What Do Consumers Think?

Attitudes to Super, Savings, Retirement and Choice

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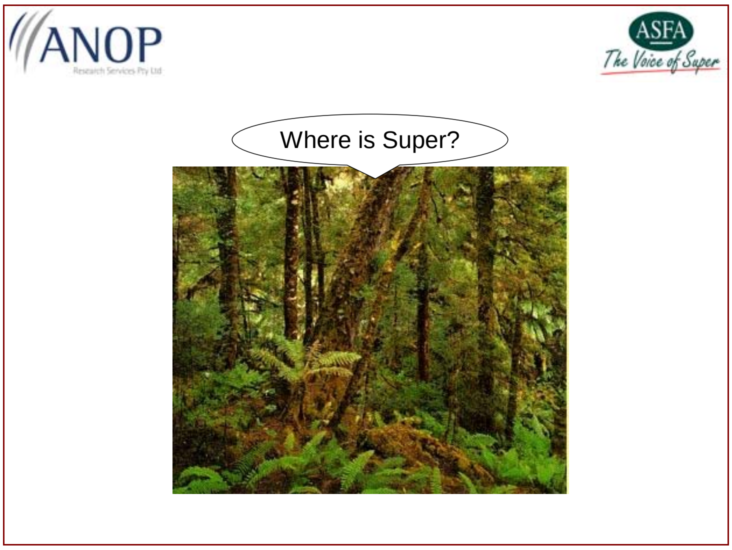
Three years ago when I addressed the ASFA national conference in North Queensland, the political world was being turned on its head. A leaky boat called the Tampa had just entered Australian waters - dramatically to affect the coming election outcome; the September 11 attack in New York was a week old; and Ansett collapsed a few days before (most inconveniently for conference organisers). Despite these major events, I reported that superannuation was entering the radar screens of ordinary Australians - partly because the first of the baby boomers were on the verge of retirement. Superannuation was poised to take on the status of a significant vote changing issue.

Three years on, the boomers have started to retire but super was not a big election issue in the campaign we have just endured. ASFA has done its bit in educating the community and the politicians about the looming gap between retirement savings and community expectations. And the government knew that the election outcome was going to be determined in two key groups - among young families with mortgages and among the baby boomers.



But the Labor opposition squibbed the battle and decided in its wisdom not to contest the issue. More than this, the Labor Party, the creative architect of compulsory super, the party that so bravely laid the foundations for this industry, decided to raid the super bank to pay for its other policies. The net effect of Labor's superannuation policy was to take eight times more out of the super bank than it was putting in. John Howard, keen to dish out money to anything that moved, was set a very low bar to hurdle, and proceeded to spend big time elsewhere.

Labor preferred to give a higher priority to the Tasmanian forests and to the caffe latte drinkers of Carlton and Balmain than to the vast majority of voters - potentially much more interested in super than in old growth forests. The result of Labor's misjudgement is all too apparent.

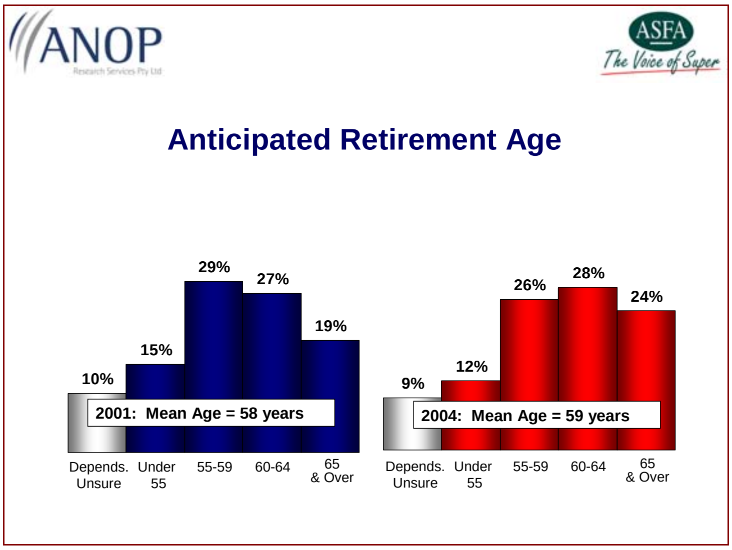
While the ALP was **not** getting the message, the punters are. Our recent research for ASFA shows that the community is realising that many have not saved enough for their retirement and are increasingly expectant of a political response.

ANOP Research Services Pty Ltd — ASFA The Voice of Super

Attitudes to Saving for Retirement

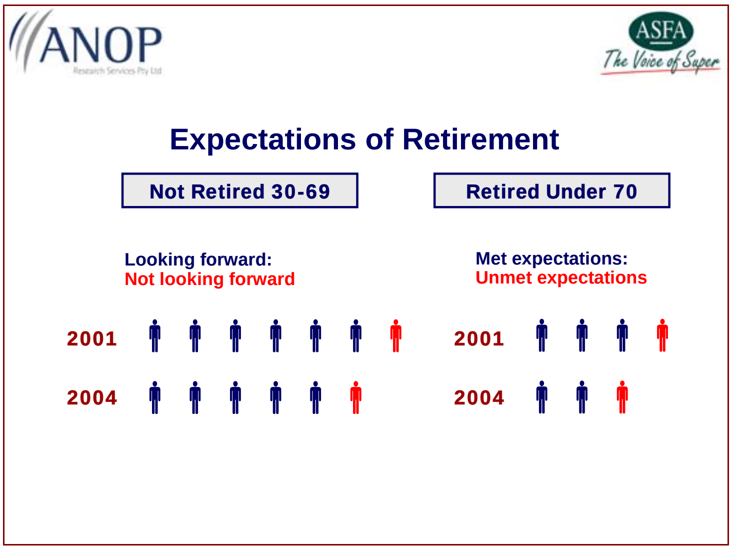
- **Who:** 755 Australians aged 30-69 years
- **When:** June 2004
- **What:** Extension of the 2001 benchmark study into community attitudes to saving for retirement.

In June this year, ANOP conducted an important follow-up survey into Australian attitudes to saving for retirement. This study was an extension of the ground breaking 2001 project I reported on three years ago in Cairns. On both occasions, we surveyed about 750 Australians nationally, aged 30-69. Importantly, our samples represent those contemplating retirement, those not and those who have recently retired.



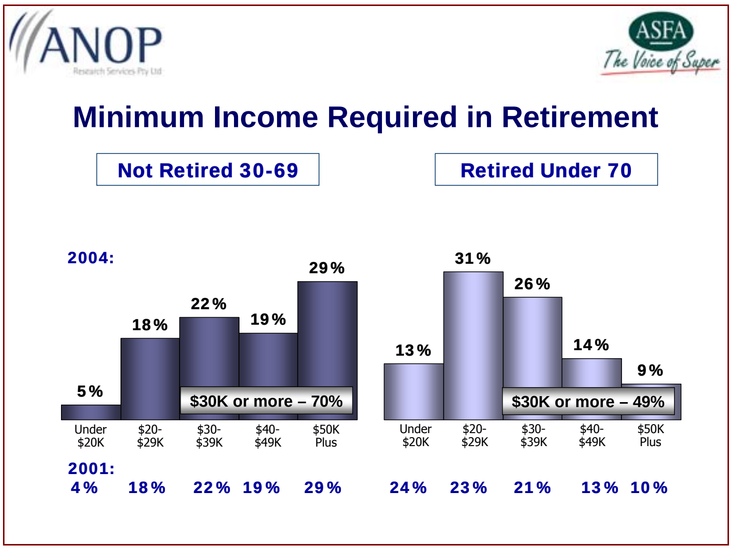
Attitudes are changing here. While the anticipated retirement age remains under 60, it has clearly increased from an average of 58 years in 2001 (blue bars) to 59 in 2004 (red bars). This one year is a significant increase in this context. Now, just on a quarter (24%) anticipate retiring at age 65 or over - up from 19% three years ago. I don't think we will get to John Howard's goal of 70 years but the trends are unmistakably moving towards later retirement.

And, expectations of retirement continue to be rosy but importantly, more misgivings are evident in 2004 than in 2001.



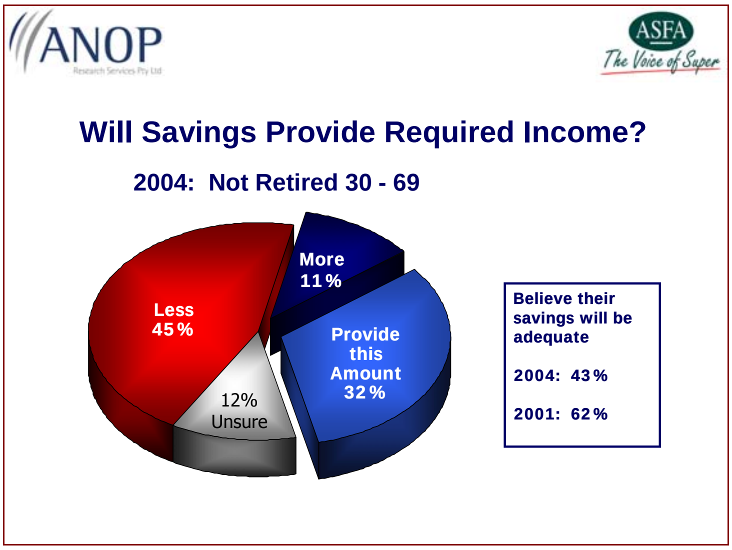
Retirement is looked forward to by a ratio of 5:1 - largely because many people anticipate free time to pursue their interests and dreams after having worked hard. However, as can be seen with the number of blue figures (ie the optimists) versus the red figures (the pessimists), the ratio has slipped from 6:1 in 2001 to this 5:1 now. And a similar decline is evident among that segment of our sample who had actually retired. Among retirees, the ratio of met : unmet expectations in 2004 is 2:1, compared to 3:1 in 2001. Thus, the reality of retirement is clearly not as rosy as the expectations preceding it - and the main reason for this is the realisation that there are insufficient savings in the kitty. As the boomers increasingly enter the retirement ranks, the little red figures are set to multiply.

Just how much do people think they need for an adequate lifestyle in retirement?

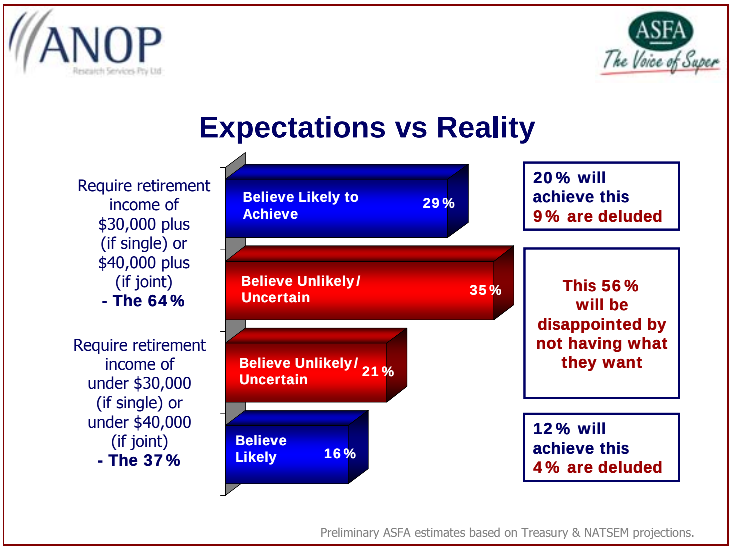


Well, 7 in 10 of those in our not retired group believe they will require a minimum annual income of **at least** $30,000 (the left hand bars). This is exactly as we found 3 years ago. However, there is a different story among those who have already retired (the right hand bars). Retirees' income requirements are much more modest than the non retireds. As you can see, only half (49%) require $30,000 a year. However, this has moved up a notch from three years ago and the gap may be starting to reduce. Now, significantly fewer retirees say they can live on less than $20,000 a year. What these figures show, are that income requirements will rise as the boomers move into retirement. Going are the days when a retiree will be content with $20,000 a year.

Can these expectations be realised? The economists here will know already that many will not have sufficient savings. What do the real people think?



A key finding of the 2004 study is that those not retired are significantly less confident about the adequacy of their retirement savings. In 2001, six in ten were reasonably confident of achieving their required income in retirement, whereas in 2004, only just over four in ten feel that their current savings will provide the income sufficient to their needs (the 32% + the 11%). As found in 2001, however, these **perceptions of adequacy still overstate reality**.

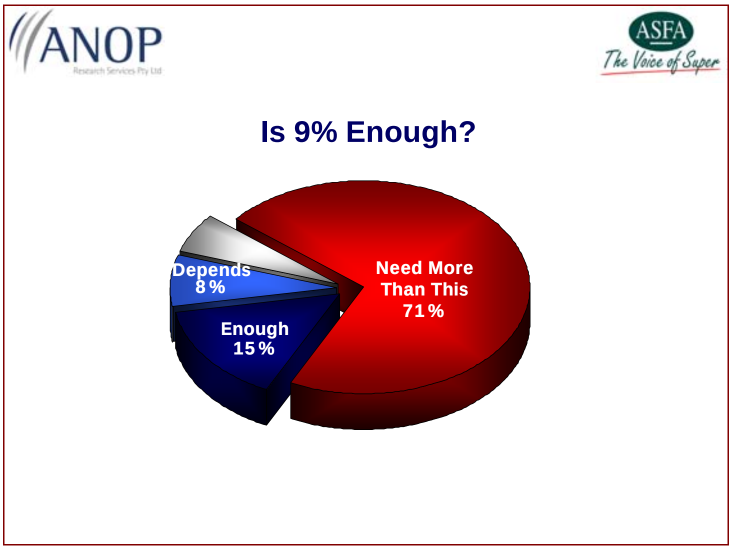


In both the 2001 and 2004 studies, Ross Clare from ASFA worked out the extent to which non-retireds' estimates of their required incomes in retirement and their confidence of achieving them are in line with reality (based on

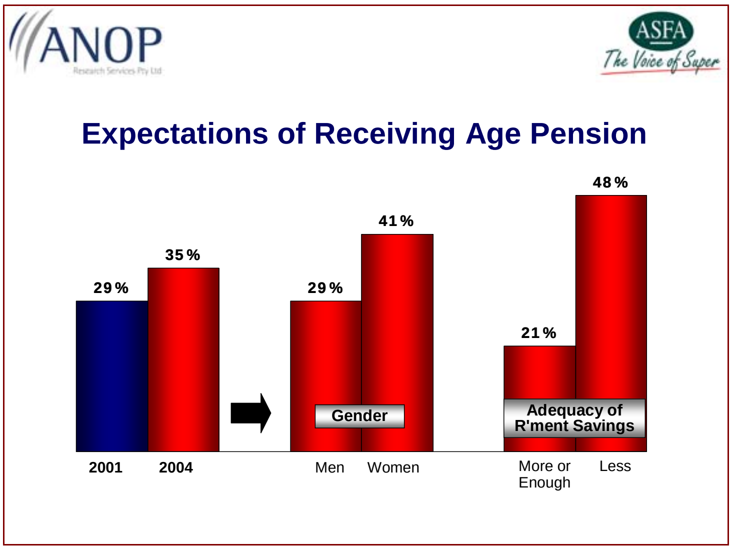
Treasury and NATSEM projections). This chart simplifies a complex calculation. In 2001, ASFA estimated that one in three were deluded about the adequacy of their savings - that is, one in three **believed** they would achieve their required retirement income but were unlikely to do so in reality. In 2004, ASFA's estimate of those deluded has fallen to one in eight (13%: 9% + 4%).

Another important finding from this analysis is that, as found in 2001, only three in ten (20% + 12%) are in fact likely to achieve the income they require in retirement. And this leaves us with nearly six in ten (56%) who will be disappointed at not having what they want.

Thus, these findings continue to reveal that the majority have insufficient savings and will need to take measures to bridge the gap if they are to realise their desired lifestyle in retirement. Fewer however, are deluded about this in 2004.

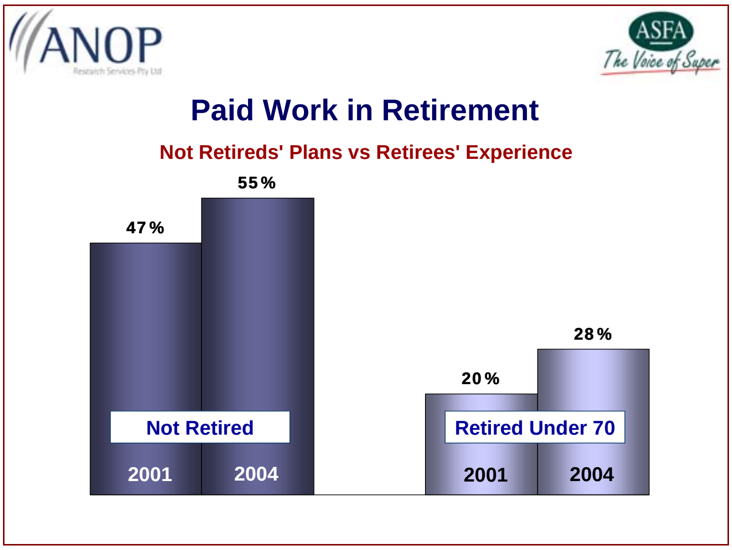


The community is also generally aware that 9% compulsory super is not enough, with seven in ten believing that most people need more superannuation than this to have adequate savings when they retire. Thus, ASFA's messages about adequacy are clearly getting through to the community, both at a general awareness level but also in terms of individuals' attitudes to the adequacy of their own savings.



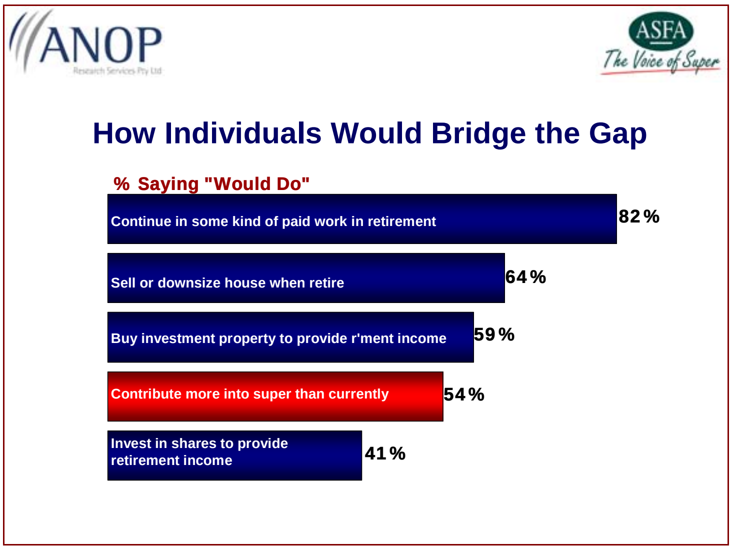
Another indication of greater knowledge and realism about the adequacy of retirement savings in 2004 is the increase in expectations of receiving the age pension. Over one-third (35%) of those not retired now say they expect to receive an age pension - compared to under three in ten (29%) in 2001. Realistically, it is women (41%) and those who already know their savings will not be adequate (48%), who are most likely to expect the age pension. This is a significant turn-around in the psyche of the last decade of the 20th century that regarded the pension as disappearing.

In this more realistic climate, a government message that is penetrating, is the need to continue in some kind of paid work in retirement.



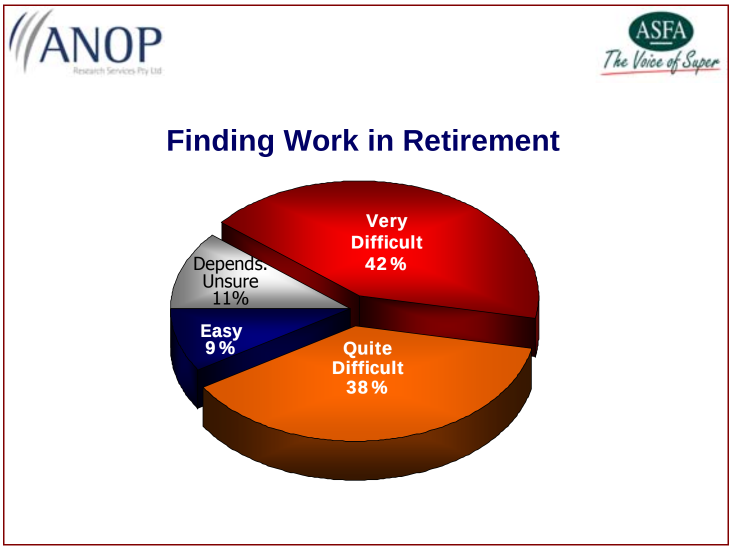
The desire for "phased" retirement has increased among those not retired - up from 47% in 2001 to 55% now. There is of course a substantial gap in the desire for some kind of paid work in retirement and the actual experience of retirees. Less than three in ten (28%) retirees have achieved paid part-time or casual work in retirement, although this is also up 8% on three years ago.

These trends are another indication that the message about adequacy is getting through, and importantly, that working in retirement is increasingly accepted as a way of bridging the gap. In our 2004 survey we went a step further and asked the non retireds the important "what if" question - what would they personally do if they discovered their current retirement savings would not provide the income they want.



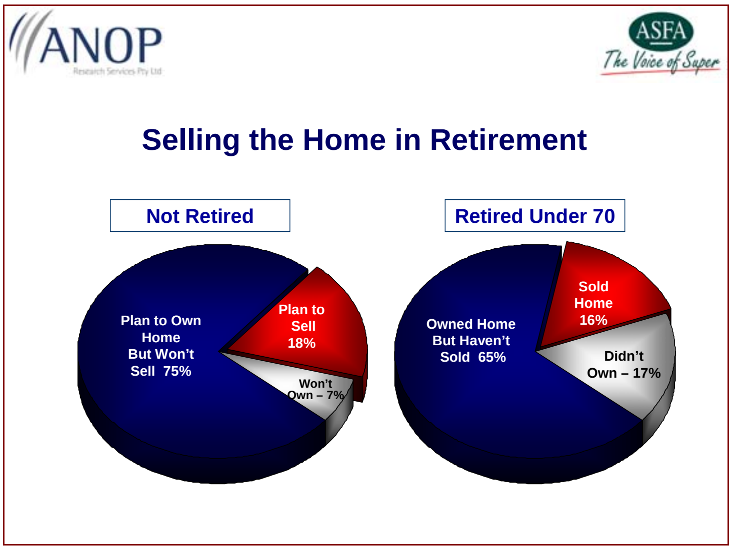
Working in retirement emerges as clearly the preferred option (out of a list of five). The second most popular option is selling or downsizing the family home. Investment property emerges ahead of contributing more into super as a way of bridging the gap, while investing in shares is the least preferred option.

So the key figures here are: 55% of non retireds currently plan for some kind of paid work in retirement. This figure jumps to 82% if confronted with the reality of inadequate savings. The crunch is, finding work may not be easy.



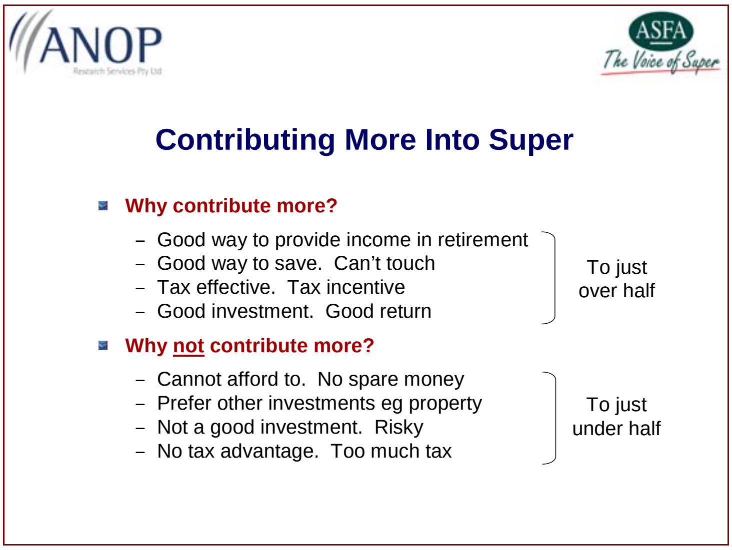
Indeed most people, whether retired or not, think it is difficult for retired people to find part-time paid work that suits them. When we asked why, there is a strong perception of negative attitudes to older workers. This is a big issue for a government claiming to be concerned about labour shortages in an aging population.

So, working in retirement will be rather difficult in the short term. Next on the list of preferred options of bridging the gap was selling the home (64%).



While selling or downsizing the family home is recognised as an option to bridge the gap, this is currently part of the plans of only a small minority. The survey reveals that the great majority want to own their home by retirement, and more are considering owning their home as part of their retirement preparation. Only around one in six (18%) of the non retireds currently intends to sell the family home as part of their retirement plans. And a similar minority (16%) of retirees under 70 have actually done it. Thus, the community continues to show reluctance about disposing of the family home to provide income in retirement. As Mark Latham should have learnt from the recent campaign, the destination of the ladder of opportunity in middle Australia is the home, and owning it, and keeping it.

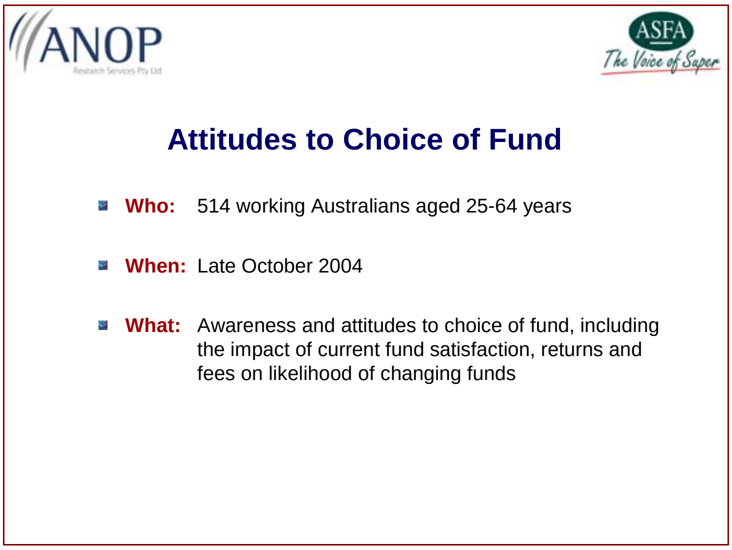
So what will people do to bridge the gap?



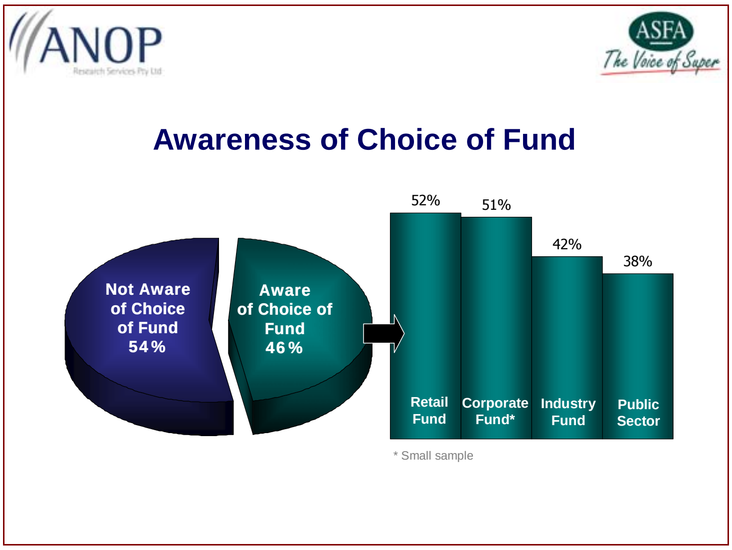
Contributing more into super emerges fourth out of the five potential ways to bridge the gap, just behind investment property. Just over half would consider adding to their super - interestingly because it is seen as providing a good retirement income stream as well as a good savings mechanism. However, the main barriers are affordability together with some doubts about super as an investment and about its tax effectiveness.

These are important results because they point to a need for the industry better to promote the relative merits of super - not only as a good investment but also as an effective way of providing that much needed income in retirement.

As you all know, next year marks a significant change for the industry with the advent of choice of fund. This provides an opportunity to lift the profile of super as an investment and to inform and educate consumers. The cynics amongst us could also say that it provides a real opportunity to misinform and mislead the mug punter in a more confusing environment. The outcome will obviously depend on the industry, who it targets, and the interest shown by the regulators. It is early days at the moment but rather than crystal ball gazing I will now report on the current state of play.



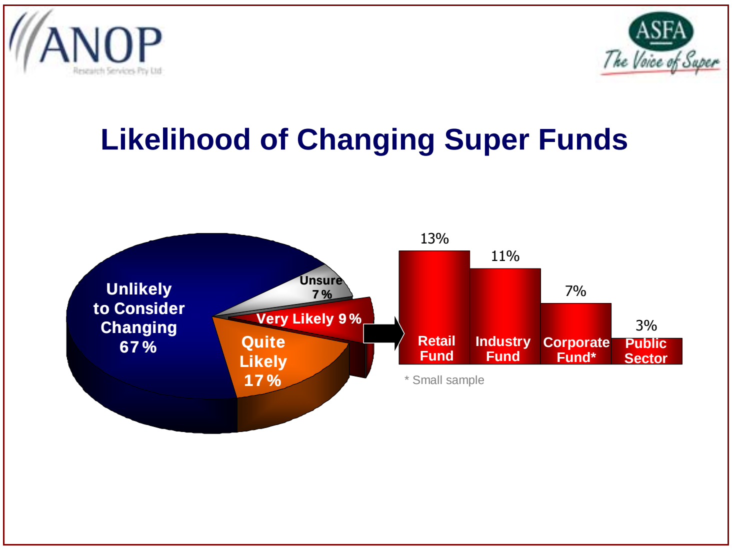
Just a few weeks ago, ANOP conducted another study for ASFA - this time concentrating on the workforce's attitudes to choice of fund. On this occasion, we surveyed about 500 Australians aged 25-64 years who were in regular full or part-time work; in other words, people with compulsory super. Naturally, we were interested in finding out how big a deal it is for the punters, how many are likely to exercise choice and why.



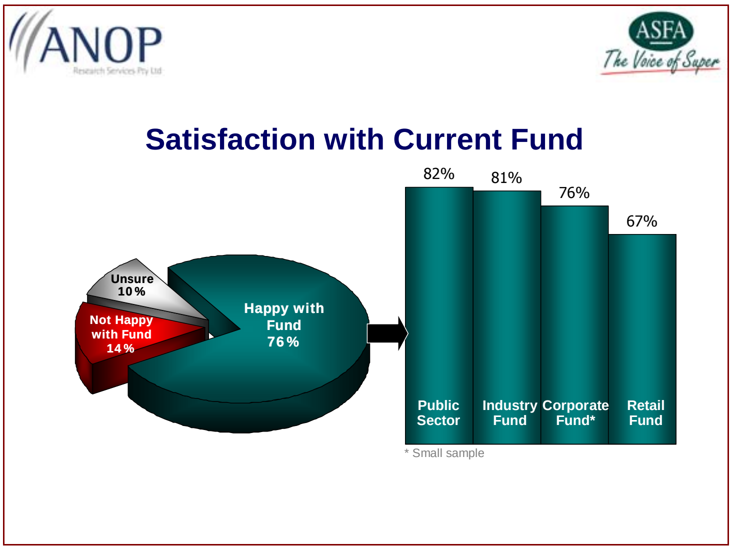
First of all, the 46% awareness of choice of fund is a high figure in middle Australia for a policy yet to be implemented. It is important to note that we ask our survey respondents the actual name of their (main) super fund and then ASFA classifies each nominated fund into the relevant sector. Such a painstaking classification is rare in surveys but we feel it is necessary if we are to achieve accurate sector identification.

Awareness of choice is higher at over 50% among retail fund members and among the small number of well-heeled corporate fund members. Awareness is lower among members of industry funds and it is the lowest of all among public servants, most of whom will not get the choice any way.

An important consideration for this conference is how many are likely to move when more choice is available. Some experienced superannuation experts have estimated that up to 10% would change funds over a period of time. This indeed has been borne out in the Western Australian experience where there has been choice of fund in the state arena for some years.

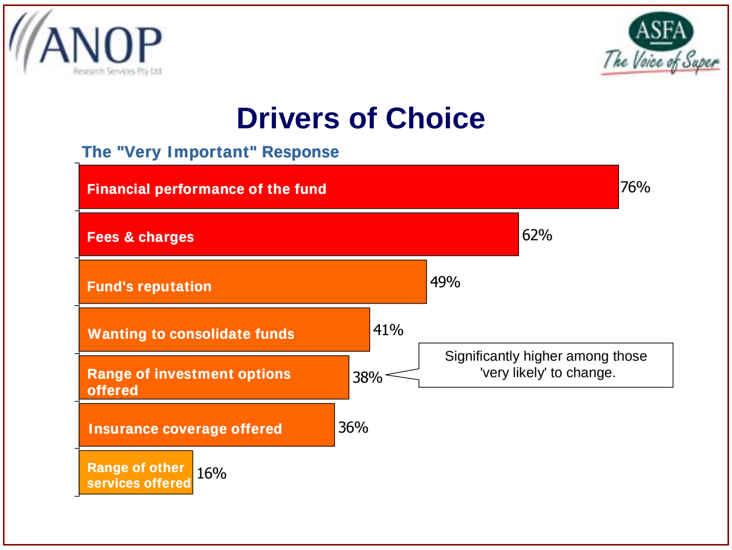


Our results too, bear this out. Experience tells us that most of the 'very likelys' will, plus a few of the 'quite likelys'. On the 90% - 10% rule this shows that about 10% are genuinely likely to change. And the ones most likely to change? Clearly it is those in the retail funds who are most predisposed to do so. Industry fund members are a few points behind but later results suggest that current satisfaction with their fund may prove helpful in retention. This is because, not unexpectedly, likelihood of changing funds is strongly related to satisfaction with current fund.



In good news for the industry, when we asked simply whether people were happy or not with their main fund, three-quarters (76%) were positive. And the negative response was only 1 in 7 (14%). As foreshadowed, it is the industry and public sector fund members who are the happiest. The retail funds trail the field - but even here there is a two-thirds satisfaction result.

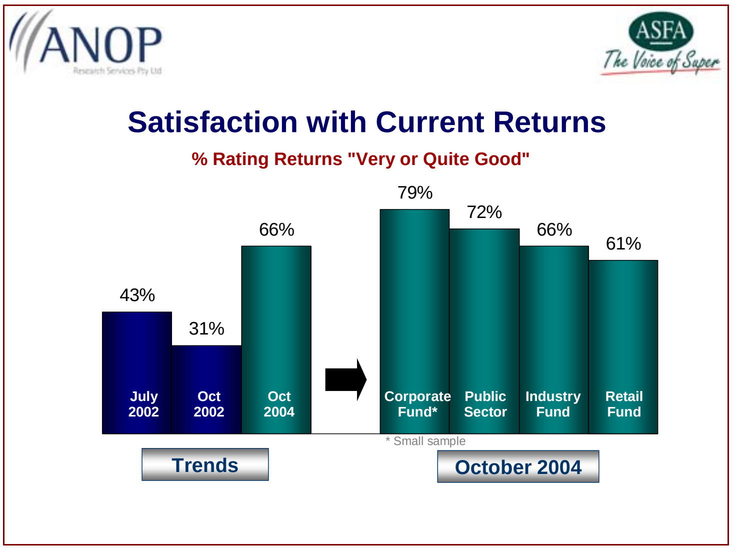
What makes them happy? The primary reason is, not surprisingly, returns. Smaller contributants to satisfaction include communication, clarity of information and low fees, but the biggest driver of satisfaction is financial performance. Likewise, the causes of dissatisfaction, albeit at much lower levels, are also financial - poor returns and high fees.



Accordingly, when we ask people to rate the importance of various factors that might influence changing funds, top of the list is financial performance - that is return on your money. The second key driver is fees and charges. Lower down the list are the fund's reputation, the desire to consolidate amongst those with more than one fund, the range of investment options offered and the insurance coverage available.

Importantly, the range of investment options offered rockets up the charts to be a key driver among the 1 in 10 who are most likely to change. This may well indicate that those relatively few people sophisticated enough now to consider different investment strategies, are the very ones most in the market for change. They want more say and more control - a marketing position that the retail funds may well want to capitalise upon.

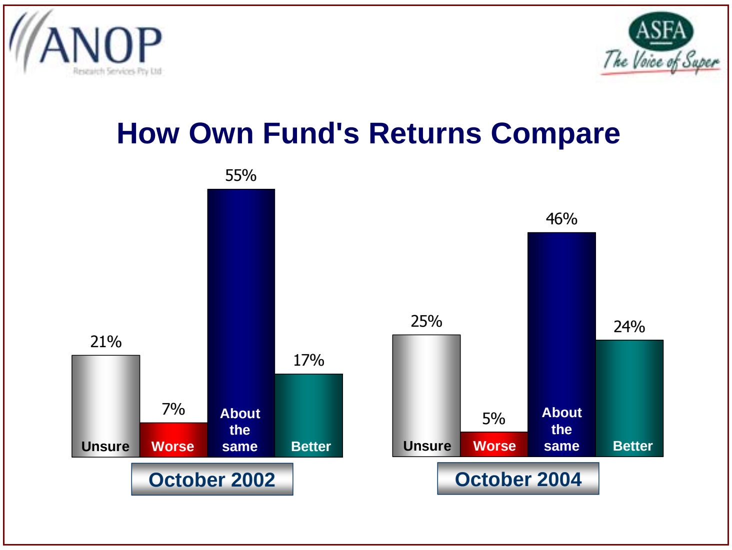
Let's have a closer look at the two overall drivers of choice. First, returns.



Back in the dark days of 2002, shortly after receiving their fund statements, fund members were less than complimentary about their returns. However, community reaction was delivered with a cushion and not a sledgehammer. We said at the time that, considering the minus signs in front of most returns then, the industry may have been pleasantly surprised by the muted response.

Whatever the case, satisfaction with current returns has more than doubled (to 66%) since late 2002. For those closely watching the results by sector, retail funds are again on the shakiest ground.

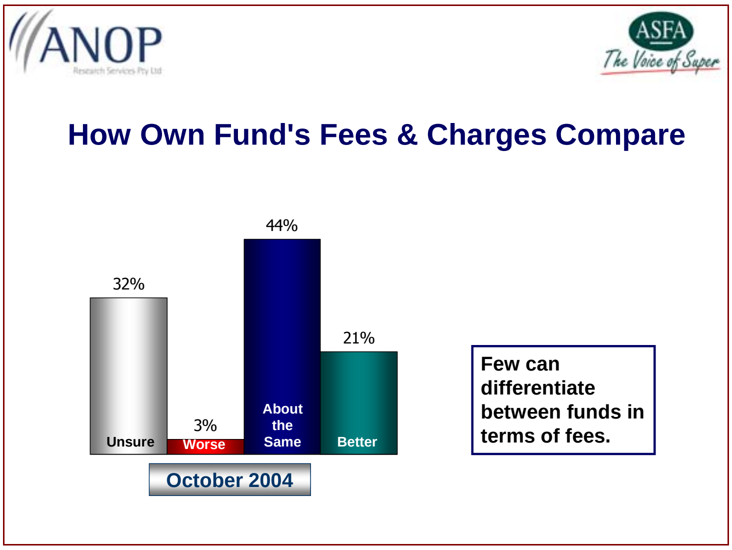
However, what is certainly working in the retail funds' favour is the continued reluctance by the workforce to see greener grass elsewhere.



When we asked members to compare their own fund's performance to that of other funds, only small percentages attribute better or worse performance to their own fund. There has been a modest increase in the 'better' perception since a previous survey in late 2002. But the key finding is that the majority (71%) reckon there is not much difference between funds (46%) or they just don't know (25%).

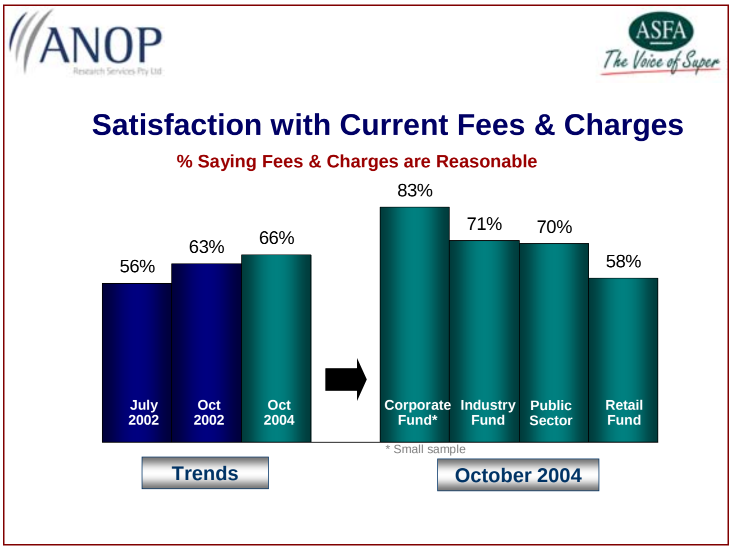
When most people feel they are in the same boat as others, they are less likely to be looking to change. Some parts of the superannuation industry have benefited from the fact that people rarely consider themselves worse off than other fund members.

Indeed, lack of capacity to compare funds is even more noticeable in the area of fees and charges.

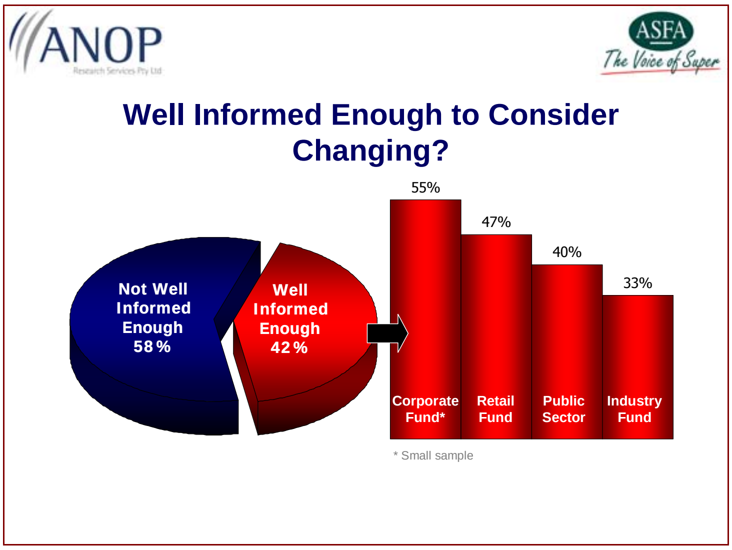


This time we find only 3% believing their fund compares unfavourably on fees and charges. With fee disclosure in Australia now a reality, it is somewhat ironic to find one-third does not have a clue and a further four in ten does not think there is any difference. With another driver of choice reduced in impact, inertia appears likely to be the winner in choice of fund.

We did ask directly about whether the workforce regarded the fees and charges as reasonable or not.



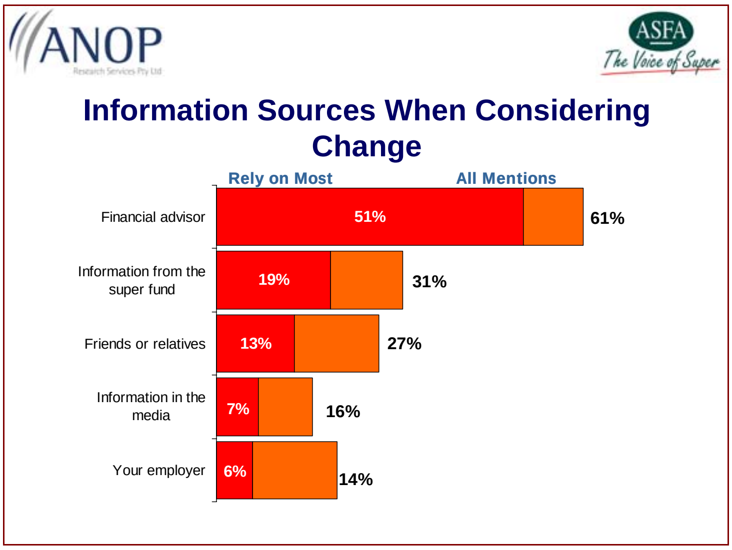
On the whole, the majority of fund members think they are reasonable. And this perception has been slowly increasing over time - even when returns were negative. The only slight dampener is again among retail fund members - but even here nearly 6 in 10 (58%) gave their fees and charges a tick. Fees and charges remains a potential driver of fund choice but at this stage it is a sleeper.



Indeed choice of fund may be a total sleeper for many consumers because of the inertia factor. Inertia characterises a lot of Australian consumer behaviour - especially in relation to financial services. We are slow to change unless we are really annoyed or someone comes to us and makes us a better offer or our circumstances change to force us to act. The rest of the time it is the big inertia - and it is usually a combination of 'don't know' and 'don't care'.

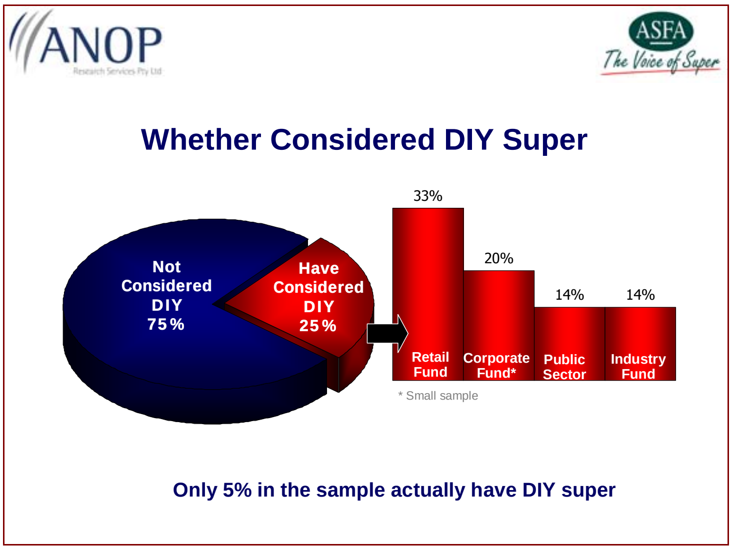
We found that only four in ten (42%) currently feel well informed enough about super and super funds to consider changing funds. The key finding here is that members of industry funds feel least well informed (only 33% do so) - another factor which may inhibit their likelihood of changing.

If they are going to change, who will they consult?



There is good news here for the financial advisors at this conference. They top the list of information sources likely to be relied upon from the five alternatives given. Neither employers nor the media are particularly well trusted, coming as they do behind Aunty Doris and the bloke down the road. The super funds themselves have some credibility but clearly consumers want expert advice from a hopefully independent source.

If financial advisors are in a growth area, an even bigger one, as you know, is 'do-it-yourself' super.



One-quarter of our representative sample (25%) have at least considered 'do-it-yourself'. Of course the figure who have actually done it is rather lower - but the 5% who have set up their own funds do account for a much larger percentage of the super asset base. Those most attracted to 'do-it-yourself' is the group consistently most predisposed to change - retail fund members.

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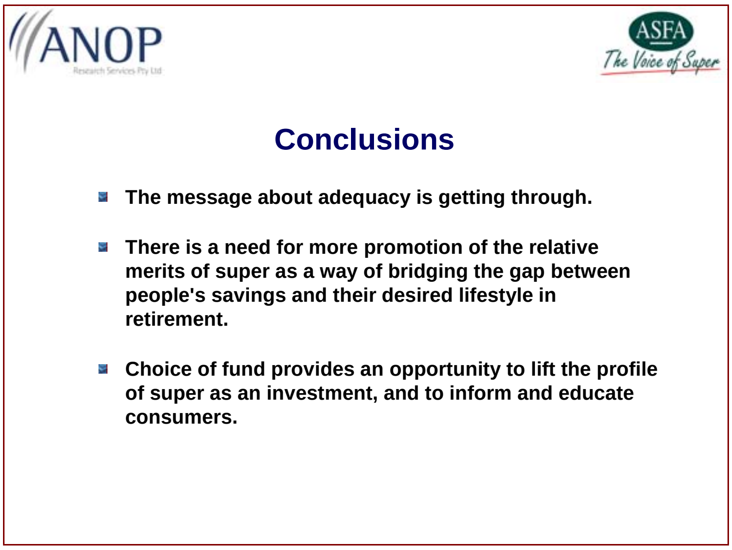
Putting the two most recent ANOP studies together, there are a number of important implications for the super industry and for the government.



Firstly, the message about adequacy is getting through. Most recognise that 9% compulsory super is not enough and about half know that their own retirement savings are 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. These are important findings for a government facing skills shortages in an aging population base.

And the important finding for the industry is that community delusion about the adequacy of retirement savings is less pronounced. There is more appreciation that many will face a gap between their savings and their desired lifestyle. The message to the industry is the need for a greater promotion of the merits of super as a way of bridging the gap.

Choice of fund does provide an opportunity to lift the profile of super as an investment. There will be more competition and increased marketing activity. Hopefully it will result in better informed, more discerning and more empowered consumers.

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