

Tuning in to super

An inaugural **biennial study** and index to track
Australia's engagement with super

EXECUTIVE SUMMARY / 2011

Russell Investments

Founded in 1936, Russell Investments delivers financial services, products and advice to institutional investors, financial professionals and individuals in more than 40 countries. Russell Investments' mission is to improve the financial security of people and develop innovative solutions to meet the changing needs of all investors.

Russell provides services to some of the largest corporate superannuation funds in the country, with total assets under management in Australia of more than AUD53 billion and 220,000 members under administration.

www.russell.com.au

Australian Institute of Superannuation Trustees (AIST)

AIST is a national not-for-profit organisation whose mission is to promote and protect the interests of Australia's \$450 billion not-for-profit superannuation sector. AIST's membership includes the trustee directors and staff of industry, corporate and public-sector funds, who manage the superannuation accounts of nearly two-thirds of the Australian workforce.

As the principal advocate and peak representative body for the not-for-profit superannuation sector, AIST plays a key role in policy development and is a leading provider of research.

AIST provides professional training, consulting services and support for trustees and fund staff to help them meet the challenges of managing superannuation funds and advancing the interests of their fund members. Each year, AIST hosts the Conference of Major Superannuation Funds (CMSF), in addition to numerous other industry conferences and events

www.aist.asn.au

Welcome to the inaugural 'Tuning in to super' report

For most Australians, the superannuation they accumulate throughout their working life will be the key to their retirement future. As we live longer and our time in retirement grows, the need to focus on accumulating retirement savings earlier in life increases. And the extent to which Australians are engaged in their superannuation is a critical pre-cursor to retirement readiness.

Despite its importance, we know super is a low involvement product for many. That's why policymakers and the super industry spend considerable resources in an effort to tune Australians in to the need to think about their retirement future early on in their working lives.

*To date, there has been no reliable way to measure engagement with super and the success of these efforts. Recognising this gap, AIST has partnered with Russell Investments and commissioned new **focus** to develop Australia's first super engagement index. Based on a national study of 1,320 Australians, this index measures engagement across eight variables while the supporting research explores drivers and barriers to engagement, and awareness of and attitudes towards super.*

To be published every two years, the index and supporting research will provide the industry and policymakers with valuable insights into current attitudes and behaviours regarding one of the most important financial decisions of our lives.

Furthermore, this research and the index are markers that help give the super industry and policymakers a benchmark to assess changes for the future.

So what does the inaugural report reveal? It shows how the index is constituted as well as how it varies across different member segments based on: age, income, gender and current super situation.

The underlying findings show a number of positive steps in the right direction. Most Australians have the right attitude towards super with 85% saying super is important to their retirement, and six in 10 Australians perceiving super to be important to them now. In addition, three quarters of Australians have checked their balance in the past year.

But there continues to be some cause for concern. Half say they are running out of time to build a retirement nest egg. One in three do not know the amount employers contribute to super on their behalf and many are still unaware that super comes with built-in protection through insurance. Plus many still aren't consolidating funds and most don't take advantage of educational services available.

There's more work to do to engage more Australians in their retirement future. As an industry we need to continue to simplify and improve our member communications, education and services. And if the proposed SG increase passes parliament we must capture that opportunity to engage members in their growing retirement income pool.

AIST and Russell Investments look forward to supporting the industry in this pursuit and hope to report improving engagement in the 2013 index results.

Fiona Reynolds

Chief Executive Officer,
Australian Institute of Superannuation Trustees

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Managing Director, Corporate Superannuation
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Methodology

The inaugural biennial 'Tuning in to super' research is based on quantitative data gathered from Australians who have at least one superannuation account.

An online and telephone survey were developed and conducted by **newfocus**, between December 2010 and January 2011, following liaison with AIST and Russell Investments.

The interviews

The sample for this national research included members who had at least one super fund and were not retired. This provided a view of engagement with super fund members who were still in the accumulation phase.

The methodology comprised telephone (CATI) interviews and online interviews. The online survey was conducted between 17 December 2010 and 10 January 2011, and the CATI survey was conducted between 17 December 2010 and 20 January 2011.

Methodology	Online sample
Online sample	1,020
CATI sample	300
Total	1,320

Weighting

To ensure a nationally representative sample of respondents with a super account in the accumulation phase, the data was weighted by gender, age and location as per the Australian Bureau of Statistics.

Fund type

As part of the survey respondents were asked to name their main super fund. The table below shows the results by fund type.

Main fund type	Percentage
Not-for-profit	59%
Retail/Master Trust	28%
SMSF	4%
Corporate	2%

8% of respondents either did not know the name of their main super fund or gave a response that was not valid.

Index findings

The AIST/Russell Investments Super Engagement Index is designed to deliver a reliable method for measuring changes in the level of engagement Australians have with super over time.

It also illuminates different engagement levels between segments within the population. The index will be calculated every two years.

As part of the 'Tuning in to super' research members were asked to indicate their awareness of certain aspects of super, as well as their behaviours and activities over the last 12 months with regards their super.

Eight of these elements were selected to be included in the index:

- › Ability to name their main super fund
- › Checked super balance during the year
- › Read the fund newsletter
- › Updated address or other contact details
- › Made additional contributions
- › Consolidated funds
- › Elected a fund other than their employer's default fund
- › Made an investment choice

These activities were weighted depending on the level of money, and time or understanding associated with the element. As the inaugural study the index has been set at 100, allowing movements to be tracked over time.

The inaugural SEI findings segmented by age, income, gender and current super situation as articulated by the member, reveal variations in engagement across these groups. Perhaps unsurprisingly, the index finds older, wealthier, male Australians who are more comfortable with their super balance are more engaged. We will continue to track movements across these segments in future SEI releases.

Table 1: AIST / Russell Investments Super Engagement Index results by segment

Age	Index
18 to 25	93.57
26 to 35	91.42
36 to 45	91.84
46 to 55	103.42
56 to 65	120.49
Over 65	120.00

Income	Index
Under \$20,000	73.94
\$20,001-\$40,000	107.03
\$40,001-\$60,000	101.41
\$60,001-\$80,000	110.01
\$80,001-\$100,000	99.82
\$100,001-\$150,000	123.54
More than \$150,000	130.20

Gender	Index
Male	106.40
Female	92.12

Super situation	Index
Just starting out	80.39
Low balance with enough time	100.58
Low balance and time is running out	93.50
Good balance and are comfortable	114.94

On the up-side: Positive signs of engagement

The underlying findings show a number of positive steps in the right direction. Most Australians see super as being important to their retirement and three quarters of Australians have checked their balance in the past year.

The right attitude: 85% say super is important to their retirement

After many years educating Australians about the importance of super it's great to see the message is getting through with the vast majority (85%) agreeing or strongly agreeing super is important to retirement, and only 5% saying it's not important to them. It is particularly pleasing to see the results are relatively consistent across age groups. Where we do need to improve attitudes is among members with lower account balances. As you'd expect, this group doesn't value the importance of super as much as those with higher balances yet this group has much to be gained from being more engaged with their super in the future.

Six in 10 Australians perceive super to be important to them now

Not only do most understand the importance of super, but six in 10 Australians perceive it to be important now – and that's not just among those who are approaching retirement. Nearly a third of people between 18 and 25 years old view super as either very important or important now, and some 49% of people aged 26 – 35 years agree. As you'd expect, this increases with age and it's pleasing to see the vast majority (84%) of those with only 10 years or so until retirement recognise the importance of super.

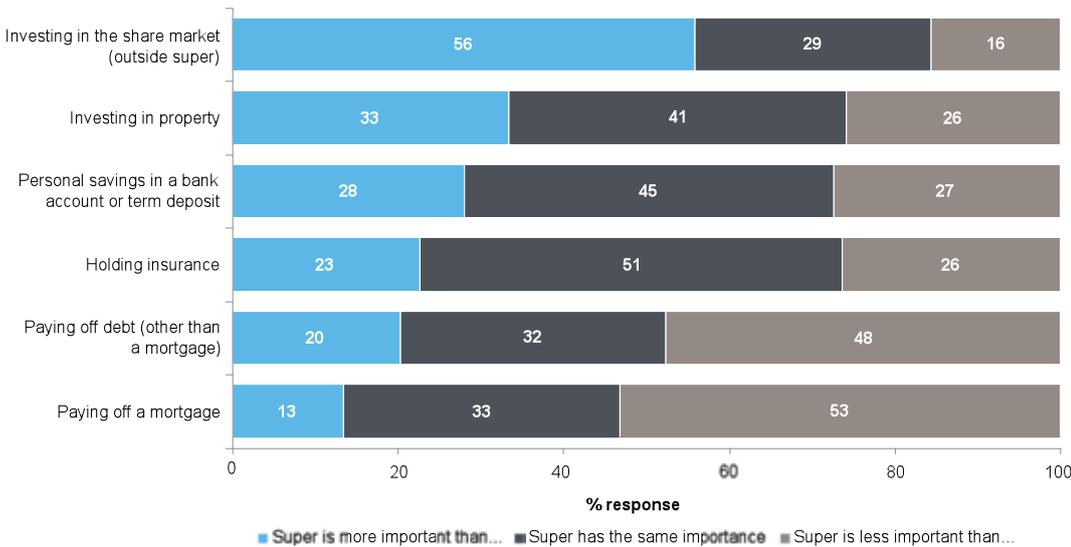
Table 2: Proportion of Australians who perceive super as important or not important to them now, by age group

	Very important or important, now	Not important or not important at all, now
Age	%	%
18-25 years	31%	40%
26-35 years	49%	23%
36-45 years	58%	17%
46-55 years	70%	9%
56-65 years	84%	4%
Over 65 years	87%	6%

Many put super on par or ahead of most other financial and investment decisions

It also seems many Australians have their priorities mostly straight when assessing their super against other financial and investment decisions. Around half of Australians (56%) perceive super as more important than investing in the share market and only 16% put their share trading ahead of super. Areas that Australians are prioritising over super are paying off their mortgage and other debts, which is likely to be a sensible financial decision for many people. As you'd expect, the older we get, the greater priority we place on super with Australians aged between 56 and 65 years more likely to rate super as of higher importance than all other financial options tested in the research.

Chart 1: How Australians rate the importance of super compared to other financial activities



Government efforts to help people save for retirement are gaining traction

Successive governments have put in place policies aimed at helping Australians save for their retirement and it appears many are positively responding to these initiatives.

More than seven in 10 (72%) Australians are aware of the ability to salary sacrifice and similarly high levels of awareness were reported on the government’s co-contribution scheme (77%), the ability to change investments (67%) and make contributions electronically (60%).

But awareness doesn’t necessarily equal understanding or action.

Although 67% of Australians were aware they could change investment choice, only 14% chose to do so in the past year. This isn’t necessarily a bad thing, super is a long-term investment and funds encourage members to find an option that suits their needs and to stick with it.

Half of Australians are aware of the proposal to raise the SG rate

Despite it being a relatively new initiative that is still yet to be legislated, half of Australians are aware of the Government’s proposal to increase the Superannuation Guarantee (SG) rate, and one third were able to correctly recall the SG rate would increase to 12%. We felt, all things considered, this was a pretty good result.

Three quarters of Australians have checked their balance within the last 12 months

It seems most of us are engaged enough to at least want to know our super balance with 74% of Australians having checked their balance in the past year. This was higher than we expected and we believe the turmoil of the global financial crisis has helped to focus people's attention. The next most frequent activities undertaken by members were: *reviewing their member statement* (66%) and *reading the super fund newsletter/magazine* (50%). As you'd expect, the older we get, the more attention we pay, with older age groups more likely to perform all of the activities than younger members.

Members say they're embracing super portability but other reported statistics suggest otherwise

While six in 10 Australians said they were unlikely to change funds when changing jobs, other reported statistics suggest many don't actively select their preferred super fund when starting a new job. This suggests many don't intend to start up a new super fund and would be happy to continue with their existing fund but they default to their new employers' fund because it's easier. It may also indicate they haven't changed jobs in the past year.

Table 3: Most commonly performed super activities

Activity	Performed in the last year	Performed once	Performed more than once
Checked superannuation fund balance	74%	33%	67%
Reviewed member statement	66%	NA	NA
Read super fund newsletter/magazine	50%	NA	NA
Updated address/contact details	36%	89%	11%
Made additional contributions/payments into super	27%	37%	63%
Provided or updated beneficiaries	21%	86%	14%

Tuning Australians in: Where we need to improve

Many of us feel we're running out of time to build a healthy super balance, we're still not consolidating our funds, and we're not taking advantage of the significant benefits provided by insurance within super and the various educational services offered.

This is all despite the considerable efforts made by government and the industry to tune Australians in to the need to engage with their super and start planning for their retirement sooner rather than later.

Half are running out of time

Perhaps the most concerning although least surprising finding is that over half of Australians in each of the age groups over 46 years feel their super balance is low and they're running out of time to build it up.

This is consistent with the fact that almost one in three (31%) are not confident their retirement income goals are on track.

One in three don't know their level of employer contribution

While Australians had high levels of awareness of many facets of super, it seems one in three aren't aware of possibly the most important fact: what their employer pays into their super.

36-45 years olds don't have time or inclination

The findings also show 36-45 year olds are not more engaged because they keep putting it off, haven't had the time or haven't bothered. In addition, this group are also more likely to feel that they are running out of time to prepare for retirement, which all suggests they may be open to assistance from funds

Australians not protecting their ability to earn an income; insurance benefits low on the radar

Despite considerable efforts to educate members about available insurance benefits, an alarmingly low number of Australians (6%) have taken up their super fund's offer to top up their default insurance cover in the past year. While some will be purchasing this cover outside their super fund or may have already increased their cover within their fund, many will be exposed if they were to become sick, have an accident or die. It seems awareness may be largely to blame for low levels of take up with only 55% of Australians knowing they can increase their insurance coverage within super and a similarly low number (53%) aware that insurance is automatically included.

Table 4: Least commonly performed super activities

Activity	Performed in the last year	Performed once	Performed more than once
Consulted a financial planner/advisor about super	19%	NA	NA
Actively changed investment choice/switched investment type	14%	68%	32%
Consolidated funds	13%	74%	26%
Actively selected a different super fund from the default fund	10%	NA	NA
Attended an education seminar	9%	NA	NA
Applied for additional insurance	6%	70%	30%

Australians still aren't consolidating multiple funds into one

According to Table 4, it also seems Australians still aren't consolidating their super and so may be paying more in fees than they need to. Furthermore, most don't seem to realise they have multiple funds with the majority of Australians saying they belong to one super fund (68%) and close to one in four (23%) saying they have two funds - percentages which are not supported by the number of super accounts in Australia. The proportion that has a more realistic view is quite small – 7% say they have three funds and a further 3% say they had four or more funds.

Most of us don't take advantage of education that is available

The majority of Australians do not know they can take advantage of attending an education seminar run by their super fund (42% knew about this service), which means even less (only 9%) are taking advantage of this educational opportunity. Alternatively, super funds may not be investing in providing a sufficient number of educational seminars, or with providing seminars in regional and/or rural areas.



newfocus is a national consultancy providing innovative research, strategy and implementation services in both market and social research. During its 18+ years of operation, **newfocus** has built up a prestigious client base with many leading brands within the Australian superannuation industry. With experience spanning government, industry, retail funds and corporates, the **newfocus** team has substantial tacit knowledge of superannuation, having undertaken over 80,000 interviews over the last decade, and has the inherent know-how that only comes from years of experience embedded in our researchers, our surveying team and our organisation as a whole.

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