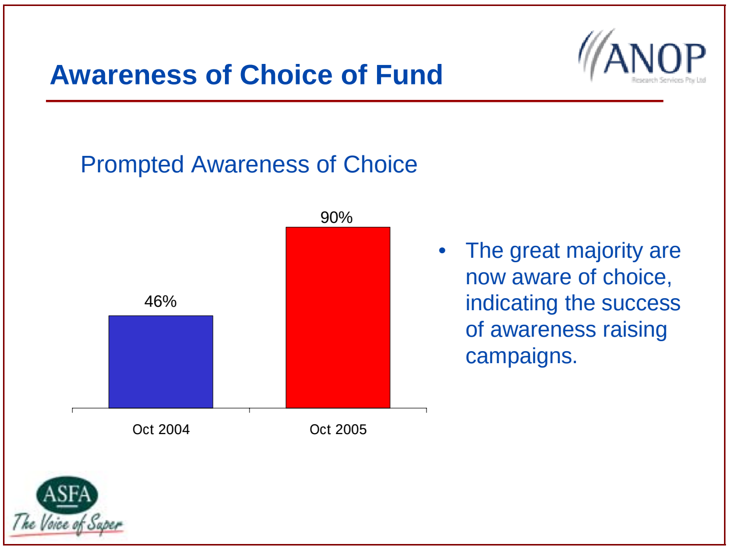
The latest research for ASFA – an extension of our study about a year ago – consisted of a national telephone study, with a sample of about 500 Australians aged between 25 and 64 who were in regular full or part-time work; in other words, people with compulsory super. The latest survey was completed about a month ago.

The first goal that superannuation marketers would set themselves in the new environment of choice would be to increase the community's consciousness of superannuation.



This goal has been achieved to a large degree. We have been asking people in the workforce at the outset of the surveys, what issues about superannuation have been catching their attention recently. As you know, superannuation is usually not a barbeque stopper, but in this survey we have registered the highest consciousness of super issues yet recorded. Now, 50% of Australians in the workforce can mention spontaneously something about super. You may not think this is a high number but look at the figure three years ago (2002). In a similar study, but at a time of great distress within the industry, we sampled a disquieted workforce receiving distinctly negative returns… even in this environment, superannuation consciousness rose to only 43% with 30% mentioning low returns specifically.

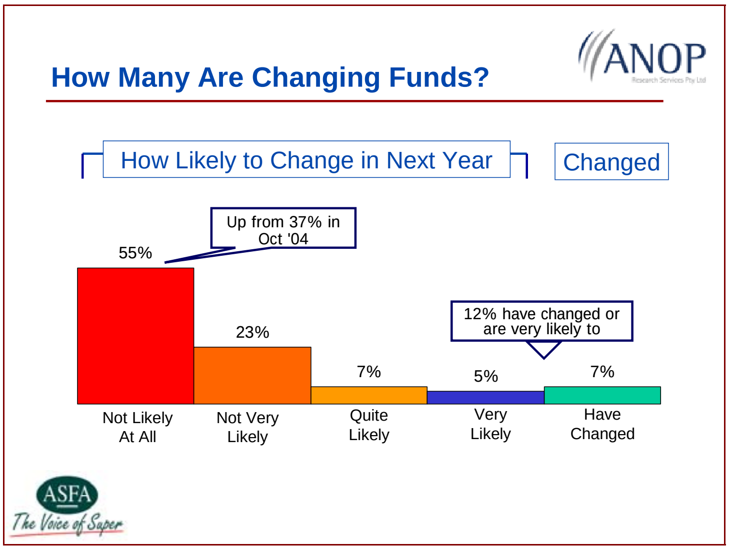
A year ago (2004), only about 30% could say something about super - with only 2% at that stage spontaneously mentioning choice. Now with a full 31% mentioning the issue of choice, overall consciousness of super has risen to the 50% mark.



And when we prompt our survey participants - that is specifically ask whether they have heard about most employees being offered a choice of super funds - the awareness figure rises to a near universal 90%. Almost double the comparable figure this time last year (46%). It is clear from these figures that a significant measure of success can be attributed to the choice campaign in terms at least of awareness.

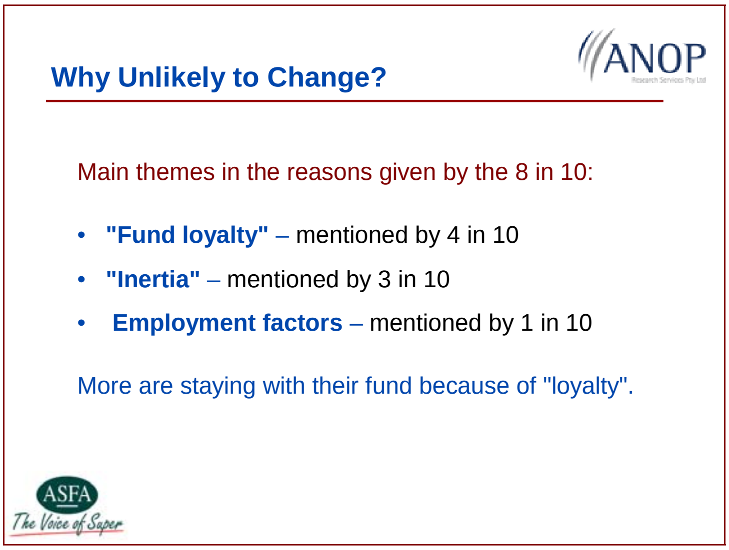
Incidentally, there might be a lesson here for the government. The choice information campaign can be properly characterised as coming from all sectors of the industry and the regulators, with messages pitched in various ways and directed both above and below the line. However, awareness success has been achieved at a fraction of the $50 million or thereabouts spent on another recent "information" campaign.

So goal number one - awareness - has been achieved. We editorialised last year that goal number two was for any behavioural change being effected through choice ideally to be an informed and rational one. I do not believe either the industry or the regulator wanted a bloodbath with capricious changing of funds stimulated by questionable marketing tactics. Our latest survey attempted to put a figure on how much movement has taken place and how much is likely in the near future.



In another pleasing result for the industry, we find that only 7% have changed funds since July 1; with a further 5% seriously considering a change in the next 12 months. We would estimate from these figures something in the order of an 8-10% base of potential changers in the first 12 months of choice operation - pretty much in line with the prediction of ASFA's economic guru, Ross Clare. It is also a figure very much in line with ANOP's finding last October when we recorded a 9% number as seriously considering change.

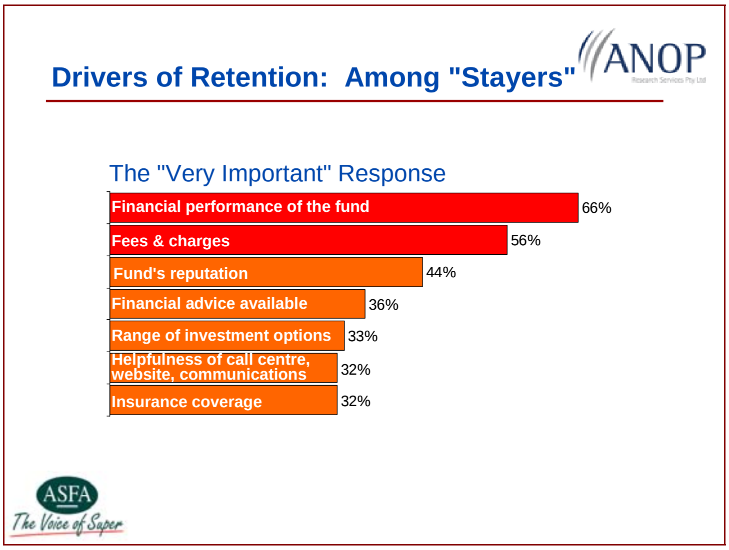
However, perhaps more important than the 7% having changed and the 5% very likely to, is the 55% now not at all likely to change funds. In a clear display of increasing fund loyalty, the 'rusted on' component of fund members has increased dramatically - from 37% a year ago to 55% now. It appears that the most significant outcome of the choice campaign is a sharp increase in commitment to existing funds, rather than a desire to find greener grass elsewhere.



Why is commitment increasing? We asked those unlikely to change why they would <u>not</u> do so? (To the 55% not at all likely, we added the 23% not very likely - to arrive at nearly 8 in 10 whom we categorised as unlikely to change). We find 3 main factors in the decision to stay put. Good old Australian inertia is only the second most important factor - mentioned spontaneously by about 3 in 10. These are the "can't be bothered", "what's the point", "don't know - don't care" exponents. A further 1 in 10 cited quite legitimate employment-related considerations tying them to current fund - such as being ineligible for choice because of work sector or workplace agreement, or else the intricacies of salary packaging.

But the main reason for staying with an existing fund is loyalty or positive commitment - mentioned spontaneously by about half those unlikely to change funds. This factor has increased appreciably over the last 12 months, suggesting that the funds' retention strategies are working.

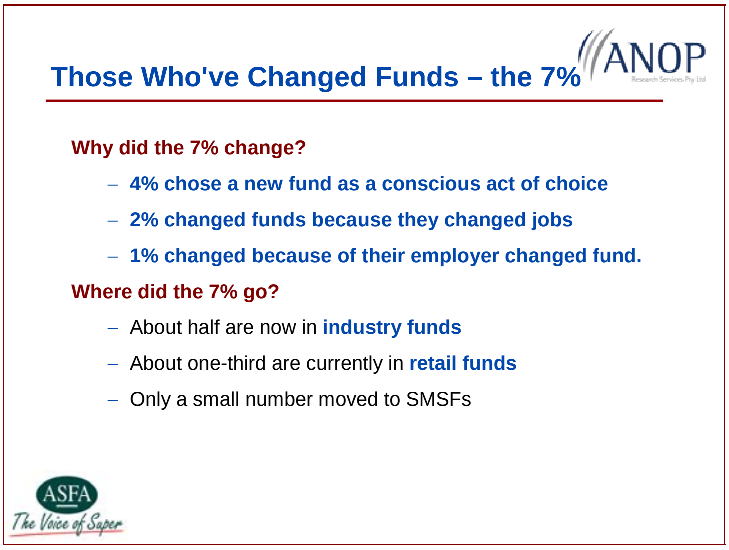
Loyalty however, as most in this room would know, has to be earned. We were keen to find out what the key drivers were that contributed to retention.



We asked those committed to their fund to rate the importance of 7 factors in the decision to **stay** with it. Number one driver is clearly the financial performance of the fund, followed by fees and charges. (We will say more later about how funds are seen to be performing on these key aspects).

Lower down the pecking order, but still important, is the fund's reputation – an important finding for longer term brand builders in this industry. Then follow at roughly equal levels: financial advice available, range of investment options, communications aspects and insurance coverage.

Thus far, we have looked at retention - the "stayers". What about the "movers" – those who have already changed funds or those who are seriously contemplating change.

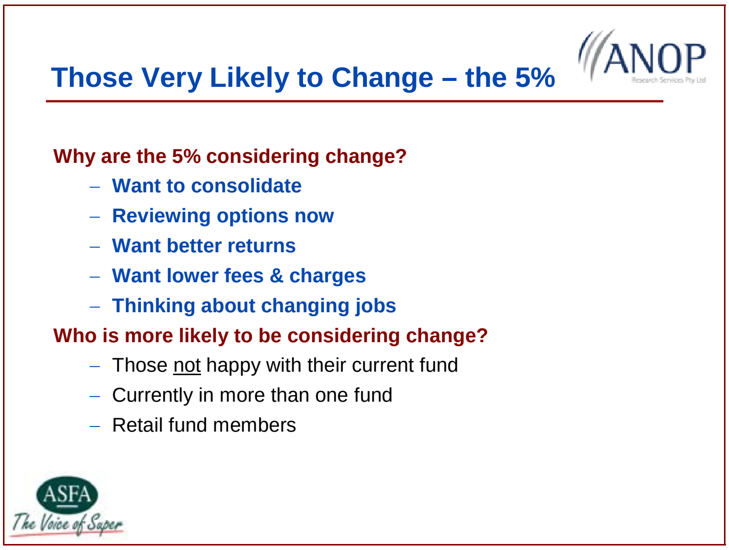


We have already seen that 7% of our workforce sample has shifted funds since July 1. Together with the aforementioned Ross Clare, we had a close look at these people – why they changed, where they went and who they were. Not all of course changed because of choice... 2% shifted because of a job change and almost all of these went with their new employer's default fund, and a further 1% changed because the employer changed or closed its fund. We conclude most that of this 3% is a natural change that would have occurred with or without choice of fund legislation.

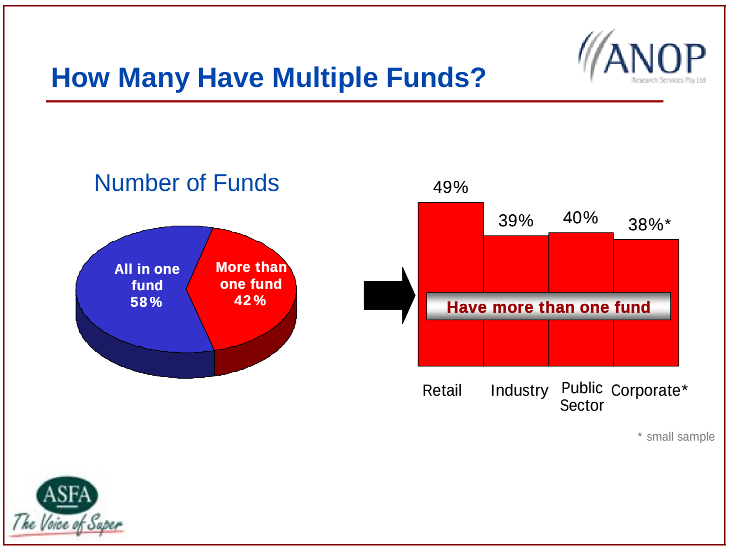
However, the greater part of the 7% "changers" motivation clearly involves a conscious act of choice, and the main reasons here were **fees**, **returns** and the desire to **consolidate** a number of funds.

It is also instructive to see where they ended up. About half went to industry funds and about a third to one or other of the retail funds. We should stress that although the industry funds have done better in the swings and roundabouts in this survey, overall numbers are small. And these numbers refer to people not money, and they say nothing about how valuable the acquisitions may or may not have been. Importantly, there was very little movement to self-managed funds.

There is also a group in the workforce on the cusp of change at the moment... we found a further 5% highly likely to change funds in the next 12 months.

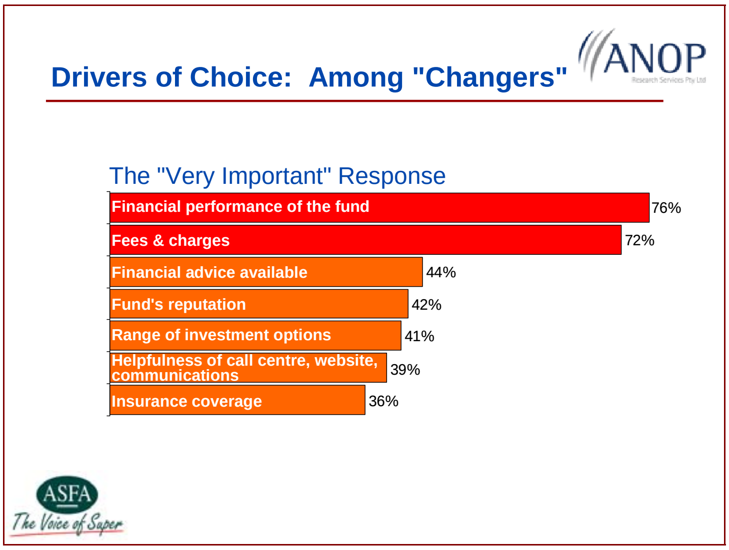


Most of the reasoning is straightforward and predictable – better returns, lower fees, changing jobs and the ever present Generation X preoccupation with options, always options. But top of the list is the often overlooked factor of wanting to consolidate, among those with more than one fund. As you can see, this likely to change group is over-represented by those who currently have more than one fund. Consolidation is a real "win-win" factor in the industry, with clear benefits for both fund and member. Indeed, consolidation may well be the sleeper trend in superannuation in the near future.



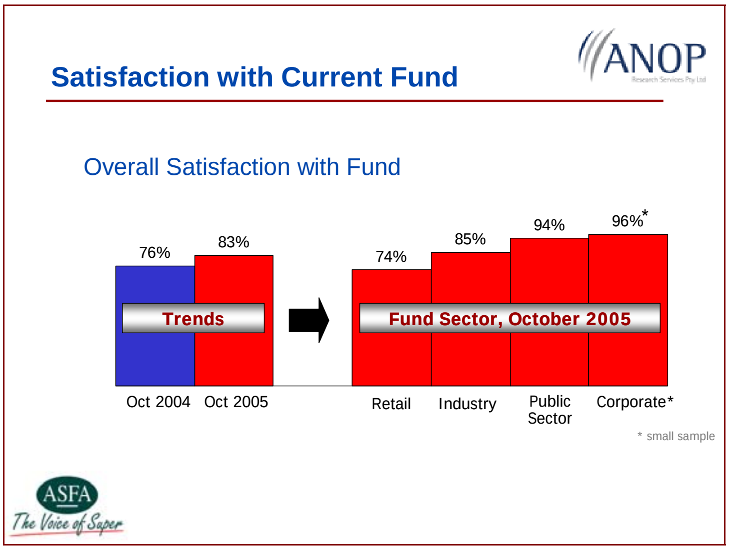
More than 4 in 10 report having more than one fund – a segment too big to be ignored by super marketers. And it is the retail funds that should be really interested in consolidation. Not only because the biggest percentage of multi-fund members have a retail fund as their main one (49%), but also because those most likely to change are in fact the multiple fund members. (A methodological note in passing. It is important for us and for you to have confidence in the accurate classification of our respondents' main fund into industry sector. We know the weakness other surveys have in their reliance on the survey respondent knowing their sector. ANOP asks for the precise name of fund and the multi-skilled Ross Clare of ASFA classifies each person into the appropriate sector. Such painstaking analysis is not the norm in the market research industry but we feel it is the only way to achieve reliable sector ID.)

Apart from consolidation, what are the main drivers of change among this small but key group – those who have changed or are likely to?



We see the same seven factors rated but in this case higher numbers and one factor sharply elevated in importance, when compared to drivers of retention among stayers. It is fees and charges that is of greater significance as a driver of change – with this factor nearly equalling returns in importance as an agent of change. Although the questions in 2005 are not comparable to last year's, the results suggest more importance is being attached to fees and charges – attributable no doubt both to fund campaign activity and to fee disclosure regulation.

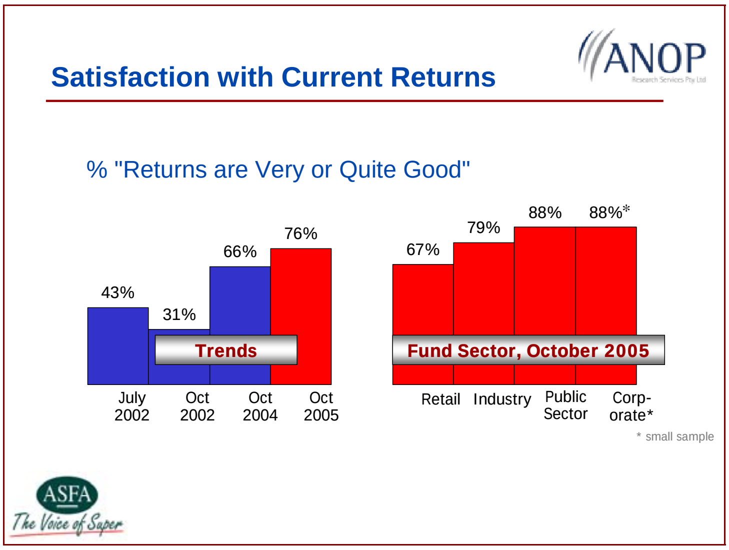
So far we have dealt with specific drivers of choice and retention. The dependent variable in all of this – the factor that is used as the key rating measure – is overall satisfaction with your main fund.



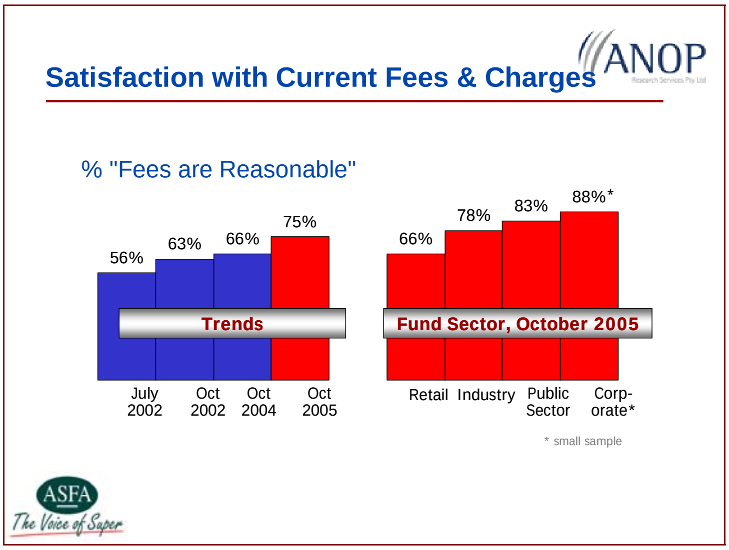
In a great result for the industry overall, there is now an 83% satisfaction measure with one's own superannuation fund – up a full 7% on a year ago. This may well be the high water mark for the industry as the coincidence of a strong economy, high returns, smooth transition to choice and a benign PR environment where safety of super is not an issue, may not happen again.

In 2005, the happiest members are those in the diminishing corporate fund sector and in the still relatively well looked after public sector. In the two biggest sectors in terms of fund members, the industry funds outperform the retail funds – although it should be emphasised that a 3 in 4 satisfaction rating achieved by the retail funds is a healthy result.

We have seen returns as the key driver of retention and choice; it follows that returns is also a key driver of satisfaction, as indeed our survey respondents told us in their reasons for being happy.



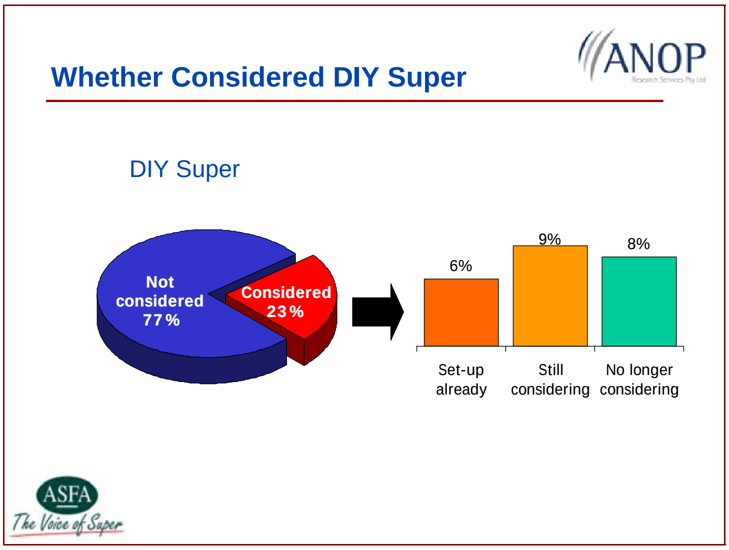
When asked specifically about how good or otherwise their returns are, we post another record high. Just over three-quarters – up 10 points on last year - rate returns as at least quite good. For this aspect, we can track back to the difficult 2002 year, where at the lowest point only 31% rated returns as good. We said at the time that considering the preponderance of minus signs in front of returns then, that things may well have been worse. Clearly, however, a 45% increase in satisfaction since October 2002, is an unambiguously good result. The same pattern as previously seen in overall satisfaction is recorded for rating of returns by sector.



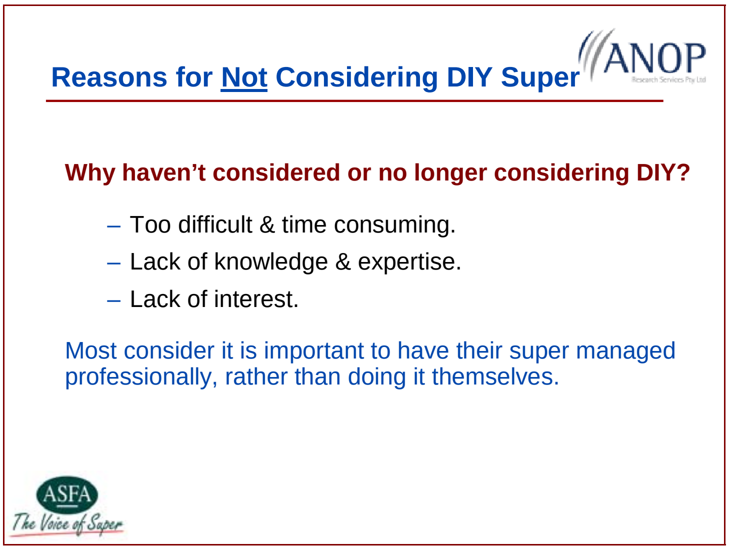
In another big tick for the industry, the sometimes contentious issue of fees and charges is, at present, largely defused. This issue has been well handled by the industry as a glance at the gradually increasing trend line testifies. In progressive jumps, the percentage believing the fees and charges of one's own main fund, has increased from 56% to 75% in three and a bit years. Any bankers in the audience would regard such numbers about bank fees and charges as a pipedream.

These numbers, as simplistic as they are, do tell us something deeper about the superannuation industry. In a time of increasing consumer cynicism with institutions and their charges, superannuation funds are relatively strongly positioned in community trust and regard.

There is of course a sector we have not covered yet – the do-it-yourself mob. Observant conference participants would have seen earlier that there was little movement to self-managed funds among the 7% who had changed funds since 1 July this year.

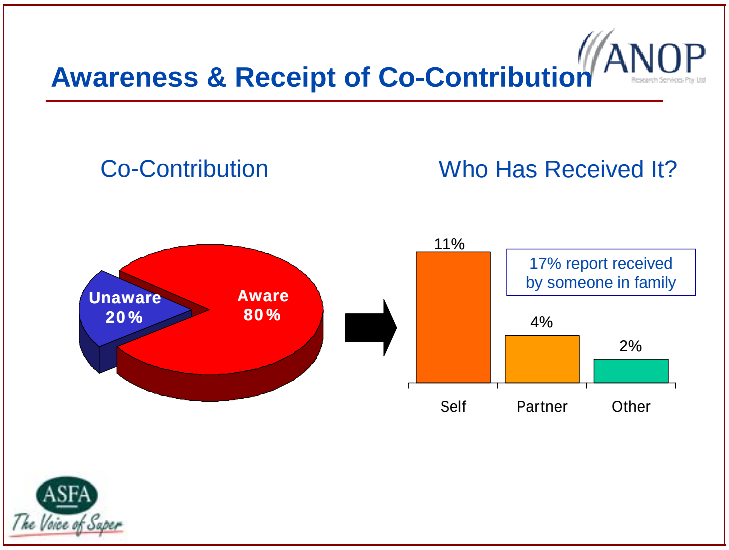


These results also point to the apparent plateauing of interest in self-managed funds. In 2004, exactly 1 in 4 (25%) reported that they had considered DIY super. This survey shows a marginally lower (if statistically insignificant) figure of 23%. This 23% can be reduced to only 6% who say they have already set one up. ASFA reckons that some of these are actually in retail and other funds, and the real figure is closer to 4%. Either way, it seems that the enthusiasm for doing it yourself has been tempered - aided no doubt by the helpful entreaties of the tax office and the regulator.

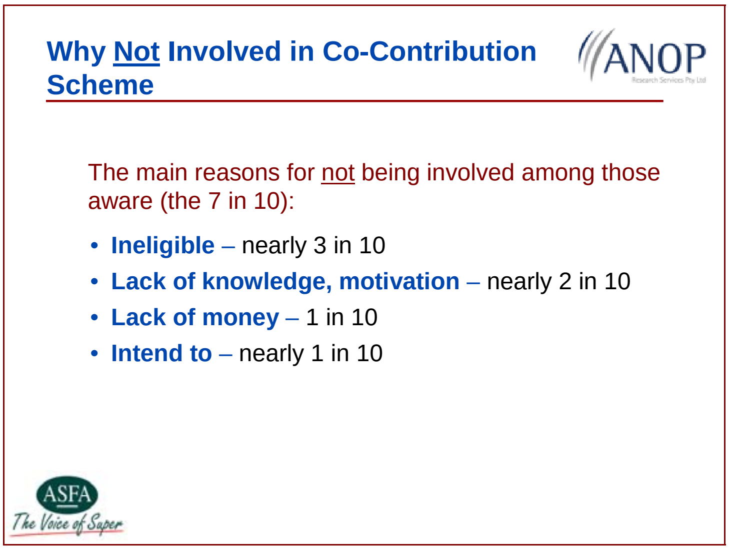


Indeed the reasons given by the great majority of those who have never considered DIY or who flirted with it but have reconsidered, reveal a growing community understanding of the reality. The key reasons given involve the perceived difficulty and time-consuming nature of the exercise, together with a realisation that a modicum of knowledge and expertise is required. Indeed, when we specifically asked them, the great majority believed that it was important to have their super professionally managed as opposed to doing it themselves.

We will now move on from choice and fund attitudes and concentrate on some bigger picture issues – all of which have the policy aim of encouraging additional super savings and enhancing retirement incomes. The first policy area we looked at was the government's super co-contribution.



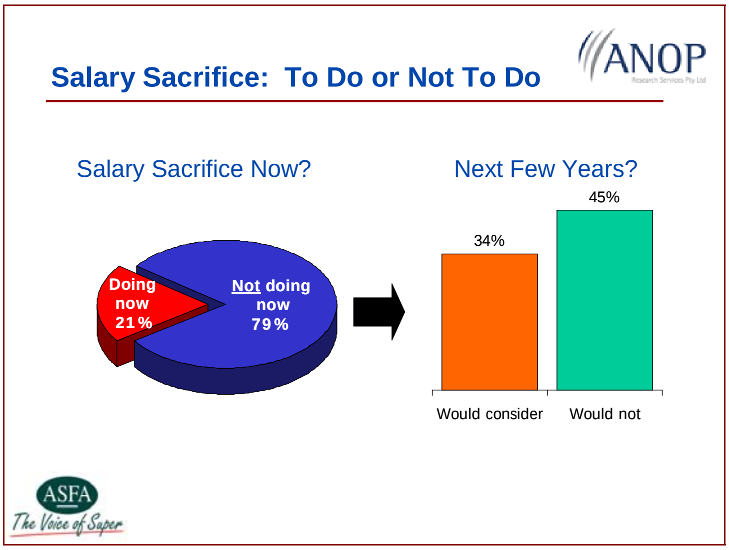
With help from some pink pigs and effective stakeholder communications, there is a very high 80% prompted awareness of the government's super co-contribution. This is a good result – especially given that fewer than 2 in 10 (17%) had personal or family-related experience of it. The survey suggested that around 1 in 10 were personal recipients so far. But there are more in the pipeline.



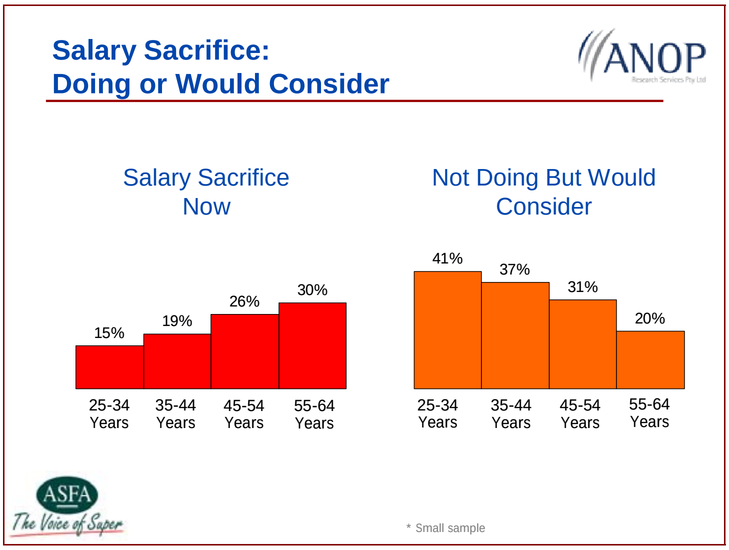
This is suggested by responses to our question about why those aware of the contribution are not involved in the scheme. We find an additional 1 in 10 who say they are intending to use the scheme in the near future.

A closer look at the remaining reasons reinforce the finding of high community understanding and awareness of what might be regarded as a complicated and daunting procedure. The reasons given for not being involved are in the main rational and informed. Apart from the low 2 in 10 "don't know, don't care", the other reasons are realistic: 3 in 10 know they earn above the threshold and are ineligible; and a further 1 in 10 have no spare money to make a contribution themselves. The government and the industry have done a sound job in helping communicate a relatively difficult concept.

What about attitudes to doing something **before** tax? We asked about salary sacrificing – now and in the next few years.



Around 2 in 10 (21%) of the workforce are currently engaged in some form of super-related salary sacrifice. Importantly, a further 1 in 3 (34%) say they would consider it in the next few years – indicating a big potential market.



When we analyse these responses by age, we find that the market at the moment is biased clearly towards the over 45s, but the interest in salary sacrificing in the next few years is just as clearly biased to the under 45s.

Why Consider Salary Sacrifice?

Main reasons for considering salary sacrifice (the 1 in 3):

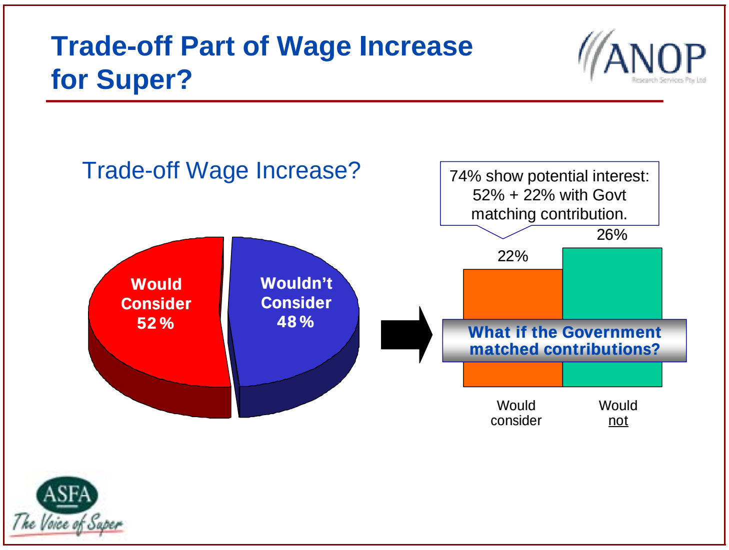
- **Need more money in retirement.** Don't have enough.
- **To build up super.** Enforced saving. Want more.
- **Tax effective.** Tax advantage.

Key reasons for considering a salary sacrifice relate to adequacy and to perceived benefits of super.

And the reasons for considering salary sacrificing, among the potential market, point strongly to genuine and informed interest. The key reasons were recognition of having inadequate retirement savings, a desire for more enforced saving through super, and a recognition of the tax effective nature of salary sacrificing.

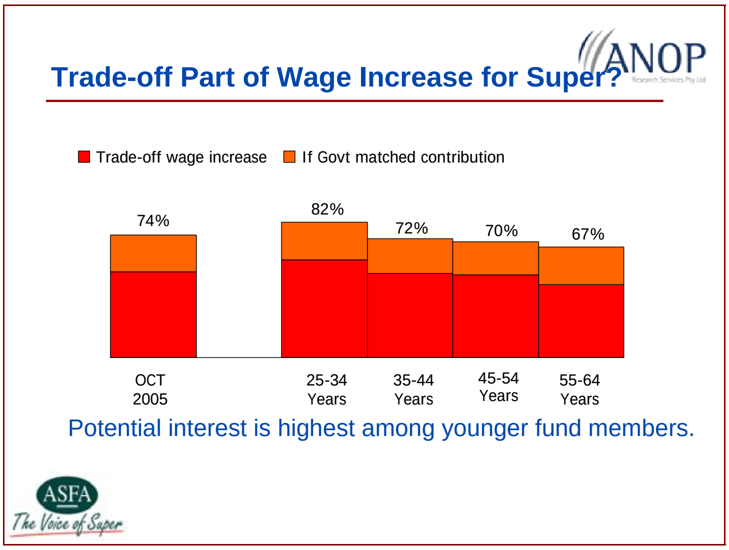
A challenge for the industry is to break down employer resistance to the concept as the interest from the employee (particularly the younger element) is clearly apparent – and probably growing in line with greater understanding of the whole area of superannuation and retirement income adequacy.

Another relatively painless means of encouraging salary sacrifice, but not practised to any extent in Australia, is that of trading-off part of future wage increases for super.



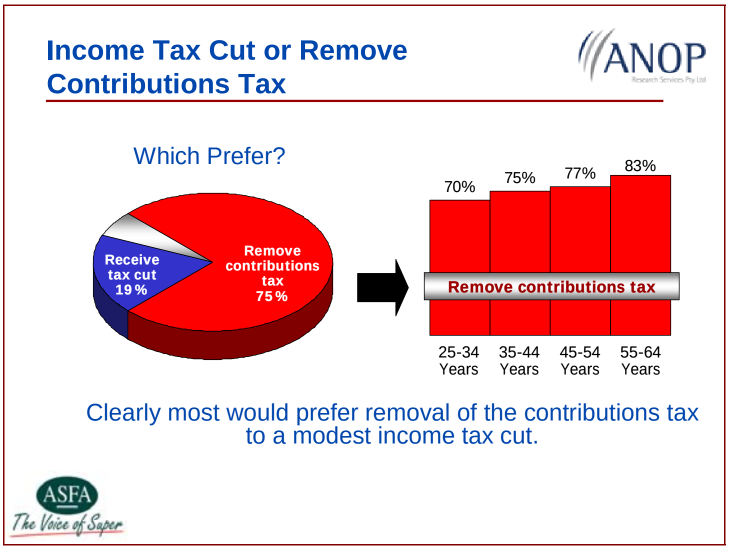
In a result very consistent with the earlier salary sacrifice numbers (where about half were either doing it now or attracted to the notion), we find some 52% willing to consider the idea of trading-off wage increases for super. Importantly, this 52% rises to 74% if the government matched the contribution up to certain amount.

And again it is interest driven particularly by the younger fund members who obviously have the greater potential to benefit (as long as they actually do receive any wage increases in the new IR climate).



This is a new potential policy initiative for the industry which clearly will need considerable work with both government and employers to get off the ground. Significantly, what might have been regarded as the most difficult group to convince in an environment where many are finding it difficult to put aside money - the consumers - appear receptive to the idea.

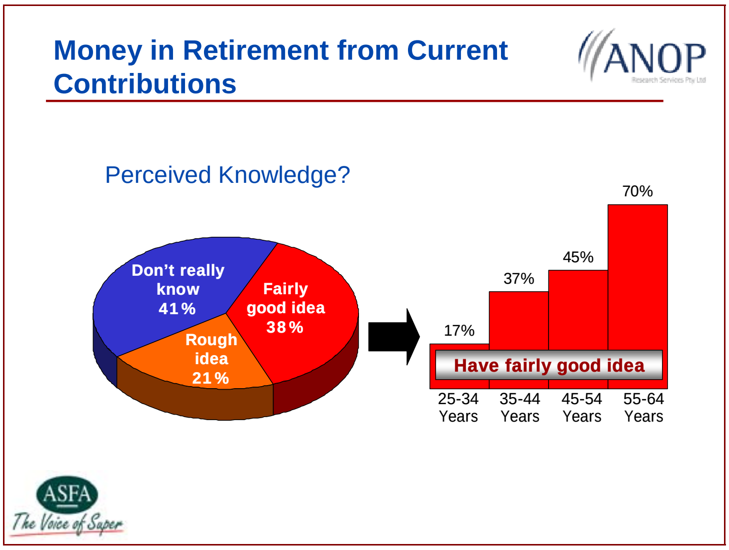
Of course an even easier way to make savings grow from the consumer's viewpoint is to remove the 15% super contributions tax.



In an impeccably worded question we told our survey respondents that getting rid of the 15% contributions tax would cost the government the same as a $6 tax cut, and asked them which they would prefer. In a result that shows that super may well take a higher profile at the next election, nearly 4 times as many chose the option of doing away with the contributions tax. This 75% to 19% result incidentally, is almost identical to a similar question posed in September 2001.

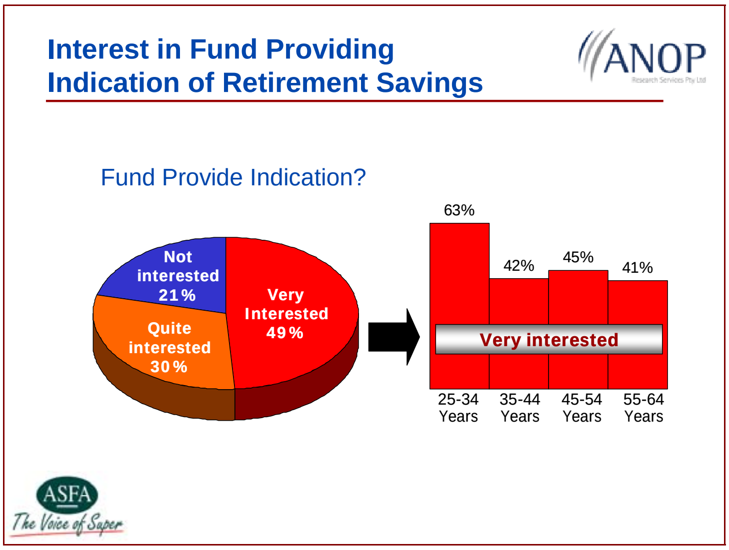
At this stage the older segments are more attracted to the notion, even though it is the younger people of course that have more to gain over their working lives from the removal of the contributions tax. The communications challenge for the industry in increasing younger people's interest is to show just how much faster their super would grow without this impediment.

Clearly, few of these young people know how much money they are likely to have in retirement from their super.



There is a dramatic age difference in this result. Overall, just under 4 in 10 of the workforce have a fairly good idea of how much money their current level of super contributions will provide in retirement. But fewer than 2 in 10 youngies have much of an idea.... rising steadily up the age scale to around 7 in 10 of those nearing retirement.

So how much interest is there in finding out what superannuation contributions eventually deliver in terms of retirement savings?



Half of the workforce (49%) would be very interested in their super fund providing them with an indication of what they will have in retirement based on their current contributions. Interest in this sort of "calculator" is highest among the least well informed young segment.

There is obviously an opportunity here for the funds, if current regulatory barriers can be overcome of course (and agreement can be reached on the underlying assumptions).

* * * * *

So what are the most important **lessons and opportunities** for the super industry and government evident from our research?

ANOP

Lessons and Opportunities

For the superannuation industry

- Consumers' greater awareness and interest provides an opportunity to promote benefits of super and to encourage more savings.
- There is an opportunity to encourage more consolidation – a 'win-win' issue.
- Effective retention strategies have paid dividends.
- Favourable perceptions of returns and fees need to be carefully protected.

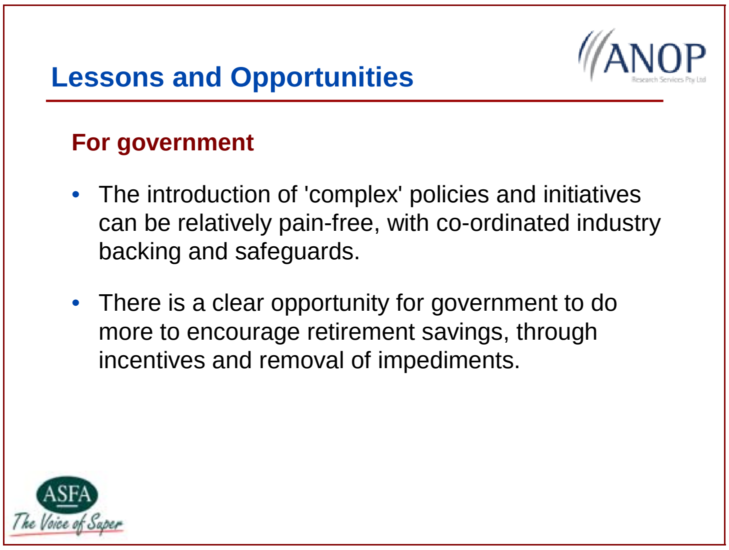
ASFA The Voice of Super

Firstly, the greater awareness and interest in super from consumers provides a clear opportunity **for the industry** to promote the benefits of super and to encourage increased savings. The benefits to consumers are certainly greater adequacy and security in retirement, but there are many product benefits as yet not fully exploited. Consumers have an unusually positive view of their own super fund with good returns, a benign view on fees, and they show considerable interest in such ways of increasing super, as the co-contribution and salary sacrificing.

Another opportunity for the industry is to encourage consolidation. I believe this is already an industry objective, but our research shows that those with multiple funds are the most predisposed to change. As I said, this is a "win-win" issue.

A good message for the industry from the results is the importance of customer engagement and loyalty, as I'm sure you all know. The research shows that the funds' retention strategies have been effective, and this has resulted in increased commitment to existing super funds. Choice has meant increased competition. Although few have moved, consumers have benefited from the competition, without having to do much themselves, which is usually what most consumers want.

Another lesson for the industry is to prepare fund members for the time that returns inevitably decline again. Returns are a key driver of overall fund satisfaction, as well as choice and retention. Similarly, fees are also an issue which can make the troops restive. The industry should strive to protect the valuable (and possibly unique) perception that fees, in the main, are reasonable.



And finally, there are significant opportunities **for government** (and opposition parties). The main lesson is an obvious one – if you have the industry working with you, and you have appropriate safeguards in place, you can implement new policies and schemes which are complex by nature, in a smooth and cost-effective way – <u>and</u> without too many casualties.

There is also a clear opportunity for government to do more to encourage Australians to save for their retirement. Many in the community are willing to consider increased super savings, but incentives to save are important as is the removal of impediments such as the contributions tax. Our research over the past four years has found an increasing community realisation that many have not saved enough for retirement. While national security and IR clearly top the government's agenda at the moment, new policies and initiatives on super and retirement incomes should be an important part of any political party's election package over the next decade.

Superannuation is a long term issue, and the ageing of the population ensures super's place on the political agenda. Indeed, as our research for ASFA has shown, these issues are increasingly gaining traction as the Baby Boomers make their noisy transition to retirement, and Gen X and Y cope with the consequences.

* * * * *